

Influences Affecting Post-War Trade with the United States and Non-Empire Countries.—Canada's commercial and financial relations with countries outside the Sterling Area will have distinct characteristics and a separate significance if sterling should be inconvertible for an extended period after the War as seems probable. Under such conditions it would be necessary for Canada to reach either a balance in current transactions with this Area or to depend upon liquid reserves or other imports of capital to finance the probable current account deficits.

It would only be under exceptional conditions that there would not be a current account deficit with the United States in the immediate post-war years, since Canadian imports from the United States are likely to be substantial in relation to Canadian exports to the United States once the production of durable goods for civilian purposes on this continent has been resumed. The range of United States commodities normally purchased by Canada is very wide. There seem to be more limitations to the range of Canadian commodities for which permanent markets in the United States are likely to exist than in the case of Canadian imports from the United States. Nevertheless, the prospects are good for exports of many Canadian commodities to the United States, such as newsprint, lumber and other wood products, if the national income of that country should continue at higher levels than before the War. There will be an additional adverse factor if gold production does not regain its pre-war level for some time.

Net payments of interest and dividends to the United States after the War may also be higher than before the War, as there has been an increase in United States holdings of Canadian securities, arising chiefly from the heavy demand for Canadian bonds in the United States. At the same time Canadian holdings of United States securities have decreased.

This prospect of a current account deficit with the United States points to the need for other sources of convertible exchange as well, since the deficits would otherwise have to be met either from Canada's liquid reserves or by other imports of capital. Canada's export trade to areas like Central and South America and to certain European countries should contribute a considerable amount of the needed exchange, for the likelihood is that Canadian commodities will be required to a greater extent than before the War in a number of these nations with convertible exchange which have been traditional markets for Canadian goods. Trade of this kind should be an important contributing factor in alleviating the prospective current account deficits with the United States.

PART I.—THE GOVERNMENT AND EXTERNAL TRADE

Section 1.—The Development of Tariffs

The development of tariffs as affecting Canada is outlined here under two divisions: first, a historical sketch showing phases in the growth of Canadian trade that have influenced tariff development; and secondly, the present tariff relationships with other countries. Owing to the limitations of space in the Year Book, it has been necessary, in regard to tariffs, to adopt the policy of confining any detail regarding commodities and countries to tariff relationships at present in force, and to summarize as much as possible historical data and details of preceding tariffs, giving references where possible to those editions of the Year Book where extended treatments can be found.