pression, of reduced purchasing power, and of increasing trade restrictions, the relative status of industries in this position suffers. There are weaknesses, not only because such a small proportion of their production is consumed locally, but also because such a large proportion of the total international market is supplied by Canadian exports. Control of the marginal supply normally gives a bargaining advantage to the seller on a rising market but reacts to his disadvantage on a falling market. The situation has been intensified by the continual narrowing of the international trading world in the 1930's, which led to more abrupt and extreme price fluctuations than would occur in a broader market. When protected domestic industries develop in former markets, or when depression restricts demand for Canadian export staples, there will be excess productive capacity, and far more than the proportionate share of such excess capacity will inevitably appear in Canada.

The import staples, however, are in a somewhat different position. Large as are Canada's imports of basic industrial raw materials (such as coal, oil and iron) in relation to Canadian consumption and even in relation to total world trade in these commodities, they are only a very small fraction of the total production and of the consumption in the domestic markets of the chief producers. A fall in the Canadian demand is important but is not likely to have the same shattering effect on prices as a fall in the foreign demand for the chief Canadian staples.

The fact that the great bulk of Canada's trade is with the United States and the United Kingdom is a natural corollary of the distribution of resources and organization of the economy in each of those countries and in Canada, and is intensified by the virtual withdrawal of most of the rest of the world from the former system of international trade. Canada's geographical position and special relations with each of these countries give her certain advantages and elements of strength, but there are also liabilities. Canada's trade with both the United States and the United Kingdom is of vastly greater importance to Canada than their trade with Canada is to them; Canadian per capita exports to the United Kingdom in 1946 were approximately $50, and to the United States $70, compared with their exports to Canada of $3 and $10 per capita. Canadian trade with the United Kingdom is 16 p.c. of total Canadian trade, while United Kingdom's trade with Canada is only 8 p.c. of her total trade. Canadian trade with the United States is 55 p.c. of total Canadian trade, while trade of United States with Canada is only 15 p.c. of total United States trade. Changes in the trading policies of either of the two large countries or automatic changes in the terms of trade in response to differential price movements inevitably affect Canada far more than they affect the United Kingdom or the United States. Because of the greater vulnerability and lack of diversification, Canada's bargaining position is, on occasion, weakened and Canada is at a disadvantage in opposing unfavourable policies or in negotiating for more favourable policies.

Quite apart from the danger of directly unfavourable policies, which may be due to factors entirely unrelated to Canada but which may incidentally deal shattering blows to Canadian trade, is the inevitable swing in the terms of trade. Canadian trade with the United Kingdom and the United States is of a complementary nature and is a classic example of the working of a basically sound international division of labour. While Canadian cereals feed Britain, British textiles clothe Canadians; while Canadian products of forest and mine, processed by hydro-electric power, feed the industries of the United States, the coal and iron products of the United States equip Canadian factories. But in any exchange of this nature there may be, and are likely to be, wide variations in the price trends of the various