NOTE TO USERS

Page(s) not included in the original manuscript are unavailable from the author or university. The manuscript was microfilmed as received

67

This reproduction is the best copy available.

UMI®

CANADA-JAPAN TRADE 1945-1962

by Roch Veilleux

Thesis presented to the Faculty of Social Sciences of the University of Ottawa as partial fulfilment of the requirements for the degree of Master of Arts

Université d'Ottawa BIBLIOTHÈQUES LIBRARIES University of Ottawa
ANNEXE DE LA BIBLIOTHÈQUE uOttawa LIBRARY ANNEX

Ottawa, September 1964

UMI Number: EC55697

INFORMATION TO USERS

The quality of this reproduction is dependent upon the quality of the copy submitted. Broken or indistinct print, colored or poor quality illustrations and photographs, print bleed-through, substandard margins, and improper alignment can adversely affect reproduction.
In the unlikely event that the author did not send a complete manuscript and there are missing pages, these will be noted. Also, if unauthorized copyright material had to be removed, a note will indicate the deletion.

UMI®

UMI Microform EC55697
Copyright 2011 by ProQuest LLC
All rights reserved. This microform edition is protected against unauthorized copying under Title 17, United States Code.

ProQuest LLC
789 East Eisenhower Parkway
P.O. Box 1346
Ann Arbor, MI 48106-1346

TABLE OF CONTENTS

LIST OF TABLES

LIST OF TABLES

LIST OF TABLES

INTRODUCTION

The nature and volume of any country's international trade are functions of a complex of factors. The more important of these factors are the natural endowment of a country, the stage it has reached in its economic development, the number and nature of institutional impediments to trade, and the general condition of the world economy. More specifically, foreign trade is based primarily on international differences in resources and on specialization.

The influence of resources on trade is obvious, particularly in the case of natural products. Since no one country can raise all the wide range of natural products necessary for modern industry and required by consumer's tastes, these products have to be imported.

National specialization is also important determinant of trade. Densely populated countries and those with a large accumulation of capital tend to specialize in manufacturing industries, especially if they are deficient in natural resources. On the other hand, sparsely populated countries usually specialize in agriculture and in extractive industries (if their resources permit).

Natural resources and national specialization are two factors which are extremely important in Canada's and Japan's economic life because both countries are actively engaged in international trade, although for different reasons.

The importance of international trade to Canada is due to the fact that Canada has abundant natural resources and that the level of economic activity is strongly related to the level of foreign trade.

Canada is a country whose development has been based to an unusual extent upon foreign markets and whose prosperity still is heavily dependent on the production for export of basic materials. For example, in 1962 Canada ranked fifth among the exporting nation of the world. On the other hand, many commodities (mostly manufactured products) are imported into Canada. The main reasons for this are two. First, the Canadian market is not sufficient to provide the full economies of large-scale production for many industries. Secondly, other industries in Canada may provide more profitable employment for capital and labour. As a result, imports into Canada are relatively high. In 1962, Canada ranked sixth as an importing nation in value terms. Thus Canada has been able to achieve a high standard of living based on the exchange of efficiently produced surpluses for goods which could not be produced as efficiently or at all in this country.

The importance of international trade to Japan is due to the fact that she must import most of her raw materials and a large proportion of her food, and to pay for these essential requirements, she must export manufactured goods. The fundamental fact with Japan's economy is that the population is too large relative to her natural resources. This unbalance was also further aggravated by the second World War. Thus, the need to raise the level of economic development and to extend the foreign trade became much keener after the War, as Japan had to support a larger population with less[1] natural resources. In this connection, Japan's

[1]Natural resources were heavily exploited during the war.

dependence upon foreign markets increased quite substantially both for the export of manufactured goods and for the import of raw materials. So, in order to support her relatively too large population, Japan had and still has "to endeavour to enhance her productivity by raising the level of her industrial structure, and corroborate her economic structure by extending her foreign trade. The tendency to level up the industrial structure and the high rate of dependence upon the foreign trade are the structural characteristics as well as the structural needs of Japan's economy"[2].

Before the second World War, trade between Japan and Canada was relatively small and relatively unimportant. The Canadian market did not represent a very big outlet for Japanese goods. There was, also, a prejudice among Canadian businessmen and consumers against Japanese products which were not always of the best quality, and against Japanese trade practices which were sometimes doubtful. On the other hand, there was very little that Canada produced that was of interest to Japan since she obtained most of the required raw materials and foodstuffs from her colonies and protectorates. But at the end of the second World War, Japan suddenly emerged as a major market for Canadian products, having lost her former sources of supply.

Thus, it can be said that a country like Japan, with her dense population and her limited natural resources is, in many ways, a natural

---

[2] S. Fujii, "The foreign Trade and Industrial Structure of Post-War Japan", Economia Internazionale, Vol V, No. 3 (August, 1952), p.641.

trading partner for Canada, a country with a small population and abundant natural resources. Japan must trade to live and prosper and so does Canada.

The following chapters will give a detailed outline of the development of trade between Canada and Japan from 1946 to 1962, in the light of the economic conditions in each country during those years, and in which chapters the complementarism of the two economies will be seen.

This thesis contains five chapters. The first chapter, called "The Reconstruction Period", analyses the trade between Canada and Japan from 1946 to 1952 inclusively. The reasons for choosing 1952 as marking the end of this period were that the Allied occupation of Japan was completely ended during that year, that the reconstruction of Japan's economy was completed, and that in Canada the boom initiated by the Korean war subsided. The second chapter deals with the trade between the two countries during the 1953-57 period. The year 1957 was characterized, in both countries, by a setback in economic activity, which was temporary in Japan but which was stronger and longer in Canada. The third chapter examines the last period in Canada-Japan trade, i.e. from 1958 to 1962 (the latest year for which complete statistics were available). The fourth chapter reviews the trade policy followed by the two countries towards each other from 1946 to 1962. The fifth and last chapter gives an estimate of Canada-Japan trade by 1970.

CHAPTER I

THE RECONSTRUCTION PERIOD, 1946-52

The term reconstruction applies better to Japan than to Canada. In Canada, reconstruction meant a readjustment from a wartime economy to a peacetime economy. But, in Japan, the problem was different and much more complex. Defeat in the war left Japan in serious economic difficulties. Her productive capacity suffered great damage: 30 per cent of her power-generating capacity, 58 per cent of her petroleum refineries, 30 per cent of her factories, 40 per cent of her cities, and 80 per cent of her navy were destroyed.[1] Japan also had to make reparations which took the form of plant and machinery wrenched from the remaining factories. But under the virtual dictatorship of General Douglas MacArthur and SCAP,[2] Japan slowly and painfully got on its feet. In April 1952, the Peace Treaty signed at San Francisco in September 1951 took effect and ended Allied Occupation in Japan. By that time, reconstruction was accomplished (if the term reconstruction means the restoration of the pre-war 1934-36 level).

In Canada, the main problem was to reintegrate about one million and three quarters persons engaged in direct war activities into a peacetime economy and also to prevent a too drastic slow-down in

---

[1] M. Moreau, L'economie du Japon (Collection "Que sais-je", No. 811; Paris: Presses Universitaires de France, 1959), p. 28.

[2] SCAP stands for "Supreme Commander of the Allied Powers" and is used to designate both a person and the occupation administration in general.

economic activity as a result of decreasing orders for war purposes. Over half of the Canadian economic system was devoted to the war effort, or more specifically 25 per cent of agriculture, 60 per cent of manufacturing, 70 per cent of forestry, and 80 per cent of mining.[3] Other outlets for the products of these industries had to be found. Although consumer demand, held back during the war, provided a stimulus to economic activity, the demand for our exports achieved a vital importance. Exports had to be held, more than ever, at a high level if Canada was to reach a high and stable level of employment and income in the long run.

Thus, it was in drastically different conditions that the two countries, Canada and Japan, emerged from the war: Japan was virtually in ruins, and Canada had definitely reached the stage of an industrial nation.

1. Canadian Exports to Japan

In 1946 and 1947 Canadian exports to Japan amounted to $976,000 and $453,000 respectively, as shown in Table I. Exports consisted almost entirely of chemical fertilizers, i.e. 99.7 per cent in 1946, and 78.6 per cent in 1947, as shown in Table II. The relatively low level of exports to Japan in those two years (as compared with total Canadian exports of $2.3 billion in 1946, and $2.7 billion in 1947) was due to the fact that the United States was supplying most of Japan's import requirements (95 per cent in 1946, and 90 per cent in 1947) and that SCAP

---

[3]The Canadian Bank of Commerce, Monthly Commercial Letter, May 1946.

TABLE I

CANADIAN EXPORTS TO JAPAN, 1946-52, BY GROUPS AND PRINCIPAL COMMODITIES

$'000

	1946	1947	1948	1949	1950	1951	1952
Agricultural and animal products	a	79	2,045	2,926	18,575	48,065	84,406
Barley	. .	. .	. .	. .	808	7,459	39,048
Beef and veal, fresh	. .	. .	319	539	225	230	857
Flaxseed (chiefly for crushing)	. .	. .	1,198	. .	1,121	3,433	28
Hides and skins (except furs)	. .	. .	. .	288	199	552	362
Sugar n.o.p.[b]	. .	. .	. .	87	1,255	61	448
Tallow	. .	. .	. .	. .	62	292	526
Wheat	. .	. .	. .	772	11,320	29,478	36,493
Wheat flour	. .	. .	1	6	923	877	1,043
Whisky	a	70	274	818	2,333	4,923	4,797
Others	a	9	253	415	329	749	804
Woods and its products	a	. .	543	2,327	701	17,352	6,326
Logs, lumber and timber	. .	. .	. .	. .	7	159	188
Newsprint paper	. .	. .	28	181	12	182	186
Wood pulp	. .	. .	486	2,145	674	16,946	5,942
Others	a	. .	28	1	8	65	10
Iron and its products	1	. .	3	63	138	1,149	5,999
Iron ore	. .	. .	. .	. .	. .	822	5,546
Machinery (non-farm) and parts	a	. .	a	14	25	13	94
Scrap, iron and steel	. .	. .	. .	. .	. .	. .	123
Others	1	. .	3	49	114	315	236
Non-ferrous metals and products	. .	. .	65	214	52	1,800	2,253
Aluminum, p. and s-f.[c]	. .	. .	. .	16	. .	. .	12
Brass, p. and s-f.	. .	. .	. .	. .	. .	23	1,429
Copper, p. and s-f.	. .	. .	. .	. .	. .	. .	91

TABLE I - Continued

	1946	1947	1948	1949	1950	1951	1952
Lead, p. and s-f.	. .	. .	. .	. .	. .	266	. .
Nickel, p. and s-f.	. .	. .	. .	195	4	. .	264
Zinc, " " "	. .	. .	. .	. .	31	1,480	a
Non-ferrous metals & ores, n.o.p.	. .	. .	64	. .	. .	. .	113
Others	. .	. .	1	3	16	31	343
Non-metallic minerals and products	. .	18	5,079	163	657	2,946	2,755
Asbestos, unmanufactured	. .	. .	. .	21	653	1,700	2,072
Coal and coke	. .	. .	5,079	23	. .	815	555
Others	. .	18	a	119	4	431	128
Chemicals and allied products	974	356	46	10	41	510	524
Ammonium sulphate	66	. .	44	. .	. .	. .	. .
Synthetic plastics, primary forms	. .	. .	. .	8	27	176	262
Others	908	356	2	2	14	334	262
Miscellaneous commodities	. .	a	15	13	278	1,029	115
Rags and waste, textile	. .	. .	a	a	207	734	26
Others	. .	a	15	13	71	295	89
Total Domestic Exports	976	453	7,796	5,716	20,443	72,851	102,377

[a]Less than $1,000.

[b]Not otherwise provided for.

[c]P. and s-f equals primary and semi-fabricated.

Source: Dominion Bureau of Statistics. Review of Foreign Trade, various years. Cat. No. 65-205, Ottawa.

Dominion Bureau of Statistics. Trade of Canada, Exports by Commodities, Dec. issue, various years. Cat. No. 65-004, Ottawa.

TABLE II

PERCENTAGE COMPOSITION OF CANADIAN EXPORTS TO JAPAN, 1946-52, BY GROUPS

	1946	1947	1948	1949	1950	1951	1952
Agricultural and animal products	[a]	17.4	26.2	51.3	90.9	66.0	82.5
Wood and its products	[a]	. .	7.0	46.7	3.4	23.8	6.2
Iron and its products	[a]	. .	[a]	1.1	0.7	1.6	5.8
Non-ferrous metals and products	. .	. .	0.8	3.7	0.2	2.5	2.2
Non-metallic minerals and products	. .	4.0	65.2	2.8	3.2	4.0	2.7
Chemicals and allied products	99.7	78.6	0.6	0.2	0.2	0.7	0.5
Miscellaneous commodities	. .	. .	0.2	0.2	1.4	1.4	0.1
Total Domestic Exports	100	100	100	100	100	100	100

[a]Less than 0.1%

Source: Calculated from Table I.

imposed severe controls on Japan's foreign trade. Another reason is that economic recovery in Japan was very slow during those two years. The Allied Powers were rather indifferent to economic recovery and were mostly concerned with exacting reparations and implementing ambitious measures of political and social reform. And, in order to prevent the re-establishment of an industrial war potential, proposals were put forward to limit the capacity of the key industries (metal, chemical, and engineering) as well as the size and speed of ships. Also, the dissolution of the "Zaibatsu" (trusts), which represented about 60 per cent of industrial activity before and during the war, further contributed to the slowness of economic recovery in Japan.

Thus, in 1946, the volume of industrial production was down to about 30 per cent of the corresponding figure for the pre-war period (1934-6), and in 1947 it increased only to 37 per cent.[4] At the end of 1947 ...."the catastrophic conditions in Japanese industry and the deepening financial crisis persuaded the Americans that their policies must be revised"[5]. These facts, coupled with political considerations,[6] led SCAP to divert its efforts from social and political reforming to the promotion of economic recovery. War reparations were ceased, anti-trust

---

[4]G.G. Allen, Japan's Economic Recovery (London: Oxford University Press, 1958), p. 18.

[5]Ibid.

[6]Such considerations were: (1) the deterioration in relations between the Western countries and Russia, and (2) the recognition that Nationalist China was not likely to serve as a stabilizing force in East Asia.

laws were relaxed, and a "Stabilization Program" (also called the "Dodge Line") was set up designed to stop inflation, to establish a single exchange standard, and to stimulate the expansion of trade and production. As a result the volume of industrial production increased to 55 per cent of the pre-war (1934-6) level in 1948, and to 71 per cent in 1949.

This recovery in Japan was reflected in our sales to this country. In 1948, our exports to Japan amounted to $7.8 million, a seventeenfold increase over the previous year. This sharp increase was mainly due to shipments of coal and coke, which made up 65.2 per cent of our total exports to Japan. Exports of agricultural and animal products (especially meat, flaxseed, and whisky) also increased substantially from $79,000 in 1947 to $2.0 million). In 1949, the value of our exports to Japan declined to $5.7 million, by about 27 per cent, as shown in Table III. The reason for such a decline was the drastic reduction of coal and coke shipments (from $5.1 million to $23,000) and the total disappearance of flaxseed shipments. On the other hand, exports of wood and wood products increased from $543,000 to $2.3 million and those of agricultural products (mainly wheat and whisky) to $2.9 million from $2.0 million. It should be noted that although our exports to Japan declined in value in 1949 there was a greater variety of goods exported, namely wheat, nickel, aluminum, and asbestos which we exported for the first time since the end of the war and which were to become major export items in our trade with that country.

In June 1950, the outbreak of the Korean War changed the picture. This fortuitous event was virtually responsible for turning the tide of

TABLE III

PERCENTAGE CHANGE IN CANADIAN EXPORTS TO JAPAN, 1946-52, BY GROUPS

	1946	1947	1948	1949	1950	1951	1952
Agricultural and animal products	. .	. .	+ 2,488	+ 43	+ 535	+ 105	+ 76
Wood and its products	. .	. .	. .	+ 328	- 232	+2,375	- 63
Iron and its products	. .	. .	. .	+2,000	+ 119	+ 733	+422
Non-ferrous metals and products	. .	. .	. .	+ 229	- 76	+3,360	+ 25
Non-metallic minerals and products	. .	. .	+28,117	- 95	+ 303	+ 348	- 7
Chemicals and allied products	. .	-63	- 87	- 78	+ 310	+1,143	+ 3
Miscellaneous commodities	. .	. .	+ 1,500	- 13	+2,038	+ 270	- 89
Total Domestic Exports	. .	-54	+ 1,620	- 27	+ 258	+ 256	+ 40

Source: Calculated from Table I.

the Japanese economy. Expenditures for the United Nations forces (also called special procurements)[7] resulted in a sharp increase in output. These procurements amounted to U.S. $149 million in 1950, U.S. $592 million in 1951, and U.S. $824 million in 1952.[8] As a result the volume of industrial production rose to 84 per cent of the pre-war (1934-6) level in 1950, to 114 per cent in 1951, and to 126 per cent in 1952.[9]

Canada greatly benefited from this upsurge in economic activity in Japan as shown by the figures in Table I. In 1950, exports reached $20.4 million, an increase of 258 per cent over the previous year. This increase was almost entirely limited to agricultural products (mainly barley, flaxseed, sugar, wheat, and whisky) which rose from $2.9 million to $18.6 million, although the outbreak of the Korean War and the increasing tempo of industrial activity in Japan would suggest that industrial raw materials should have been more in demand. Part of the answer lies in the fact that there was in Canada, in 1950, a shortage of supplies in many lines, such as newsprint, wood pulp, base metals, and beef cattle. Transportation problems, such as lack of ships, also affected the movement of goods to foreign markets.

---

[7]Procurements include U.N. military expenditures in dollars and pounds, yen purchases for Joint Defence Account, expenditures for U.N. soldiers and civilians in Japan, and payments for certain off-shore procurement contracts.

[8]G.C. Allen, Japan's Economic Recovery (London: Oxford University Press, 1958), p. 203.

[9]Ibid, p. 193.

The boom initiated by the Korean War is better reflected by the figures for 1951. Exports to Japan gained 256 per cent over their 1950 level and reached a value of $72.8 million. Japan ranked seventh in Canada's trade and for the first time since the end of World War II, exports to Japan accounted for more than one per cent of total Canadian exports. Agricultural products were again the principal exports ($48.0 million or 66 per cent of total exports), with wheat alone bulking very large at $29.5 million (40 per cent of total exports). But exports of industrial raw materials and semi-finished products were far more important than in 1950; wood pulp sales rose to $16.9 million from $0.7 million, those of zinc to $1.5 million from only $31,000, those of iron ore to $822,000 from nothing, while those of asbestos totalled $1.7 million as opposed to $0.7 million in 1950. These increases also reflected the over-eagerness on the part of the Japanese government and industries to secure needed raw materials before their prices rose too much.

The year 1952 was another year of rapid growth in our exports to Japan which totalled $1024 million, a rise of 35 per cent over 1951. Japan was our fourth best market in that year, after the United States, the United Kingdom, and the Belgium-Luxembourg area[10] although she took only a little more than 2 per cent of our total domestic exports. Exports of agricultural products were much more important than in 1951. Sales of barley increased from $7.5 million to $39.0 million and those of

---

[10]Belgium and Luxembourg were two political units but only one trading and customs area.

wheat from $29.5 million to $36.5 million. On the other hand, exports of wood pulp were much lower ($5.9 million against $16.9 million) and those of flaxseed and zinc were negligible although large in the previous year. But these declines were partly offset by increased Japanese imports of iron ore (which rose by $4.7 million) and brass (rising by $1.4 million). A part of the increase in the value of our exports to Japan is explainable by the fact that, in late 1951, the foreign exchange value of the Canadian dollar was appreciated and, in terms of foreign currencies, the prices of Canadian exports averaged some 6.5 per cent higher in 1952 than in 1951. More important, though, were the economic conditions in Japan. The Korean War boom lasted until the middle of the year but economic activity remained brisk throughout 1952 as personal consumption, long-suppressed during the post-war years, was reactivated. Japan used the foreign exchange earned during the boom to finance imports needed to re-equip her industries and to raise the level of consumption.

An analysis of the degree of manufacture of Canadian exports to Japan for the period 1946-52 reveals that, except for 1946 and 1947, (not available), raw materials constituted the bulk of Japanese imports from Canada, as indicated in Table IV. They averaged 73 per cent a year of total domestic exports although exports of fully manufactured goods were relatively important in 1949 and 1950. This suggests that Canada acted more or less as a marginal supplier for the latter goods as it seems also to be the case for partly manufactured goods.

2. Canadian Imports from Japan

Imports from Japan were insignificant in the two first post-war

TABLE IV

CANADIAN EXPORTS TO JAPAN ACCORDING TO DEGREE OF MANUFACTURE, 1946-52

Year	Raw Materials		Partly Manufactured		Fully Manufactured		Total	
	Value ($'000)	%	Value ($'000)	%	Value ($'000)	%	Value ($'000)	%
1946	n.a[a]	. .	n.a	. .	n.a	. .	n.a	. .
1947	19	4.2	. .	. .	435	95.8	454	100
1948	6,705	86.0	486	6.2	605	7.8	7,796	100
1949	1,769	30.9	2,377	41.6	1,570	27.5	5,716	100
1950	13,935	68.2	1,408	6.0	5,100	24.9	20,443	100
1951	44,475	61.1	20,203	27.7	8,173	11.2	72,851	100
1952	84,062	82.1	9,674	9.5	8,641	8.4	102,377	100

[a]n.a. = Not available.

Source: Dominion Bureau of Statistics. Canada Year Book, various years, Ottawa.

years. Their value stood at $504 in 1946 and $334,000 in 1947, as shown by Table V. The main reasons for this were two: (1) the economic chaos in Japan (as explained above) which rendered Japan unable to produce for export,[11] (2) the foreign exchange problem in Canada.

The aforementioned exchange problem was mainly the result of excessive demands upon the Canadian economy. Canada had surpluses in 1946 and 1947 in her current international transactions. But these surpluses were of an abnormal character, for in those two years Canada sold large amounts of goods on credit to Great Britain and other European countries. This lending accounted for the current account surplus and meant, also, that no income was received from an important portion of Canadian exports. At the same time, however, imports from the United States, influenced by the growing investments and rising consumption, were expanding rapidly. The result was a heavy deficit in U.S. dollars. Moreover, Canadian governments and corporations, still remembering the difficulties of the thirties, were, at the same time, repaying U.S. dollar indebtedness on a significant scale, which added further pressure on the foreign exchange reserves. Up to the middle of 1947, Canada drew heavily on her foreign exchange reserves. But afterwards, in order to check this drain, severe restrictions on many kinds of imports from the United States and other dollar countries were imposed.

Although the restrictions were maintained during 1948 and 1949 (but on a constantly diminishing basis in that year), imports from Japan

[11]There were also severe export controls imposed by SCAP.

TABLE V

CANADIAN IMPORTS FROM JAPAN, 1946-52, BY GROUPS AND PRINCIPAL COMMODITIES

$'000

	1946	1947	1948	1949	1950	1951	1952
Agricultural and animal products	. .	221	417	1,045	1,610	2,711	2,825
Citrus fruits, fresh	. .	90	173	504	661	877	1,088
Fishery products	. .	. .	22	63	371	952	1,099
Fur skins, undressed	. .	. .	1	136	99	435	163
Tea	. .	131	182	199	285	157	134
Others	. .	. .	39	143	193	291	341
Textiles and Products	. .	97	397	1,557	6,002	2,555	2,208
Apparel of all textiles	. .	. .	114	624	641	777	737
Cotton fabrics	. .	. .	83	80	3,218	274	244
Silk fabrics	. .	. .	153	421	878	798	474
Others	. .	97	48	432	1,266	706	752
Wood and its products	. .	a	9	32	129	197	234
Logs, lumber, and timber	. .	. .	. .	. .	35	50	53
Plywoods and veneers	. .	. .	. .	a	4	29	15
Others	. .	a	9	32	90	118	167
Iron and its products	. .	11	1,665	268	399	2,146	3,967
Cutlery	. .	. .	2	23	67	160	144
Machinery (non-farm) and parts	. .	. .	. .	40	68	167	250
Rolling mill products	. .	. .	21	. .	3	1,175	2,670
Pipes, tubes and fittings	. .	. .	. .	5	. .	. .	762
Others	. .	11	1,640	200	262	645	105
Non-ferrous metals and products	. .	a	3	283	714	637	260
Electrical apparatus	. .	. .	a	03	03	65	59
Electro-plated ware	. .	. .	2	68	501	507	160
Others	. .	a	a	122	120	65	41

TABLE V - Continued

	1946	1947	1948	1949	1950	1951	1952
Non-metallic minerals & products	. .	11	326	444	598	1,094	821
Pottery and chinaware	. .	11	265	277	473	922	728
Others	. .	. .	61	168	125	173	93
Chemicals and allied products	. .	. .	2	85	305	345	313
Sodium glutamate	. .	. .	a	48	270	289	287
Others	. .	. .	2	37	35	56	26
Miscellaneous Commodities	a	3	308	1,819	2,320	2,860	2,485
Cameras and parts	. .	. .	a	43	56	46	36
Containers, miscellaneous	. .	2	59	153	188	256	230
Jewellery & precious stones, n.o.p.[b]	. .	. .	1	42	308	406	404
Toys and sporting goods	. .	a	161	978	803	699	650
Others	a	a	85	602	964	1,454	1,166
Total Imports	a	344	3,127	5,534	12,076	12,547	13,113

[a]Less than $1,000.

[b]n.o.p. - not otherwise provided for.

Source: Dominion Bureau of Statistics. Review of Foreign Trade, various years. Cat. No. 65-205, Ottawa.

Dominion Bureau of Statistics. Trade of Canada, Imports by Countries, calendar year issue, various years. Cat. No. 65-006, Ottawa.

rose sharply in those two years. They amounted to $3.1 million in 1948 and $5.5 million in 1949. The list of commodities purchased was quite extensive, as shown in Table V, but the value of the majority of the individual items was not high. Agricultural products and textiles were the main commodities imported although an unusual purchase of wrought scrap ($1.6 million) in 1948 drove the iron and products group's weight to 53.2 per cent of total imports in that year, as shown in Table VI. The greater imports from Japan in those two years were mainly due to an increased availability of goods in Japan as a result of partial economic recovery, and partly due to the relaxation of export controls in Japan and of import restrictions in Canada (especially in 1949).

The value of Japanese exports to Canada rose quite substantially to $12.0 million in 1950 or by 118 per cent, as shown in Table VI and Table VII respectively.[12] Most of the increase was due to higher sales of textiles which totalled $6.0 million, a 285 per cent increase from the previous year. The outbreak of the Korean War was largely responsible for this rapid rise in our purchases from Japan. The opening of the conflict created large demands on the Canadian economy. But these increased demands reflected not so much the growth of defence outlays, which remained relatively small, as the expectations of strong markets, higher prices, and shortages to which mounting defence plans gave rise. Thus, both businessmen and consumers endeavoured to build up their stocks.

---

[12] A part of this increase in value was due to price changes, which prices rose quite sharply in 1950.

TABLE VI

PERCENTAGE COMPOSITION OF CANADIAN IMPORTS FROM JAPAN, 1946-52, BY GROUPS

	1946	1947	1948	1949	1950	1951	1952
Agricultural and animal products	. .	64.2	13.3	18.9	13.3	21.6	21.6
Textiles and products	. .	28.2	12.7	28.2	49.8	20.4	16.8
Wood and its products	. .	0.1	0.3	0.6	1.1	1.6	1.8
Iron and its products	. .	3.2	53.2	4.8	3.3	17.1	30.2
Non-ferrous metals and products	. .	0.2	0.1	5.1	5.9	5.1	2.0
Non-metallic minerals and products	. .	3.2	10.4	8.0	4.9	8.7	6.3
Chemicals and allied products	. .	. .	[a]	1.5	2.5	2.7	2.4
Miscellaneous commodities	100	0.9	9.8	32.9	19.2	22.8	18.9
Total Imports	100	100	100	100	100	100	100

[a]Less than o.1%

Source: Calculated from Table V.

TABLE VII

PERCENTAGE CHANGE IN CANADIAN IMPORTS FROM JAPAN, 1946-52, BY GROUPS

	1946	1947	1948	1949	1950	1951	1952
Agricultural and animal products	. .	. .	+ 89	+ 151	+ 54	+ 68	+ 4
Textiles and products	. .	. .	+ 309	+ 292	+285	- 57	-14
Wood and its products	. .	. .	+ 900	+ 233	+303	+ 53	+19
Iron and its products	. .	. .	+15,045	- 521	+ 49	+438	+85
Non-ferrous metals and products	. .	. .	+ 300	+9,300	+152	- 11	-59
Non-metallic minerals and products	. .	. .	+ 2,863	+ 36	+ 35	+ 70	-25
Chemicals and allied products	. .	. .	. .	+4,150	+258	+ 13	- 9
Miscellaneous commodities	. .	. .	+10,166	+ 490	+ 27	+ 23	-13
Total Imports	. .	+34,400	+ 809	+ 77	+118	+ 4	+ 4

Source: Calculated from Table V.

Defence spending influenced more our purchases from Japan in 1951 and 1952. Total imports increased only by 4 per cent a year in those two years.[13] But our imports of iron products rose by 438 per cent in 1951 and by 85 per cent in 1952 while imports of textiles decreased by 57 per cent and by 14 per cent for the same years, as shown in Table VII.

The year 1951 was a year of mixed trends in Canada. First, there was a noteworthy slow-down in the rate of consumer spending, especially for durables. This fact was the result, in part, of the surtax on personal income imposed in mid-1951, and in part, of the restrictions on consumer credit that were introduced in November 1950. This was reflected in imports from Japan, which fell, for example, by 57 per cent in textiles, as mentioned above. In contrast to the comparative weakness of retail trade, industrial production continued at a vigorous tempo. This largely reflected the growing government expenditures on defence account. The expansion of industrial capacity was also supported by large programs of resource development. As a result of these two factors, capital expenditures increased by about 20 per cent in 1951. And, as far as imports from Japan are concerned, this high level of industrial activity in Canada undoubtedly affected our imports of iron products, which rose by 438 per cent in 1951, as mentioned above.

---

[13] It is to be noted that the appreciation of the foreign exchange value of the Canadian dollar in October 1951 had the effect of lowering import prices by about 6 per cent in 1952. Therefore, the increase in the volume of imports was greater than is suggested by the increase in value for that year.

In 1952, the situation remained relatively the same. The slackness in consumer spending persisted until the spring, when excise taxes were reduced on a wide range of durable goods and consumer credit controls were suspended. There was a pick-up in retail sales afterwards, a good part of which was met from inventories accumulated since the outbreak of the Korean War. This explains, in part, the smaller imports from Japan of such things as textiles and miscellaneous consumer commodities, as shown in Table V. On the other hand, industrial expansion and resource development, with an emphasis on re-armament, continued strongly in 1952. In order to ensure that these projects proceeded as rapidly as possible the government discouraged less essential construction by means of deferred depreciation and control of key materials, supplemented by tighter credit conditions generally. Capital expenditures in 1952 were some 13 per cent higher than those in 1951. This was reflected, at least in part, in higher imports from Japan of iron products, as shown in Table V.

A look at the figures of the value of Canadian imports from Japan according to the degree of manufacture for the period of 1947 to 1952, as given in Table VIII, shows that we imported mostly fully manufactured products, the percentage of such imports increasing from 73.8 per cent of total imports in 1947 to 83.9 per cent in 1952.

In 1947, raw materials, which consisted entirely of fresh citrus fruits, accounted for 26.2 per cent of total imports. In 1948, unusually high imports of iron products drove the weight of "partly manufactured" imports to 52.8 per cent. However, these were only occasional and

TABLE VIII

CANADIAN IMPORTS FROM JAPAN ACCORDING TO DEGREE OF MANUFACTURE, 1946-52

Year	Raw Materials		Partly Manufactured		Fully Manufactured		Total	
	Value ($'000)	%	Value ($'000)	%	Value ($'000)	%	Value ($'000)	%
1946	n.a[a]	. .	n.a	. .	n.a	. .	n.a	. .
1947	90	26.2	. .	. .	254	73.8	344	100
1948	176	5.6	1,651	52.8	1,300	41.6	3,127	100
1949	701	12.7	295	5.3	4,540	82.0	5,536	100
1950	1,101	9.2	278	2.3	10,698	88.5	12,077	100
1951	2,168	17.2	653	5.2	9,746	77.6	12,567	100
1952	2,001	15.3	110	0.8	11,002	83.9	13,113	100

[a] n.a = Not available.

Source: Dominion Bureau of Statistics. Canada Year Book, various years ,Ottawa.

consequently, in 1949, "fully manufactured" imports regained preponderance over the two other categories, mainly due to much higher imports of textiles, and of "miscellaneous commodities". In 1950, the weight of "fully manufactured" imports reached 88.5 per cent. This was almost entirely due to substantial increases in textile imports (from $1.6 million to $6.0 million). Such imports were not repeated in 1951, and the percentage fell to 77.6. In 1952, mainly due to increased imports of iron products, namely, rolling mill products and pipes and tubes, "fully manufactured imports from Japan rose by about $1.3 million to account for 83.9 per cent of total imports from that country.

3. Summary

Table IX gives an over-all picture of the trade between Canada and Japan for the period ranging from 1946 to 1952.

First, we note that the rate of growth of Canadian exports to Japan was very rapid, especially after 1949. The reasons for such a rapid rise were the heavy demands created by the reconstruction of the Japanese economy (particularly demands for raw materials), and the Korean War, in which war Japan supplied a good part of the goods and services required by the Allied Forces.

Secondly, we note that the rate of growth of our imports from Japan was relatively slow compared to that of our exports to that country. The reasons are twofold: a lack of supply in Japan and a lack of demand for Japanese goods in Canada. The lack of supply in Japan was mainly due to the economic chaos which rendered Japan unable to produce for export, and to the Korean War which also limited the goods available for

TABLE IX

EXPORTS, IMPORTS, AND BALANCE OF TRADE, 1946-52

$'000

Year	Exports[a]		Imports[b]	Balance of Trade
	Domestic Exports	Re-exports[c]		
1946	976	n.a[d]	e	+ 976
1947	453	n.a	344	+ 109
1948	7,796	n.a	3,127	+ 4,669
1949	5,716	3	5,534	+ 189
1950	20,443	59	12,076	+ 8,426
1951	72,851	3,304	12,547	+63,608
1952	102,377	235	13,113	+89,499

[a]Canadian exports to Japan.

[b]Imports into Canada from Japan.

[c]Re-exports are goods brought into Canada from another country and, after some processing, re-exported to other countries. Figures were obtained from "Review of Foreign Trade".

[d]N.a = not available.

[e]Less than $1,000.

Source: Table 1 and Table 5, Catalogue No. 65-205, Ottawa. Dominion Bureau of Statistics. Review of Foreign Trade, various years, Ottawa.

export. The lack of demand in Canada for Japanese goods was the result of two main factors, i.e. Canadian trade policy which maintained high tariffs against Japanese imports, and prejudices held by many Canadian businessmen and consumers against Japanese products and people. The latter prejudices were carried over from the pre-war (1920-39) period during which Japanese products and trade practices were not always the best.

Consequently, there was a constant and growing trade surplus in Canada's favour in this first post-war period, and which was particularly heavy in 1951 and 1952. But this situation was not to continue in the next period. The fact was that, as economic recovery was completed by 1952-53, Japan was able to engage more actively into foreign trade. Also, she gained easier access to the Canadian market through a trade treaty made in 1954, as we will see in the next chapter.

CHAPTER II

A PERIOD OF RAPID ECONOMIC GROWTH, 1953-57

The period from 1953 to 1957 witnessed, both in Canada and Japan, an expansion in economic activities which was primarily associated with an investment boom. In Japan the rate of growth of real Gross National Product averaged 7 per cent a year with total Domestic Investment[1] accounting for an average of 28 per cent a year of Gross National Product, while in Canada corresponding figures were 4 per cent and 24 per cent.

In Japan, despite the restoration of its pre-war level, the Japanese economy stood, in 1952, "some twenty years behind the progress of the times".[2] One of the circumstances that had favoured a fairly rapid rate of expansion in the reconstruction period was that, in spite of the low rate of savings, the capital output ratio also was abnormally low. The rate of depreciation was also much lower after the war than before. In the recovery period, therefore, it had been possible to expand output and national income fairly rapidly by merely putting the existing unused and partly obsolete equipment into operation through minor repairs and modifications. But this possibility was practically exhausted by 1952-53. Investment in new and more efficient equipment was then required in order to achieve further economic expansion. So it

---

[1]Includes both private and public investment.

[2]The Foreign Capital Research Society, Japanese Industry '62 (Tokyo: The Foreign Capital Research Society, 1962), p. 7.

was investment demand for technological innovation that took the place of reconstruction demand and served to maintain economic growth at a high level in that second stage of the post-war economy in Japan.[3] Besides this investment demand there were two other factors which helped to maintain a high level of economic activity in Japan. The first one was the marked rise in consumers' purchasing power. Democratization policies in the immediate post-war years had a great influence on this increase just as the dissolution of the "Zaibatsu(trusts)" had on investment. The second factor was the increase in the degree of intervention of the government in the economy.

Canada also experienced a high rate of growth. Here, as in Japan, capital expenditures were the driving force behind the economy. That period was thus characterized by a steady increase in the proportion of total Canadian resources devoted to the creation of new fixed assets. Sparking this advance was heavy external demand for Canadian basic materials. So it was, in Canada, exceptional demand for, and a world-wide scarcity of many raw materials that led to heavy investment in our resources industries as opposed to a "technical innovation" investment demand in Japan. Consumers' purchasing power also increased. This latter fact, in the analysis of Canadian-Japanese trade for that period, was certainly more directly related to the level of our imports from Japan than was the investment boom proper, since we imported mostly consumer goods from that country.

---

[3] This period is also called the second reconstruction period in Japan.

1. Canadian Exports to Japan

1953: Canadian exports to Japan registered another increase in 1953. This was normal since Japanese economic activity was still high in that year despite the end of the Korean War boom in the previous year. This time the impetus came primarily from the government sector. The Japanese government stimulated effective demand by reducing tax rates and by increasing still further the scope of public investment and of financial assistance to the private sector. Thus, the analysis of changes in effective demand shows that, in 1953, the largest part of the increase was in capital formation.[4]

This was, as shown in Tables X, XI, and XII reflected in our exports of industrial raw materials to Japan which were mainly responsible for the increase in our total exports to that country (especially wood pulp, iron ore, scrap iron and steel, and copper). On the other hand, exports of agricultural products (as a group) declined by 3 per cent. This decline was largely due to a drastic fall in sales of barley (from $39.0 million to $17.5 million). The main reasons for this decline were that the 1952-53 barley crop in Japan had been fairly good and that Japan bought more barley from Australia. We must note, here, that sales of Canadian barley to Japan were irregular. Canada was thus only a marginal

---

[4]United Nations, Economic Commission for Asia and the Far East, Economic Survey of Asia and the Far East: 1957 (Bangkok, Thailand, 1958), p. 48.

TABLE X

CANADIAN EXPORTS TO JAPAN, 1953-57, BY GROUPS AND PRINCIPAL COMMODITIES

$'000

	1952	1953	1954	1955	1956	1957
Agricultural and animal products	84,406	81,624	73,429	72,184	81,748	85,550
Barley	39,048	17,497	13,082	5,779	10,762	13,833
Beef and veal, fresh	857	937	15	8	4	. .
Flaxseed (chiefly for crushing)	28	1,381	3,761	4,924	6,307	11,399
Hides and skins (except furs)	362	1,276	696	1,191	1,527	1,049
Seeds, miscellaneous	. .	. .	21	2,291	2,755	1,563
Sugar n.o.p.[b]	448	52	29	4	. .	. .
Tallow	526	584	437	785	623	1,001
Wheat	36,493	52,434	50,819	52,699	56,677	53,673
Wheat flour	1,043	2,873	1,540	1,362	1,312	1,033
Whisky	4,797	4,089	2,364	1,682	1,361	1,179
Others	804	501	667	1,459	419	820
Wood and its products	6,326	11,160	7,326	6,043	13,470	11,793
Logs, lumber, and timber	. .	863	544	319	648	628
Newsprint paper	186	1,971	226	166	. .	. .
Wood pulp	5,942	8,312	6,549	5,531	12,796	11,069
Others	10	13	7	27	27	96
Iron and its products	5,999	11,530	5,797	4,181	5,022	16,129
Iron ore	5,546	7,041	3,662	3,588	2,076	2,343
Machinery (non-farm) and parts	94	205	701	399	190	1,150
Pigs, ingots, blooms and billets	. .	4	. .	3	1,039	9,073
Scrap, iron and steel	123	3,863	1,176	13	763	2,436
Others	236	417	258	179	955	1,126
Non-ferrous metals and products	2,253	8,511	4,235	3,224	16,466	14,078
Aluminum, primary & semi-fabricated	12	816	716	. .	689	2,70[illegible]
Brass, " " "	1,429	1,685	347	239	1,024	489
Copper, " " "	91	4,328	873	64	6,609	2,554

TABLE X - Continued

	1952	1953	1954	1955	1956	1957
Lead, Primary & semi-fabricated	. .	61	744	310	3,359	2,309
Nickel, " " "	264	. .	118	. .	16	. .
Zinc, " " "	a	36	22	22	3	263
Non-ferrous metals & ores, n.o.p.	113	1,415	1,350	2,231	4,102	4,179
Others	343	170	64	358	665	1,581
Non-metallic minerals & products	2,755	2,681	3,967	2,545	5,876	5,766
Asbestos, unmanufactured	2,072	2,615	2,362	2,509	5,136	4,960
Coal and coke	555	. .	. .	. .	. .	121
Non-metallic minerals, n.o.p.[c]	a	1	1,586	a	697	582
Others	128	65	19	35	43	103
Chemicals & allied products	524	1,289	1,316	2,167	4,461	4,614
Drugs & chemicals, miscellaneous	173	475	500	1,233	2,130	2,673
Synthetic plastics, primary forms	262	705	782	879	2,262	1,848
Others	262	109	35	55	69	93
Miscellaneous commodities	115	1,588	326	468	758	1,174
Aircrafts and parts	a	175	. .	243	136	352
Rags and waste, textile	26	1,315	212	52	279	174
Others	89	99	113	173	343	648
Total Domestic Exports	102,377	118,323	96,396	90,811	127,802	139,103

[a]Less than $1,000.

[b]Not otherwise provided for.

[c]Includes petroleum, oil and gasoline.

Source: Dominion Bureau of Statistics. Review of Foreign Trade, various years. Cat. No. 65-205, Ottawa.

Dominion Bureau of Statistics. Trade of Canada, Exports by Commodities, Dec. issue, various years. Cat. No. 65-004, Ottawa.

TABLE XI

PERCENTAGE CHANGE OF CANADIAN EXPORTS TO JAPAN, 1953-57, BY GROUPS

	1953	1954	1955	1956	1957	1952-57
Agricultural and animal products	- 3	-10	- 2	+ 13	+ 5	+ 1
Wood and its products	+ 76	-34	-17	+123	- 12	+ 86
Iron and its products	+ 92	-50	-28	+ 20	+220	+169
Non-ferrous metals and products	+ 278	-50	-24	+410	- 14	+525
Non-metallic minerals and products	- 3	+48	-36	+131	- 2	+109
Chemicals and allied products	+ 148	+ 2	+65	+106	+ 3	+780
Miscellaneous commodities	+1,280	-79	+43	+ 62	+ 55	+921
Total Domestic Exports	+ 16	-18	- 6	+ 41	+ 9	+ 36

Source: Calculated from Table X.

TABLE XII

PERCENTAGE COMPOSITION OF CANADIAN EXPORTS TO JAPAN, 1953-57, BY GROUPS

	1953	1954	1955	1956	1957
Agricultural and animal products	69.0	76.2	79.5	64.0	61.6
Wood and its products	9.4	7.6	6.6	10.5	8.5
Iron and its products	9.7	6.0	4.6	3.9	11.6
Non-ferrous metals and products	7.2	4.4	3.6	12.9	10.1
Non-metallic minerals and products	2.3	4.1	2.8	4.6	4.1
Chemicals and allied products	1.1	1.4	2.4	3.5	3.3
Miscellaneous commodities	1.3	0.3	0.5	0.6	0.8
Total Domestic Exports	100	100	100	100	100

Source: Calculated from Table X.

supplier of that commodity.[5] However, the lower sales of barley were partly compensated by larger sales of wheat (up to $52.4 million in 1953 from $36.5 million in 1952). A bad rice crop in Japan, due to typhoons and floods, was the immediate cause for this increase. It is appropriate here to mention the rapid increase in the consumption of wheat in Japan since the end of the Second World War. The reasons for such a change were:

> A drastic fall in capacity for export rice in South Korea and Taiwan, a general shortage in the world supply of rice, the higher international price of rice relative to that of wheat, some changes in the dietary habits of Japanese people, and finally, the fact that the United States aid import of food during the postwar years mainly consisted of wheat.[6]

Canada was the principal beneficiary of this change, since in 1953 she supplied about half of Japan's total wheat imports.

1954: The year 1954 saw Canadian exports to Japan decrease by $22 million (or by 18 per cent). As shown in Table X and XI, declines occurred in all commodity groups except non-metallic minerals (due to unusually big sales of gasoline) and chemicals. Agricultural and animal products showed the biggest decline in value (a decline of $8.2 million).

---

[5] Barley imported into Japan is largely used for the production of a cereal food known as "seibaku". This is produced by hulling, pearling it, steaming it, and rolling or pressing it. To be suitable for this purpose, barley must be uniformily white in colour. The "seibaku" which resembles rice when processed, is mixed with the latter, and in periods of rice shortage forms an important part of the Japanese diet. Canadian barley is handicapped in this market because our barley grading system is aimed at supply to maltsters and for animal feed, and gives poor uniformity in "seibaku" processing. That is why Japanese barley and Australian barley have the preference in Japan.

[6] Robert S. Ozaki, "Japan's Postwar Resurgence in International Trade" (unpublished Ph.D dissertation, Harvard University 1960), p. 63.

The value of wheat sales were lower but this was due entirely to lower average prices for the grain. The main reason for this sharp fall in our exports to Japan was that 1954 was a year of deflation in Japan. The stagnation of the export trade and the increased import trade in 1953 along with the resulting disequilibrium in the balance of payments had necessitated drastic remedial measures. So, towards the end of 1953, the Japanese government introduced the so-called deflation and retrenchment policy. The paramount objective of this policy was to bring down the inflated domestic price level to a point nearer to the world price level and thus help to promote Japanese exports. In addition to the deflationary policy, the government began to make use of various devices to offset this disparity in prices (e.g. the link system).[7] On the other hand, as the main cause of the disequilibrium in the balance of payments was considered to be excessive imports, the government made it the immediate objective to cut the value of imports down to the combined probable values of exports and special procurements. Consequently, import financing was curtailed along with government expenditures and monetary expansion. This retrenchment policy had good results both in bringing prices down and in restricting imports.

<u>1955</u>: For Japan, 1955 was unique in her post-war experience in that the improvement in the balance of payments was achieved simultaneously with a remarkable degree of internal stability. Industrial

---

[7] See Chapter IV for further details.

production increased by about 8 per cent and exports by 24 per cent while the wholesale price index decreased to 343 from 349 in 1954, and 353 in 1953 (1934-36 = 100).[8] This was accomplished with only a 3 per cent rise in imports. The reason for this small import increase was that there existed factors which offset the rise in import demand brought about by economic prosperity. These offsetting factors were food, textile raw materials, and machinery. In the case of food, the importation of rice, which rose in 1954 due to emergency imports, decreased in 1955 because of a bumper rice crop. In the case of machinery, both the importation of passenger cars and industrial machinery decreased. The former was due to the Japanese government's restrictions on the importation of completed automobile and the latter because of the conclusion of the retrenchment policy as well as the rationalization program. This rationalization program was a program initiated by many Japanese industries (especially the heavy and chemical industries), with the help of the government, destined to raise productivity and to increase the range of products made in Japan, by modernizing and enlarging productive facilities. Imports of other items also decreased. Chief among them were barley (due to the exceptional rice crop), and wood pulp (due to a depletion of stockpiles and the increasing use of domestic pulp).

Canadian exports to Japan in that year more than reflected the aforementioned facts. Total exports declined by $5.5 million (or by 6

---

[8] G.C. Allen, Japan's Economic Recovery (London: Oxford University Press, 1958), pp. 167, 193, and 201.

per cent) to $90.8 million, as shown in Table X and XI. Sales of major industrial raw materials except asbestos were lower as well as those of agricultural and animal products (namely, barley). The reason for the sharp decrease in barley sales was twofold: (1) the record rice crop in Japan, and (2) Canada's 1954-55 barley crop was so low that Japanese orders could not be filled. Wheat sales increased but slightly. The stagnation of Canadian wheat exports to Japan since 1953 can be attributed in a good part to the disposal in Japan of United States surplus agricultural commodities under the Mutual Security Act. This amounted to 340,000 tons of wheat (and 55,000 tons of barley) in the 1954-55 U.S. fiscal year, and to 450,000 tons of wheat (and 100,000 tons of barley) in the 1955-56 U.S. fiscal year.[9]

1956: The Japanese economy continued to expand in 1956. Stimulated by strong domestic and export demand for investment as well as consumption goods, almost all of Japan's industries achieved new production records. Industrial production increased by 22 per cent and exports by 24 per cent.[10] Imports, though, rose faster than exports (by 31 per cent over 1955).[11] This swift rise in imports was attributable to several factors:

---

[9]Mitsubishi Economic Research Institute, Survey of Economic Conditions in Japan: July 1957 (Tokyo, Mitsubishi Economic Research Institute, 1957), p. 18.

[10]G.C. Allen, Japan's Economic Recovery (London: Oxford University Press, 1958), pp. 193 and 198.

[11]Ibid., p. 167.

> ...first, industrial production...went up considerably, and so did the import demand for industrial raw materials accordingly ...Second, there was a conspicuous increase in the degree of import dependence for various raw materials...Examples are found in larger imports of scrap...of pulp...and of petroleum ...Third, the rapid economic expansion in 1956 gave rise to bottlenecks in many industries in the form of capital shortage, which called for a solution by importing more capital from abroad...Fourth, the level of demand for investments in inventories of imported raw materials increased substantially ...and a large-scale increase in the importation of iron and steel, petroleum products, and nonferrous metals was the most conspicuous feature of Japan's foreign trade in that year.[12]

The Suez crisis also contributed to strengthen the expansionary forces in Japan by further accelerating imports (mainly raw materials). Canada shared in this boom in Japan. Exports to that country rose by $37 million, from $90.8 million in 1955 to $127.8 million in 1956, an increase of 41 per cent, as shown in Table X and Table XI respectively. Exports of all seven commodity groups increased markedly especially non-ferrous metals, non-metallic minerals,[13] and wood products. Sales of barley, for the first time since 1952 increased quite substantially despite another bumper rice crop in Japan. Wheat sales also rose but by only 3 per cent. What seems paradoxical in this period of large raw materials imports by Japan was the decline of Canadian iron ore exports (from $3.6 million in 1955 to $2.1 million in 1956). But the reason was that Japan bought more iron ore from Malaya, India, and the Philippines

---

[12]Robert S. Ozaki, "Japan's Postwar Resurgence in International Trade" (unpublished Ph.D dissertation, Harvard University, 1960), p. 210-11.

[13]Crude oil from Alberta, valued at $700,000, was for the first time shipped to Japan. The reason was the shortage of oil which arose in that country as a result of the Suez canal crisis.

and less from the British Columbia mines. These countries are geographically nearer than Canada and the cost of iron ore was also lower than that of Canada.

1957: Economic activity continued at a high level in Japan in 1957 but the rate of increase was lower than in the previous year. Industrial production increased by 18 per cent (as compared with 22 per cent in 1956), exports increased by 14 per cent (as compared with 24 per cent), and imports rose by 32 per cent (about 1 per cent more than in 1956).[14] However, most of the increase occurred in the first half of the year. The heavy speculative imports stimulated by the Suez War had caused the balance of payments to show a large deficit month after month from the middle of 1956. So the Japanese government enforced in May and June 1957 the so-called "Emergency Measures for Improving the Balance of Payments" which called for a tightening of credit and a decrease in government expenditures. This retrenchment policy rapidly changed the keynote of the economy and in the second half of 1957 the Japanese economy started to take a downward course. Accumulated inventories decreased as well as prices and imports. The contraction of imports resulted mostly from a drop in the importation of industrial raw materials and semi-finished products which had brought about the increase of imports in the first half of the year. Although economic expansion was high for the year as a whole, the unexpectedly rapid pace of change in

---

[14]The Foreign Capital Research Society, Japanese Industry '62 (Tokyo: The Foreign Capital Research Society, 1962), pp. 3, 17.

economic conditions at mid-year was the first and foremost feature of economic movements in 1957. The logic of economic events in 1957 forced Japan to pay renewed attention to problems of economic growth and to re-examine the foundations of her economy.

As shown in Table X, Canadian exports to Japan were valued at $139.1 million. This was, according to Table XI, 9 per cent higher than in 1956. Exports of agricultural products continued to account for the bulk of our exports to Japan, as indicated by Table XII. They increased by about $4 million in 1957 although wheat sales declined by about $3 million. Sales of barley increased by $3 million to $13.8 million and replaced wood pulp as the second most important export item. This increase was largely due to the short barley crop in Australia and the non-renewal by the Japanese government of the agreement concerning the disposal in Japan of United States surplus agricultural commodities. Another item which showed a rather spotty pattern of sales was oil-seeds.[15] Here again, the reason was that these seeds were imported by Japan to meet demand in excess of the domestic crop. Japan also imported oil-seeds from the United States and Mainland China and our sales varied according to price and availability from these other suppliers. Canadian flaxseed exports, though, increased substantially, reaching a value of $11.4 million in 1957. The fact is that the demand for flaxseed was (and still is) more stable than for rape-seed or mustard seed because the Japanese domestic crop was small and the industrial demand for linseed

[15] Includes flaxseed, rape-seed, and mustard seed.

oil rising.

The economic expansion in the first half of the year brought a firm demand for Canadian raw materials, notably iron and steel and their products. The Japanese iron and steel industry was working at full capacity and was hungry for raw materials. Consequently, imports from Canada of pig iron, ingots, blooms, and billets, as well as those of scrap iron, rose considerably, as shown in Table X. Imports of Canadian iron ore also increased but only by $0.3 million. These imports were needed to assure maximum steel output and to tide the industry over until new furnaces were brought into production.

Shipments of Canadian coal were resumed in 1957. No coal had been sold to Japan since 1952. The reason was that Canadian coal was too costly and of lower quality than the American coal from Virginia. But during 1957 sample cargoes of coal from Canadian mines were imported in Japan for trial on a commercial basis. Some Japanese firms had decided to study Canadian coal suitable for blending to produce coke for the iron and steel industry as well as anthracite to be used in the gas and chemical industries. A Japanese coal mission also visited some of our mines and had discussions with the Dominion Coal Board and provincial officials. And the Canadian government, in order to pave the way for exports to Japan, increased its subsidies on rail shipments of coal to the Pacific coast from Alberta. Thus, the year 1957 was a good year for Canadian exporters (as far as Japan was concerned), the brisk demand in the first half of the year far outweighing the declining demand in the second part of the year.

A breakdown of Canadian exports to Japan for the 1952-57 period on the basis of degree of manufacturing shows that important changes occurred during that period, as indicated in Table XIII. The proportion of raw materials exports to total exports declined sharply from 82.1 per cent in 1952 to 63.4 per cent in 1957, while that of partly manufactured exports rose to 26.8 per cent from 9.5 per cent in 1952. This was mainly due, on the one hand, to wheat sales remaining at about the same level throughout the period and, on the other hand, to greatly increased exports of wood pulp, semi-processed iron and non-ferrous metals, and chemicals (especially in 1956 and 1957). This fact was essentially the result of the heavy investments, particularly in secondary industries, which were made in Japan during that period. This led to substantial increases in industrial production which, in turn, led to increased demands for industrial materials. And as Japan has few of these basic materials, her dependence upon imports rose substantially and so did Canadian exports of these products.

2. Canadian Imports from Japan

1953-54: Canada experienced a recession in late 1953 and early 1954. However, it proved to be mild and was "only a transitional and partial disturbance to the mechanism of economic expansion".[16] "Its infection was significant in the wheat economy of the prairie provinces, but almost nowhere else in Canada".[17] Real Gross National Product

---

[16] Richard E. Caves and Richard H. Holton, The Canadian Economy: Prospects and Retrospects (Harvard Economic Studies, Vol. CXII; Cambridge, Mass.: Harvard University Press, 1961), p. 108.

[17] Ibid.

TABLE XIII

CANADIAN EXPORTS TO JAPAN ACCORDING TO DEGREE OF MANUFACTURE, 1953-57

Year	Raw Materials		Partly Manufactured		Fully Manufactured		Total	
	$'000	%	$'000	%	$'000	%	$'000	%
1952	84,062	82.1	9,674	9.5	8,641	8.4	102,377	100
1953	83,935	70.9	22,288	18.8	12,100	10.3	118,323	100
1954	73,250	76.0	14,157	14.7	8,989	9.3	96,396	100
1955	71,498	78.7	10,481	11.5	8,832	9.8	90,811	100
1956	82,852	64.8	34,728	27.2	10,222	8.0	127,802	100
1957	88,239	63.4	37,214	26.8	13,650	9.8	139,103	100

Source: Dominion Bureau of Statistics. Canada Year Book, various years, Ottawa.

increased by 3.8 per cent in 1953 and decreased only by 2.4 per cent in 1954. Industrial production rose by about 6.8 per cent in 1953 and declined by only 1.6 per cent in 1954. Finally, personal income increased by 5.2 per cent in 1953 and by less than 0.5 in 1954.

Canadian imports from Japan showed less change from 1952 to 1953 than in most earlier post-war years. They increased by only 3 per cent to $13.5 million as indicated in Table XIV and XV. Notably, there was a sharp reduction in imports of rolling mill products (from 2.7 million in 1952 to $503,000). This is explainable by the fact that the stress created by the Korean War boom had considerably diminished and that Canadian industries were more able to satisfy domestic demand. But most other principal imports from Japan increased, with especially large gains in wearing apparel and toys and sporting goods, each of which passed the million dollar mark in that year. Other important items were citrus fruits, fishery products, and pottery and chinaware. But in no case did the imports from Japan supply a substantial fraction of the Canadian market.

Despite the levelling-off of economic activity in Canada in 1954, Japanese exports to Canada were much higher than in 1953. They reached $19 million, a 41 per cent increase over the previous year. The main reason for this increase was undoubtedly the trade agreement signed between Canada and Japan in mid-year and which reduced considerably the tariffs against Japanese goods.[18] The increase in imports was spread

---

[18] See Chapter IV for more details.

TABLE XIV

CANADIAN IMPORTS FROM JAPAN, 1953-57, BY GROUPS AND PRINCIPAL COMMODITIES

$'000

	1952	1953	1954	1955	1956	1957
Agricultural and animal products	2,825	2,704	4,073	3,874	9,777	8,694
Citrus fruits, fresh	1,088	1,204	1,477	1,367	1,409	1,748
Fishery products	1,099	932	1,951	1,517	6,965	5,470
Others	638	569	644	990	1,403	1,476
Textiles and products	2,208	3,047	4,001	10,653	16,778	18,353
Apparel of all textiles	737	1,299	2,154	4,925	8,053	9,130
Cotton fabrics	244	329	274	2,174	4,108	4,176
Silk fabrics	474	369	159	247	669	688
Others	752	1,049	1,414	3,306	3,949	4,359
Wood and its products	234	572	1,284	2,443	3,241	4,191
Logs, lumber, and timber	53	116	293	427	500	408
Plywoods and veneers	15	171	645	1,447	1,824	2,696
Others	167	285	346	570	917	1,088
Iron and its products	3,967	1,821	2,808	8,415	15,392	12,817
Cutlery	144	199	266	536	863	1,017
Hardware n.o.p.[a]	35	92	150	514	1,050	383
Machinery (non-farm) and parts	250	329	261	845	1,257	1,454
Rolling mill products	2,670	503	287	2,152	2,855	1,529
Pipes, tubes, and fittings	762	562	1,632	3,783	8,132	6,751
Others	70	137	212	586	1,234	1,682
Non-ferrous metals and products	260	591	753	2,732	3,287	3,500
Bauxite ore	. .	. .	28	1,285	1,174	780
Electrical apparatus	59	89	162	275	577	1,253
Electro-plated ware	160	231	450	995	1,228	343
Others	41	271	114	177	308	1,124
Non-metallic minerals and products	821	1,031	1,223	1,614	2,313	2,547
Pottery and chinaware	728	822	809	945	1,239	1,439
Others	93	209	414	669	1,073	1,108

TABLE XIV - Continued

	1952	1953	1954	1955	1956	1957
Chemicals and allied products	313	256	414	437	181	213
Sodium glutamate	287	220	329	368	60	22
Others	26	36	85	69	120	190
Miscellaneous commodities	2,485	3,450	4,451	6,465	9,787	11,174
Cameras and parts	36	101	73	303	607	1,075
Containers, miscellaneous	230	349	407	841	1,334	1,622
Jewellery and precious stones	404	367	515	645	801	779
Optical instruments, n.o.p.[a]	209	304	358	485	829	759
Toys and sporting goods	650	1,146	1,371	2,185	3,474	3,641
Others	956	1,183	1,729	2,007	2,742	3,297
Total Imports	13,113	13,473	19,008	36,635	60,755	61,489

[a] n.o.p. - not otherwise provided for.

Source: Dominion Bureau of Statistics. Review of Foreign Trade, various years. Cat. No. 65-205, Ottawa,

Dominion Bureau of Statistics. Trade of Canada, Imports by countries, calendar year issue, various years. Cat. No. 65-006, Ottawa.

TABLE XV

CANADIAN IMPORTS FROM JAPAN, 1953-57, BY GROUPS AND PRINCIPAL COMMODITIES

	1953	1954	1955	1956	1957	1952-57
Agricultural and animal products	- 4	+51	- 5	+152	-11	+ 207
Textiles and products	+ 54	+31	+166	+ 39	+ 9	+ 731
Wood and its products	+144	+55	+ 90	+ 33	+29	+1,691
Iron and its products	- 54	+54	+200	+ 83	-17	+ 223
Non-ferrous metals and products	+127	+27	+262	+ 20	+ 6	+1,246
Non-metallic minerals and products	+ 26	+16	+ 32	+ 43	+10	+ 210
Chemicals and allied products	- 18	+62	+ 5	- 59	+18	- 32
Miscellaneous commodities	+ 39	+29	+ 45	+ 51	+14	+ 350
Total Imports	+ 3	+41	+ 93	+ 66	+ 1	+ 369

Source: Canada Dominion Bureau of Statistics, Trade of Canada: Imports by Countries (Ottawa: Queen's Printer), various years.

over all eight commodity groups, with the miscellaneous commodities, iron and steel products, and textiles items showing the largest gains. Toys and sporting goods, steel pipes and tubes, and wearing apparel were the chief imports in these three groups.

We should also note that Japan exported, in 1954, bauxite to Canada. This bauxite was destined to the Kitimat aluminum plant in British Columbia which began production in August of that year. It seems strange that a country with no bauxite resources should export some. But this was a case of re-exporting. The ore was imported by Japan from neighbouring countries like Indonesia and Malaya and processed into alumina which was then exported to Canada.

1955: The year 1955 witnessed a sharp recovery from the mild contraction in economic activity which had characterized the mid-1953 to mid-1954 period. Real Gross National Product increased by 8.5 per cent, industrial production by 9 per cent, and personal income by 7.1 per cent The gains in real G.N.P. and in industrial production were the largest of any single post-war year. Several important expansionary factors contributed to the 1955 upsurge. First, exports, which had declined in 1954, recovered strongly rising by 11 per cent. Second, business investment outlays for plant, machinery, and equipment rose by 9 per cent. It may be recalled that these outlays had declined in late 1953 and in 1954. But during 1955, in response to a sharp rise in profits and the growing demand on existing capital facilities, they began to increase rapidly. Business inventories also shifted from net liquidation in 1954 to a net accumulation valued at about $400 million. Third, consumer expenditures on goods and services increased by 7.5 per cent, reflecting the greater personal disposable income in that year. Under these stimuli, imports also rose, especially in the last half of the year when a substantial portion of the gain in final purchases as well as the increased inventory demand were met from foreign sources of supply.

Japan benefited from this upsurge in economic activities since her exports to Canada almost doubled. Imports from Japan went up from $19.0 million in 1954 to $36.6 million in 1955, an unprecedented increase of 93 per cent. Table XIV shows that imports of all commodity groups except agricultural products rose substantially, particularly those of textiles and iron products. The latter imports as well as those of bauxite and plywoods and veneers particularly reflected the short supply position of many Canadian products in the second half of the year. As for textiles, the increase still reflected to a large extent the effects of the trade treaty signed in mid-1954.

The importance of the shifts that occurred in our purchases from Japan in 1955 can be better seen by looking at the changes in the weight of each group of products. As shown in Table XVI, the weight of the textiles and iron products groups substantially increased in 1955, i.e. from 14.8 per cent in 1954 to 23.0 per cent respectively. On the other hand, the weight of agricultural products fell from 21.4 per cent to 10.6 per cent, while that of miscellaneous commodities dropped from 23.5 per cent to 17.6 per cent.

<u>1956</u>: Economic activity continued to increase rapidly in 1956, following the pronounced upswing of the previous year. This sustained

TABLE XVI

PERCENTAGE COMPOSITION OF CANADIAN IMPORTS FROM JAPAN, 1953-57, BY GROUPS

	1953	1954	1955	1956	1957
Agricultural and animal products	20.1	21.4	10.6	16.1	14.1
Textiles and products	22.6	21.0	29.1	27.6	29.9
Wood and its products	4.2	6.7	6.7	5.3	6.8
Iron and its products	13.5	14.8	23.0	25.4	20.8
Non-ferrous metals and products	4.4	4.0	7.4	5.4	5.7
Non-metallic minerals and products	7.6	6.4	4.4	3.8	4.1
Chemicals and allied products	1.9	2.2	1.2	0.3	0.4
Miscellaneous commodities	25.7	23.5	17.6	16.1	18.2
Total Imports	100	100	100	100	100

Source: Calculated from Table XIV.

growth brought the Canadian real Gross National Product to a level approximately 8.5 per cent above that of the year 1955. The increase was the second largest in the post-war period, being exceeded only by the record advance in 1955. Industrial production also rose substantially, being about 7 per cent over that of 1955. It should be noted that in 1955, the economy was emerging from the mild 1953-54 recession, during which recession some unutilized capacity had developed as a result of the continued growth in the labour force and in productive facilities. This margin of "slack" made possible the very large increase in production in 1955. In 1956, however, the economic advance occurred in a situation of growing scarcity in the supply of both manpower and materials, with the result that the gain in output, although large, was somewhat smaller than in 1955.

The major expansionary factor behind the economic advance in 1956 was the very important increase in business capital investment outlays, which were higher by 33 per cent. While that in 1955 consumer expenditures, housing, and exports together provided the most important impetus on the demand side, in 1956 the emphasis shifted to business investment expenditures, which accounted for close to half of the rise in the country's total spending (and if inventory investment is included, the proportion was well over 50 per cent). Despite the marked shift towards investment spending, however, both consumer expenditures[19] and exports showed gains in 1956 which were close to those of the previous year (in

[19]Personal income increased by 10 per cent during the year.

percentage terms). All these factors contributed to push economic activity to a level never before attained in Canada.

Japanese exports to Canada showed another impressive gain in 1956. They went up from a value of $36.6 million to $60.7 million, a 66 per cent increase from the previous year, as shown in Table XV. Again, imports of all commodity groups except chemicals made substantial gains, as indicated in Table XIV and Table XV. But the outstanding feature in 1956 was the very sharp increase in imports of pipes, tubes and fittings which more than doubled. This reflected the general trend in the importation of iron and steel in Canada during that year. Imports of iron and steel from all countries in 1956 almost doubled the rate of increase in the previous year, rising about 40 per cent (the largest absolute and relative gain among major commodity groups). As far as Japan was concerned, the large-scale construction of pipe-lines in Western Canada undoubtedly stimulated imports of Japanese steel pipes and tubes. Consequently, pipes and tubes displaced wearing apparel as the leading import item.

Fishery products also increased markedly: from $1.5 million in 1955 to $6.9 million in 1956. It may seem rather odd that a country like Canada imported fish and fishery products, especially salmon (which made up about 70 per cent of our fish imports from Japan in 1956). The reason for such a situation was that, in 1956, the total salmon catch in British Columbia (the principal supplier of salmon) was the lowest since 1944. Thus Japan was more or less a marginal supplier of salmon and did not have a steady market in Canada. The market was steadier in other species of fish (e.g. tuna) which are not caught by Canadian fishermen. Imports of wearing apparel, textiles, and toys and sporting goods also increased substantially due to the ever-increasing popularity in Canada of these products which combined low cost with good quality.

1957: The remarkable surge of Canadian expansion which began in 1955 lost most of its upward momentum in 1957. Real Gross National Product and industrial production stayed at about the same level while personal income increased by 6 per cent. The rapid expansion of investment outlays which was a notable feature of 1955 and 1956 diminished in 1957; investment in machinery and equipment declined in the last three quarters of the year and the rate of growth in outlays for non-residential construction slackened. Exports, which had earlier provided one of the main stimuli to investment in resources industries, moved irregularly at a level barely in excess of the previous year. At the same time, the upsurge in imports that occurred in 1956 subsided in 1957 and a decline of about 1.5 per cent was recorded in the value of imports for that year.

The rate of growth of Canadian imports from Japan also subsided in 1957 although it did not turn negative. Imports rose by 1 per cent to $61.5 million. The change in the structure of our imports, as can be seen in Table XVII, reflected well the economic conditions in Canada. The levelling off of industrial production was reflected in lower imports of iron and steel products (e.g. rolling mill products, pipes, tubes, and fittings) while the strength of consumer buying and of residential construction was reflected in greater imports of textiles

TABLE XVII

CANADIAN IMPORTS FROM JAPAN ACCORDING TO DEGREE OF MANUFACTURE, 1953-57

Year	Raw Materials		Partly Manufactured		Fully Manufactured		Total	
	$'000	%	$'000	%	$'000	%	$'000	%
1952	2,001	15.3	110	0.8	11,002	83.9	13,113	100
1953	1,794	13.3	507	3.8	11,172	82.9	13,473	100
1954	2,401	12.6	955	5.0	15,652	82.4	19,008	100
1955	3,498	9.5	1,936	5.3	31,201	85.2	36,635	100
1956	3,872	6.4	2,443	4.0	54,440	89.6	60,755	100
1957	3,355	5.5	3,559	5.8	54,575	88.7	61,489	100

Source: Dominion Bureau of Statistics. Canada Year Book, various years, Ottawa.

(e.g. wearing apparel), agricultural products (except fish due to the good salmon catch by British Columbia fishermen), cutlery, sewing machines,[20] electrical apparatus (e.g. radio sets), pottery and china-ware, cameras, toys and sporting goods, and wood and wood products (ply-woods and veneers). Thus, wearing apparel regained its place as the leading commodity import.

The strength of Japanese exports to Canada can be also attributed to the export drive which the Japanese government initiated in 1957. The principal measures instituted to push exports included a reduction in export credit insurance rates and a higher tax exemption for income from export sales. In addition, the budget for government trade promotion organizations was increased. Stimuli also came from a reduction of domestic demand (in Japan), greater competition, and increased productive efficiency as a result of the rationalization policies introduced in 1954 and 1955.

The analysis of Canadian imports from Japan according to the degree of manufacture, as can be seen in Table XVII, shows that the pro-portion of fully manufactured goods increased again in this period as well as those of partly manufactured goods while raw materials imports declined furthermore. It is to be noticed that the proportion of raw materials decreased substantially in the 1953-57 period, passing from 15.3 per cent of total imports from Japan in 1952 to 5.5 per cent in 1957.

---

[20]Sewing machines are included in "Machinery (non-farm) and parts" and account for about 80 per cent of the total.

This is normal considering the nature of Japan's economy, i.e. abundant and cheap labour and scarcity of natural resources.

3. Summary

Table XVIII gives a summary of the trade between Canada and Japan for the period ranging from 1953 to 1957. It shows that the large trade surplus in Canada's favour characterising the earlier period was considerably reduced after reaching a peak in 1953. In the latter year, the ratio of trade was about 9:1 in our favour. But in 1957, it was down to about 2.2:1 (falling as low as 1.5:1 in 1955). It can thus be said that the main feature of Canada-Japan trade relations in this period was the rapid rate of growth of Japan's exports to Canada. This fact, in turn, indirectly reflects the renewed vitality of the Japanese economy. Such a vitality will go increasing, as will be seen in the next chapter, and will affect favourably both Canadian exports to Japan and Japan's exports to Canada in the 1958-62 period.

TABLE XVIII

EXPORTS, IMPORTS, AND TRADE BALANCE, 1953-57

$'000

Year	Exports[a]		Imports[b]	Balance of Trade
	Domestic Exports	Re-exports[c]		
1953	118,323	179	13,473	+105,029
1954	96,396	216	19,008	+ 77,504
1955	90,811	96	36,635	+ 54,272
1956	127,802	178	60,755	+ 67,225
1957	139,103	361	61,489	+ 77,975

[a]Canadian exports to Japan.

[b]Imports into Canada from Japan.

[c]Re-exports are goods brought into Canada from another country and, after some processing, re-exported to other countries. Figures were obtained from "Review of Foreign Trade".

Source: Table X and Table XIV.

Dominion Bureau of Statistics, Review of Foreign Trade, various years, Ottawa.

CHAPTER III

A PERIOD OF TRADE EXPANSION, 1958-62

This period was one of contrasts as far as Canada and Japan are concerned. Economic growth continued at a higher rate in Japan while in Canada it slackened. The economic indicators of Table XIX are evidence of these divergent growth rates. Thus, real Gross National Product increased at an annual average rate of 3.3 per cent in Canada and 12.6 per cent in Japan (the highest growth rate in the world for that period). But one thing which was common to both Canada and Japan was the remarkable expansion of trade between them, as will be shown in this chapter.

In Japan, the technological innovation process that had started in the earlier period continued more vigorously through 1958 to 1962. Consequently, the outstanding feature of this period was the continuous high level of private equipment investments which accounted for about 18-20 per cent of Gross National Product annually. The principal reason which brought about an increase in equipment investments based on technological innovations was that the major industries, which make up a large percentage in equipment investments, initiated large modernization programs. Hitherto technological innovations had centered on the modernization of facilities within established factories and plants. But in this period numerous new plants were built. Japan thus reached the stage of "innovation in terms of groups of plants as exemplified by the emergence of several industrial combines".[1] This period also witnessed a swift

---

[1]Japanese Government, Economic Planning Agency, <u>Economic Survey of Japan, 1960-61</u> (Tokyo: The Japan Times Ltd., 1961), p. 7.

TABLE XIX

PERCENTAGE CHANGE OF SELECTED ECONOMIC INDICATORS, CANADA AND JAPAN, 1958-62

	1958	1959	1960	1961	1962	Average per year 1958-62
Real Gross National Product						
Canada	+ 1.1	+ 3.4	+ 2.2	+ 2.5	+6.2	+ 3.3
Japan	+ 0.06	+18.3	+12.9	+16.1	+4.2	+12.6
Real Gross Domestic Investment[a]						
Canada	-15.7	+ 7.9	- 1.7	- 1.1	+4.7	- 0.9[b]
Japan	-21.3	+61.4	+26.8	+36.6	. .	+30.1[c]
Industrial Production						
Canada	- 0.6	+ 7.5	+ 0.8	+ 3.2	+7.5	+ 3.9
Japan	- 1.3	+20.0	+25.0	+19.3	+7.8	+17.9

[a]Includes government investment, business investment and change in business inventories.

[b]The overage for 1958-61 is -2.9 per cent.

[c]The figure is for 1958-61.

Source: Bank of Japan, Economic Statistics of Japan 1962 (Tokyo: 1963).
Dominion Bureau of Statistics, National Accounts: Income and Expenditure,1962 (Ottawa: Queen's Printer, 1963).
D.B.S., Canadian Statistical Review: July 1963 (Ottawa: Queen's Printer, 1963).

pace of heavy industrialization. For example, the weight of the heavy and chemical industries in industrial production which had been 49 per cent in 1955 increased to 65 per cent in 1960, and their share of total value added by all industries, which was about 40 per cent in 1955, exceeded 50 per cent in 1961.[2]

In short, the modernization investments were marked by three features: modernization of the industrial structure (increased weight of heavy industries), closer inter-industrial relations (investments in one industry induced corresponding investments in another related industry), and the diversification of the processing patterns (increased degree of processing). These large investments, through their productivity effects, led to a quantitative and qualitative expansion of the productive capacity of Japan as well as a rapid rise in international competitive power. The fact that bottlenecks did not develop in such industries as iron and steel, as was the case in the previous investment boom period, and the steady increase in exports illustrate the importance of these effects. Another characteristic of these large equipment investments was that they were made from a long-range point of view and were relatively uninfluenced by any short-term considerations of the balance between demand and supply.

As is apparent from Table XIX the rate of expansion in Canada was much slower (especially if we exclude 1962) and sometimes negative (e.g.

---

[2]Japanese Government, Economic Planning Agency, Economic Survey of Japan, 1961-62 (Tokyo: The Japan Times Ltd., 1962), p. 29.

real Gross Domestic Investment) in this third post-war period. On analysis of the principal factors that comprise total demand reveals a marked contrast from the two earlier periods.

First, there was a change in consumers' expenditures. Expenditures by consumers for goods and services constitute the major source (about two-thirds) of total domestic demand and are thus by their very size an important determinant of the level of economic activity. They rose consistently from 1945 to 1958 and were a major factor in Canada's economic expansion. The early post-war period had seen consumption expenditures increased sharply due to the backlogs of demand and accumulation of savings. To this was added a wave of anticipatory buying on the outbreak of Korean hostilities in 1950. Consumer purchases thus continued to mount rapidly until 1957, buoyed up by rising incomes and consumer credit. But while continuing to be a major influence in sustaining business activity, the volume of consumption increased much less rapidly after 1957. Indeed, real consumption per capita rose only by 6.6 per cent from 1957 to 1962, an average of 1.1 per cent a year (as compared with 2.3 per cent a year for the 1952-57 period). Part of the explanation for the less buoyant trend of consumer spending undoubtedly lies in the absence of many of the aforementioned stimuli to spending that had characterized the earlier periods. Also related was the more rapid rise in the labour force than in employment, resulting in a higher rate of unemployment.

Second, capital expenditures, the most dynamic element since the end of the second world war, levelled off after 1957 and became a retarding influence, as can be seen from Table XIX. An easing in requirements for defence stockpiling as well as an increase in supply of many internationally traded commodities placed our products in a less preferred position and demand for them flagged, resulting in much excessive production capacity.

Third and related to the above, was the trend of exports. Up to around 1957, Canada was still benefiting from a combination of advantages with which she had emerged from the second world war: productive facilities not only unimpaired but improved and enlarged; natural resources which seemed almost limitless and for which world demand appeared insatiable; capital resources which, if not available in Canada, could be readily obtained elsewhere. But in 1957-58, in striking contrast, other parts of the world had rebuilt their productive facilities, other sources of basic materials had been developed and international flows of both funds and goods had been broadened and diversified. In short, Canada faced a much more competitive world and Canadian businessmen found themselves preoccupied less with problems of production than with problems of marketing and costs.

1. Canadian Exports to Japan

<u>1958</u>: In Japan the recession which had started off from the enforcement of the financial retrenchment policy in May 1957 continued into 1958. This recession had developed as a reaction to the unprecedented investment boom carried out since 1954.

As shown in Table XIX, real Gross National Product declined by 0.06 per cent, real Gross Domestic Investment by 21.3 per cent, and industrial production by 1.3 per cent. Imports decreased by close to 30 per cent, in sharp contrast to the 32 per cent increase in 1957. The decline was pronounced in mineral ores and scraps, and semi-fabricated products. The decline of the former was accounted for by the decreased imports of iron ore and scrap, and that of the latter by the absence of emergency imports of iron and steel (the import of iron and steel in 1958 fell by about 90 per cent from 1957). This sharp reduction in imports may be considered as a reaction to the unusually high level reached during the peak period in 1957. The most important cause of this reduction (in value), however, was a decline in import prices for minerals, metals, and textile raw materials.

But in the third quarter of 1958, the recession had run its course and business activities showed a marked improvement thereafter. This improvement was largely due to the fact that consumption had continued strong despite the recession. The causes of this strong domestic demand were the influence of the previous prosperity and easy money conditions. In addition to the increase in consumption (about 7 per cent), export demand had shown no marked slowing-down (exports increased by 0.6 per cent in 1958),[3] which fact also played a role in checking the recession. But although industrial production recovered quite rapidly, the rate of increase in imports lagged behind the rate of increase in industrial production. This was due to the fact that recovery was much

---

[3] Mitsubishi Economic Research Institute, Survey of Economic Conditions in Japan, Jan. 1959 (Tokyo: Mitsubishi Economic Research Institute, 1959), p. 3.

slower in many import-dependent industries such as iron and steel, and textiles. There was also a depletion of inventories on the part of those industries.

As shown in Table XX, XXI and XXII, Canadian exports to Japan registered a substantial change in 1958. They fell by $34.2 million (or 25 per cent) from $139.1 million to $104.9 million. This shows that Canada's sales to Japan were greatly affected by the economic conditions in that country. Although a part of the decrease in value was due to lower prices, most of it was the result of lower "quantum" exports. Exports of almost all major commodities fell sharply, e.g. barley, flax-seed, wood pulp, semi-fabricated iron and steel, iron and steel scrap, most non-ferrous metals and ores, and asbestos. Notable exceptions were wheat and iron ore. The case of iron ore was especially outstanding in view of the large cutbacks of raw materials imports by Japan in 1958 (particularly iron and steel raw materials). The main reason for increased exports of iron ore was that Japanese firms had contracts with Canadian producers which had to be honoured.

The latter facts were heavily reflected in the percentage composition of our exports to Japan. As shown in Table XXII, the weight of agricultural products went up from 61.6 per cent of total exports to 79.2 while that of all other groups except chemicals decreased. This increased weight of agricultural products is explainable by the fact that exports of wheat increased in 1958 while that of most other products declined. Imports of foodstuffs in general and of wheat in particular are, in Japan, less subject to fluctuations in economic activity and

TABLE XX

CANADIAN EXPORTS TO JAPAN, 1958-62, BY GROUPS AND PRINCIPAL COMMODITIES

$'000

	1957	1958	1959	1960	1961	1962
Agricultural and animal products	85,550	82,967	94,999	106,167	119,205	113,394
Barley	13,833	7,225	5,270	. .	. .	. .
Flaxseed (chiefly for crushing)	11,399	5,315	8,831	9,360	14,301	11,369
Hides and skins (except furs)	1,049	966	902	2,198	2,733	2,459
Seeds, miscellaneous	1,563	2,720	4,582	5,356	2,664	5,461
Tallow	1,001	859	670	551	756	1,072
Wheat	53,673	62,773	69,165	82,106	92,382	87,503
Wheat flour	1,033	933	2,170	1,897	2,435	1,250
Whisky	1,179	1,313	1,624	938	290	43
Others	820	863	1,785	3,761	3,643	4,236
Wood and its products	11,793	3,716	7,488	3,903	17,213	18,281
Logs, lumber, and timber	628	422	246	819	14,671	11,568
Wood pulp	11,069	3,262	7,106	2,988	2,508	6,656
Others	96	31	136	96	35	56
Iron and its products	16,129	5,243	10,778	18,472	33,633	21,651
Iron ore	2,343	3,587	5,054	9,424	10,152	14,610
Machinery (non-farm) and parts	1,150	844	979	3,008	3,663	4,547
Pigs, ingots, blooms & billets	9,073	. .	. .	. .	3,250	. .
Scrap, iron and steel	2,436	92	4,562	5,345	15,559	2,196
Others	1,126	720	183	695	1,008	298
Non-ferrous metals and products	14,078	3,398	11,397	27,906	34,576	37,239
Aluminum, primary & semi-fabricated	2,701	43	5,150	8,481	14,838	5,192
Brass, " " "	489	165	918	3,097	3,331	2,078
Copper, " " "	2,554	1,190	3,657	8,594	8,870	23,314
Lead, " " "	2,309	88	6	1,761	1,033	773
Nickel, " " "	. .	82	21	. .	2,267	3,419

TABLE XX - Continued

	1957	1958	1959	1960	1961	1962
Zinc, primary & semi-fabricated	263	82	153	2,241	2,507	28
Non-ferrous metals & ores, n.o.p.	4,179	1,308	1,158	3,475	1,519	1,208
Others	1,581	439	334	258	211	1,226
Non-metallic minerals and products	5,766	3,680	8,423	15,037	19,551	14,837
Asbestos, unmanufactured	4,960	3,544	6,737	8,499	11,321	8,215
Coal and coke	121	62	971	4,464	6,895	6,013
Non-metallic minerals, n.o.p.[b]	582	10	679	1,949	1,223	495
Others	103	64	35	125	112	115
Chemicals and allied products	4,614	5,267	5,447	5,354	6,330	5,499
Drugs & chemicals, miscellaneous	2,673	3,108	3,350	263	759[c]	411[c]
Synthetic plastics, primary forms	1,848	2,082	1,308	4,622	4,567[d]	3,495[d]
Others	93	77	789	470	1,004	1,593
Miscellaneous commodities	1,174	583	1,190	1,168	1,074	3,677
Aircrafts and parts	352	345	909	532	834	3,059
Rags and waste, textile	174	21	102	113	4	55
Others	648	217	180	523	236	563
Total Domestic Exports	139,103	104,853	139,723	178,008	231,582	214,578

[a]Less than $1,000.

[b]n.o.p. - not otherwise provided for. This class includes petroleum, oil and gasoline.

[c]Approximative figures.

[d]Includes synthetic rubber.

Source: Dominion Bureau of Statistics. Trade of Canada, Exports by Commodities, December issue, various years. Cat. No. 65-004, Ottawa.
Dominion Bureau of Statistics. Review of Foreign Trade, various years. Cat.No. 65-205, Ottawa.

TABLE XXI

PERCENTAGE CHANGE OF CANADIAN EXPORTS TO JAPAN, BY GROUPS, 1958-62

	1958	1959	1960	1961	1962	1957-62	1952-62
Agricultural and animal products	- 3	+ 14	+ 12	+ 3	- 5	+ 32	+ 34
Wood and its products	-68	+101	- 48	+341	+ 6	+ 55	+ 189
Iron and its products	-67	+106	+ 71	+ 82	- 36	+ 34	+ 261
Non-ferrous metals and products	-76	+235	+145	+241	+ 8	+164	+1,552
Non-metallic minerals and products	-36	+128	+ 78	+ 30	- 24	+157	+ 438
Chemicals and allied products	+14	+ 3	- 2	+ 18	- 13	+ 19	+ 949
Miscellaneous commodities	-50	+104	- 2	- 8	+242	+213	+3,097
Total Domestic Exports	+25	+ 33	+ 28	+ 30	- 7	+ 61	+ 110

Source: Calculated from Table XX.

TABLE XXII

PERCENTAGE COMPOSITION OF CANADIAN EXPORTS TO JAPAN, 1958-62, BY GROUPS

	1957	1958	1959	1960	1961	1962
Agricultural and animal products	61.6	79.2	68.0	59.6	51.6	52.9
Wood and its products	8.5	3.5	5.4	2.2	7.4	8.5
Iron and its products	11.6	5.0	7.7	10.4	14.5	10.1
Non-ferrous metals and products	10.1	3.2	8.2	15.7	14.9	17.3
Non-metallic minerals and products	4.1	3.5	6.0	8.4	8.4	6.9
Chemicals and allied products	3.3	5.0	3.9	3.0	2.7	2.6
Miscellaneous commodities	0.8	0.6	0.8	0.7	0.5	1.7
Total Domestic Exports	100	100	100	100	100	100

Source: Calculated from Table XX.

much more related to the demographic conditions (e.g. population growth) and to the standard of living. This explains the relative strength of exports of agricultural products in a year of recession in Japan.

1959: The Japanese economy achieved in 1959 a growth which was unparalleled by any other post-war year and by any other country in the world. Real Gross National Product increased by 18.3 per cent, real Gross Domestic Investment by 61.4 per cent, and industrial production by 20 per cent. Moreover, this fabulous growth was achieved without a sharp price increase and without a deficit in the balance of payments. That Japan managed to maintain a positive balance of payments despite the conspicuous increase in production was due, on the one hand, to the marked rise in exports (20 per cent) aided by the economic recovery abroad[4] and, on the other hand, to the fact that imports did not increase in proportion to the sharp production increase. Nevertheless, imports increased by about 18.6 per cent. Imports of raw materials showed the biggest gains, reflecting mainly the vigorous rise in steel output in Japan.

In line with the tremendous upsurge in economic activity in Japan, Canada's exports to that country increased sharply. As shown in Table XX and XXI, their value went up from $104.9 million in 1958 to $139.7 million in 1959, an increase of 33 per cent. Almost all commodities showed substantial increases, but the heavier movement of wheat, oilseeds, wood

---

[4]The increase was brought chiefly by the big rise in exports to high-income countries in North America and Western Europe of labour intensive products. The steel strike in the United States also contributed to sharply increased sales of steel to that country.

pulp, iron ore, scrap iron and steel, aluminum, copper, asbestos, and coal were mainly responsible for the 33 per cent improvement over 1958.

The jump in wheat sales was mainly the result of the Japanese government's boost in import currency allocations for this product. The decrease in barley sales was due to record rice and barley crops in Japan. But there was another factor also: there was a considerable demand from Europe for Canadian barley out of Vancouver thus making our prices rather unattractive to the Japanese. The much improved picture in Japan's rayon market was responsible for the big boost in the imports of Canadian wood pulp. For aluminum, the greater sales in 1959 were mainly due to the boom in the use of aluminum in Japan and to the fact that a Canadian company (Aluminum Ltd) had acquired a 50 per cent ownership in Japan's biggest primary producer (Nippon Light Metal Co.) as well as a 50 per cent ownership also in a secondary producer (Toya Aluminum Co.). The increased copper sales mainly reflected a deal whereby a British Columbia firm (Cowichan Copper Co. Ltd) undertook to deliver its total output of copper concentrates from its Vancouver Island property to Japanese interests for a three-year period. The increased sales of coal reflected many factors. First, Canadian coal was found suitable by Japanese steel firms. Second, new bulk loading facilities were installed at Vancouver in late 1958, which enabled Canadian coal producers to compete more favourably with other producers in the United States, Russia, and Australia. Third, the Canadian government increased (in late 1958) by 50 cents a ton its subsidy on rail shipments of coal to the Pacific Coast. This resulted in orders of about 100,000 tons of coal in 1959.

1960: The Japanese economy achieved another drastic expansion in 1960. As shown in Table XIX, real Gross National Product rose by 12.9 per cent, real Gross Domestic Investment by 26.8 per cent, and industrial production by 25 per cent. This again was an exceptionally high rate of growth by any standard. Prices remained largely stabilized and the international balance of payments continued favourable. Exports, even though international conditions were less favourable than in 1959, witnessed an increase of about 18 per cent over the latter year while imports stayed at approximately the same level.

The main reasons why the level of imports remained the same in 1960 while industrial production rose by 25 per cent were as follows: (1) imports of foodstuffs dropped due to bumper crops in Japan, (2) enterprises were generally satisfied with their stocks of industrial materials due to weaker overseas markets and in anticipation of foreign trade liberalization,[5] (3) the advance of production centered on the machinery industry where the value added is high and the dependency on imported materials low, and (4) arrivals of imported machinery were delayed and hence, their potential effect on the balance of payments was not realised in full.[6]

---

[5]The liberalization of trade and foreign exchange had started late in 1959. In January 1960, the Japanese government announced its intentions to effect the liberalization of foreign trade by 70 per cent within three years. See Chapter IV for more details.

[6]Mitsubishi Economic Research Institute, Survey of Economic Conditions in Japan, Jan. 1961 (Tokyo: Mitsubishi Economic Research Institute, 1961), p. 7.

The emphasis in Japan, in 1960, was to strengthen the competitive power of enterprises in view of the imminent liberalization of trade. As a result, the change in inventory investment was a little less than in 1959 while outlays for machinery and equipment rose sharply as modernization programs were initiated or pushed forward.

As indicated by Tables XX and XXI, exports of Canadian products to Japan nevertheless registered another substantial gain in 1960. They increased by $38.2 million, which represented a 28 per cent rise, to reach $178.0 million.

A good proportion of this increase was due to substantially higher sales of wheat. They rose by $12.9 million to reach a value of $82.1 million, which represented 46 per cent of the value of Canada's exports to Japan in 1960. On the other hand, sales of barley, completely disappeared. This was due to a record barley crop in Japan which removed the need for that country for imports of that grain in 1960. Also, the consumption of barley had been steadily diminishing for a number of years, as wheat increasingly replaced it in the Japanese diet. Sales of hides and skins were also much higher, mainly reflecting the fact that the discrimination against these items was removed in the middle of the year. Exports of wood pulp declined by $4.1 million. The principal factor causing this decline was the coming into production of a Japanese-financed sulphite mill in Alaska. Exports of iron ore and scrap continued to rise in 1960 as production in the iron and steel industry in Japan reached new records. The emphasis on machinery investment was also reflected in Canadian sales to Japan since our exports of non-farm machinery (and parts) jumped from a value of $979,000 in 1959 to $3.0 million in 1960. About two-thirds of the total value was accounted for by sales of book-keeping and calculating machines.

The greatest increase in exports occurred in the non-ferrous metals group (from $11.4 million to $27.9 million). Despite the lower rate of inventory accumulation in Japan, sales of aluminum, brass, copper, lead, and zinc increased substantially in 1960.

Copper: demand for copper increased sharply in 1960. In spite of the large-scale expansion projects undertaken at almost all copper refineries, the industry was unable to fully meet the rising domestic demand in Japan and as a result both copper ore and refined copper as well as scrap had to be imported in increased quantities.

Lead: as in the case of copper, the demand for lead in Japan also rose sharply during 1960. The main cause of the rather sudden pick-up in the demand for this metal was the increase in the consumption of electric wires and storage batteries, the demand for the latter item being stimulated by the automobile industry's boom which started in 1959.

Zinc: as Japan is relatively rich in zinc resources, the country since 1953 did not have to rely on imports of the metal. But with the subsequent sharp increase in the demand for zinc, coupled with the fact that measures to cope with it were not successful, imports of about 15,000 tons were necessary (out of which Canada supplied about 4,000 tons).

Shipments of both asbestos and coal were also much higher in 1960. The inauguration in September 1959 of a monthly Japan-to-Eastern Canada freighter service calling at Montreal and Toronto contributed greatly to boost Canadian asbestos sales while increased coal sales were due to the high level of activity in the Japanese iron and steel industry and to the growing acceptance of Canadian coal by Japanese firms.

1961: For the third year in a row, economic activity remained at a high level in Japan. Table XIX shows that in 1961 real Gross National Product increased by 16.1 per cent, real Gross Domestic Investment by 36.6 per cent, and industrial production by 19.3 per cent. Equipment investments continued to be the chief cause of expansion along with high domestic consumption.

But the boom reached a point in 1961 where the Japanese economy became "overheated". By mid-year the Japanese government was obliged to impose certain corrective measures. The adverse effects of the boom had appeared in the balance of payments which became adverse after April and resulted in a substantial drop in the foreign exchange reserves for the remainder of the year. This reflected a trading situation in which the rate of increase in exports declined (exports rose by 4.4 per cent in 1961 as opposed to 18 per cent in 1960) and imports increased substantially (by 29.1 per cent) mainly because of the large investment expenditures. The corrective measures imposed by the Japanese government included the raising of the bank rate to over 7 per cent, and higher deposits from importers. Also, industries were requested to scale down investment plans on the premise that imports of capital goods and raw materials were largely responsible for the overall increase in imports.

However, production remained high notwithstanding the enforcement of the stringent monetary measures. The main reasons for this fact were: (1) the optimistic mood of the enterprises concerning the future of the economy continued to persist for quite a while, (2) with the intensification of competition, the enterprises concentrated their efforts in securing an appropriate share of the domestic market in order to continue to reap economies from large scale production, and (3) because increased capital investments meant that the break-even point could only be reached at a higher level of output and, as a result, enterprises found it difficult to cut production if they were to make any profit.[7] Consumption expenditures also remained strong due to the higher incomes achieved in the past two years.

Canada's exports to Japan, for the third year in a row, registered another big increase. As shown in Tables XX and XXI, they climbed to $231.6 million from $178.0 million, a 30 per cent change. The strong consumer demand in Japan and the high tempo in the iron and steel industry were clearly reflected in our exports to that country as $43.5 million of the $53.6 million increase in sales was directly related to these factors, e.g. greater shipments of agricultural products, wood (lumber and timber),[8] iron (ore, pig, and scrap), and coal. Increased exports of iron and steel scrap, and of pig iron were also undoubtedly facilitated by the lifting of restrictions on imports in Japan of these two items in April and October 1960 respectively. Exports of aluminum

---

[7]Japanese Government, Economic Planning Agency, Economic Survey of Japan, 1961-62 (Tokyo: The Japan Times Ltd, 1962), p. 7.

[8]The drastic increase in lumber and timber exports was essentially the result of a housebuilding boom in Japan.

and nickel were also much higher and could be also attributed, although indirectly, to the brisk consumer demand for durable goods, and to the fact that the importation of aluminum ingot was liberalized in June 1961.

1962: The year 1962 was marked by a slight business recession which lasted more than one year from October 1961. Although the international balance of payments regained equilibrium in current transactions around mid-year through the increase in exports and the decline in imports,[9] financial retrenchment measures were not completely removed until October and November. However, business adjustment was prolonged until early 1963. Owing to reduced orders following the slow pace in investments, the depression in branches depending on equipment investments such as iron and steel, machinery, was intensified. Enterprises continued to be afflicted by a decline in operation rates due to overproduction in the previous months and by the consequent deterioration of their profit position. This was attributed to the rise in per unit cost caused by heavy fixed costs and lower levels of output. These heavy fixed costs, in turn, were caused by the excessive equipment investments carried out during the three consecutive years of prosperity.

As a result of the downward tendencies, the rate of growth of the Japanese economy was much smaller than in the previous three years. As shown by Table XIX, real Gross National Product and industrial production rose by only 4.2 and 7.8 per cent respectively. Equipment

---

[9] Exports for the year as a whole increased by about 16 per cent while imports rose by about 3 per cent (in value).

investments fell by about 10 per cent.[10] On the other hand, consumption continued high throughout the year notwithstanding the enforcement of the economic retrenchment measures and thus contributed to prevent a too drastic decline in production.

Because of the less buoyant business conditions in Japan,Canadian exports to that country declined by 7 per cent in 1962. Most of the decline was due to lower sales of wheat, semi-fabricated iron, iron and steel scrap, aluminum, and asbestos. Exports of lumber and timber also declined but stayed at a relatively high level mainly because of long-term buying commitments that many Japanese import houses made in 1961. This was also the case for many other raw materials. Exports of iron ore increased by $4.5 million, those of copper by $14.4 million, and those of nickel by $1.2 million while sales of coal declined by only $882,000. The reason was that many contracts were signed in 1961 by Japanese companies with Canadian producers. For example, deals worth upwards of $220 million (ranging from one to seven years) in copper, iron ore and coal were made in 1961 with companies operating in British Columbia. Another example was the five year contract signed by the Mitsubishi group (in Japan) with Consolidated Mining and Smelting Co. Ltd. under which contract nearly all the copper concentrates produced at the Wedge mine in New Brunswick would be shipped to Japan.

Another feature in our exports to Japan was the increase in sales of "aircrafts and parts" (mainly parts) from $834,000 in 1961 to $3.1

[10] Preliminary estimates.

million. These items along with calculating machines (exports valued at $3.8 million in 1962) constituted the most fully manufactured products we sold to Japan.

Table XXIII indicates that exports of partly manufactured products showed the greatest change from 1957 to 1960. They declined to 6.5 per cent of total domestic exports in 1958 from 26.8 per cent in 1957. But in 1959 and 1960, they rose to 17.1 and 19.1 per cent respectively. The weight (in value) of raw materials exports also varied quite substantially. But their importance in total Canadian export trade with Japan was closely related to the level of partly manufactured exports, rising when the latter were decreasing and vice versa. On the other hand, the percentage of fully manufactured exports remained at about the same level from 1957 to 1960. This suggests that the products whose demand was mainly affected by economic conditions in Japan were partly manufactured products, e.g. the drastic change from 1957 to 1958 and from 1958 to 1959. Raw materials exports showed more resiliency because a large proportion of such exports was made up of foodstuffs. And exports of foodstuffs, as mentioned before, are more related to demographic conditions, the standard of living, and to the size of crops in Japan than to economic activity "in se".

2. Canadian Imports from Japan

1958: Perhaps the most significant aspect of the economic events of 1958 was the fact that what was undeniably the low point in the trade cycle (both exports and imports declined) did not take the form of a marked decline in total output of goods and services. Real Gross

TABLE XXIII

CANADIAN EXPORTS TO JAPAN ACCORDING TO DEGREE OF MANUFACTURE, 1958-62

	Raw Materials		Partly Manufactured		Fully Manufactured		Total	
Year	$'000	%	$'000	%	$'000	%	$'000	%
1957	88,239	63.4	37,214	26.8	13,650	9.8	139,103	100
1958	86,454	82.5	6,839	6.5	11,560	11.0	104,853	100
1959	102,672	73.5	23,882	17.1	13,169	9.4	139,723	100
1960	127,790	71.8	33,944	19.1	16,274	9.1	178,008	100
1961	. .[a]	. .	. .	. .	. .	. .	. .	. .
1962	. .	. .	. . . .	. .	. .	. .	. .	. .

[a]Not available.

Source: Dominion Bureau of Statistics, Canada Year Book, various years, Ottawa.

National Product increased slightly by 1.1 per cent[11] while industrial production declined only by 0.6 per cent. But real Gross Domestic Investment decreased by 15.6 per cent, reflecting the sharp drop in business outlays for plant, equipment, and inventories. Thus the major downward pressure during 1958 came from the business investment sector, with heavy inventory liquidation (especially in the first half of the year) holding production in check as final demand was met out of current inventory stock. However, these downward tendencies were counteracted by the continued growth in consumer and government expenditures for goods and services, and the upswing in residential construction.

The most significant development in Japanese exports to Canada in 1958 was continued expansion in the face of the recession, as shown by Table XXIV and XXV. Also noticeable was the change in the importance (or weight) of various exports (especially textiles), as indicated also by Table XXVI.

Total imports from Japan rose to $70.1 million, an increase of 14 per cent over 1957. But the importation of consumer goods was particularly brisk, thanks to a strong consumer demand and to growing popularity of many Japanese products. Among these products, textiles (despite the intensified drive to restrict their entry into Canada),[12]

---

[11]This small volume gain was attributable to higher production in the farm sector.

[12]See Chapter IV for further details.

TABLE XXIV

CANADIAN IMPORTS FROM JAPAN, 1958-62, BY GROUPS AND PRINCIPAL COMMODITIES

$'000

	1957	1958	1959	1960	1961	1962
Agricultural and animal products	8,694	8,506	10,822	12,216	10,496	12,317
Citrus fruits, fresh	1,748	1,700	2,004	2,297	2,518	1,884
Fishery products	5,470	4,128	2,929	3,272	2,856	5,072
Rubber products	441	1,539	4,223	4,640	3,339	3,661
Others	1,035	1,137	1,666	2,007	1,183	1,700
Textiles and products	18,353	24,012	36,931	36,582	37,302	36,951
Apparel of all textiles	9,130	12,446	20,756	18,348	17,909	15,757
Cotton fabrics	4,176	4,955	6,947	7,574	8,041	7,657
Silk fabrics	688	926	1,350	2,074	1,489	1,157
Synthetic fabrics	434	500	854	1,890	2,180	3,377
Others	3,925	5,185	7,024	6,695	7,685	9,003
Wood and its products	4,191	5,455	6,676	6,112	7,609	10,069
Logs, lumber, and timber	408	647	1,217	843	1,367	1,971
Plywoods and veneers	2,696	3,547	4,135	3,518	4,082	5,582
Others	1,088	1,261	1,324	1,751	2,160	2,516
Iron and its products	12,817	10,430	16,572	17,959	17,263	21,162
Cutlery	1,017	1,662	1,798	1,526	1,426	1,580
Hardware, n.o.p.[a]	383	1,004	1,364	1,120	1,185	1,471
Machinery (non-farm) and parts	1,454	2,591	2,916	2,556	2,436	2,579
Rolling mill products	1,529	1,653	3,539	4,404	3,565	4,593
Pipes, tubes, and fittings	6,751	1,483	2,836	3,486	2,719	3,790
Wire and wire products	247	405	1,301	1,402	1,872	2,367
Others	1,436	1,632	2,819	3,466	4,058	4,783
Non-ferrous metals and products	3,500	4,733	10,030	11,486	13,867	14,465
Electrical apparatus	1,253	2,873	7,418	8,787	10,760	11,147
Electro-plated ware	343	498	608	578	706	377
Others	1,904	1,362	2,004	2,121	2,401	2,941

TABLE XXIV - Continued

	1957	1958	1959	1960	1961	1962
Non-metallic minerals and products	2,547	3,120	3,803	4,280	4,870	5,554
Pottery and chinaware	1,439	1,543	1,568	1,860	2,047	2,404
Tiles	205	498	628	1,185	1,185	1,286
Others	903	1,080	1,607	1,235	1,639	1,864
Chemicals and allied products	213	596	1,269	1,964	1,992	2,452
Plastics and manufactures of	95	439	1,036	1,483	1,136	1,562
Others	117	158	233	481	856	891
Miscellaneous commodities	11,174	13,235	16,566	19,785	23,206	22,388
Cameras and parts	1,075	1,525	1,960	2,384	2,804	2,804
Containers, miscellaneous	1,622	1,938	2,358	2,484	2,809	1,829
Footwear and parts [b]	204	230	621	2,014	3,536	2,356
Jewellery and precious stones	779	848	1,065	1,349	1,715	2,109
Optical instruments, n.o.p.[a]	759	1,001	1,239	1,301	1,523	1,587
Toys and sporting goods	3,641	3,948	4,395	4,708	5,074	5,345
Others	2,888	3,744	4,923	5,545	5,746	6,357
Total Imports	61,489	70,086	102,669	110,383	116,607	125,389

[a] n.o.p. - not otherwise provided for.

[b] Excludes rubber and leather footwear.

Source: Dominion Bureau of Statistics. Review of Foreign Trade, various years. Cat. No. 65-205.

Dominion Bureau of Statistics. Trade of Canada, Imports by Countries, calendar year issue, various years. Cat. No. 65-006, Ottawa.

TABLE XXV

PERCENTAGE CHANGE OF CANADIAN IMPORTS FROM JAPAN, BY GROUPS, 1958-62

	1958	1959	1960	1961	1962	1957-62	1952-62
Agricultural and animal products	- 2	+ 27	+13	- 14	+16	+ 42	+ 336
Textiles and products	+ 31	+ 54	- 1	+ 2	- 1	+ 101	+ 1,573
Wood and its products	+ 30	+ 22	- 1	+ 24	+32	+ 140	+ 4,202
Iron and its products	- 19	+ 59	+ 8	-0.4	+23	+ 65	+14,596
Non-ferrous metals and products	+ 35	+112	+14	+ 20	+ 4	+ 313	+ 5,463
Non-metallic minerals and products	+ 22	+ 22	+12	+ 14	+14	+ 118	+ 576
Chemicals and allied products	+180	+113	+55	+ 1	+23	+1,051	+ 683
Miscellaneous commodities	+ 18	+ 25	+19	+ 17	- 3	+ 100	+ 801
Total Imports	+ 14	+ 46	+ 7	+ 6	+ 7	+ 104	+ 856

Source: Calculated from Table XXIV.

TABLE XXVI

PERCENTAGE COMPOSITION OF CANADIAN IMPORTS FROM JAPAN, BY GROUPS, 1958-62

	1957	1958	1959	1960	1961	1962
Agricultural and animal products	14.1	12.1	10.5	11.1	9.0	9.8
Textiles and products	29.9	34.3	36.1	33.1	32.0	29.5
Wood and its products	6.8	7.8	6.5	5.5	6.5	8.0
Iron and its products	20.8	14.9	16.1	16.3	14.8	16.9
Non-ferrous metals and products	5.7	6.8	9.8	10.4	11.9	11.5
Non-metallic minerals and products	4.1	4.4	3.7	3.9	4.2	4.4
Chemicals and allied products	0.4	0.8	1.2	1.8	1.7	2.0
Miscellaneous commodities	18.2	18.9	16.1	17.9	19.9	17.9
Total Imports	100	100	100	100	100	100

Source: Calculated from Table XXIV.

sewing machines[13] (from $1.1 million to $2.0 million), radio sets[14] (from $0.6 million to $1.9 million), rubber footwear[15] (from $0.3 million to $0.9 million), cutlery, and cameras and parts showed the biggest increase. And owing to the building boom in Canada, imports of plywoods and veneers increased by about 32 per cent to $3.5 million from $2.7 million. On the other hand, imports of pipes, tubes, and fittings fell sharply from $6.8 million to $1.5 million. This was due partly to the completion of most oil development projects in Western Canada, and to the excess production capacity resulting from the 1957-58 recession. Also, the levying of a new import duty contributed to discourage imports of iron and steel from Japan.

1959: The recovery which had begun in 1958 as the economy emerged from a recession continued strongly in 1959. Thé upswing carried real Gross National Product to new levels in the first half of the year but moderated in the third quarter when the expansion was checked by a combination of factors associated mainly with industrial disputes in Canada and the United States. However, the advance was resumed in the fourth quarter. For the year as a whole, the increase was 3.4 per cent. The advance was higher in real Gross Domestic Investment and industrial production: 7.9 per cent and 7.5 per cent respectively.

---

[13] Included under "machinery (non-farm) and parts".

[14] Included under "electrical apparatus".

[15] Included under "rubber products".

Much of the support to the rising level of investment and production in 1959 came from the renewed build-up of inventories and from the reversal of the down-trend in plant and equipment outlays during the year. Business inventories shifted from a position of heavy liquidation in 1958 to one of fairly large accumulation equivalent to about $700 million in terms of new demands on production. The decline in business investment expenditures for plant and equipment, which was moderating in late 1958, was reversed in 1959, and outlays by the business sector were providing a stimulus to the increase in final demand in the second and third quarters. There was a slight decline in the fourth quarter due to the effects of the steel strike in the United States. Personal and government expenditures on goods and services also contributed significantly to increased production, being greater by 5.8 per cent and 4.5 per cent respectively. However, outlays for residential construction, which was one of the major stimuli to recovery in 1958, decreased by about 1 per cent in 1959.

In line with the general recovery in economic activities witnessed in Canada, Japanese exports to Canada increased sharply in 1959, as shown in Table XXIV and XXV. The rise was from $70.1 million to $102.7 million or 46 per cent. To a great extent this substantial increase resulted from the tremendous upsurge in imports of textiles and wearing apparel (especially those of synthetic fibre). Imports of most other consumer goods also increased markedly, namely, citrus fruits (where competition against Japanese oranges is nil), rubber footwear (from $887,462 to $2.46 million), rubber clothing (from $408,768 to $1.42 million), electrical apparatus (mainly radio sets which went up from a value of $1.86 million in 1958 to $5.12 million in 1959), cameras and parts (from $1.52 million to $1.96 million), and toys and sporting goods (from $3.95 million to $4.39 million). On the other hand, imports of fishery products registered a substantial drop (from $4.13 million to $2.93 million) due to drastically reduced purchases of canned salmon ($10,883 as compared with $2.25 million in 1958).[16]

The renewed upsurge in business activities was also reflected in greater imports of wood (including plywoods and veneers), rolling mill products, pipes, tubes and fittings, and wire and its products. Increased imports of the latter three items (which rose by $4.1 million in 1959) were undoubtedly also stimulated by the steel strike in the United States.

1960: The recovery in economic activity, which had begun falteringly in 1958 but had displayed notable vigour in 1959 came to an end quite early in 1960. In the first quarter, the growth of total final purchases had slackened. But the second quarter witnessed a decline in both final purchases and in the value of production. Although final demand recovered in the third quarters, this renewed strength was not fully transmitted to production as the increased requirements were met mostly by cutbacks in inventories. In the fourth quarter, while both final and inventory demand were exerting an expansionary influence on Gross National Product, the gains were somewhat modified by a decline in external demand for Canadian products.

---

[16]The 1958 salmon catch in British Columbia had been a record one.

These conflicting movements within the year 1960 combined to yield a real Gross National Product of 2.2 per cent above that of the previous year. Industrial production also increased but only by a bare 0.8 per cent.

Probably the most important element in the slackening of Canadian business in 1960 was the decline in fixed capital investment, including both residential construction and business outlays for new plant and equipment. Housing outlays, which fell by about 14 per cent, were affected by a number of factors, among which were a sharp contraction in the lending activity of the chartered banks and of Central Mortgage and Housing Corporation, and an apparent change in basic demand factors. Business outlays for plant and equipment failed to come up to the levels anticipated in the survey of investment intentions at the beginning of 1960 and were slightly below the 1959 level as many expansion programs were obviously stretched out or deferred. Along with the absence of figour in fixed capital outlays, cutbacks in the rate of inventory accumulation in the second quarter and a shift to liquidation in the third quarter also contributed to hold production in check.

The main support to the level of activity over the course of the year came from consumer expenditures for non-durable goods and for services, from government purchases of goods and services, and from exports.

Canadian imports from Japan continued to increase in 1960 although at a much lower rate than in the two previous years. Japanese exports to Canada increased to $110.4 million from $102.7 million or by

7 per cent, as shown in Table XXIV and XXV.

A notable feature in that year was the decline in imports of wearing apparel. This was the result, not of weak demand for these products, but mainly of the lower quotas for some exports to Canada imposed by the Japanese government, at the request of the Canadian government which had been under strong pressures from textiles manufacturers for two years. Lower quotas also reduced sales in Canada of plywoods and veneers, and table flatware.

Nevertheless, many items registered substantial gains, namely, citrus fruits (+$293,000), rubber footwear (+$1.14 million), textile fabrics (+$2.38 million), steel products[17] (+$1.51 million), radio sets (+$428,723), radio and television tubes (+$548,037), cameras and parts (+$424,000), and miscellaneous footwear (+$1.41 million). Quotas, more than economic conditions, seem to have kept Japanese sales in Canada from expanding more than they did in 1960.

<u>1961</u>: The downward pressures that characterized 1960 were largely reversed in 1961. Following a weak first quarter, the level of activity moved on a rising trend for the remainder of the year. Although the year-to-year gains were relatively small[18] - in comparison not only with those achieved in some earlier periods but also with those made in Japan - they demonstrated the resiliency of the Canadian economy and its

---

[17]Includes rolling mill products, and pipes, tubes, and fittings.

[18]Real Gross National Product increased by 2.5 and industrial production by 3.2 per cent.

ability to shake off the recessionary tendencies which had hampered growth in the previous year.

A combination of favourable demand factors, each with little individual momentum of its own, resulted in a gradually accelerating rate of increase in production. Consumer spending continued to expand at much the same rate as in 1960 (about 4 per cent), and there was an appreciable increase in government expenditures. Business spending on plant and equipment quickened after mid-year but although some inventory accumulation took place, the expansion owed relatively little to demands of this nature.[19] For the year as a whole, business outlays on plant and equipment were about 2 per cent lower than in 1960, reflecting the excess productive capacity that still existed. Also, the resumption of cyclical growth in the United States and continued (but slower) expansion in most of our important overseas markets created favourable conditions for exports which rose substantially in 1961.

As shown in Table XXIV, Japanese exports to Canada registered another increase in 1961 and reached $116.6 million. However, as can be seen from Table XXV, the increase was a little smaller than in 1960, i.e. 6 per cent compared with 7 per cent.[20] Again the growth of Japanese

---

[19]The more or less neutral influence of the inventory sector thus meant that increases in demand were for the most part on account of final consumption.

[20]In volume terms, the increase was smaller than 6 per cent, because of higher import prices. The latter fact was due to the devaluation of the Canadian dollar by about 5 per cent during the year.

exports to Canada was hampered by the so-called "voluntary" quotas. These quotas were extended in 1961 to cover new items, i.e. radio sets, radio and television tubes, rubber footwear, canvas footwear, vinyl raincoats, and polyester staple buttons as well as many additional textile items. Also, many already existing quotas were cut back at the insistence of the Canadian government which was continually subjected to strong pressures from Canadian manufacturers. This resulted in lower imports of many items, e.g. wearing apparel, rubber footwear, and radio and television tubes. But increased imports of cotton and synthetic fabrics, plywoods and veneers, and miscellaneous footwear more than offset the reduced sales of the aforementioned items.

1962: The Canadian economy experienced a good year in 1962. Real Gross National Product increased by 6.2 per cent. This expansion represented the largest year-to-year gain since 1956. The major stimulus in 1962 came mainly from two sources: a very substantial rise in merchandise exports for the second year in a row, and a large increase in purchases of goods and services by the provincial and municipal governments.[21] Consumer spending, which rose more than 5 per cent, also exerted an expansionary influence. The strength in the consumer sector was particularly evident in the first and last quarters of the year; purchases of durables (notably passenger cars) were especially heavy in the fourth quarter. At mid-year though, there was a levelling-out of consumer expenditures mainly as a result of the measures taken by the government to

---

[21]The rise in exports was 7.8 per cent and that in provincial and municipal governments expenditures 11.4 per cent.

cope with the foreign exchange crisis, i.e., tariff surcharges and the devaluation of the dollar. Investment in fixed capital resumed its upward course,[22] the bulk of the increased outlays being for machinery and equipment. Except in the third quarter, the accumulation of business inventories made only a modest contribution to the expansion of economic activity. Industrial production was also much higher, being 7.5 per cent over the 1961 level.

As shown in Tables XXIV and XXV, Canada's imports from Japan were higher than in the previous year. But the increase was again relatively small, being 7 per cent in value. In volume terms the increase was undoubtedly smaller than 7 per cent because of higher import prices after May 1962. The higher import prices resulted from the devaluation of the Canadian dollar from 98 cents to 92.5 cents (U.S. dollar = 100 cents).

Thus, there were in 1962 many factors which restricted the growth of Japanese exports to Canada. First, there was the devaluation of the dollar which made Japanese goods dearer. Second, the tariff surcharges on many imports from Japan further contributed to increase the cost of buying them. Third and most important, there was the system of quotas. There were no new restrictions on Japanese exports to Canada in 1962. There even were increases in a number of items. However, these increases were quite small, ranging from 1 per cent to 7 per cent and applying to some textile items, radio and television tubes, plywood and footwear. In general, the quotas were quite similar to those of 1961.

---

[22] Set Table XIX.

Despite these deterrents, Japanese exports to Canada rose to $125.4 million in 1962. Although a part of the increase in value reflected higher prices, most of the increase reflected a higher volume in imports. The latter fact undoubtedly was due to the strong consumer demand in Canada as well as to the popularity of the low-priced but good Japanese products. The most notable increases were in fishery products (due to greater purchases of fresh fish, canned tuna, canned shrimps, and canned crabs), synthetic fabrics, and plywoods and veneers. The higher tempo of industrial activity was also reflected in higher imports of rolling mill products, pipes, tubes, and fittings, and wire and its products. On the other hand, the effects of quotas, tariff surcharges, and dollar devaluation were reflected in lower imports of wearing apparel, cotton fabrics, silk fabrics, sewing machines, radio sets, and miscellaneous footwear.

Degree of Manufacture: Table XXVII shows that the trend that had started in the previous period, i.e., greater proportion of fully manufactured imports and diminishing importance of raw materials imports, continued from 1957 to 1960. In 1960, fully manufactured imports from Japan represented about 92 per cent of our total imports from that country, reflecting the importance of consumption goods in our import trade with Japan. It also reflects the much increased state of development and industrialization of Japan, compared to the early post-war years. The rate of growth of fully manufactured exports to Canada was extremely rapid as opposed to other kinds of exports: the value of the former went up from $1.3 million in 1958 to $101.4 million in 1960 while that of the

TABLE XXVII

CANADIAN IMPORTS FROM JAPAN ACCORDING TO DEGREE OF MANUFACTURE, 1957-62

Year	Raw Materials		Partly Manufactured		Fully Manufactured		Total	
	$'000	%	$'000	%	$'000	%	$'000	%
1957	3,355	5.5	3,559	5.8	54,575	88.7	61,489	100
1958	2,056	2.9	4,597	6.6	63,433	90.5	70,086	100
1959	3,018	2.9	6,000	5.8	93,652	91.3	102,669	100
1960	3,543	3.2	5,415	4.9	101,425	91.9	110,383	100
1961[a]	. .	. .	. .	. .	. .	. .	. .	. .
1962[a]	. .	. .	. .	. .	. .	. .	. .	. .

[a]Not available.

Source: Dominion Bureau of Statistics. *Canada Year Book*, various years, Ottawa.

latter[23] rose from $1.8 million to only $9 million. This fact was one of the outstanding features of Canadian-Japanese trade in the post-war years.

3. Summary

A summary of Canada-Japan trade for the period ranging from 1958 to 1962 inclusive, is given in Table XXVIII. The balance of trade, after reaching its lowest post-war level in 1958 (+$35.3 million for Canada), rapidly changed to reach its highest post-war level in 1961, i.e., $115.8 million in Canada's favour. This was due to a tremendous increase in Canada's exports to Japan. This, in turn, essentially reflected the remarkable rate of growth experienced by the Japanese economy, a rate of growth unparalleled by any other country of the world during that period (1958-62).

Japanese exports to Canada also showed a substantial increase, more than doubling from 1957 to 1962, i.e., from $61.5 million to $125.4 million. But most of this increase occurred in 1958 and 1959. Afterwards, the growth of Japanese sales to Canada was relatively slow. This resulted from the imposition of quotas, in mid-1959, on many imports from Japan and which drastically reduced the growth of such imports.

The latter point brings out an aspect of Canada-Japan trade which, along with economic conditions, has played an important role throughout the post-war years. This aspect is trade policy, which will be treated in the following chapter.

[23]Includes both raw materials and partly manufactured products.

TABLE XXVIII

EXPORTS, IMPORTS, AND BALANCE OF TRADE, 1958-62

$'000

Year	Exports[a]		Imports[b]	Balance of Trade
	Domestic Exports	Re-exports[c]		
1958	104,853	506	70,086	+ 35,273
1959	139,723	240	102,669	+ 37,294
1960	178,008	690	110,383	+ 68,315
1961	231,582	846	116,607	+115,821
1962	214,578	1,033	125,389	+ 90,222

[a]Canadian exports to Japan.

[b]Imports into Canada from Japan.

[c]Re-exports are goods brought into Canada from another country and, after some processing, re-exported to other countries. Figures were obtained from "Review of Foreign Trade".

Source: Tables XX and XIV.

Dominion Bureau of Statistics, Review of Foreign Trade, various years, Ottawa.

CHAPTER IV

TRADE POLICY

"Commercial policy - that is, policy directed toward influencing the extent and nature of a country's foreign trade - is certain to be of considerable importance in an economy with highly specialized resources and substantial dependence on international trade."[1]

This is the case of both Canada and Japan. This chapter will thus give a general outline of the trade policy followed by these two countries since the end of the second world war, and show how it has affected trade between them.

1. The Early Post-War Years

Japanese Policy: The problem of the occupying powers in Japan, in the early post-war years, was to steer a course calculated to reconstruct and develop the Japanese economy without arousing the hostility of other trading nations. Consequently, SCAP[2] imposed rigid controls on foreign trade, especially on the import side (in order to conserve Japan's dollar reserves).

Thus, while it was a relatively simple matter for Canadian importers to purchase Japanese products, it was quite difficult for Canadian exporters to sell any types of commodities to Japan. There was theoretically no discrimination against Canadian goods on the part of the occupation authorities, but the basis on which occupied Japan's import trade

---

[1] J.H. Young, Canada's Commercial Policy, Royal Commission on Canada's Economic Prospects (Ottawa: Queen's Printer, 1957), p.10.

[2] Supreme Commander of the Allied Powers.

was conducted militated against the sale of any substantial quantities of Canadian products. The officials of SCAP had entered into a series of bilateral trade and financial arrangements or agreements on behalf of Japan, under which raw materials were exchanged for manufactured products. These agreements were in effect barter deals designed to achieve a balance in Japan's foreign trade, and to obtain the maximum amount of raw materials and foodstuffs for Japan without the expenditure of dollars. They also ensured a market for substantial quantities of Japanese manufactured products.

So, products which Canada supplied in relatively substantial quantities before the war (or that she could have supplied) were now forthcoming from countries with whom Japan had barter agreements, or from the United States. If commodities needed by Japan were in surplus supply in the United States, they were purchased from that source. Foodstuffs of North American origin, other than those for relief purposes, were not imported for consumption by Japanese civilians. This policy ruled out such Canadian products as fish, flour, meat, and other foodstuffs and feeding stuffs formerly supplied by Canada. The only items procured from Canada, therefore, were products which could not be obtained on a barter basis from countries having an agreement with Japan, or from the United States. Some barter contracts based on Canadian wheat were made (in 1949) but this was not general practice.

However, in 1949, SCAP proceeded to reduce its control over foreign trade. First, the export regulations were progressively eased, and on December 1, 1949, export trade was completely restored to private channels.[3] Then, on January 1, 1950, import trade was restored to private channels. Also, floor prices on Japanese exports were abolished. The two measures were designed to simplify the somewhat complicated trading procedure, and to stimulate the foreign trade of Japan. The Bank of Japan, as agent for the Foreign Exchange Control Board, assumed control of foreign exchange funds for the account of SCAP with full authority to delegate its powers of operation to the foreign exchange banks, in order to facilitate the implementation of private trading. A "Foreign Exchange Budget" was also made every six months, based on the estimated availability of foreign exchange or trade arrangement credits. Also, the Japanese Ministry of International Trade and Industry published regularly a list of the commodities that could be imported and for which an import licence was required.[4]

Canadian exports to Japan increased substantially in 1950, 1951, and 1952. But this increase was not due to the restoration of import trade to private channels. It was due essentially to the Korean war and the heavy demands it created. In fact, the Japanese government had indicated that it considered bilateral trade agreements essential and that, in the meantime, it would continue to follow the SCAP policy of balanced trade between Japan and individual countries. And since

---

[3]Some private trading had been permitted since August 1947.

[4]Furthermore, each commodity had its own Foreign Exchange Budget i.e. a certain amount of foreign exchange was allocated for the import of each commodity. Imports over and above the specified amount were either refused or required special permission of the Foreigh Exchange Control Board.

Canadian purchases from Japan in 1949 were valued at $5.5 million, the value of Canada's exports under this policy was expected to be limited to this amount. For example, tenders issued by the Japanese Ministry of International Trade and Industry early in 1950 for the purchase of various products specifically mentioned the countries from which bids would be accepted. Canadian exporters were precluded from quoting because Canada had no trade or financial agreement with Japan although such products could have been supplied by Canada at competitive prices. In all, the first import list contained only one or two items for the purchase of which United States dollars were made available and on which Canadian firms could submit offers.

The abolition of floor prices on Japanese exports was another measure taken by SCAP to promote Japan's foreign trade. The floor price system had been established and made generally applicable to all Japanese exports with the commencement of private trading in August 1947. It had been considered necessary, at that time, to keep Japanese export prices at approximately world market levels to prevent the flight of foreign exchange and to prevent unfair competition and dumping. In late 1949, though, SCAP abolished those floor prices. But the Japanese government was charged with the responsibility of ensuring that export prices were such as to prevent any unfair commercial practices. General pricing procedures were to be based on the principle that export prices should not be less than comparable prices for similar products sold in Japan. For goods produced solely for export and not offered on the domestic Japanese market, prices were to correspond to the cost to the manufacturer of the product in Japan, plus handling charges and a reasonable profit. Strong measures were also provided for to prevent breaches of the regulations concerning unfair competition. These included the refusal or cancellation of export licences, fines, and imprisonment to individuals or concerns abusing the regulations.

The Japanese trade policy, as far as Canada was concerned, can be summarized by the following statement made in the House of Commons on February 22, 1950 by the Honourable L.B. Pearson, Secretary of State for External Affairs, who had visited Japan earlier. He said:

> In Tokyo, for instance, we had one discussion with General MacArthur devoted exclusively to trade matters, and he expressed his great desire to do what he could to increase Canadian-Japanese trade. He added .... that there was no desire in Japan to indulge in commercial chicanery of the kind that disturbed us in Canada so much in the years before the war. He went on to say .... that we now had a guarantee against dumping by Japan in the removal of government subsidies on the one hand and the building up of the trade union movement, with protected wages, on the other. Therefore he considered that Canada need not fear in the future the menace of Japanese trade of the pre-war variety, but could rather look forward to trade built on a sound basis of mutual benefit.[5]

<u>Canadian policy</u>: The principal feature of Canada's trade policy in the early post-war was the passing of the Emergency Exchange Conservation Act in March 1948. The Act was designed to serve two main purposes: (1) to effect a reduction in the value of imports (especially from the United States), and (2) to develop Canadian industry in a way which would contribute to the permanent solution of our external trade problems. The overall objective of conserving United States dollars was translated into

---

[5] Canada, House of Commons, <u>Debates</u>, February 22, 1950, (Ottawa: King's Printer, 1950), p. 136.

the following guiding principles: (1) to stimulate the production in Canada of more of those goods which heretofore were imported from the United States, but which could be produced in Canada on an economic and competitive basis, and (2) to increase the export to dollar countries of products of both the primary and secondary industries.[6]

For administrative purposes, the Act was divided into three schedules. Schedule I and II restricted imports and saved dollars by a system of prohibitions and quotas. Schedule III provided for the import of capital goods and production materials under a system of individual permits and allocations.[7] However, as Canada's balance of payments position improved, restrictions against imports were gradually removed. Although these measures were not specifically directed against Japanese goods, they did have the effect of helping to keep Japanese exports to Canada at a relatively low level.

Prior to 1952 (the year of the signing of the Peace Treaty with Japan), Canadian policy concerning trade with Japan was not too definite. This is well shown by a statement made by the Honourable R.W. Mayhew, Minister of Fisheries:

> In my opinion a peace treaty should be negotiated with Japan at an early day. Until this is done and Japan is able to see her way through the clouds, I do not know exactly what is going to happen. ... Neither we nor the United States are any too anxious to take in the products she makes because we fear it will put our own people out of employment. We must take a realistic view of the position but I do not think anyone can measure what will happen to Japan until after a peace treaty has been negotiated.

---

[6] M.W. Mackenzie, "Canada's International Trade Policy", Industrial Canada, Vol 50, No.7 (Toronto: Canadian Manufacturers Association, Nov. 1949), p. 72.

[7] Ibid.

> Nevertheless we were satisfied that Japan was anxious to spend just as many dollars in Canada as we spent in that country, and that in any case there was no tendency to discriminate against Canada in favour of other hard currency countries.[8]

Trade with Japan was also viewed with mixed feelings by business circles. Old fears of competition from Japanese goods still remained. For instance, in 1950, the Canadian Manufacturers' Association asked the government to refrain from giving most-favoured-nation treatment to Japan. Another example of the strong opposition against the entry of Japanese goods was an article in "Saturday Night" in which the author said:

> How can we lower our tariffs to help our customers in the British Commonwealth and Europe without being swamped by dumped Japanese goods and sold under conditions and standards entirely different from our onw? Until Japan adopts the methods and living standards prevalent in other exporting countries, these problems will remain a stumbling block between any other nations of the world.[9]

Those views were even shared by some importers, who stated that:

> ...it would be well advised to have as little dealings with Japan as possible in view of her war conduct and the manner in which she conducted her foreign trade before the war.[10]

But textiles manufacturers were the most outspoken. Already, in 1950, some complaints were made that Japanese imports were jeopardizing the market for Canadian-made goods. Others stated that they were not worried so much about the effects of "current" Japanese exports to Canada as about a possible future deluge of low-cost garments that could undermine the market overnight. In 1952, a manufacturer even stated that:

---

[8]Canada, House of Commons, Debates, March 13, 1950 (Ottawa: King's Printer, 1950), p. 687.

[9]E. Waengler, "Japan's exports are again threatening our markets", Saturday Night, February 28, 1950, p. 31.

[10]"Should we trade with Japan?" Financial Post, March 11, 1950, p.16

> ...If the Japanese get most-favoured-nation tariffs, our glove department and the whole glove industry in Canada employing 1,500 will be finished.[11]

These protectionist views appear to have influenced the government's trade policy since Canada did not give Japan the most-favoured-nation treatment in 1952, at the signing of the peace treaty with Japan.

The Peace Treaty: The "Treaty of Peace with Japan" was signed by Canada at San Francisco on September 8, 1951, was ratified in April 1952, and was in force on April 28, 1952. This treaty officially terminated "the state of war between Japan and each of the Allied Powers".[12] Also, the Allied Powers recognized "the full sovereignty of the Japanese people over Japan and its territorial waters".[13]

The peace treaty itself was not designed to settle questions of trade policy and left this policy to be decided by the individual signatories of the treaty and Japan. Nevertheless, it contained a clause concerning commercial relations, i.e. article 12(b) and 12(c):

> 12(b) - Pending the conclusion of the relevant treaty or agreement, Japan will, during a period of four years from the first coming into force of the present Treaty:
> (1) accord to each of the Allied Powers, its nationals, products and vessels:
> (i) most-favoured-nation treatment with respect to duties, charges, restrictions and other regulations on or in connection with the importation and exportation of goods;

---

[11]"Battle lines shape up on Japanese import tariff", Financial Post August 16, 1952, p. 1,3.

[12]Canada, Treaty Series, Treaty of Peace with Japan, 1952: No. 4 Ottawa: Queen's Printer, 1952), p. 4.

[13]Ibid.

> 12(c) - In respect to any matter, however, Japan shall be obliged to accord to an Allied Power national treatment or most-favoured-nation treatment, only to the extent that the Allied Power concerned accords Japan national treatment or most-favoured-nation treatment.[14]

However, there was an escape clause which Canada probably invoked not to give Japan most-favoured-nation treatment. This clause was article 12(d) which said that:

> ... a discriminatory measure shall not be considered to derogate from the grant of national or most-favoured-nation treatment, as the case may be, if such measure is based on an exception customarily provided for in the commercial treaties of the party applying it, or on the need to safeguard that party's external financial position ... or on the need to maintain its essential security interests, and provided such measure is proportionate to the circumstances and not applied in an arbitrary or unreasonable manner.[15]

Commenting on the trade aspect of the peace treaty, the Honourable L.B. Pearson, Secretary of State for External Affairs, made the following statement in the House of Commons on April 8, 1952:

> Canada has no wish to see any discrimination against or any unnecessary obstacles to normal Japanese trade. On the contrary, as a trading nation ourselves we wish for a prosperous rather than a poor Japan. Such prosperity, however, can never, in the long run, be established or even assisted by trading practices considered unfair by other countries and against which those countries have no alternatives but to protect themselves if unhappily they should be adopted.
> Canadian attitudes and Canadian policy with respect to future commercial relations with Japan will, to a large extent, be influenced by whether or not Japan adheres to the declaration made in the preamble to the treaty of her intention... in public and private trade and commerce to conform to internationally accepted fair practices.[16]

---

[14] Ibid.

[15] Ibid.

[16] Canada, House of Commons, Debates, April 8, 1952 (Ottawa: Queen's Printer, 1952), p. 1300.

This statement is a good example of what was Canada's attitude towards Japan at that time. Our policy was still indefinite but the government seemed to show more understanding and interest to the problems of our trade relations with Japan. The latter fact is also shown by another statement made by the Honourable L.B. Pearson in the House of Commons. On February 11, 1953, he said:

> Canadian interests in Japan are important and varied. In trade, for instance, Japan has again become one of our best customers. The question of our trading relations with her is a difficult one; and some of us may find it hard to approach the problem entirely dispassionately. But I suggest we cannot afford to ignore it, for Japan is at present our fourth largest market ... If she is to be retained as a healthy and reliable friend and ally in that critical part of the world, we and the other free countries must be prepared to join with her in working out satisfactory arrangements for maintaining and expanding the trade on which we are both so dependent, and on which she is especially dependent.[17]

These views were finally concretized by the opening of negotiations with Japan in 1953 with a view of coming to an agreement on trade, as evidenced by the statement made in the House of Commons by the Honourable C.D. Howe, Minister of Trade and Commerce. He said that:

> Negotiations are proceeding for a trade agreement between Japan and Canada in an amicable and friendly manner and we have good reasons to believe that an agreement will be arrived at which will safeguard the interests of Canadian manufacturers and at the same time be mutually beneficial to both countries.[18]

---

[17] Canada, House of Commons, Debates, February 11, 1953 (Ottawa: Queen's Printer, 1953), p. 1854.

[18] Canada, House of Commons, Debates, April 23, 1953 (Ottawa: Queen's Printer, 1953), p. 4307.

These negotiations led to the signing of a trade agreement in March 1954, which agreement proved to be one of the principal features of Canadian - Japanese trade relations in the post-war period.

2. The 1954 Trade Agreement

Introduction: In a speech he made in the House of Commons on May 12, 1954, the Honourable C.D. Howe gave the reasons for which the Canadian government decided to sign a trade agreement with Japan:

> Quite clearly we could not continue for much longer to withhold most-favoured-nation treatment from a country such as Japan which is one of our largest customers...We could not reasonably expect to continue to enjoy such high sales if at the same time Japanese goods were to continue to be restricted from entry into Canada by the high rates of our general tariff...It has become more and more difficult...to justify the fact that we were not extending most-favoured-nation treatment to Japan. In the new trade agreement we are now proposing to correct this anomaly.[19]

The Agreement: The "Agreement on Commerce between Canada and Japan was signed at Ottawa on March 31, 1954, and entered into force on June 7, 1954. The principal features of this agreement were the following:

> Each Contracting Party shall accord to the other Contracting Party unconditional most-favoured-nation treatment in all matters with respect to customs duties and charges of any kind imposed on or in connection with importation or exportation or imposed on the international transfer of payments for imports or exports...(Article I-1).
> No prohibitions or restrictions shall be applied by either Contracting Party on the importation of any product of the other Contracting Party, or, except as provided in legislation affecting essential security interests, on the exportation of any product consigned to the territory of such other Contracting Party, unless the importation...or the exportation of the like product to all third countries is similarly prohibited or restricted. (Article III-1).

[19]Canada, House of Commons, Debates, May 12, 1954 (Ottawa: Queen's Printer, 1954), p. 4647.

> Both Contracting Parties recognize that the existence of balance of payments difficulties in many countries, and the widespread inconvertibility of currencies, do not permit the immediate and full achievement of non-discriminatory application of trade and exchange restrictions affecting imports. (Article III-3).[20]

This agreement was to be in effect for a period of one year from its entry into force and thereafter until three months from the day on which either "Contracting Party" would give notice to the other "Contracting Party" of an intention of terminating the agreement. Also, in a supplementary exchange of notes which was appended to the agreement, Canada reserved the right to establish special values for duty purposes on any imports entering Canada in such increased quantities and under such conditions as to cause or threaten serious injury to domestic producers of like or directly competitive products. In the event of such special values being applied, and in determining the level at which such values should be applied, Canada was to take into account the prices of like or directly competitive products imported from other countries. In this exchange of notes, Japan also undertook, subject to agreed exceptions,[21] to accord Canada unconditional non-discriminatory treatment in relation to any other country with respect to import and exchange controls on the following nine commodities: wheat, barley, wood pulp, flaxseed, primary copper, lead in pigs, zinc spelter, synthetic resins, and milk powder.

This agreement was welcomed by both countries as the most

---

[20] Canada, Treaty Series, Agreement on Commerce between Canada and Japan, 1954: No. 3 (Ottawa: Queen's Printer, 1954), pp. 2 and 4.

[21] These exceptions were balance of payments difficulties.

important step to normalize and facilitate trade along the lines suggested by the GATT. In fact, it was said that the agreement was better than the GATT on certain points. The Honourable C.D. Howe, Minister of Trade and Commerce, said in the House of Commons on May 12, 1954 that the Canada-Japan trade agreement was somewhat stronger and more specific than the provisions of the GATT with respect to the non-discriminatory application of exchange and import controls. Also, he added, the Canadian government's right to adopt safeguarding measures against unfair or injurious competition was established in a more precise and explicit manner than it was under the corresponding provisions of the GATT.

Tariffs: The agreement did not have the effect of lowering the Japanese rates of duty on Canadian goods since the Japanese maintained only a single-column tariff. A list of the Japanese tariff rates on selected items is given in Table XXIX. We note that tariffs on raw materials being either nil or very low, the bulk of Canadian exports to Japan were relatively not affected by tariffs.[22] However, the Japanese tariff laws did provide for heavy surcharges on goods from countries which discriminate against Japan. The agreement permanently removed this clause as far as Canada was concerned.

The agreement was more beneficial to Japan, as far as tariffs were concerned. Before the agreement, we submitted Japanese imports to the "General Rate" of tariff. But after it, Japanese products were subject

---

[22]Also, wheat and barley being imported mainly by a government agency, there were in practice, no tariffs on these items.

TABLE XXIX

SELECTED JAPANESE TARIFF RATES, 1954

Item	Rate (ad valorem)
Aircrafts and parts	15%
Aluminum, ingots and slabs	10%
Barley	10%
Brass, ingots and slabs	10%
Calculating machines	15 or 20%
Coke	5%
Copper, ingots and slabs	10%
Hides and skins	Free
Iron, pig	10%
Lead, ingots and slabs	5%
Linseed	Free
Metal ores	Free
Pulp, cellulose	5%
Rapeseed and mustard seed	5%
Resins, synthetic	20 or 30%
Rubber, synthetic	Free
Steel, ingots, blooms, billets	12.5%
Steel, plates, and sheets	15%
Wheat	20%
Wheat flour	25%
Wood, cut, sawn, or split, but not further manufactured	Free or 5%
Zinc, ingots and slabs	10%

Source: Asia and Middle East Section, Department of Trade and Commerce, Ottawa.

to the most-favoured-nation rate. The difference between the two rates was important for many items, as shown in TABLE XXX. The change not only resulted in greater Japanese exports to Canada but the percentage of dutiable imports from Japan, as shown in Table XXXI, fell considerably.

In 1953, dutiable imports represented 90.6 per cent of total imports from Japan. But it fell to 78.2 per cent in 1954 and to 76.2 per cent in 1955. On the other hand, free imports increased considerably, both in value and in percentage, passing from a value of $1.3 million in 1953 to $4.1 million in 1954 and $8.7 million in 1955, and from 9.4 per cent of total imports (from Japan) in 1953 to 21.8 per cent in 1954 and 23.8 per cent in 1955.

We can thus conclude that, as far as tariffs were concerned, the agreement was mostly advantageous to Japan.

3. The Post-Agreement Years

Japanese Policy: The principal feature of Japan's foreign trade policy continued to be the promotion of exports. It is noteworthy to mention here a device which the Japanese government used in 1954 to stimulate exports. It was called the "link system". Under this system, firms were granted import licences in regard to particular commodities on the condition that they export specified manufactured goods, the ratio between the import and the export value being laid down by the government in each pair of transactions. Consequently, any importer (or trader) who obtained a licence could make a substantial profit on his deal, and this enabled him to subsidise the exports which he had to undertake in order to acquire the licence.[23] The Japanese government abandoned this practice in early

[23] G.C. Allen, "The Present Economic Situation in Japan", International Affairs, XXXI (No. 3: July, 1955), p. 291.

TABLE XXX

SELECTED CANADIAN TARIFF RATES, 1954

		General Rate	M.F.N. Rate
Cameras and parts	$	10%	Free
Clothing, cotton, of woven fabric, n.o.p.	Lb.	35% + 4¢	25%
Clothing, of woven synthetic fibre, n.o.p.	Oz.	50% + 7¢	27.5%
Fabrics, coloured cotton, more than 80¢ per pound	Lb.	32.5% + 4¢	17.5% + 3¢
Fabrics, silk, n.o.p.	Yd.	45.0% + 10¢	25.0% + 5¢
Fabrics, synthetic fibre, n.o.p.	Lb.	45% or 45.0% + 40¢	5% or 25.0% + 30¢
Flannels, canton, not coloured	Lb.	27.5% + 4¢	17.5% + 3¢
Gloves, cotton and synthetic fibre	Doz.Pair	45%	25%
Gloves, mitts, and mittens of wool	Doz.Pair	45%	25%
Oranges, mandarines, and tangerines	Cu. Foot	35¢	Free
Plywood, glued or cemented	$	35%	20.0% or 10%
Radio receiving sets	$	30%	20%
Radio tubes	$	30%	20%
Sewing machines	$	25%	15%
Shirts, cotton, not knitted	Lb.	35.0% + 4¢	25%
Shoes, canvas, with rubber soles	Pair	40%	27.5%
Synthetic textile fibre manufactures, n.o.p.	Oz.	50.9% + 7¢	27.5%
Tableware of china and porcelain	$	35%	25%
Toys, mechanical, of metal	$	40%	25.0% or 20%
Tubing, for use in casing water, natural gas or oil wells	$	Free	Free
Tuna fish, canned	Lb.	35%	20%

Source: Dominion Bureau of Statistics, Statistical Classification, Imports, in effect January 1, 1944 with Amendments to July 1, 1951 (Ottawa: King's Printer, 1951).
Canada, House of Commons, Budget Speech, 1952 to 1954 (Ottawa: Queen's Printer).

TABLE XXXI

DUTIABLE AND FREE IMPORTS FROM JAPAN, 1947-62

$'000

Year	Dutiable Imports		Free Imports		Total Value
	Value ($)	% of Total	Value ($)	% of Total	
1947	340	98.8	4	1.2	344
1948	1,412	45.2	1,715	54.8	3,127
1949	4,975	89.9	559	10.1	5,534
1950	11,512	95.3	564	4.7	12,076
1951	11,490	91.6	1,057	8.4	12,547
1952	11,418	87.1	1,695	12.9	13,113
1953	12,202	90.6	1,271	9.4	13,473
1954	14,855	78.2	4,153	21.8	19,008
1955	27,902	76.2	8,733	23.8	36,635
1956	46,382	76.3	14,373	23.7	60,755
1957	48,672	79.3	12,817	20.8	61,489
1958	64,476	92.0	5,610	8.0	70,086
1959	95,091	92.6	7,578	7.4	102,669
1960	102,016	92.4	8,366	7.6	110,383
1961	106,714	91.5	9,894	8.5	116,607
1962	114,035	91.0	11,354	9.0	125,389

Source: Canada, Dominion Bureau of Statistics, Canada Year Book (Ottawa: Queen's Printer), various years.

1955 as it was clearly against the principle of non-subsidizing by government in international trade. Other examples of promotion measures, taken in 1954 and 1955, were a reduction in export credit insurance rates and a high tax exemption for income from export sales.

An event of major importance to Japan's foreign trade and policy occurred in 1955. This was the admission of Japan into the GATT. Accession to the GATT represented an important achievement in Japan's efforts to regain a place in the world trading community and resulted in tangible benefits for Japanese exports in many foreign markets. The concessions that were exchanged between Canada and Japan on this occasion are given in Table XXXII.

The control of foreign trade continued to be fundamentally based upon the "Foreign Exchange and Foreign Trade Control Law" and the level of imports still tied to the half-yearly foreign exchange budget. However, following the general meeting of GATT members at Tokyo in 1959,[24] the Japanese government undertook to liberalize its imports. Since the end of 1958, when the Western nations restored convertibility to their currencies, Japan had been grappling seriously with the question of liberalizing her economy and trade. Finally, in November 1959, the Japanese government announced a series of measures designed to liberalize imports. Among those initial steps, the abolition of discrimination of

---

[24] At this session, frequent criticisms were made of the extent, complexity and restrictive nature of Japanese import and exchange controls, and of the slow and cautious approach towards trade liberalization. Requests were made from all quarters for the abolition of these impediments to freely competitive trade.

TABLE XXXII

CONCESSIONS EXCHANGED IN CONNECTION
WITH JAPANESE ACCESSION TO THE GATT

A - Concessions by Canada to Japan

Canadian concessions to Japan took the form of binding of the present rates on oranges, fish preserved in oil, artificial flowers, certain types of tableware, stoneware, and earthenware, certain types of instruments such as optical instruments, feathers, certain types of precious stones, and animal shell button blanks.

B - Concessions by Japan to Canada

	M.F.N. Rate	New Rate
Synthetic rubber	Free	Binding of Free
Sulphite paper pulp	5%	" " 5%
Sulphite rayon pulp	5%	" " "
Kraft paper pulp	5%	" " "
Kraft rayon pulp	5"	" " "

N.B.: Certain of the U.S. direct concessions to Japan also benefited Canadian exports. The more important of these concessions related to paper bags, wallpaper, miscellaneous papers, and rubber products.

C - Concessions by Canada to the United States and Japan

	M.F.N. Rate	New Rate
Artificial feathers, fruits, leave and flowers	22.5%	20%
Baskets of bamboo	22.5%	17.5%
Blinds of bamboo	30%	20%
Bowls, trays, and dishes of wood	20%	17.5%
Tuna, frozen, to be processed in Canadian canneries	½¢ lb	Free

Source: Canada, House of Commons, Debates, June 14, 1955 (Ottawa: Queen's Printer, 1955), appendix.

imports from dollar areas and the importation on a global basis of goods hitherto on the list of designated goods for barter trade may be mentioned as important.[25]

Then, in June 1960, the Japanese government announced a three-year plan under which liberalization of imports would reach 80 per cent at the end of 1962. At the end of 1960, the rate of import liberalization had already reached 44 per cent, a notable increase from the end of 1957 when the rate of liberalization was only 21 per cent. There was also, in 1960, a complete revision of the Japanese tariff system. The tariff list was expanded from 943 to 2,183 items, based on the Brussels nomenclature.[26] The new system was designed mainly to counteract the effects of liberalization in the less competitive domestic (Japanese) industries.

On September 26, 1961, the Japanese government revealed plans for accelerating the liberalization. The new program represented a six-month shortening of the original program presented in June 1960. It provided for 90 per cent liberalization of Japan's imports by the end of September 1962.[27] Many of Canada's main exports such as chemical and paper pulp, nickel, some non-ferrous metal ores, and logs and lumber were included.

---

[25]Mitsubishi Economic Research Institute, Survey of Economic Conditions in Japan, January 1960 (Tokyo: Mitsubishi Economic Research Institute, 1959), p. 10.

[26]A.P. Bissonnet, "Japan", Foreign Trade, April 22, 1961, Department of Trade and Commerce (Ottawa: Queen's Printer, 1961), p. 6.

[27]The rate of liberalization on October 1, 1961, was 68 per cent.

On the other hand, products such as wheat, barley, flour, rapeseed, mustardseed, and milk powder were not included in the 90 per cent liberalization program.

On September 29, 1962, the Japanese government announced that the level of liberalization had reached 88 per cent. This fell short of the 90 per cent goal. The reasons given for this slight difference were a delay in freeing the importation of heavy fuel oil, copper, lead, and certain manufactured goods, and the withholding of liberalization of certain imports from those countries still considered to be discriminating against Japanese exports. Imports from Canada, however, did not enjoy such a high degree of liberalization as, at the end of 1962, about 60 per cent of Canada's exports to Japan, notably wheat and some non-ferrous metals, were still subject to import and exchange controls. But it was expected that they would be free in the near future. The Japanese government declared its intention to proceed with the liberalization and to remove most, if not all, of the remaining restrictions in the foreseeable future.

The Voluntary Quotas: Canadian trade policy towards Japan in the years following the agreement of 1954 was essentially tied with the question of the so-called "voluntary quotas" that Japan imposed on certain of her exports to Canada.

In general, Canadian policy was to allow an orderly growth of Japanese exports to Canada. By orderly growth, it was meant, for individual products which were competitive with Canadian production, increases of about 5 to 10 per cent in a good year, that is, a year in which the

Canadian economy was buoyant and demand for the products in question rising.

However, many Japanese products entered Canada at a much faster rate, especially textiles. Soon Canadian manufacturers began to complain bitterly. What frightened Canadian producers was the apparent ability of Japanese producers to underprice them by a very wide margin and to completely dominate the Canadian market for selected items. Japanese producers could, they said, if not limited, almost wipe out Canadian production of some products within a short period of time. On the other hand, the Canadian government was reluctant, for fear of retaliation and in view of GATT commitments, to increase tariffs or institute a quota system of its own. The government thus entered into negotiations with the Japanese government for the latter to impose voluntary quotas on certain exports to Canada. After long negotiations, a system of voluntary quotas was established in mid-1959.

Although the "official" quotas were established only in 1959, some Japanese exports to Canada had been under control as far back as 1956. In that year, the Canadian government expressed its concern about the heavy volume of imports into Canada from Japan, especially textiles but it did not ask for quotas. The fact was that when exports to the United States from Japan were curtailed, Japanese sales to Canada suddenly jumped. But the Japanese government succeeded in persuading manufacturers to set quotas for export to Canada at about one-tenth of the United States quotas or to establish a single over-all quota for the dollar area. The back door to the United States market through Canada was thus closed.[28] These measures were in line with the Canadian government's wishes, as shown by the statement made in the House of Commons on January 17, 1957, by the Honourable C.D. Howe, Minister of Trade and Commerce. He said:

> The Japanese have about 5 per cent of our market for textiles and we think it would be difficult for us to live with a larger proportion. The ceiling that has been put on by Japan has been put by the industry and not at the request of the Canadian government. I think the action taken may have been in furtherance of the thought I left there that Japan should be willing to see their market for textiles in Canada grow gradually with the growth of the total market, rather than flood this country with textiles at any one time.

Nevertheless, Japanese exports to Canada continued to grow very rapidly. This resulted, as mentioned before, in bitter complaints and strong pressures on the government from Canadian manufacturers. In June 1959, the Canadian government complained to Tokyo about the sharply rising imports of certain textile goods - mostly made-up items of spun rayon and mixtures - and asked that a voluntary quota restrictions be clamped on them immediately. On June 18, the Japanese government ordered suspension of all exports permits for textiles while it got down to a serious study of the situation. At the same time, it asked Ottawa to provide proof that the stepped-up imports of Japanese textiles were damaging the Canadian industry. The Canadian government also asked Japan to put a quota on hardwood plywood and on stainless steel table flatware, imports of which were also rising very rapidly, far beyond what could be considered as orderly participation in the Canadian Market. In mid-

---

[28]The quotas were for cotton goods: fabrics, shirts, blouses, cloats, slacks, knitted wear, and tablecloths.

August, after consultations with the Canadian authorities, the Japanese government announced that it would voluntarily control about 63 per cent of its textile exports to Canada, and that it would hold exports of hardwood plywood and stainless steel flatware at approximately the 1958 level. The Japanese authorities also indicated their intention to consult the Canadian government before making their decisions on the 1960 quotas.

Effectively, the consultations for the 1960 quotas began in the fall of 1959. But negotiations were particularly difficult and talks dragged until the spring of 1960. Canada, because of the big increases registered in 1959 and because of the recession going on at the time, insisted on cutbacks on several major textile items and on extending the quota system to cover additional items. The Japanese negotiators replied that this was not consistent with the stated Canadian desire for trade growth on an orderly basis. They argued that Canadian exports were still much larger than imports from Japan and that Japan was a major market for some ten big Canadian export staples. Finally, on April 29, 1960, the Japanese Ambassador officially informed the Canadian government of the quotas for 1960. These quotas, shown in detail in Table XXXIII, now covered about 77 per cent of Japanese textile exports to Canada. Many textile items were cutback, and this resulted in a slight decline in the value of textile exports to Canada, as shown by Table XXIV (Chapter III). The quotas also covered hardwood plywood exports (which were limited at 53.2 million square feet as asked by the Canadian government), and exports of stainless steel flatware. On the same day, in a letter sent to the Minister of Finance, the Japanese ambassador pointed out a problem in

TABLE XXXIII

JAPAN'S VOLUNTARY QUOTAS, 1960-62

Items		1960	1961	1962
Cotton Goods				
Blouses and shirts	(Doz.)	495,000	480,000	480,000
Coats and slacks	(Doz.)	325,000	325,000	343,000
Knitted wear	(Doz.)	330,000	363,000	363,000
Pillow cases	(Doz.)	180,000	180,000	187,000
Sheets	(Pieces)	666,000	666,000	666,000
Damask table cloths	(Million sq.yd.)	1.1	1.2	. . .[a]
Fabrics	(Million sq.yd.)	25.5	25.5	27.3
Rayon and Synthetic Fabrics				
Blouses and shirts	(Doz.)	360,000	351,000	355,000
Coats and slacks	(Doz.)	237,000	237,000	241,000
Knitted wear	(Doz.)	215,000	237,000	236,000
Nylon fabrics	(Million sq.yd.)	. . .[b]	2.6	2.6
Rayon and synthetic ribbons	(Lbs.)	. . .	142,000	142,000
All Textiles Fibres				
Bedspreads	(Pieces)	600,000	600,000	630,000
Dish towels, any fibre	(Doz.)	. . .[b]	400,000	400,000
Gloves, ladies, any fibre	(Doz.)	. . .[b]	314,000	322,000
Woven elastic braid	(Lbs.)	500,000	400,000	400,000
Woven elastic webbing	(Lbs.)	482,000	433,000	433,000
Other Products				
Buttons, polyester	(Million gross)	. . .[b]	1.0	1.1
Flatware, stainless steel	(Doz.)	1,150,000	642,000	. . .
Footwear, rubber-soled canvas	(Million pairs)	2.6[c]	2.6	2.4
Footwear, waterproof	(Million pairs)	3.1[c]	1.9	1.9
Plywood	(Million sq.ft.)	53.2	45.0	51.0
Radios, transistor	(Sets)	581,000[c]	395,000	400,000
Raincoats, vinyl	(Units)	. . .[b]	520,000	520,000
Receiving tubes, radio and TV	(Million)	3.9	2.5	2.7

[a]Removed from quota.

[b]Quotas introduced in 1961.

[c]Figure is actual 1960 imports; quotas introduced only in 1961.

[d]Excluding types not manufactured in Canada.

Source: Tariffs Section, Department of Finance, Ottawa.

Canadian-Japanese trade relations which had been worrying the Japanese government in the last few years, i.e., the shipments to Canada from third countries of products for which Japan undertook self-restraining measures. The letter said:

> I would like to take this occasion to remind you again that the Japanese Government attaches the utmost importance to avoiding a situation where third countries are able to expand their sales to Canada of such products by virtue of the fact that Japan has undertaken to limit her shipments. Should it transpire that such diversion of trade were taking place I would assume that your Government would take the necessary steps to correct the situation.

The negotiations for the 1961 quotas started in the fall of 1960. But again, they were very long and difficult. Canada wanted smaller quotas mainly on the grounds that 1960 was a recession year in Canada. Results were obtained only after six months of arduous consultations. The negotiations ended in further cutbacks in many items, plus the extension of the quota system to cover transistor radios, radio and TV tubes, waterproof footwear, rubber-soled canvas footwear, and some new textile items, as shown in Table XXXIII. The quota system now covered about 60 per cent of Japan's exports to Canada, including about 90 per cent of the textile items.

The Japanese were very unhappy and dissatisfied with the smaller quotas. They pointed to Canada's highly favourable trade balance with them. They said that if we wanted to have a better trade picture, we should cut back imports from the United States where Canada had an unfavourable balance instead of from Japan where the balance was in our favour. One Japanese government official even said that Japan had to accept the smaller quotas because they had no other choice. "These were not really negotiations between our two countries", he said, "but simply we were told by Canadian officials what we could have and no more."[29] The Japanese ambassador expressed similer views in a speech he made in Regina, Saskatchewan, in June 1961. He said that Japan was becoming resentful over the need to fix quotas on exports to Canada and that Japan was forced to accept curbs on exports under the threat that Canada would take such measures as the arbitrary fixation of valuation for customs purposes.

The negotiations for the 1962 quotas started in the fall of 1961. After lengthy talks again, the quotas were agreed upon in April 1962. As shown in Table XXXIII, increases were allowed in most of the quotas and two items (damask tablecloths and stainless steel flatware) were removed completely from the list. The increases ranged between one per cent to seven per cent with the average increase being about four per cent. Also, no new restrictions were applied on Japanese exports to Canada. Commenting on the new quotas, the Japanese Ambassador, in a letter sent to the Minister of Finance, on April 25, 1962, pointed out that the voluntary export restraints were maintained by the government of Japan in conformity with its established policy of promoting the orderly growth of Japanese exports to the Canadian market. This policy was pursued by Japan, he added, to avoid disruption of the Canadian market and thus provide the basis for the future growth of two-way trade on an orderly basis to the mutual benefit of both countries.

---

[29] <u>The Financial Post</u>, May 27, 1961, p. 23.

The tariff emergency surcharges which Canada imposed in July 1962 because of the foreign exchange crisis did not affect the Japanese quotas in that these quotas specify amounts (and not value) of selected products which may be sold in Canada. But the surcharges most likely affected Japanese sales to Canada in general, due to the increased tariff rates, i.e., increased cost of imports.

4. Summary

The history of trade policy in Canadadian-Japanese relations in the post-World War II years can be divided into three periods: (1) 1945 to mid-1954, (2) mid-1954 to mid-1959, and (3) mid-1959 to 1962 inclusively.

In the 1945 to mid-1954 period, Canada followed a protectionist policy towards Japan: we applied high tariff rates against Japanese imports, and we did not give Japan the "most-favoured-nation" treatment in 1952 at the signing of the peace treaty, while Japan gave it to Canada. Japanese commercial policy was also quite protectionist. Although in theory, there was no discrimination against Canadian goods, in practice, the basis on which Japan's trade was conducted militated against the sale of substantial quantities of Canadian products in Japan. This basis of trade was a series of bilateral trade and financial arrangements (which were, in effect, barter deals) designed to obtain the maximum of imports with a minimum expenditure of dollars. Canada did not have such an arrangement with Japan.

A major event in Canadian-Japanese trade relations occurred in mid-1954, i.e., the signing of a trade agreement. In this agreement each country recorded to the other "unconditional most-favoured-nation treatment" in tariffs. It also removed all other kinds of restrictions with respect to trade, subject, though, to agreed exceptions such as essential security interests and balance of payments difficulties. This agreement greatly contributed, first, to normalize trade and, secondly, to favour the expansion of trade between the two countries.

The outstanding features of the mid-1959 to 1962 period were the imposition of quotas on Japanese exports to Canada and the liberalization of imports into Japan. The imposition of quotas, in mid-1959, on a number of Japanese exports to Canada was made at the request of the Canadian government, on the grounds that many Japanese products were entering Canada at too fast a rate. These quotas were re-imposed in 1960, 1961,and 1962 after negotiations, in each case, between the two countries. In Japan, the government initiated, in 1960, a program which resulted in a rate of import liberalization of 88 per cent in 1962. However, Canada did not benefit fully from this liberalization as, at the end of 1962, about 60 per cent of Canadian exports to Japan were still subject to import and exchange controls.

Commercial policy, thus, has played a very important role in the development of trade between Canada and Japan. And it is expected that it will continue to have an important role. The case of quotas, for example, will be one of the major factors that will influence trade in the coming years.

CHAPTER V

PROSPECTS

The prospects of Canada-Japan trade can be seen in the light of Japan plan to double national income by 1970 and in the light of studies made for the Royal Commission on Canada's Economic Prospects. The Japanese economic plan is of special importance here since it relies much upon foreign trade, and thus provides a basis for a relatively accurate forecast of trade between Canada and Japan. Consequently, an outline of the Japanese plan will be given in the next pages, with emphasis on international trade.

1. Japan's Plan to Double National Income

In December 1960, the Japanese government adopted a long-range economic plan designed to double the national income of Japan in ten years. The purpose of the plan is to foster a high rate of economic growth in order to achieve full employment and to increase further the standard of living of the people.

The plan has five main elements. They are: (1) to increase social capital, (2) to increase the importance of the sectors where labour productivity is higher and to increase the productivity of enterprise in order to strengthen the industrial structure, (3) to raise the quality and productivity of labour, (4) to promote science and technology, (5) to promote international trade and international economic cooperation.

The plan places the emphasis on the improvement of the structure of the economy. This is to be done by an expansion of secondary industry (particularly the heavy and chemical industries) where income and employment is expected to rise more than proportionately. Tertiary industry, a good source of jobs, is also expected to expand considerably. On the other hand, the plan estimates that primary industry will experience only a small increase in output and a substantial reduction in employment.

This change in the structure of the economy will be reflected in foreign trade as both imports and exports will increase and the pattern of trade change. The value of exports is estimated to reach U.S. $8.5 billion in 1970. On the other hand, imports will amount to about U.S. $8.1 billion, leaving a trade surplus of U.S. $400 million. An annual increase of more than 9 per cent for both exports and imports is seen necessary to reach those targets. The overall balance of payments should yield a surplus of U.S. $200 million in 1970, the surplus on the trade account being about U.S. $400 million, the deficit on the non-merchandize account being about U.S. $230 million, and the capital account showing a U.S. $20 million surplus.

Japan's dependence on imports is expected to increase slightly, mainly as a result of the expansion of secondary industry since..."the amount of imports induced by a unit of investment is larger than that induced by a unit of consumption."[1] For example, an input-output analysis made by the Japanese Ministry of International Trade and Industry shows that in Japan ..."the average propensity to import in 1960, expressed as a percentage of the value of demand, was 7.6 per cent for household consumption, 4.4 per cent for government consumption, 12.6 per

[1] M. Fujioka, "Appraisal of Japan's Plan to Double Income", International Monetary Fund Staff Papers, Vol.X No.1 (March,1963), p. 174.

cent for inventory increases, 11.8 per cent for private investment in equipment, and 9.9 per cent for government investment."[2] Thus, the plan estimates that imports will increase from 14 per cent of G.N.P. in 1960 to about 17 per cent in the target year (1970), as import liberalization will progress. "The largest rise is expected to be in finished goods, such as machinery and consumption goods, followed by semi-finished goods and mineral fuels. The increase in imports of raw materials as a whole will be smaller, despite a rapid rise in imports of metal ores and scrap; the increases in imports of food will be least of all."[3]

On the export side, the ultimate goal of the plan is the orientation of the export pattern towards the heavy and chemical industries. As the ratio of heavy and chemical industries to total manufacturing industry, in terms of value added, will rise from 61 per cent in fiscal 1959-60 to 73 per cent in the target year, the ratio of heavy industrial and chemical products to total exports is expected to rise from 38 per cent to 54 per cent.[4] The emphasis placed on the expansion of the secondary industry is designed to give Japan international competitiveness in industrial products. This is especially important..."for the future expansion in Japan's exports, because world demand for such products is more elastic in respect of world income, and rapid expansion in exports can be expected only by specializing in such products."[5]

---

[2]Ibid., footnote.

[3]Ibid.

[4]Ibid., p.177.

[5]Ibid., p.178.

The plan also sets out the general principles that will guide trade policy. Foreign exchange restrictions will be minimized and tariff policy will become more important. But the protection accorded to industry will be restricted to promising infant enterprises and only for a minimum amount of time. The liberalization of trade and payments will be used to promote competition among enterprises and the international competitiveness of industries in order to expand exports and to help to the evolution of the economic structure.

2. Canada-Japan Trade by 1970

Canadian Exports by 1970: Canada is an important supplier of raw materials and foodstuffs to Japan. Assuming that Canada does no more than maintain its percentage of exports to Japan, she could expand sales to that country to $436 million by 1970, mostly in the raw materials field, as shown in Table XXXIV. Japan's imports of foodstuffs, raw materials, mineral fuel, and semi-finished products from Canada are expected to account for 85 per cent of the estimated increase (with raw materials alone representing 33 per cent) while finished products will account for 15 per cent of the anticipated increase in 1970.

Exports of foodstuffs to Japan from 1960 to 1970 are expected to rise by $44.9 million or 46 per cent, with wheat exports accounting for about one quarter of this increase. The biggest rise (in value) will be in the raw materials category. By 1970, exports of raw materials are expected to increase by $77.0 million or 117 per cent. Non-ferrous metals will experience the most important gain ($50.4 million or 345.2 per cent) while Canada's share of the Japanese chemical industry's needs

TABLE XXXIV

ESTIMATED CANADIAN EXPORTS TO JAPAN BY 1970

In Million Dollars

Item	1960 Exports	1970 Exports	Change	
			$	%
Foodstuffs	97.1	142.0	44.9	46.2
Raw Materials	66.0	143.0	77.0	116.7
Medical and Chemical	6.2	2.0	-4.2	-67.7
Iron Ore and Scrap	22.6	46.0	23.4	103.5
Non-ferrous metals	14.6	65.0	50.4	345.2
Forestry Products	20.7	28.0	7.3	35.3
Miscellaneous	1.9	2.0	0.1	5.3
Mineral Fuels	8.5	20.0	11.5	135.2
Semi-Finished Products	20.2	84.0	63.8	315.8
Finished Products	11.9	47.0	35.1	294.9
Total Exports	203.7	436.0	232.3	114.0

Source: Canada-Japan Trade Council, Forecast of Japan-Canada Trade by 1970 (Ottawa: Canada-Japan Trade Council, 1962).

is expected to decline to approximately one-third of the 1960 volume, resulting in a 68 per cent drop in the value of exports. Other products though, will register substantial gains. For example, shipments of rayon pulp for textile purposes could rise two and a half times; those of iron ore will approximately amount to 3 million tons or three times as much as in 1960; and those of coking coal, from about 200,000 tons in 1960, will rise to more than 900,000 tons.

The biggest percentage increase will be in semi-finished products (316 per cent), followed by finished products (295 per cent). This high percentage increase is mainly due to the low level of exports of that kind in 1960. In that year, exports to Japan of semi-finished and finished goods represented only 15 per cent of total Canadian exports to that country. But in 1970, this percentage will rise to 30 per cent. This is normal since the expected Japanese economic expansion will not only require more raw materials but increased quantities of finished goods, especially capital goods.

Thus, total Canadian exports to Japan should amount to $436 million in 1970, representing a rise of 114 per cent. This is assuming that Canada does no more than maintain its present percentage of exports to Japan, i.e., about 4.5 per cent of total Japanese imports.

Japan's Exports: Japan ranks Canada among the most important potential markets for expansion by 1970 and, in fact, expects that Canada will absorb new purchases equal or close to the $436 million she plans to buy from Canada. This would mean an enormous increase over the present volume of Canadian purchases from Japan, i.e., 3.5 times over 1962 purchases. But present trends and estimates suggest that the imbalance in Canada-Japan trade will continue and that the trade deficit in Canada's favour will increase.

As shown in Table XXXV, Japanese exports to Canada are estimated to increase to about \$214 - 222 million by 1970. Two methods were used to arrive at these estimates.

The first one is a statistical forecast based on the 1959-62 period. The average annual increase through 1952 to 1962 (7.4 per cent) was also used as the average yearly increase up to 1970. Such a forecast gives a figure of \$222 million. These estimates, though, can hardly be named as forecasts. "They are simple extrapolations into the future and could only be satisfactory long-term forecasts if the underlying situation changed in the future as it has in the past."[6]

The second method was used by the Canada-Japan Trade Council. Applying the estimated growth in Canada's Gross National Product[7] by 1970 to Japanese exports to Canada, the Council found that a natural increase of \$52 million is possible, making the total dollar volume of Japanese sales to Canada \$171 million. However, taking into account changing world trade pattersn, the Council thinks that it appears reasonable to anticipate a 25 per cent overall increase above the natural G.N.P. increase, making Japan's exports to Canada in the neighbourhood of \$214 million (\$171 m. + 25% of \$171 m.) by 1970.

---

[6]D.W. Slater, Canada's Imports, Royal Commission on Canada's Economic Prospects (Ottawa: Queen's Printer, 1957), p. 92.

[7]Based on Royal Commission on Canada's Economic Prospects.

TABLE XXXV

FORECASTS OF JAPANESE EXPORTS TO CANADA BY 1970

In Million Dollars

Statistical Forecast	
Extrapolation at 7.4 per cent per annum[a]	222.0
Canada-Japan Trade Council Estimates	
Through G.N.P. growth in Canada	171.0
Estimated 25 per cent increase over and above G.N.P. growth	43.0
Total	214.0

[a]The figure of 7.4 per cent is the average annual increase of Japanese exports to Canada from 1959 to 1962 inclusively. It was chosen as fairly representative of the rate of growth of Japan's exports to Canada in the coming years.

Source: Table XXIV. Canada-Japan Trade Council, Forecast of Japan - Canada Trade by 1970 (Ottawa: Canada - Japan Trade Council, 1962).

3. Summary

Consequently, if Canada-Japan trade continues in its present imbalance trend, there could be, by 1970, a trade surplus in Canada's favour of around $214 - 222 million, according to the aforementioned estimates.

SUMMARY AND CONCLUSIONS

1. Summary

The history of the development of Canada-Japan trade from 1945 to 1962 can be divided into three periods: (1) from 1945 to 1952, (2) from 1953 to 1957, and (3) from 1958 to 1962 inclusively.

The period from 1945 to 1952 inclusively, may be called the reconstruction period. For Canada, reconstruction meant a readjustment from a wartime economy to a peacetime economy. For Japan, it meant the rebuilding of much of her productive capacity and a drastic reorganization of the economic life in general.

Trade between Canada and Japan remained at an insignificant level until 1950 when the outbreak of the Korean War fortuitously and artificially stimulated trade, especially Canadian exports to Japan. The main reasons for the relatively low level of trade before 1950 were the following: (1) Japan obtained most of her required import from the United States; Canada acted mainly as a marginal supplier, (2) Japanese trade policy, mainly the system of bilateral trade or financial agreements designed to conserve Japan's dollar reserves and to which Canada did not participate, did not favour the export of Canadian products to that country, (3) Japan did not produce much for export as she devoted most of her resources to reconstruction, (4) Canadian trade policy also did not favour Japanese exports to Canada as we maintained high tariffs against Japanese goods. The Korean War, however, greatly stimulated Canadian exports (mainly foodstuffs) which rose from a value of $5.7 million in 1959 to $102.4 million in 1952.

The second period in the history of post-war trade between Canada and Japan, i.e., from 1953 to 1957 inclusively, was characterized by rapid economic growth in both countries, a growth which was primarily associated with an investment boom. In Japan, the boom was mainly the result of a "technical innovation" process while, in Canada, it was mostly the result of a heavy demand for Canadian raw materials. The rate of growth of real Gross National Product averaged 7 per cent a year in Japan and 4 per cent a year in Canada.

Trade between Canada and Japan reflected the favourable economic conditions prevailing in the two countries. Canadian exports to Japan rose from a value of $102.4 million in 1952 to $139.1 million in 1957. Most of this increase was due to higher exports of raw materials, a reflection of the rapidly increasing industrial activity in Japan. Japanese exports to Canada more than quadrupled during that period, passing from a value of $13.1 million in 1952 to $61.5 million in 1957. Most of this increase was due to substantially higher sales of consumer goods, especially textiles, a reflection of the high and rising consumer income and expenditure in Canada.

The growth of trade was also favoured by the signing, in 1954, of a trade agreement between the two countries. This major event in Canadian-Japanese trade relations greatly contributed to remove obstacles to trade. However, it was Japan that benefited the most from this agreement, in which Canada gave her the "most-favoured-nation" tariff treatment. Thus, Japan's exports to Canada rose from a value of $19.0 million in 1954 to $36.6 million in 1955 and to $60.8 million in 1956.

The principal characteristic of the period ranging from 1958 to 1962 inclusively, was the remarkable expansion of trade between Canada and Japan.

In Japan, economic growth continued at a very high rate. Real Gross National Product and industrial production increased at an annual average rate of 12.6 and 17.9 per cent respectively. The dominant feature continued to be investments in plant and equipment. In Canada, there was a slow down in the rate of economic expansion. Real Gross National Product rose by only 3.3 per cent annually while industrial production rose by an average of 3.9 per cent a year. Capital expenditures levelled off after 1957 while consumer expenditures increased more slowly than in the previous years.

Trade between the two countries experienced a rapid expansion during that period. Canadian exports to Japan, after a decline in 1958, reached a post-war high of $231.6 million, more than double the value of 1958 exports. This very rapid increase was due almost entirely to higher sales of foodstuffs (especially wheat) and industrial raw materials (reflecting the high tempo of industrial activity in Japan). Japanese exports to Canada more than doubled from 1957 to 1962, i.e., they rose from a value of $61.5 million in 1957 to $125.4 million in 1962. The main reasons for such a growth were the relative strength of consumer spending in Canada and the low price and good quality of many Japanese consumer products.

A very important event occurred in 1959. It was the imposition of quotas on a number of Japanese exports to Canada. These quotas were imposed by the Japanese government at the request of the Canadian government on the grounds that many Japanese products were entering Canada at a rate judged excessive. The quotas were re-imposed in 1960, 1961, and 1962 after long and arduous negotiations between the two governments in question. The quotas greatly contributed to slow down the growth of Japanese exports to Canada in those years.

A forecast of Canadian exports to Japan by 1970, based on Japan's plan to double national income and assuming that Canada will do no more than maintain its percentage of exports to that country, gives a figure of $436 million. Most of these exports will be in the raw materials and foodstuffs field. On the other hand, Japanese exports to Canada are expected to amount to about $218 million in 1970, based on both an extrapolation and estimates made by the Canada-Japan Trade Council. Thus, by 1970, Canadian exports to Japan would be about double that of Japan to Canada.

2. Conclusions

There is no doubt that Japan constitutes for Canada a market of major importance with very good growth potential. Canada's sales to Japan will be concentrated mostly in raw materials. But there are growing indications that markets for finished goods will open up. The sophistication of Japanese industry opens the door to specialty manufactured items like electronic equipment and aircraft components in which Canada can compete.

Japan also ranks Canada among the most important potential markets for expansion in the years to come. Canada proportionately has the world's highest import demand and is a country structurally dependent on imports of manufactured and consumer goods. Up to now, Japan did not enjoy a due share of this huge Canadian import market. There is no doubt that, without causing critical injury to existing Canadian industries, there are numerous opportunities for Japanese products to compete with and displase imports from third countries (especially the United States).

The most pressing problem in Canadian-Japanese trade relations is the problem of quotas. For a smooth development of trade between the two countries in the future, it is essential that a permanent solution be found. The propriety of the Canadian quota system on Japanese exports should be re-examined. A system should be found which would engender less frictions and mistrust. For example, Canada's policy towards the question of textiles should be revised entirely. A long-term program designed to direct resources away from the production of textiles to the production of goods in which Canada is more efficient would be advisable. This would permit to import textiles from such countries as Japan at a much lower cost than domestically produced textiles.

In conclusion, we can say that the economies of Canada and Japan are, to a great extent, complementary. Consequently, prospects are good for a substantial two-way increase of trade, provided that there is a minimum of artificial restraint to trade.

BIBLIOGRAPHY

Books

Allen, G.C. A Short Economic History of Modern Japan. London: George Allen and Unwin, 1962.

Allen, G.C. Japan's Economic Recovery. London: Oxford University Press, 1958.

Caves, R.E., and Holton, R.H. The Canadian Economy: Prospects and Retrospects. ("Harvard Economic Studies", Vol. CXII). Cambridge, Mass.: Harvard University Press, 1961.

Haring, D.G. Japan's Prospect. Cambridge, Mass.: Harvard University Press, 1946.

Kindleberger, C.P. Foreign Trade and the National Economy. ("Studies in Comparative Economics", No. 2). New Haven, Conn.: Yale University Press, 1962.

Moreau, M. L'économie du Japon. ("Que Sais-je," No. 811). Paris:Presses Universitaires de France, 1959.

Slater, D.W. Canada's Imports. ("Royal Commission on Canada's Economic Prospects"). Ottawa: Queen's Printer, 1957.

Stovel, J.A. Canada in the World Economy. Cambridge, Mass.: Harvard University Press, 1959.

Tsuru, S. Business Cycles in Postwar Japan. Tokyo: Japan Science Council, 1953.

Young, J.H. Canada's Commercial Policy. ("Royal Commission on Canada's Economic Prospects"). Ottawa: Queen's Printer, 1957.

Public Documents

Canada. Agreement on Commerce between Canada and Japan. Treaty Series, No. 3, 1954.

Canada. Department of Trade and Commerce. Foreign Trade. Various numbers, various years.

Canada. Dominion Bureau of Statistics. Canadian Statistical Review, July 1963. 1963.

Canada. Dominion Bureau of Statistics. Canada Year Book. Various years.

Canada. Dominion Bureau of Statistics. National Accounts: Income and Expenditure, 1962. 1963.

Canada. Dominion Bureau of Statistics. Review of Foreign Trade. Various years.

Canada. Dominion Bureau of Statistics. Statistical Classification, Imports, in Effect January 1, 1944 with Amendments to July 1, 1951. 1951.

Canada. Dominion Bureau of Statistics. Trade of Canada: Exports by Countries. Various years.

Canada. Dominion Bureau of Statistics. Trade of Canada: Imports by Countries. Various years.

Canada. House of Commons. Budget Speech. Various years.

Canada. House of Commons. Debates. Various numbers, various years.

Canada. Royal Commission on Canada's Economic Prospects. Final Report. 1957.

Canada. Treaty of Peace with Japan. Treaty Series, No. 4, 1962.

Japan. Bank of Japan. Economic Statistics of Japan, 1962. 1963.

Japan. Economic Planning Agency. Economic Survey of Japan. Various years.

Japan. Ministry of Finance. General Survey of the Japanese Economy. 1956.

United Nations. Economic Commission for Asia and the Far East. Economic Survey of Asia and the Far East, 1957. 1958.

Articles and Periodicals

Allen, G.C. "The Present Economic Situation in Japan", International Affairs, XXXI, No. 3 (July, 1955), 290-294.

Bank of Montreal. Business Review. Various numbers, various years.

Bank of Nova Scotia. Monthly Review. Various numbers, various years.

Barber, C.L. "Canadian Tariff Policy", Canadian Journal of Economics and Political Science, XXI, No. 4 (November, 1955), 513-530.

Canadian Imperial Bank of Commerce. Commercial Letter. Various numbers, various years.

Colton, H.K., Colton, K.E., and Totten, G.O. "Japan since Recovery of Independence", The Annals, American Academy of Political and Social Science, Vol. 308 (November, 1956), 85-112.

Crerar, H.D.G. "Canada and Japan", Industrial Canada, XLIX, No.3 (July, 1948), 121-123.

Financial Post. Various numbers, various years.

Fleming, M.J., and Tsiang, S.C. "Changes in Competitive Strength and Export Shares of Major Industrial Countries", Staff Papers, International Monetary Fund, V, No. 2 (August, 1956), 218-248.

Fujii, S. "The Foreign Trade and Industrial Structure of Post-War Japan," Economia Internazionale, V, No. 3 (August, 1952), 640-652.

Fujioka, M. "Appraisal of Japan's Plan to Double Income, Staff Papers, International Monetary Fund, X, No. 1 (March, 1963), 150-185.

Gibson, J.D. "Post-War Economic Development and Policy in Canada", Canadian Journal of Economics and Political Science, XX, No. 4 (November, 1954), 439-455.

Howe, C.D. "Japan's Postwar Development" Western Business and Industry, Vol. 31, No. 1 (January, 1957), 29-30.

Knox, F.A. "Changing Patterns of Canadian Trade in 1950", Canadian Banker, Vol. 58 (Spring, 1951), 19-21.

Knox, F.A. "Post-Treaty Japan", Canadian Banker, Vol. 59 (Spring, 1952), 19-21.

Knox, F.A. "Some Aspects of Canada's Postwar Export Problem", Canadian Journal of Economics and Political Science, X, No. 3 (August, 1944), 312-327.

Kurihara, K.K. "Japan's Trade Position in a Changing World Market", Review of Economics and Statistics, XXXVII, No. 4 (November, 1955), 412-417.

Mackenzie, M.W. "Canada's International Trade Policy", Industrial Canada, L, No. 7 (November, 1949), 61-63.

Meyer, J. "Japanese Trade Hits Canada", Saturday Night, Vol. 73 (March 1, 1958), 7, 31.

Mitsubishi Economic Research Institute. Survey of Economic Conditions in Japan. Various numbers, various years.

Narkevar, P.R. "The Role of Competitiveness in Japan's Export Performance, 1954-58, Staff Papers, International Monetary Fund, VIII, No. 1 (November, 1960), 85-100.

Robinson, R.M. "Is our Secondary Industry Threatened by Japan", The Business Quarterly, Vol. 25, No. 3 (Fall, 1960), 143-147.

Rosen, G. "Japanese Industry since the War", Quarterly Journal of Economics, LXVII, No. 3 (August, 1953), 445-463.

Slater, D.W. "Changes in the Structure of Canada's International Trade", Canadian Journal of Economics and Political Science, XXI, No. 1 (February, 1955), 1-19.

Tsuru, S. "Growth and Stability of the Postwar Japanese Economy", American Economic Review (Papers and Proceedings), LI, No. 2 (May, 1961), 400-411.

Waengler, E. "Japan's Exports Are Again Threatening our Markets", Saturday Night, February 28, 1950, 31-32.

Walton, E.A. "The Vulnerability of the Canadian Economy", Canadian Journal of Economics and Political Science, XX, No. 1 (February, 1954), 10-18.

Watts, G.S. "The Canadian Balance of International Payments, 1950-2, and the Mechanism of Adjustment", Canadian Journal of Economics and Political Science, XX, No. 1 (February, 1954), 19-26.

Others

Canada-Japan Trade Council. Canada-Japan Trade and Immigration. Ottawa: Canada-Japan Trade Council, 1961.

Canada-Japan Trade Council. Forecast of Japan-Canada Trade by 1970. Ottawa: Canada-Japan Trade Council, 1962.

Canada-Japan Trade Council. Japan Looks at Trade with Canada. An address given by His Excellency, Nobuhiko Ushiba, Ambassador of Japan, at Montreal, on October 29, 1962. Ottawa: Canada-Japan Trade Council, 1962.

Canada-Japan Trade Council. Japan's Economic Development and Mineral Requirements. An address given by His Excellency, Nobuhiko Ushiba, Ambassador of Japan, to the Northern Resources Conference, at Whitehorse, Yukon, on March 22, 1963. Ottawa: Canada-Japan Trade Council, 1963.

Canada-Japan Trade Council. More Trade Between Canada and Japan. An address given by Dr. D.E. Armstrong to a meeting of the Canada-Japan Trade Council, July 3, 1963, at Montreal. Ottawa: Canada-Japan Trade Council, 1963.

Canada-Japan Trade Council. The Case for American Trade with Japan. An address given by Philip Tresize, United States Deputy Assistant Secretary of State for Economic Affairs before the Japan Society Inc., at New York, on January 25, 1962. Ottawa: Canada-Japan Trade Council, 1962.

Canada-Japan Trade Council. The Japanese Market for Canadian Products. Ottawa: Canada-Japan Trade Council, 1963.

Committee for Economic Development. Japan in the Free World Economy. A report by the Research and Policy Committee and the Japan Committee for Economic Development. New York: Committee for Economic Development, 1963.

Fleming, Honourable D.M., Minister of Finance. An address given at the 36th Annual Canadian Purchasing Conference, at Toronto, on May 29, 1961. Ottawa: Department of Finance, 1961.

Fleming, Honourable D.M., Minister of Finance. An address given at the Annuan Convention of the Canadian Woollen and Knit Goods Manufacturers Association, at Ottawa, on October 18, 1960. Ottawa: Department of Finance, 1960.

Fleming, Honourable D.M., Minister of Finance. An address given at the Annual Meeting of the Saskatoon Board of Trade, at Saskatoon, on February 19, 1960. Ottawa: Department of Finance, 1960.

Foreign Capital Research Society. Japanese Industry '62. Tokyo: The Foreign Capital Research Society, 1962.

Howe, Right Honourable C.D., Minister of Trade and Commerce. Our Neighbour on the Pacific. An address given at the Women's Canadian Club, at Montreal, on December 3, 1956. Ottawa: Department of Trade and Commerce, 1956.

Iron and Steel Foundation. The Iron and Steel Industry of Japan. Tokyo: The Iron and Steel Foundation, 1955.

Japan Tariff Association. The Customs Tariff of Japan. Tokyo: Japan Tariff Association, 1962.

Ozaki, R.S. "Japan's Postwar Resurgence in International Trade". Unpublished Ph.D. dissertation, Harvard University, 1960.

Reuber, G.L. The Growth and Changing Composition of Trade Between Canada and the United States. ("Reports on Canada-United States Relations," Vol. xii.) A study sponsored by the Canadian-American Committee of the United States National Planning Association and the Private Planning Association of Canada, 1961.

Sinclair, S. Canadian Wheat and the Japanese Economy. Ottawa: Canada-Japan Trade Council, 1961.

Tsuneta Yano Memorial Society. Nippon: A Charted Survey of Japan, 1962. Tokyo: Kokusei-Sha, 1962.

Wasteneys, G.J. Canada and Japan in Contrast. Ottawa: Canada-Japan Trade Council, 1960.