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Canada in the twentieth century: continental drift?

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Abstract

The much-hyped new era of globalisation co-exists, paradoxically, with strong regional organisations, most notably the European Union and the North American Free Trade Area. This paper examines the development of Canadian international trade and investment during the past century as affected by the potentially conflicting forces of global economic integration and regionalism.

During the first wave of globalisation—the steam driven version of the late nineteenth century—an era characterised by multilateral trading and an open international currency system based around the gold standard, Canada nonetheless came to rely very heavily on the UK as an outlet for its exports and as a source of finance. But even during the first decade of the twentieth century the continental pull was exerting a powerful countervailing force that became even more apparent during the First World War and the 1920s.

In the era after World War Two Canada became ever more firmly locked into a North American economy despite the sporadic attempts by Ottawa to maintain geographical diversity of exports and to control the sources of investment. During the early stages of the second wave of globalisation, an era that witnessed the relative waning of American predominance and the emergence of a more pluralistic international economy, Canada did achieve diversification, especially in capital markets. The 1990s, however, have witnessed an even greater intensification of global integration, a re-assertion of US hegemony and a reinforcement of regional linkages through the Canada-US trade agreement and the NAFTA. The paper examines the dissonance between globalisation and regionalism and the implications of this for the pattern of Canadian international trade and investment.

At the beginning of the twentieth century Canada's international trade and finance were dominated by two partners, the United Kingdom and the United States. During the hundred years or so that followed, Canada's Atlantic connection has weakened and continental integration, above all with the USA,

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has deepened. This has been neither a smooth and continuous process nor an uncontested one. Ottawa has on several occasions during the twentieth century sought to diversify its external economic relations. Further, the challenge offered to the hegemony of the USA by Western Europe during the 1970s and 1980s also encouraged greater plurality in Canadian trade and investment. Much of this was reversed, however, during the 1990s: sustained American economic expansion combined with the bilateral trade agreement between Canada and the USA and the subsequent formation of the North American Free Trade Area (NAFTA) to foster greater continental integration.

One of the distinctive features of the international trading system during the first era of globalisation was the complex system of multilateral payments settlement.[1] Canada was closely involved in this. In 1901 approximately 60% of Canadian exports were sold in the UK. The major supplier of imports, however, was the USA, which had first consistently overtaken Britain as Canada's major source of imports in the late 1880s[2], and which by the beginning of 20th century was supplying approximately 58% of Canadian imports. Canada paid for these by using its current account surplus with Britain and by borrowing.

By the turn of the century Canada had already embarked on a period of very rapid economic expansion associated with the belated settlement of the West. Total population, boosted by net immigration of nearly one million, rose from 5.3 to 7.6 million between 1900-13. If the aim of Macdonald's National Policy had been for Canada to secure and exploit its own west, the wheat boom from the late 1890s achieved this helping to bind East and West in the transcontinental economy. Wheat exports poured across the Atlantic, especially to British ports. But not all of these represented a net gain: the concentration on wheat and rapid expansion of urban markets in Canada led to a fall in exports of dairy products and exports of bacon, ham and live animals also began to shrink.[3] Sales to the USA boomed: sawn lumber sold well, and a new generation of staples, including pulp and pulpwood, gold, copper, nickel and asbestos were also prominent. By the outbreak of war, exports to the United States accounted for 37.5% of the total while Britain's share had dropped to 50%.

Canada's engagement in the international economy embraced far more than trade. The great boom involved unprecedented levels of investment, much of it financed from abroad, especially after1905. At their peak, in the years immediately before the First World War, British funds alone probably financed more than half of total investment that stretched well beyond Canadian domestic savings.[4] Borrowing abroad, which tended to draw labour into construction and away from the traded goods sector, pulled in imports and thus widened the current account deficit.[5] Increasingly these purchases were made south of the border. The shifting composition of imports towards capital goods benefited the USA. 'Canadian industry rapidly adopted American styles and techniques, and this was intensified as American firms established branch factories in Canada'.[6] Berwick Saul also points out that the geographical advantages of American exporters were increased as the Canadian Far West was developed. Although imperial preferences were of very limited use to Britain in stemming United States competition in capital goods, low and preferential tariffs on some consumer goods, notably woollen textiles, probably helped Britain compete against Canadian firms.[7] By 1913 the USA accounted for 65% of Canadian imports.

In a sense British capital flows were helping to finance Canada's increasing import deficit with the USA. In 1900 Canada's export surplus with Britain had fulfilled this function, but in the years before the war, largely because of having to service the rising British-held debt, Canada lapsed into current account deficit with the UK. By 1914 it was running current account deficits with both its major trading partners and paying for these deficits by the capital it raised in Britain and the USA.[8]

Although the absolute level of British investment in Canada had run at unprecedented heights, nonetheless by 1913 the US accounted for a larger share of foreign investment than in 1901.[9] What is particularly significant, however, is its dominance of direct investment. This was to become progressively more important over the course of the century. American capital was especially well represented in manufacturing, where, in Donald Paterson's view, companies tended to have longer time horizons than in the natural resource sector: 'This helps to explain the persistence of American direct investment and the ephemeral quality of the British business presence'.[10]

Between the wars

Between the outbreak of World War One and the eve of the 1930s slump, Canada achieved considerable geographical diversification for its exports. The British market was virtually stagnant: although the value of exports increased by nearly half, this represented no more than the rise in prices. The USA proved far more dynamic, particularly for wood, wood products and newsprint. Although Canada achieved an even greater proportionate increase in exports to other Commonwealth countries (about fourfold between 1913 and 1928), this was from a very small base. The most spectacular expansion was to other foreign countries: by 1928 exports to this group stood at $451 million, not far behind exports to the USA, and representing a sevenfold increase over 1913 values.[11] The great bulk of this went to continental Europe, with wheat predominant. These were to prove fickle markets.

The United States strengthened its grip on the Canadian import market. It advanced its sales over a wide range of imports, but was particularly strong in investment and durable consumer goods, both groups characterised by high income elasticity of demand. But it was in the provision of capital that the US staked out an even more prominent position. British holdings of Canadian debt peaked in 1916. Although the UK had agreed at the beginning of the war to meet Canada's need for finance, the demands of total war stretched its own financial capacity. As early as July 1915 Canada had been forced to turn to Wall Street for funds.[12] Canadian governments became familiar and trusted borrowers in New York and by the 1920s they found it cheaper to borrow there than in London.[13] Moreover, American companies continued to invest in Canada. By 1927 the car industry was entirely in the hands of US companies.[14] American companies were also active in the new generation of staples, bringing technical expertise and capital to the base metal and newsprint industries. As early as 1922 total holdings of United States capital in Canada overhauled British: between 1916 and 1926 British capital was being repatriated,[15] and by 1930 United States accounted for 61% of Canadian foreign debt.

Canada financed its current account deficit with United States (it had substantial net payments from non-merchandise as well as on visible trade account) by capital imports from the United States and by running current surpluses with countries other than the UK. It is worth emphasising this, as John Stovel does in his account, because the generally accepted notion that Canada generated surpluses with the UK to pay for imports from United States is not borne out. Although Canada did run small current account surpluses with Britain between 1920 and 1926, these turned into substantial deficits between 1927 and 1932. Stovel points out that Canada was a supplier of other currencies to the UK between 1927 and 1932 both on capital and current accounts.[16]

By the start of the slump not only had Canada come to rely much less on British sources of capital but it also sold relatively fewer of its exports to Britain. But the dynamic markets of the 1920s, continental Europe and the USA, were to be the cause of major dislocation to Canada when they collapsed during the slump. While the United States was, of course, to recover, continental Europe never again provided a sustained market for Canadian agricultural exports.

The slump had a disastrous impact on Canadian exports which fell from $1341 million in 1928 to $495 million in 1932. Investment expenditure, very high during the late 1920s, fell even more sharply than exports. For much of the 1930s Canadian farming was devastated, especially on the prairies, and unemployment was at crippling levels. The slump was of unprecedented depth, the ensuing recovery shallow and far from complete by the time war broke out again in Europe. Not the least of Canadian economic problems in the 1930s was dealing with severe balance of payments deficits. Part of the trouble was the deterioration of the current account - while exports plummeted, debt servicing proved so intractable that by 1932 it absorbed 53% of merchandise export income (in 1928 corresponding figure had been 17%).[17] This was greatly aggravated because the capital inflows dried up, although unlike most countries Canada appears to have been cushioned initially by being able to continue raising funds on Wall Street in 1929 and 1930 and by the rush of US companies setting up branch plants in Canada as tariff barriers rose and exchange barriers mounted.[18] Capital inflows contracted in1931 and 1932 but there does not appear to have been an outflow until 1933. In the mid-1930s, by which time capital outflows were substantial, Canada had been able to adjust its current account.

By some measures the long-run tendency for the Anglo-Canadian economic connection to fragment was halted during the slump. The British connection provided a major part of Canada's economic salvation in the 1930s. Although Canadian export earnings in the UK fell sharply between 1928 and 1931, the subsequent recovery was rapid: by 1936-8 they averaged $318 million, more than double the 1931 value. These gains were made despite the failure of wheat shipments, Canada's most important export to Britain, to recover to pre-depression levels. Moreover, when the lower price levels of the 1930s are taken into account, the volume of Canadian exports to Britain did very well: they exceeded the high level of 1928 as early as 1932, and by 1937 had increased by more than half again. Three major factors account for this: first, the relative buoyancy of the British market for foodstuffs and raw materials in the 1930s; secondly, imperial preferences, both formal and informal; and, finally, increased Canadian marketing efforts to offset the loss of sales to the USA. By the end of the 1930s supplies from Canada accounted for nearly 9% of British imports, more than double the pre-slump proportion.

If measured by exports, Canadian economic dependence on Britain increased during the depression: in 1928, 33% of exports were sold in the UK while by the late 1930s about 40% of sales went there (the proportion going to the United States fell slightly, from 37% to 35%, the worst losses being to third markets). There was also a small rise in the proportion of Canadian imports from Britain in the 1930s, but not only did this tend to slip later in the decade, more important, the total value of Canadian imports stayed well below the pre-slump levels. This was an essential element in Canadian balance of payments adjustment. In the absence of capital inflows the Canadians secured balance by reducing the deficit with the USA and by turning the current account deficit with the UK into a surplus. By 1939 the value of both British and United States investments in Canada were less than in 1930, although the proportions remained much the same.

Changes in trade patterns were accompanied by significant developments in Canadian commercial and financial policy. R.B. Bennett had actively pursued imperial and trading agreement after coming to power in 1930, and Britain's adoption of full-scale protection in the winter of 1931-2 fortuitously presented a chance of securing such treaties.[19] But even under Bennett's leadership that did not mean fostering the imperial connection at the cost of completely jeopardising relations with the USA. Two events underline this. Although Canada had preferential trading links with Britain and other commonwealth members, it did not consolidate these by participating in their financial counterpart, the sterling area. British overtures to join the emerging sterling area were rejected.[20] Secondly, in 1935, Ottawa turned to the United States and signed the first trade agreement with its southern neighbour since the reciprocal treaty had been abrogated by the Americans in 1866. Further agreements with Britain and the USA followed, after tortuous negotiations, in 1938. Canada therefore played a reasonably even handed game with its two principal trading partners and kept lines of communication as open as possible.

Canadian trade 1945 to the 1970s

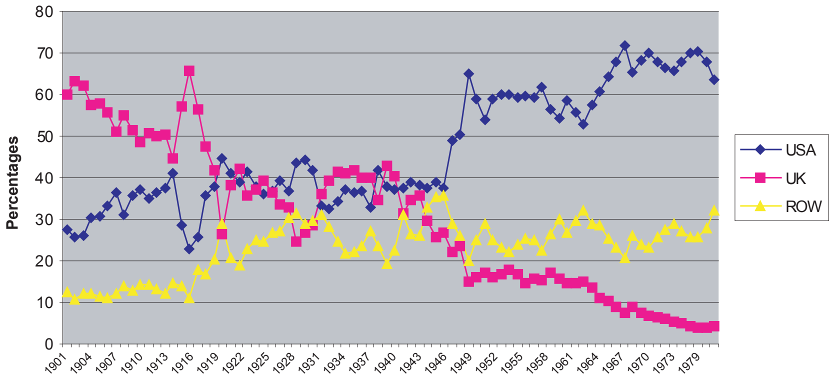
In the years following World War II Canadian exports swung strongly to the United States. There were three attempts by Ottawa to counteract this increasing dependence on the USA as an outlet for its exports. The first of these was immediately after the war when Canada made strenuous efforts to cultivate European and especially British markets. It was motivated partly by worries about the demobilisation and the unwinding of the war economy. Ottawa continued to equate Canada's prosperity with buoyant exports, and the transition to peace was going to be difficult, especially if war-swollen exports to Britain fell sharply. Moreover, the dangers of excessive reliance on the USA market had been painfully demonstrated in the early 1930s. The Canadian government therefore tried to bolster exports by a combination of long-term intergovernmental contracts (very much at variance with its liberal ideological stance) and with loans, notably to the United Kingdom.[21] These measures failed.[22] Europe's productive capacity was too devastated and the world dollar shortage too great. Lax British policy towards the sterling area also allowed dollars to be dissipated within the sterling Commonwealth. Canadian exports were briefly boosted, but once the dollar loans had been spent, restrictions on dollar imports into Britain and the sterling area Commonwealth hit Canadian sales badly. Moreover, even the sales that were made were largely unrequited in that they were paid for by the Canadian dollars loaned to Europe in the first place. They therefore failed to earn Canada the convertible currency to pay for the imports flooding in from the USA. To compound problems inward investment failed to recover after the war. By late 1947 Canada's international economic position was desperate, its gold and dollar reserves largely spent and neither Washington nor Wall Street sympathetic. Faced by economic catastrophe, restrictive controls on exports to the USA were scrapped, and energetic efforts made to attract American capital.[23] As the United States recovered from recession in 1948–49, and especially after the outbreak of the Korean War in 1950, exports to the United States rose sharply.

This surge of exports to the United States combined with a series of discriminatory cuts on dollar imports by Britain, other European countries and the Commonwealth led to a dramatic switch in the direction of Canadian exports. During the 1950s Canadian exporters continued to enjoy buoyant markets in the USA. American procurement policies, shaped by the Cold War, favoured a close and secure neighbour,[24] and a combination of prosperity and reduced tariff barriers boosted Canadian sales. The striking reliance on one market did sometimes worry Ottawa, and there were two further attempts to seek other markets for Canadian exports.

The first was John Diefenbaker's 1957 trade diversion offer whereby he proposed to switch 15% of Canadian imports to the UK. Announced over the heads of his civil service, it was immediately obvious that the figure had been clutched from the air and was impossible to achieve without an extension of tariff preferences to the UK.[25] The British response was interesting: since there was no chance of new preferences which were ruled out under the GATT, they quietly proposed a free trade pact to Ottawa. Since even London realised this was far more advantageous to Britain than Canada it was little surprise that Ottawa rejected the scheme.[26]

Much of the initial switch in the proportion of Canadian exports to the USA had occurred by 1950. It was consolidated by two sets of factors. One centred on the relative size of the British and American import markets in total world trade. In the late 1930s Britain had been by far the world's leading import market, accounting for 16% of world imports. After the war the US rapidly overtook the UK as the world's premier market. By 1970 the USA accounted for 12.2% of world imports while the British share had dropped to 6.6%. So even if Canada's respective share of British and American imports had remained unchanged, there would have been a major switch to the USA. But this movement was reinforced because Canada made major advances in the American market. By the late 1940s Canada supplied 16% of American imports, slightly up from the12–14% typical of the inter-war years. Canada-USA trade was given a further boost by the 1965 Auto Pact which established qualified free trade in cars and parts between manufacturers and guaranteed Canada a larger share of the North American production. By the early 1970s cars and components were Canada's largest export. This was one factor contributing to Canada increasing its share of the American import market to approximately 28% by the late 1960s, well over twice the proportion of the inter-war years. In short, the redirection of Canada's exports that had occurred by the second half of the 1960s was partly because of the rapid growth of American imports, encouraged by trade liberalisation, and partly a result of the greater share of the market that Canada had carved out itself. But it was also the counterpart to developments in Europe. The European Community rapidly emerged as an inward looking body, and this was true above all of its agricultural policy. Britain was eventually drawn into the system, incorporation into the European Community in 1973 accelerating the structural transformation of British imports. This process was well under way before British membership: very modest growth in food consumption combined with a dramatic expansion of British agricultural production had led to a sharp fall in British food imports

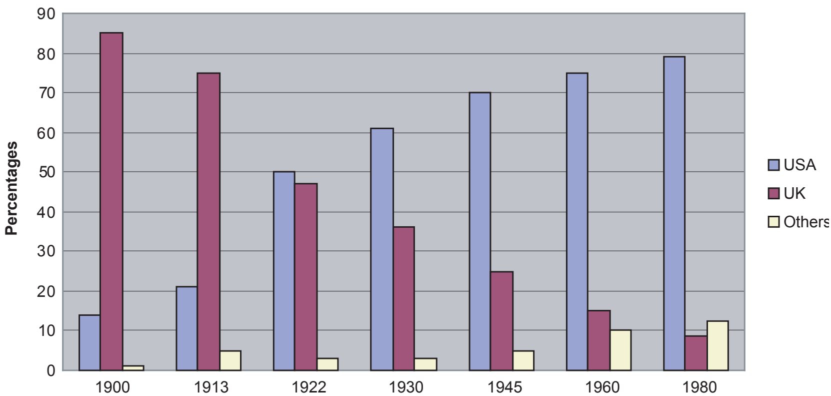
Figure 1: Destination of Canadian exports 1901–1980



Source: Urquhart and Buckley, Canadian Historical Statistics and IMF, Direction of Trade Statistics during the 1960s. Similarly, the decline in raw material imports also contributed to 'the dramatic marginalisation of the white dominions' in the geography of UK trade.[27] While in the 1950s manufactures constituted one-quarter of British imports, by the 1980s they accounted for more than three-quarters. Not only had Britain's relative world importance as an importer declined, the type of import and its provenance had been transformed.

By the early 1970s there was growing concern in Canada about the increasing preponderance of the USA as a market. The dangers of this were brought home by the economic measures taken by President Richard Nixon in August 1971. In response to the American dollar crisis, amongst other action, a ten per cent surcharge was imposed on imports into the U.S. The rejection of Canadian pleas for exemption encouraged Prime Minister Pierre Trudeau to re-examine Canadian trade policy, and the resulting 'Third Option' was a clear attempt to distance Canada from the American economy. Trudeau, arguing that preservation of the status quo was unacceptable, and dismissing the policy of strengthening economic ties with the United States, pressed instead for the third option of actively seeking diversification of external economic links. The timing could hardly have been worse. The post-war 'Golden Age' of rapid economic growth and full employment among the rich countries was coming to an end. The break-up of the Bretton Woods fixed exchange rate system between 1971 and 1973 ushered in an era of exchange rate instability. In 1973 rising world commodity prices injected strong inflationary pressures into the international system before, in the northern winter of 1973–74, the quadrupling of oil prices fanned global inflation and wrought havoc with oil importers' balance of payments. World trade stagnated and protectionism mounted. Even if nothing

Figure 2: Sources of Canadian foreign investment (accumulated totals) 1901–1980



Sources: Urquhart and Buckley, and Statistics Canada else condemned Trudeau's initiative, the international economic environment guaranteed its failure. Not only did Canada fail to make advances in the markets of the European Union and Japan but it also lost ground to competitors. While in 1970 Canada had accounted for 2.3% of EU imports and 4.9% of those of Japan, by 1980 the figures were 1.2% and 3.4% respectively.

The increasing dependence of Canada on the U.S. as an outlet for its exports that so concerned Trudeau was mirrored in its foreign borrowing. Although immediately after the war both inward Foreign Direct Investment (FDI) and portfolio capital had proved elusive, by the 1950s Canada was able to revert to the patterns of the 1920s: current account deficits covered by inflows of FDI and borrowing from United States. Although initially this was widely welcomed in Canada, in time anxieties grew. The tendency of American companies operating in Canada to source imports from the USA worsened the balance of trade deficit. Walter Gordon's first budget, in 1963, placed restraints on inward investment.[28] The Watkins Report of 1968 and Gray Report of 1972 reflected growing anxieties about the scale of American ownership of Canada's resources, and formed part of a critique sceptical of the benefits to the Canadian economy of continued reliance on American capital.[29] By the end of 1970 non-residents, predominantly Americans, controlled 36% of all capital employed in nonfinancial industry in Canada. In response to the growing anxieties about U.S. ownership, in 1974 the Foreign Investment Review Agency was established to screen incoming investment. The National Energy Program of 1980 also involved restrictions on foreign ownership. Canadians moved to reclaim ownership of their economy, and by the 1980s non-residents ownership had retreated to 23% of all capital outside the financial sector.[30]

The sources of inward investment were also beginning to diversify. One cause of this was that the preponderance of the USA became less pronounced and power in the international economy became increasingly dispersed. This was reinforced by the increasing globalisation of international capital markets. The integration of domestic financial markets meshed with growing international capital mobility: the emergence of Euro currency markets in the late 1960s, the re-cycling of the OPEC surpluses in the mid-1970s, and the relaxation or scrapping of controls on international investment by several countries contributed to a great surge in international capital mobility. This had a considerable impact on the sources and type of inward investment to Canada. Portfolio investment rose sharply and the U.S. share of total investment declined noticeably. Bonds, mainly government debt, increased as a proportion of total external liabilities. While up to the early 1970s the United States had accounted for 80% of total foreign ownership of bonds this had fallen to 29% by 1989. Japan in particular became important, but other countries participated too. FDI also came increasingly from Japan, the European Union, and 'other' sources. By 1991 the U.S. share of total stocks of foreign investment in Canada had fallen from its 1980 level of 79 per cent to 43.8 per cent. Another striking feature was the rapid accumulation of overseas assets by Canadians. Portfolio investment became more important with mutual funds, increasingly liberalised, playing a prominent part.[31] The holdings of immigrants, especially from the Far East, also contributed to the rapid accumulation of funds. There was also a limited diversification of Canadian FDI away from the USA, and by the mid-1980s a sharp increase to Europe notably the UK, France and the Netherlands.

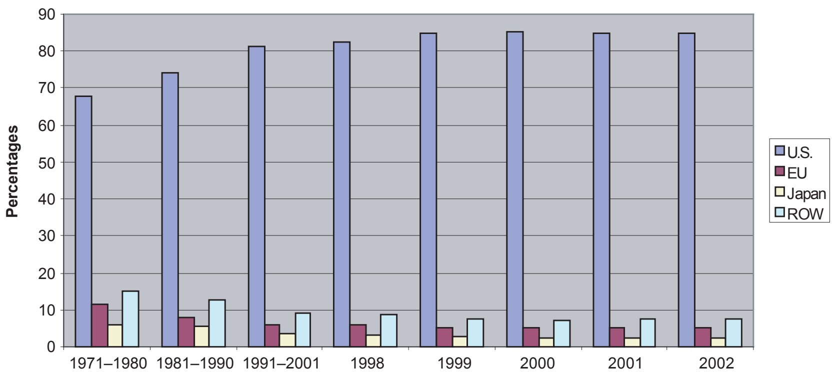
Canada's trading patterns were also affected during these years by the greater dispersion of global economic power. Although this had only a limited and transitory impact on exports in the late 1970s, it was far more pronounced in the sources of imports. In the 1980s the EU and Japan made conspicuous gains and the American share of imports fell from 67.5 per cent in 1980 to 62.6 per cent in 1990.

Post-Trudeau

The Trudeau governments, wary of the overweening power and influence of the USA, had sought to distance the Canadian economy from its neighbour. The Progressive Conservative administration of Brian Mulroney possessed none of these inhibitions, and ushered in a new era of economic consolidation with the USA. The modest screening devices of the Foreign Investment Review Agency were replaced in 1985 by the Investment Canada Agency the task of which was to encourage funds to Canada. Developments in the USA, moreover, were to exert a powerful influence on Canada's trading patterns and policies. Consciousness of a challenge to the world status of the USA that went well beyond economic discomforts, the new President, Ronald Reagan, determined that America should 'Stand Tall'. The economic implications of this were confusing. While tight monetary policy both squeezed the domestic economy and drove the value of the dollar sharply upwards, tax cuts combined with massive increases in military spending wrought havoc with the national finances. Military Keynesianism bought rapid recovery, initiating a sustained expansion of the economy that sucked in imports that were made all the cheaper by the appreciation of the dollar. Canada benefited, but became increasingly exposed. The less favourable economic conditions of the 1970s had already led to a proliferation of non-tariff barriers in the USA: voluntary export restraints, orderly marketing agreements and buy-American requirements increasingly hampered trade.[32] Intense import competition, particularly in the recession, hit smokestack industries, savaged jobs and, combined with a burgeoning balance of payments deficit, fed a great protectionist revival. By the mid-1980s there were some 300 protectionist bills circulating in Congress.[33] Mounting protectionism and emerging trade disputes formed the backdrop for debate in Canada about the Macdonald Commission Report. A product of its era, it expressed alarm about the relentless rise of government expenditure. It was also deeply pessimistic about the future for natural resource exports, arguing that Canada had to have a sophisticated manufacturing base. The prerequisite for this was considered to be a market of 100 million plus; this, the Report recommended, could be found by negotiating substantially freer trade with the U.S. But the negotiations for this soon turned, under U.S. pressure, into a far more wide-ranging pact than the Commissioners had first envisaged. Although economists were almost unanimously in favour of the Free Trade Agreement that emerged, the high degree of reliance of Canada on an increasingly protectionist American market ensured that the national debate would be conducted in an atmosphere of fear and vulnerability. The Canada-U.S. Free Trade Agreement, implemented in 1989, gave institutional force to Continentalism.

This was reinforced by the reassertion of American hegemony. While globalisation powered on during the 1990s, it did so very much on the United States agenda and with the Anglo-Saxon model to the fore. With the collapse of the Soviet empire and with the Japanese and German models losing their lustre, American hegemony was reasserted. The United States economy experienced its longest ever period of uninterrupted expansion between 1992 and 2001; although this was not the fastest growth in American history, jobs and total

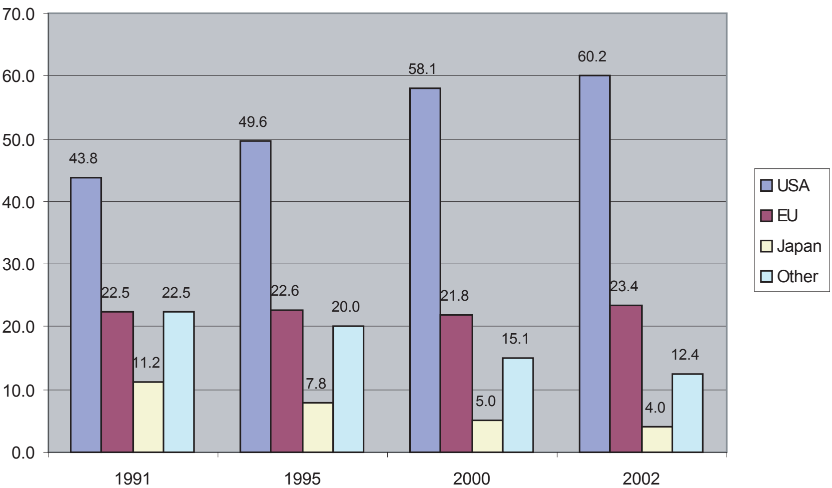
Figure 3: Direction of Canada's merchandise exports 1971–2002



Source: Statistics Canada, *CANSIM*

output increased impressively, and towards the end of the decade productivity growth accelerated too. This has to be seen in the context of the relative weakness of the European and Japanese economies during the 1990s, and the flaccid behaviour of their imports. In contrast, American imports proved rather too dynamic. Accordingly America has increased its weight in world imports: while in 1990 it accounted for 14.8 per cent of world imports, by 2000 that share had risen to 18.7 per cent. This has increased still further the high proportion of Canadian sales to the USA: by 2002, 87.5 per cent of total merchandise exports went to its neighbour (measured on a Customs basis). The trade agreements have not led to the Canadian share of U.S. imports rising, and, despite NAFTA and the depreciation of the Canadian dollar, they remained in the 18-19.5 per cent range during the 1990s. This does not mean that the agreements had no impact, for trade in the newly liberalised sectors grew substantially faster than in the non-liberalised groups (and this is true of imports too)[34]. The import trend is far less pronounced. The United States increased its share of Canadian imports in the early 1990s, but, hampered by the appreciating U.S. dollar in the late 1990s, has dropped back sharply since 1998. One consequence of this has been the emergence for the first time in peace of a large Canadian current account balance of payments surplus with the USA.

Figure 4: Sources of Canadian foreign investment (accumulated totals) 1991–2002



Sources: Statistics Canada, *Canada's International Investment Position*

The American share of Canadian capital imports has also revived, and this is apparent both in bonds and stocks. In large part the Japanese have retreated; the European Union has retained the share it staked out in the 1980s, so the U.S. gain has been at the expense of Japan but also of the 'other' investors that had appeared in the 1980s. As indicated in Figure 4, between 1991 and 2002 the U.S. share of the total stock of foreign investment in Canada rose from 43.8 per cent to 60.2 per cent while that of Japan dropped sharply. Canadian outward foreign investment has continued to grow apace, and has remained cosmopolitan in range.

Canadian Continentalism does not reach very far south in the Americas, although Canada's trade with Mexico is partly an exception. Exports to Mexico grew very rapidly in the 1990s, averaging over 10% per annum, but they nonetheless still account for less than one per cent of total Canadian exports. Imports from Mexico have proved even more dynamic, growing even faster than exports, and from a larger base, with the result that Mexico now runs a large trade surplus with Canada.

Yet this is not part of a broader Latin American movement for Canada. Far from it, for in a sense Mexico has displaced other western hemisphere supplies, the total imports from which have failed to keep pace with the overall expansion of Canadian imports. Latin America has also proved a disappointing export market. Despite expansion to Mexico, total sales to Latin America and the Caribbean were lower in 2002 than they had been six years earlier, having been badly affected by the financial crises of 2001–2 that hit the major South American economies of Brazil and Argentina. By 2002 exports to the region accounted for only 1.5 per cent of total world sales.

Nor has Continentalism had much bearing on investment linkages beyond the USA. Latin America has never been a major source of funds into Canada, but has been relatively important as an outlet. Taking the western hemisphere minus the USA, it is the Caribbean countries, above all Bermuda and Barbados that have proved the main attraction for Canadian investors. There was absolute growth in flows to South America during the 1990s, but the recent crises have seen a marked withdrawal from Brazil and Argentina (Chile has proved more resilient and has overtaken Brazil as the major Latin American outlet).

The apparently remorseless drift of Canada towards closer economic dependence on the U.S. was checked during the later 1970s and 1980s by the globalisation of capital markets and by the presence of counterweights to American dominance of the international economy. In the 1990s not only have regional trade agreements given institutional form to the closer economic integration of North America but also U.S. influence has been reinforced by its sustained economic expansion. This has been pushed into even clearer relief by the experience of other major economic powers. Germany, for so long the powerhouse of the European economy, experienced slow growth during the 1990s after reunification. The Japanese miracle ended in spectacular property crashes in 1989, and the economy has been mired in recession and slow growth ever since with its fragile, debt-laden banking system struggling to survive. While the USA has enjoyed its longest ever period of uninterrupted economic expansion it has exercised a benign influence. Expansive markets have certainly helped to sustain a major growth of Canadian exports. Other countries have, so far, been willing to finance the huge current account deficit of the U.S. balance of payments. But protectionist forces, never far below the surface, have re-emerged, most notably with steel tariffs, the recent trade tensions with China, and, painfully for Canada, in the long-festering lumber disputes. As the U.S. has shown a blind disregard for the interests and views of other nations since the Bush administration came to power, the dangers of the Canadian version of Continentalism are once more underlined. The robustness of the NAFTA disputes mechanism is likely to be tested.

Endnotes

1. S.B. Saul, *Studies in British Overseas Trade 1870–1914* (Liverpool, 1960) , chs. 3-4.
2. Ibid., pp. 174–6
3. Saul, p.178
4. A.G. Green and Urquhart, 'New Estimates of Growth in Canada: Measurement and Interpretation', in D. McCalla, *Perspectives on Canadian Economic History* (Toronto, 1987).
5. A. Cairncross, *Home and Foreign Investment 1870–1913: Studies in Capital Accumulation* (Hassocks, 1975) p.50
6. Saul, p.181.
7. Saul, pp.182/3.
8. J. A.Stovel, *Canada in the World Economy* (Cambridge, MA, 1967), p.120.
9. Total non-resident investment is estimated to have risen from $1,232 million in 1900 to $3,837 million in 1914, the U.S. share rising from 14 to 23 per cent and that of the U.K. falling from 85 to 72 per cent. M.C. Urquhart and K.A.H. Buckley, *Historical Statistics of Canada* (Toronto, 1966), F 195–7.

[10] D.G. Paterson, *British Direct Investment in Canada 1890–1914: Estimates and Determinants* (Toronto, 1976, pp.107–8.

[11] Stovel, pp.232–4.

[12] J.L. Granatstein, *How Britain's weakness forced Britain into the arms of the United States* (Toronto, 1989), p.17.

[13] Royal Institute of International Affairs, *The Problem of International Investment: 1937* (London, 1937), p.133.

[14] M. Bliss, *Northern Enterprise: Five Centuries of Canadian Business* (Toronto, 1987), p.369–70.

[15] Stovel, p.140

[16] Stovel, pp.241–3.

[17] T. Rooth and R. Taylor, 'Exports and External Adjustment during the Slump: the British Market, Australia and Canada during the 1930s', J*ournal of European Economic History*, 30.3 (2002), pp. 569–92.

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