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CANADA'S HISTORICAL SEARCH FOR TRADE MARKETS

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SUMMARY

When U.S. President Donald Trump was elected in 2016 on a promise to cancel the North American Free Trade Agreement (NAFTA), Canada risked losing the free-trade regime that it had enjoyed with the U.S. since the original U.S.-Canada Free Trade Agreement took effect in 1989. Those who came to Canada's rescue, by persuading the Trump administration to eventually make a new deal, the United States-Mexico-Canada agreement, were Canada's trading partners in the United States, whose interests were threatened: Nearly two-thirds of U.S. states now have Canada as their most important trading partner.

This was indicative of a long-term trade pattern of an ever-increasing closeness in trade between the U.S. and Canada. It is a pattern that started since before Confederation and in spite of not a few attempts in Canada to diversify exports away from the U.S. However, that simply cannot happen in any meaningful way: The 170-year-old pattern of Canada-U.S. trade is now so permanent as to be utterly irreversible.

Since the decision by Britain to end tariff preferences for its colonies in the mid-19th century, Canada has naturally sought to penetrate the U.S. market for its exports. The desire has not always been mutual: American protectionism

has, at times, hampered the export of Canadian products to the U.S., although tariff barriers have failed to stop what is a seemingly natural and, in many ways, necessary north-south flow of goods and services. Even Canadian attempts to reorient its own trade emphasis to enhance domestic east-west trade, or to expand into countries beyond the United States have made little difference. The trading relationship between Canada and the U.S. has endured through wars and in peacetime, through Republican administrations and Democratic ones. It will only continue to grow.

Fantasizing about some markedly different trading future is therefore a waste of Canada's time and energy, which should instead be expended on further penetrating the American marketplace and solidifying ties with state and local governments, local manufacturing associations, Congress and new industries. Canada should take advantage of its new trade deal with the U.S. to integrate the Canadian economy as fully into that of the U.S. as possible. There may be others like President Trump or some like him in Canada, who try to disrupt the trade relationship. That even Trump eventually was persuaded to agree to free trade with Canada is evidence, however, that an ever-closer trading relationship is simply a reality that cannot be stopped.

On Thursday, Jan. 16, 2020, the United States Senate ratified by 89 to 10 the United States-Mexico-Canada trade agreement (USMCA in the United States, CUSMA in Canada) replacing the North American Free Trade Agreement (NAFTA), first entered into in 1994. From the Canadian perspective, USMCA represents an additional step integrating the Canadian and U.S. economies (with Mexico as well, of course), a process that began in the 1840s. Canada's economy is heavily dependent on trade and, like many smaller economies, it is primarily focused on one country, the United States. Beaulieu and Song examined the issue of Canadian dependency on the U.S. export market in a January 2015 paper, asking the key question: Is Canada too dependent on the U.S. market? Their conclusion was that Canada's laser-like focus on trade with the United States is completely appropriate given the integration of the North American market and the continuing efforts by Canadian governments to cultivate other non-U.S. trading partners (Beaulieu and Song 2015). In fact Canada's trade policy has strongly emphasized gaining access to the United States beginning almost two decades prior to Confederation in 1867. This paper traces Canada's historical search for markets over the period 1849 to the present, particularly, but not exclusively, with the United States.

Until the mid-1840s, Canada — actually, then six British colonies (Upper Canada, Lower Canada, New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland) — traded almost exclusively with the United Kingdom. British trade law, designed to hold the growing British Empire together and strengthen Britain's mercantilist hold on its colonies, gave tariff preferences to those colonies. Thus, Canadian timber could cross the Atlantic and be sold more cheaply in the U.K. than could timber from the more nearby (to Britain) Baltic countries. That was also true of furs, foodstuffs and other natural products that Canada produced. After the 1840s, the newly thriving British industrial economy was so far advanced over any rivals that the British came to believe that their factories ought to be able to access the cheapest raw materials possible, and thus rose the notion of free trade — the complete elimination of tariffs on any goods coming into the U.K., signified by the ending of the Corn Laws (tariffs on wheat) in 1846 (Irwin 1989).

In British North America, the mercantile classes saw the adoption by the U.K. of free trade as a death knell to commerce. Suddenly, Baltic timber became cheaper than Canadian timber in the U.K. market. The Canadian mercantile classes — ship owners, bankers, insurance companies, port administrators, warehouse owners and even small industrialists — found themselves desperate for new outlets for their products (Morrel 2013).

That was a key factor behind political unrest in Montreal and the issuance by much of that city's merchant class of the Annexation Manifesto of 1849, calling on British North America to detach itself from the U.K. to become part of the United States. The leaders of the manifesto movement wanted free access to U.S. markets and were prepared to give up their British colonial identity to do so (Little 1992). The annexation movement was a failure, but the notion that Canada must seek U.S. markets and allow U.S. goods to enter Canada became a permanent factor of colonial politics thereafter. The British, fearing the loss of Canada caused by free trade, secured a 10-year trade treaty with the United States in 1854, the Elgin-Marcy Treaty (also called the Reciprocity

Agreement), which brought prosperity to many sectors of the Canadian economy. Most of the treaty's successes came from the growth of a trade of convenience: British North American communities traded with the closest American market, and vice versa, unfettered by tariffs.

During the reciprocity decade, two moves undertaken by the legislature of the United Province of Canada in the 1850s, and by private railway companies in the same decade, were designed to move the Canadian and the U.S. economies closer together. On Jan. 1, 1858, the United Province of Canada adopted the decimal system for its currency. As one Toronto newspaper put it, in a country such as Canada, situated on the borders of the United States and with more than one-half of its trade carried on with that country, it was necessary to adopt the currency system in force there (Shortt, n.d.). The other move, undertaken not so much by British North American governments but by the growing number of privately owned railways in Canada, was connecting British North American railways built in the 1840s and 1850s with American railroads. The earliest Canadian railways were designed primarily as portage roads to bypass obstacles to navigation on the St. Lawrence River and other waterways. But soon Canadian and British investors sought to build railways that would allow easier access to U.S. markets or, in the case of a railway from Montreal to Portland, Maine, to give Montreal access to an ice-free port from which goods could be shipped to and from Britain.

Railway access to the United States was a continuing ambition of the Canadian merchant class (Bercuson 1992). In 1845, the St. Lawrence and Atlantic Railway was chartered in Maine to run from Portland to the border with Canada. Not long after, the Atlantic and St. Lawrence Railway was chartered in Montreal to meet the St. Lawrence and Atlantic at the border. Eventually, a rail line connected Montreal to Portland, in part ending the winter isolation of Montreal when the St. Lawrence River froze over. The line was eventually absorbed by the British-owned Grand Trunk Railway, which extended its western terminus from Windsor, Ont. to Chicago. That railway, therefore, ran from Portland to Chicago. Other railways, such as the Great Western, connected western Ontario to New York state. The connection process was aided by the eventual adoption by the railways of a standard track gauge of 4 ft., 8.5 in. on most North American roads (Puffert 2000; Glazebrook 1964). Today there is an extensive network of railways connecting hundreds of points in Canada and the United States and the two major Canadian railways — Canadian Pacific and Canadian National — own thousands of miles of track inside the United States, stretching from the East Coast to the Midwest to the Gulf of Mexico. The rail network is a prime example of a North American infrastructure that tied the economies of Canada and the United States together.

But the reciprocity treaty did not last more than a decade, ending when the Republican-dominated U.S. Congress decided in the midst of the U.S. Civil War that it no longer wished any special trade arrangements with a British colony, partly because official British policy was pro-Confederate until the Battle of Gettysburg in July 1863. Even though British liberals were abolitionist, the government allowed the ship Alabama, a Confederate commerce raider, to be built in a British shipyard and to sail into the North Atlantic, where she conducted numerous raids against northern shipping. In addition, the Civil War Congress was highly protectionist, and that sentiment continued to rule until the early 20th century (Masters 1937). There were also U.S. claims that the British North American colonies, and in particular the United Province of Canada, had undermined the spirit of the treaty by introducing a tariff on manufactured goods (the Galt Tariff) in 1859. On March 17, 1865, the U.S. Congress voted to abrogate the reciprocity treaty, effective the following year.

After the termination of the Elgin-Marcy Treaty, the search by Canadian political leaders for an outlet for Canadian products in the United States manifested itself as a relentless search for the re-establishment of reciprocity — at the least in natural products. But that would be a long time coming.

Trade did drop after March 17, 1866, but British North America-U.S. trade soon resumed its long-term upward trend. Despite this underlying reality, colonial business and political leaders worried that without renewed reciprocity, trade with the United States would eventually suffer. One solution seized upon by British North American leaders was to create a single market for all of British North America, which was one of the reasons why the Canadas, Nova Scotia and New Brunswick joined to create the Dominion of Canada on July 1, 1867. The Canadian merchant class believed that unity of the British North American colonies would open up wider colonial markets by abolishing tariffs between the BNA colonies (Waite 2010). But access to the U.S. market remained the winning prize for Canadian political leaders for decades; seven efforts were made to entice the United States into a new reciprocity arrangement between 1866 and 1899. All were rebuffed (Craven 1938).

In Ottawa, the Liberal-Conservative government of John A. Macdonald was defeated after a political scandal in 1872 and was succeeded by the Liberal Party of Alexander Mackenzie, which governed for a five-year term. Mackenzie unsuccessfully sought renewed reciprocity with the United States. In 1877, he was defeated by Macdonald, who contrived the National Policy tariff on manufactured goods. The tariff was designed to protect nascent Canadian manufacturing. However, Macdonald made it plain that he hoped the new tariffs would convince the Americans to open negotiations to a new reciprocity treaty. The protectionist U.S. Republicans who controlled Congress would have none of it. Macdonald's offer of reciprocity would have covered most Canadian exports to the United States, but the main result of the National Policy tariff was to encourage American corporations to establish branch plants in Canada, thus avoiding the tariff. This was especially true in the Canadian auto industry, where Canada's McLaughlin Motor Car Co., for example, was purchased by the U.S.-based General Motors. Similar results could also be found in the electrical and telephone industries. At the turn of the 20th century, Massey-Harris farm implements sold well in the American Midwest because they were advanced products and competitively priced. But Canadian industry was very small compared to the United States and mostly served a domestic market, for example in railway cars and engines. Canadian consumers continued primarily to purchase goods from the United Kingdom because British goods were well built and inexpensive in Canada, even though they were also subject to Canadian tariffs, but the trend to buy from the American market was clear by the end of the 19th century (Commercial Relations of the United States, various years).

The Canadian effort to strengthen east-west trade north of the Canada-U.S. border was evident in other areas, such as the insistence that the Canadian Pacific Railway, completed in 1885, run to the Pacific north of the Canada-U.S. border. In essence, one of the main factors shaping Canada from the mid-19th century to now has been the effort by Canada to strengthen east-west ties of culture, trade and commerce against the natural north-south pull of continental geography. Ties of migration and trade continued between the West Coast of the United States and British Columbia, not only on the coastal strip, but even in the B.C. interior, where the hard-rock-mining industry was directly linked to the hard-rock mines that could be found in the American West, from Idaho to Arizona and even into Mexico. The movement of immigrants, people, ideas and goods also continued between the Plains states and the Prairies, between Ontario and the Midwest, between Quebec and the New England states and between the Atlantic provinces and New York state and New England. Tens of thousands of French Quebecers migrated to northern New York and New England in search of jobs, and certain French names, such as Benoit, are ubiquitous in that part of the United States. Many thousands of men with roots in Quebec fought for the North in the U.S. Civil War (Jones 2001).

In Canada, reciprocity — or at least lower tariffs, if not outright free trade — remained popular in the Liberal party. In the 1891 federal election, the Liberals, led by Wilfrid Laurier, ran on a platform of a customs union with the United States. Although it was very popular in parts of the Atlantic, western Ontario and Western Canada, the Liberals were soundly defeated in the industrial sections of the country in Quebec and Ontario. When Laurier next led the Liberal party into the election of 1896, there was no talk of reciprocity, but instead assurances were given to Canadian manufacturers and industrial workers that the Liberals would adopt the National Policy first introduced by Macdonald. When Laurier was elected prime minister in 1896, some tariff concessions were made to the United States, but Laurier was enough of a realistic politician to know that it was political suicide to try to dismantle the Canadian tariff regime.

Canadian trade in the 19th century still depended heavily on British markets. Canadian governments in the last years of that century made some efforts to create trade ties with other governments as well. Ottawa had made its first claim for tariff autonomy from London with Alexander Tilloch Galt's 1859 tariff, which also excluded certain British manufactured goods (so as to stimulate production of those goods in Canada), but when Ottawa also attempted to stimulate Canadian trade with France, Belgium, Germany and Australia, the British (who had total control of Canadian foreign policy) generally resisted these efforts. There was a debate in London whether the growing autonomy of Canada and the other self-governing dominions, such as Australia, also necessarily included the power to levy or lower tariffs (Shields 1966). In June 1895, the secretary of state for the colonies, the Marquis of Ripon, issued a circular letter to the dominions rejecting their demand for increased treaty-making powers in commercial negotiations. But the Ripon circular was only a finger in the dike, as the dominion economies continued to grow, and increased populations, largely from outmigration from the British Isles, led to even greater autonomy in self-government (Shields 1966).

The triumph of the progressive movement in the United States at around the turn of the 20th century impacted the American government's thinking on tariffs. Progressives arose as an important factor in American politics as a response to the Gilded Age and the rise of the "robber barons." Great entrepreneurs such as E.A. Harriman of New York, Cornelius Vanderbilt and John D. Rockefeller built huge industrial, transportation, mining and energy empires that grew into trusts and monopolies. Workers were scorned and oppressed, the middle class was ignored and government served the interests of the wealthy. But beginning in the 1880s and the 1890s, progressives arose in American politics who demanded government action to rein in the robber barons, clean up American politics, break up the trusts and monopolies and allow workers and the middle class to aspire to greater influence, wealth and stability. For the most part, progressives blamed high tariffs as one root cause of the corruption of capitalism. They were ready to lower tariffs for the first time since the U.S. Civil War (Dutil and MacKenzie 2011).

In Canada, the Laurier government was open to greater trade with the U.S. in primary commodities, while it tried to shield nascent Canadian industries in fields such as textile manufacturing, rubber products and other areas. Suddenly, reciprocity was in reach. A reciprocity treaty was passed by the U.S. Senate at the behest of U.S. president William Howard Taft in 1910 and offered to Canada. Laurier was delighted that a Canadian aspiration since 1866 appeared to be at hand. But opponents from the Canadian business community who had built an infrastructure on east-west trade, culminating in transatlantic shipment to Britain, opposed the treaty and soon convinced the Conservative leader, Robert Borden, to oppose it. All the nascent anti-Americanism that lay just below the surface in many sectors of the Canadian economy, even among farmers in Ontario and Quebec, swung behind the Tories, who defeated the Liberals, dooming the treaty (Craven 1938).

The First World War greatly increased the flow of trade across the Canada-U.S. border, mainly with Canada shipping raw materials to sustain American munitions manufacturing. By the time the war ended in 1918, Canada-U.S. trade had grown considerably since 1914 and the United States became Canada's largest customer, again in raw materials (Statistics Canada-G381-487).

Canadian trade with both Britain and the United States was boosted considerably by the war; the end of the war saw a relative decline in Canadian trade with the United Kingdom but a continuation in the upward swing of trade with the United States. This trend carried over into Canadian placement of bonds in U.S. money markets. In 1915, over $143 million of American dollars were invested in Canadian bonds; by 1919 the amount had increased to $1,272 million, while British holdings decreased from 24 per cent before the war to 15 per cent in 1923. In the words of Craven, "New York replaced London as the centre of Canadian borrowings" (Craven 1938, p. 56).

There were no efforts made in the 1920s to formally enhance Canada-U.S. trade, but trade between the two countries grew anyway. Again, U.S. manufactured goods came north while Canadian raw materials flowed south. U.S. investment in Canada also grew in the mining and forest sectors. By this time, Canada was making concerted efforts to find markets in countries other than the United States and Britain. Since before the war and by the end of the 1920s, Canada had completed trade agreements with Australia, Belgium, British Guiana, British Honduras, British West Indies, France, the Netherlands and Czechoslovakia (Statistics Canada, www.treaty-accord.gc.ca). But none of these agreements detracted in any substantial way from Canadian trade with Britain or, more importantly, the United States. By the end of the 1920s, the United States had become Canada's largest customer and most important source of supply (Craven 1938).

The Great Depression stimulated a major growth in American protectionism, culminating in the Smoot-Hawley tariff of June 1930, which placed prohibitive rates on imports into the United States in the mistaken assumption that the causes of the Great Depression lay primarily outside the United States. There is disagreement among scholars as to the impact of Smoot-Hawley on the economy of the United States. One study estimated that the tariff, combined with deflation in the U.S. and other economic factors, depressed the volume of imports into the United States by as much as 40 per cent, but since imports amounted to only four per cent of national income, "efficiency losses generated by the tariff (were) a relatively small percent of GNP" (Irwin 1996, p.18).

But the tariff had a major impact on Canada, as it did on other U.S. trading partners. Canada, under then Conservative prime minister R.B. Bennett, reacted with high tariffs also and sought a freer trade agreement with Britain and the dominions of the British Empire/Commonwealth which were only partially successful. In the words of Bennett biographer John Boyko, "Bennett… assured the House and his cabinet that he was sincere and steadfast in his belief that with the United States shutting its doors, new trade and tariff arrangements with Britain and other Commonwealth members offered the best avenue to renewed prosperity. He would, therefore, pursue them with vigour" (Boyko 2010, p. 229).

The British Empire Economic Conference (the Ottawa Conference) convened on July 21, 1930 and ended on Aug. 20, 1932. The main aim of the meeting was to create a low-tariff regime among Commonwealth countries, called Imperial Preference or Empire Free Trade. The nations represented at the meeting were Canada, Australia, India, the Irish Free State, Newfoundland, New Zealand, Southern Rhodesia and the Union of South Africa. The result was a series of bilateral agreements among these nations; from May 1932 to June 1933, Canada signed treaties with New Zealand, the United Kingdom, Southern Rhodesia, the Irish Free State and the Union of South Africa. On top of the Ottawa agreements, Canada concluded trade treaties with France, Germany, Austria and Japan (Statistics Canada, www.treaty-accord.gc.ca). In the words of one scholar who has studied these trade arrangements, "Canadian tariff increases (against those countries not part of the Ottawa agreements) were largely acts of retaliation" (McDonald et al. 1997, page 825).

When Franklin Roosevelt became U.S. president in 1933, the tone of the U.S. administration began to change. Roosevelt's secretary of state, Cordell Hull, was, by instinct, a low-tariff man and no friend of Smoot-Hawley. On the Canadian side, Bennett knew that freer Empire trade could never substitute for the heavy Canada-U.S. trade of pre-Smoot-Hawley days. American prosperity was not nearly as dependent on trade as was Canada's. From a high of nearly $1 billion of American sales in Canada in 1929, those sales had plunged to $210 million by 1933, and total trade had dropped from $1.5

billion to $400 million over the same period (Kottman 1965). In February 1933, Bennett backed a Liberal resolution in the House of Commons urging the Canadian government to begin trade negotiations with the United States (Kottman 1965). Domestic political considerations and the existence of the Ottawa agreements prompted the U.S. to move slowly in accepting Canadian efforts to get talks going; it was not until Dec. 27, 1934 that the U.S. invited Canada to exchange preliminary views on a potential trade agreement (Kottman 1965). The discussions proved fruitful, but the Americans balked at signing the agreement during Bennett's term in office. At one point, late in the negotiations, it appeared that FDR did not want to boost Bennett's electoral chances and held off on signing the treaty until after the pending Canadian federal election in 1935. But Kottman argued: "There is no concrete proof that the American government used dilatory tactics as a political weapon" (Kottman 1965, page 287). The negotiations simply took longer than expected and could not be concluded until after the Canadian federal election of Oct. 14, 1935, which returned William Lyon Mackenzie King as prime minister. King had received his graduate education in the United States and had worked as a labour relations expert for American mining interests during the First World War. He knew the United States and was far more friendly towards the great republic than Bennett had been. The treaty that Bennett had fought for was not ratified until Nov. 11, 1935. The treaty accorded the U.S. most-favoured-nation status and lowered tariffs on a wide range of natural products.

A slow recovery in Canada-U.S. trade had already started before the treaty was signed, but following the treaty "the increase in trade was greater between Canada and the United States than between either country with the rest of the world" (Craven 1938 page 82). For the first time since the end of the Elgin-Marcy Treaty in 1865, Canada-U.S. trade was seen by both governments primarily as an economic motivator and not a political consideration linked to fears of annexation in Canada. On Jan. 29, 1938, Hull invited Canada to negotiate a new trade agreement to supplement the agreement of 1935. This second agreement was finally ratified in June 1939.

In the Second World War, cross-border trade received a significant boost with the Hyde Park Declaration of 1941. The agreement grew out of president Roosevelt's proposal to Congress in early 1941 that the United States become the "arsenal of democracy" by lending military equipment to Britain, as needed, for the duration of the war. The Lend-Lease Act was signed into law on March 11, 1941; it was a blessing to Britain and a curse to Canada. Britain had started to purchase Canadian war supplies early in the war, but quickly ran into the problem of how to pay for the food, munitions and raw materials. As Britain began to run out of cash, Canada loaned money to the U.K. so that it might continue ordering war supplies from Canada. The reason was not because "greedy" Canada wanted to profit from Britain's distress; it was because, if Canada could not sell to Britain, its own military market was so small as to make Canadian production prohibitively expensive and possibly too costly to carry on. That applied to food as well as army trucks and rifle bullets. Lend-Lease gave Britain a means of acquiring war supplies from the United States for no money down and created the possibility that the British would simply stop buying from Canada. Mackenzie King himself soon concluded that the only way to save Canadian war production was to convince the Americans to put Canada under the Lend-Lease umbrella (Granatstein 1975). That would mean that Britain might make purchases not only in the U.S., but also in Canada under Lend-Lease. The Americans might listen if the case were put directly to the secretary of state and to Roosevelt himself that it was not in the interest of the allies to lose Canadian war-production capability. A Canadian proposal was drawn up and Mackenzie King himself took it to Washington to sell it to the United States. In his words: "I stressed the part relating to war materials, pointing out that we had neither gold nor American dollars; that if we became dependent on American (sic) for loans and the like, we would have nationalist policies developing after the war." This, explains Abe Roof, was a reference to protectionism, which the U.S. secretary of state, Cordell Hull, abhorred (Roof 2014).

The plan as eventually presented to Roosevelt included not only Canada being taken under the Lend-Lease umbrella, but also a commitment for the two nations to rationalize cross-border war production, as if the border didn't exist. On April 20, 1941, Mackenzie King and Roosevelt signed the Hyde Park Declaration at Roosevelt's retreat in Hyde Park, N.Y. It was one of the most effective initiatives Mackenzie King made in the entire war (Granatstein and Cuff 1977). It also demonstrated that when Mackenzie King deeply believed that vital Canadian interests were involved, he could be as assertive as necessary with Roosevelt. Lend-Lease considerably boosted cross-border trade and, by 1945, the two countries were each other's best customers, despite the continuation of tariffs on a whole range of goods.

Although the Second World War greatly upset international trade, Canada continued to push into new markets. Canada negotiated new trade agreements with Uruguay, the Dominican Republic, Ecuador, Argentina, Chile and Brazil. At the end of the war, discussions began between Canada, the U.S., Britain and several other countries, aimed at creating an international trade organization. These efforts ultimately failed, due to opposition in the United States Senate, but the General Agreement on Tariffs and Trade (GATT) was ultimately established by 23 nations, including Canada, at Geneva on Oct. 30, 1947 (Granatstein and Cuff 1974). The GATT was aimed at reducing or eliminating tariffs or quotas so as to produce an international lowering of trade barriers among member countries. Canada was a vigorous proponent of lower international trade barriers as it had been a champion of the establishment of the International Monetary Fund at the Bretton Woods Conference in New Hampshire in 1944. Thus, Canadian governments of both major parties had recognized the importance of broadening Canadian trade relationships since the end of the First World War. And while the United States was (and is) obviously Canada's major trade partner, Canada almost continually sought trade relations with other countries and, of course, to also maintain as much trade as possible with Great Britain, which remained Canada's second-largest market until after the Second World War. As prime minister Mackenzie King told the House of Commons in December 1947, a bilateral approach to trade with the United States was no longer sufficient for Canada. In the words of Granatstein and Cuff, "That was a good enough statement of Canada's commitment to a multilateral trading world" (Granatstein and Cuff 1977, page 460). We see evidence of this, for example, in then prime minister John Diefenbaker's efforts to gain greater access to U.K. markets in the period 1958–62 and then prime minister Pierre Trudeau's "third option" of 1972.

At the end of the war, Canadians had lots of money to spend after nine years of Depression and six years of war, and having undergone virtually forced savings (war bonds) to pay for the war. In the immediate postwar period, Canada had the largest debt to GNP ratio in its history. To make matters worse, soldiers came home from the war to start families, raise children and buy houses, cars, washing machines and radios from the United States. There was a run on the Canadian dollar, with so many of those dollars flowing to the United States. Normally the outflow of Canadian dollars to the U.S. was balanced by an inflow of British pounds to Canada, but in 1947, a run on the pound forced Canada to seek closer trade ties with the U.S. as the Canadian trade deficit soared to $65 million a month (Granatstein and Cuff 1977). Canada proposed a free-trade agreement with the U.S., which the Americans were ready to accept because, the only other way for Canada to remedy the situation would have been to impose import controls on U.S. products. After a year of discussion, a free-trade agreement was ready, but at the last minute, Mackenzie King vetoed the treaty in fear that it would loosen Canadian ties to the Commonwealth and bring Canada politically closer to the United States (Granatstein and Cuff 1977). Mackenzie King's fears were misplaced (as Canada discovered after the Canada-United States Free Trade Agreement was signed in 1989), but despite the death of a free-trade agreement, the dollar imbalance eventually worked its way out and Canada-U.S. trade kept growing in any case.

The growing together of the two economies was perhaps best symbolized by completion of the St. Lawrence Seaway in 1959 and the creation of the binational St. Lawrence Seaway Authority to administer it. In 1965, the conclusion of a sectoral agreement in auto parts manufacturing and cars (the auto pact) swelled Canada-U.S. trade even further, as rail links, pipelines and electrical transmission lines expanded further to the south and Canadians began to invest heavily in the United States. This was followed by the Canada-U.S. Free Trade Agreement (FTA) in 1989 and NAFTA, with the United States and Mexico, in 1994.

Under the FTA and NAFTA, trade between Canada and the United States continued to grow, while trade with Mexico increased also, especially but not exclusively in agricultural products. But in the late 1990s, Canada began to push for free-trade agreements with a number of other countries: Chile and Israel in 1997; Costa Rica in 2002; Colombia in 2008; Peru in 2009; the European Free Trade Association in 2011, followed by the Comprehensive Economic and Trade Agreement in 2016 (not yet fully ratified); Jordan in 2012; Panama in 2013; Honduras in 2014; and the Republic of Korea in 2015. Canada was also a signatory of the Trans-Pacific Partnership — which the United States pulled out of in 2017 — and its 2018 successor, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership. In January 2020, NAFTA was replaced by USMCA.

Today, the trade ties between Canada and the United States have become institutionalized in hundreds of ways. There is a Canada-U.S. market in agricultural products, automobiles, forest products, oil, gas, hydro-electric power and dozens of service industries. Canadians are heavily invested in the United States, especially in the banking and securities sector, while U.S. investment in Canada remains strong.

The ties are deeply rooted and well established, and create millions of jobs on both sides of the border.

In a working paper published in 2018 by the German Institute for International and Security Affairs, the authors declared that Canada-EU trade relations would strengthen as a result of what they referred to as “the current high volatility of U.S. foreign policy” (Bendiek et al. 2018, p.3). The paper was written at a time when NAFTA was being renegotiated. That process began shortly after the U.S. presidential election of 2016 and the accession to the presidency of Donald Trump, who had long attacked NAFTA as “perhaps the worst trade deal ever made. Since NAFTA’s adoption, the United States racked up trade deficits totaling more than $2 trillion — and it’s a much higher number than that — with Canada and Mexico. It lost vast amounts of money, and lost 4.1 million manufacturing jobs, and one in four auto jobs. Lost about 25 per cent of our auto jobs — even more than that” (Trump 2018). The negotiations were marked by much bluff and bluster from President Trump and U.S. Trade Representative Robert Lighthizer. Several threats were made by both men over the course of the negotiations to pull out of NAFTA, but many state governors and industry leaders in the U.S. strongly supported NAFTA due to the large trade flow between Canada and the United States.

In some quarters in Canada, voices were raised advocating Canada to seek alternatives to the U.S. market — a solution often discussed but completely impractical. Now that Britain has left the European Union, a Canada-United Kingdom free-trade agreement is probably in the cards. It is also safe to say that Canada will continue to seek foreign markets wherever possibilities arise. But an examination of Canada-U.S. trade relations over the last 180 years, and current Canada-U.S. import and export figures, clearly indicate that the dependence of the two countries on each other for trade will continue far into the future (Beaulieu and Song 2015). At the same time, Canada will look to expand trade with other nations, but cannot expect that trade with any non-USMCA nation will ever exceed 10 per cent of its total foreign trade.

The story of Canada’s search for markets goes back at least to the end of Britain’s mercantile empire in the 1840s. Since then, a laser-like focus on penetrating the U.S. market has been constant. At times, that focus has been moderated by political considerations; Canadian political leaders have played the “Britain first” card from time to time (as in 1891) or the “Canada first” card (as in 1989), but over time, the trend was a deepening relationship, whatever the political obstacles were. At the same time as Canada’s self-governing status developed, Canada looked for markets outside the United States, never so much as to replace the U.S. as Canada’s principal focus, but to supplement it. That tendency goes on today. Geography, convenience and the specific needs of both the Canadian and U.S. markets trump all other considerations. Both American and Canadian entrepreneurs are well aware of this factor. When President Trump threatened to end NAFTA in 2018 and 2019, it was not Canada’s friends in the United States who pressured the administration to reach an agreement with Canada (and Mexico): It was Canada’s trading partners in the United States whose interests were threatened coming to Canada’s aid. It is indicative of this fact that almost two-thirds of U.S. states have Canada as their most important trading partner. Now, as a new decade begins, this long trend in Canadian trade patterns is irreversible.

Policy recommendations:

- Canadian governments should continue to cultivate the sale of goods and services in the United States through connections with state and local governments, trade and manufacturing associations, both houses of Congress, and new and established industries. Canada's aim should be to use USMCA to integrate the Canadian economy as fully into that of the United States as possible.
- Canada should begin a public campaign in the United States to demonstrate that Canadian trade with the U.S. and Canadian investment in the U.S. supplements, and does not detract from "buy American" efforts, because Canadian enterprises in the United States employ American workers.
- Canada should supplement that public campaign to stress that "buy American" efforts undermine the contribution of the Canadian economy to the strength of the economy of North America.
- Although Canada's trade strategy should always be focused on the United States, Canada should continue to seek trade opportunities in other parts of the world, not to attempt to replace trade with the United States, but to supplement our continental trade ties with the United States and Mexico.
- Canada should not fantasize about the prospects of ever shifting a significant amount of its trade with the United States to other countries or trading blocs. It simply will never happen.

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