CANADIAN RELATIONS WITH THE CARIBBEAN AND LATIN AMERICA:

PERSPECTIVES ON CANADA'S ROLE IN THE WORLD SYSTEM

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PERSPECTIVES ON CANADA'S ROLE IN THE WORLD SYSTEM

by

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ABSTRACT

This thesis presents an analysis of Canadian socio-economic activity in the Caribbean and Latin America, with the objective of defining Canada's role in the world system. Analytically, this study aims at discerning the broader implications of the trade relations, patterns of capital movement and state activities relative to the societal formations in question.

Outlining the specific nature of Canada's integration into the world economy, it is argued that, in essence, Canada's external role within the world system is to develop and maintain economic structures and relations in certain semi-industrialized and underdeveloped countries, in conformity with the changing requirements of dominant capitalist interests based in the advanced industrialized countries.

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ABBREVIATIONS USED IN TEXT

ADELA	Atlantic Development Group for Latin America
CACOM	Central American Common Market
CALA	Canadian Association for Latin America
CEA	Canadian Export Association
CESO	Canadian Executive Service Overseas
CIDA	Canadian International Development Agency
ECIC	Export Credit and Insurance Corporation
ECLA	Economic Commission for Latin America
EDC	Export Development Corporation
IADB	Inter-American Development Bank
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFC	International Finance Corporation
LAFTA	Latin America Free Trade Association

ABBREVIATIONS USED IN NOTES AND REFERENCES

BI	Business International
BLA	Business Latin America
CB	Canadian Business Magazine
CC	Canada Commerce
CIJ	Commercial Intelligence Journal
CLIOA	Canadian Life Insurance Officers' Association
CWIM	Canada-West Indies Magazine
DBS	Dominion Bureau of Statistics
FP	Financial Post
FT	Foreign Trade
MT	Monetary Times

INTRODUCTION

The publication of Paul Baran's The Political Economy of Growth[1] in 1957 marked the resurgence of a theoretical and empirical preoccupation with the dynamics of capitalism in a global context. J. A. Hobson, V. I. Lenin and Rosa Luxemburg developed their economic theories of imperialism in the early part of the twentieth century, but relatively little debate had taken place since then on this question.[2]

Baran's primary concern lay in analyzing the institutional forces which affect the generation and utilization of economic surplus; he proposed a general theory of economic growth which incorporated, within an interdependent world economic structure, the notion that factors integral to the monopoly-capitalism of advanced industrialized countries retarded the maximization of surplus in backward economies. This model gave rise to various theories of social change based generally on a model of dependence, according to which the underdevelopment of Third World economies constitutes an element of the international expansion of capitalism from the developed countries; a basic feature of this model is the dichotomization of economies into developed/underdeveloped[3] or core/periphery,[4] with some tri-modal variations.[5] While such models are useful in explaining the various international manifestations of capitalism, the prescribed categorizations appear to be less than adequate when trying to assess Canada's position in the global hierarchy of the capitalist system. The problem stems from the seemingly dual character of the Canadian economy.

One indigenous school of political economic thought asserts that there are structural deficiencies in the Canadian economy resulting largely from the foreign ownership and control of key economic sectors.[6] This structural dependence notwithstanding, however, Canada shares many of the attributes of advanced capitalist countries. Unlike the case in underdeveloped economies, resource exploitation is organized under highly developed relations of production, there is a very high level of per capita income, the Canadian economy constitutes a broad and sophisticated market for consumer products and there exists a substantial goods producing sector. As well, Canada possesses a strong state structure, a powerful banking system and considerable investment abroad.[7]

It is evident, given such an uneven economic form, that theories of economic growth based on a sequential pattern of development (such as W. W. Rostow's five stage model as defined and elaborated in The Stages of Economic Growth)[8] can have only very limited applicability to Canada. However, in attempting to define and resolve the apparently contradictory nature of Canada's process of industrialization, various economic interpretations and strategies have been advanced.

The liberal position, and essentially the one adopted by the Canadian state, maintains that despite the dependence in certain sectors, the Canadian economy is in a process of growth and development; according to this view, economic independence can be achieved by expanding external trade and investment to a broader range of nations.[9] A more nationalist perspective, basic to bourgeois and some socialist positions, contends that "Canadian investments abroad are insignificant in comparison with foreign interests in Canada";[10] accordingly, the economic development of Canada is contingent upon breaking neo-colonial relations with the United States and promoting indigenous capitalist development under a strong nationalist bourgeoisie. A more leftist point of view argues that Canada is essentially an imperialist country,[11] while other leftists have criticized the argument of Canada as either a colony or an imperialist nation and have introduced the idea of sub-imperialism.[12]

Within the context of the above discussion, this study presents an analysis of Canadian socio-economic activity in the Caribbean and Latin America, with the objective of defining Canada's role in the world system. Analytically, this study aims at discerning the broader implications of the trade relations, patterns of capital movement and state activities relative to the societal formations in question.

In essence, the theoretical framework of this study incorporates a global relational perspective premised on the notion of the existence of a structural dynamic relationship between dominant and subordinate economic entities resulting from a process of surplus appropriation, accumulation and reinvestment within an oligopolistically determined international division of labor.

In terms of analytical content, chapter one examines the emergence of Canadian financial institutions in the Caribbean in the early part of the twentieth century within the context of British colonialism; the subsequent shift in the relative position of Canada vis-a-vis Britain and the United States is assessed in terms of trade and investment patterns in the region. Data on foreign commercial activities will provide an indication of the role played by Canadian banks and life insurance companies in the structural development of various Caribbean economies. Section (iii) of the first chapter deals with the pattern of industrialization in the Caribbean after World War II and its effects on Canadian economic relations. The import substitution policies adopted by some of the Caribbean countries began to undermine the complementary (albeit unequal) relationship between Canada and the British West Indies. Partly in response to such circumstances and on the presumption that trade is closely linked to investment and partly as a result of the nature of Canada's relationship with the United States, Canadian state and private interests promoted and undertook direct investments in the region. Section (iv) will focus on two major sectors of Canadian direct investment - mineral resource extraction and tourism; the analysis here is geared to determining the effects that Canadian investment in these sectors has had on the process of development in the local economies as well as assessing the implications of such undertakings for the Canadian economy.

Chapter two examines the nature of the relationship between Canada and Latin America during the twentieth century. Paralleling the approach in the first chapter, the analysis establishes that the basis for Canada's initial involvement in Latin America (primarily in public utilities and hydro-electric development) lay in the nature of Canada's capitalist class and its link with British finance capital. In elaborating on the evolution of the pattern of trade and investment between Canada and Latin America, the discussion will consider (1) the increasing economic influence of the United States in the world economy generally and specifically in Canada and Latin America, and (2) the process of industrialization in certain Latin American countries (based initially on import substitution though gradually acquiring an export potential) and its impact on Canadian economic relations. Finally, the last two sections will focus on the economic activities in Latin America of two Canadian firms, Brazilian Traction, Light and Power Company (currently known as Brascan) and Massey-Ferguson Limited. The Brazilian Traction, Light and Power Company, in addition to accounting for, throughout most of the current century, the single most important foreign investment in Brazil, is representative of the first phase of external expansion by Canadian capitalist interests within the context of British economic imperialism and reflects at an international level the intra-sectoral bias in the developmental orientation of this group. The case of Massey-Ferguson Limited represents the foreign expansion of industrially-based Canadian capital under the hegemonic relations of U.S. monopoly capital.

Chapter three documents the role of the Canadian state in promoting Canadian foreign economic expansion. Within a global framework, the reasons for the emergence of the Canadian aid programme will be delineated and its significance evaluated in terms of Canada's role in the international accumulation of capital. It will be shown how the economic relationship which has dominated the development of commercial and industrial infrastructure in Canada is also reflected in the international sphere of Canadian economic activity. Additionally, the analysis will probe Canada's interaction with international aid and finance organizations and outline some of the more pertinent implications of this relationship for Canada and the recipient countries. The final section will consider the role of non-government agencies and associations in relation to Canada's activities abroad.

The fourth chapter deals specifically with the problematic nature of Canada's role in the world economic system. The first part of the chapter will provide an assessment, predicated on the empirical evidence presented in the study, of Canada's foreign economic activity, both as an element in the world economic structure and as a factor in the process of economic development in Canada. It will also be argued that a key factor in this debate lies in analyzing the pattern of development in Canada and its economic relationship with the United States. The second section will provide a critical evaluation of the notion of Canada as an imperialist country; the analysis will demonstrate that, both internally and externally, Canada fails to incorporate the structural relations characteristically determinate of an imperialist power. Section (iii) will examine the conceptual basis of various other categorizations of Canada (e.g. sub-imperialist, semi-peripheral, go-between). Finally, the concluding section will elaborate on the dependent process of industrialization in Canada in relation to Canada's integration into the world economy and the external role of Canada's globally-integrated capitalist sector.

Notes and References to Introduction

1. Paul A. Baran, The Political Economy of Growth, Monthly Review edition, 1968.

2. See J. A. Hobson, Imperialism - A Study (1902, revised 1905, 1938); V. I. Lenin Imperialism, the Highest Stage of Capitalism, A Popular Outline (first published 1917); Rosa Luxemburg and Nilolai Bukharin Imperialism and the Accumulation of Capital, edited by K. J. Tarbuck, London: Allen Lane, the Penguin Press, 1972.

3. See, for example, A. G. Frank, Capitalism and Underdevelopment in Latin America: Historical Studies of Chile and Brazil (second edition, 1969).

4. See Samir Amin, Accumulation on a World Scale: A Critique of the Theory of Underdevelopment (1974).

5. I. Wallerstein's trimodal system consists of the "core, the periphery and the semi-periphery"; see I. Wallerstein, World Inequality (1977) p. 23. See also his The Modern World System: Capitalist Agriculture and the Origins of the European World-Economy in the Sixteenth Century (1976).

6. Two studies representative of this school of thought are Kari Levitt, Silent Surrender (1970) and Robert Laxer (ed.) Canada Ltd. (1973).

7. See Daniel Drache, "Staple-ization: A Theory of Canadian Capitalist Development" in Craig Heron (ed.) Imperialism, Nationalism, and Canada (1977) pp. 15-16.

8. W. W. Rostow, The Stages of Economic Growth (2nd edition), 1971.

9. Alastaire Gillespie, as federal minister of Industry, Trade and Commerce in 1972 expressed the idea that government policies should be designed to help the creation of more Canadian based multinational corporations; he based this position on the premise that, in the United States, multinational producers account for more home employment and foreign earnings than purely domestic companies engaged in export; see interview with the Financial Post 9/12/72 p. 3. See also Robert Chodos, The Caribbean Connection (1977) p. 77 and The Gray Report ("The Canadian Forum" edition, 1971) p. 187.

10. Chodos, p. 78.

11. See Steve More and Debbi Wells, Imperialism and the National Question in Canada (1975).

12. See T. Draimin and J. Swift, "What's Canada doing in Brazil" in This Magazine, v. 8 # 5, 6 (Jan.-Feb 1975) pp. 3-8.

CHAPTER ONE

THE NATURE OF CANADIAN-CARIBBEAN RELATIONS

(i) The Role of Canadian Financial Institutions

The subject of Canadian economic relations with the Caribbean can best be introduced by examining, historically, the leading traditional sectors of Canadian involvement. The development of a trade relationship (based on the exchange of staples) between the Maritime provinces and the British West Indies during the latter half of the nineteenth century led to the growth of Halifax as a banking and trading centre;[1] the setting up of Canadian bank branches in the Caribbean as well as the establishment of other financial institutions (i.e. life insurance companies and investment brokers) was a direct outgrowth of the trading links between Canada and the British West Indies.[2] Focusing, initially, on Canadian banking operations, the primary purpose of this section is to establish the global politico-economic context within which these took place.

A survey of the foreign activities of British and U.S. banking institutions reveals that finance tends to follow trade, both in developed and underdeveloped economies.[3] The Canadian pattern, as seen above, was no different,[4] except that it took place within the wider framework of British colonialism and under the aegis of British finance capital:

> colonial legislation stringently tied the operations of all major local financial institutions to the metropolitan money and capital markets.[5]

A factor of considerable importance in the extent of Canadian involvement in international banking was the organization of the banking sector in Canada. All foreign expansion on the part of Canadian financial institutions occurred after the consolidation process that took place among banks in Canada between 1870 and 1890.[6] The centralization of the banking sector in Canada permitted it to operate at an international level in a capacity disproportionate to the degree of other indigenous economic development; this becomes particularly apparent when considering Canada in relation to Argentina or Australia, which were of comparable stature, or in relation to the United States which had a highly decentralized banking system.[7]

The structural relations of dependency that had developed in the Caribbean region, organized internally around the plantation system, were reinforced by institutional mechanisms. The legislation and policies governing banking, foreign exchange and other financial arrangements "were all originally designed to service the export oriented production of primary goods by facilitating the flow of goods and investment funds".[8] Canadian banks operated successfully within such a context, financing the production and export of primary goods and the importation of agricultural and manufactured commodities from the metropolitan areas, mainly Canada and Britain.[9] However, as the vice-president and managing director of the Royal

Bank of Canada had occasion to emphasize at the bank's fifty-second annual meeting in 1921, the expansion of Canadian banking activity did not involve the export of funds from Canada, but rather resulted in important sources of capital for the banks.[10] A report in The Monetary Times makes the point clearly:

> As is well known in Canadian banking circles, no Canadian capital has been required for the extension in foreign countries by the Royal Bank, as the foreign deposits have always greatly exceeded the foreign commercial loans.[11]

Indeed, as of November 30, 1920, the Royal Bank of Canada had foreign deposits of $164 million and foreign loans of $102 million. As such, one of the major effects of the banking system in the Caribbean was the diversion of funds from local industry to the banks' country of origin.

Studies of the banking sector in Caribbean economies have also emphasized how expatriate banks, among which Canadian institutions occupied a dominant position,[12] tended to restrict their credit to the distributive trades (mainly large import firms) and expatriate industries engaged in the production and export of primary goods.[13] The minutes of the Canada-West Indies Conference of 1925 provide an indication of the credit activities of Canadian institutions. The quote below is excerpted from the presentation by William Wilson, who represented Jamaica's mercantile interests at the conference:

> Mr. Johnston* referred to the Canadian banks with their deposits and the Canadian insurance companies with their premiums taking money from the West Indies and investing it in Canada. I think you will agree with me, gentlemen, when I say that when a country like Canada or the United States wants to build a big hotel, companies are formed and the money is supplied by either the banks or the insurance companies. In Jamaica, we can neither get the banks nor the insurance companies to loan us any money to put up hotels.[14]
> (*The reference to Mr. Johnston is to Jamaica's representative of "planting and agricultural interests" at the conference.)

An examination of the data on commercial banking activities in Jamaica for the period 1940-1970 reveals two significant and not unrelated trends: (1) to a large extent, credit continued to be geared towards commercial operations and expatriate exporting firms, with substantial emphasis during the 1960's on personal and professional lending, mainly for the purchase of consumer durables which were largely imported; (2) concomitant with a special interest in personal and professional lending, commercial banks changed their previous role of net exporters of capital and became instruments through which foreign funds could be channelled into the various economies of the Caribbean.[15]

Using the economy of Jamaica as a case in point, it is evident from Table I.1 that "loans and advances" by the banks to individuals and commercial or industrial firms constituted the largest proportion of banking activity. For the period 1950-1971, "loans and advances" accounted, on average, for 78.1 percent of total deposits, while "local investments" by the banks (whether direct or portfolio) accounted, on average, for only 10.7 percent of total deposits.

Table I.1: Percentage Distribution of Local Banking Activity by Commercial Banks in Jamaica, 1950-1971.[16]

Year	Loans & Advances	Local Investments	Other*	Total
1950	68.2	10.6	21.2	100
1955	61.3	4.4	34.3	100
1960	89.3	0.7	9.6	100
1964	81.4	11.4	7.2	100
1968	72.9	14.1	13.0	100
1971	80.1	12.5	7.4	100

* Includes foreign assets.

In order to determine more precisely what effects the banks may have had on the structural development of the Jamaican economy, it is necessary to analyze more in detail the nature of "loans and advances". Table I.2 below provides a percentage distribution, by category of recipient, of bank loans and advances for the period 1946-1971.[17]

Because government sources used different category classifications for bank loans and advances for the periods 1946-1952, 1953-1960, 1961-1971, a systematic and comparative analysis is made difficult. However, using the data as provided, a number of significant patterns are in evidence. For the period 1946-1952, commerce (distributive trades/

import-export) constitutes the major recipient of bank credit. Industry from 1946-1949 averages 14 percent to 19 percent of bank loans and advances; from 1950 to 1952, though, it obtains close to 30 percent of bank credit. The substantial increase in this category is due primarily to the expansion of the bauxite-alumina industry, based entirely on foreign-controlled investment.[18] The data for the period 1961-1971 indicates that, although in a decreasing trend, the distributive trade still obtained from 18 percent to 29 percent of all bank credit. During this period, "personal and professional borrowers and other services" was the only cateogry to receive a greater share of credit financing, increasing from 14 percent in 1961 to 26 percent in 1971.

The data in Table I.3 provide a further indication of the nature of the participation of foreign banks in the development of the Caribbean economies.[19] Throughout the period 1961-1971 in Jamaica, over 40 percent of bank financing went to two very complementary sectors, consumer product imports and consumer borrowing.

It has become apparent that, throughout the twentieth century, the credit policies and activities of foreign banks were heavily geared to sectors which did little to promote the creation of an integrated industrial structure in the Caribbean economies; as well, the investment practices of the foreign banking concerns were not particularly oriented to such a commitment, exporting much of their locally appropriated capital to the metropolitan areas. Though a shift

Table I.2: Percentage Distribution of Bank Loans and Advances by Sector, Jamaica 1946-1971.

	1946	1947	1948	1949	1950	1951	1952
Agriculture	25	19	22	22	16	15	14
Industry	14	19	18	17	30	30	28
Commerce	61	62	60	38	40	37	36
Other				23	14	18	22

	1953	1954	1955	1956	1957	1958	1959	1960
Government	-	-	-	-	1	5	2	1
Primary Prod.	28	30	27	25	19	19	18	16
Other Indus.	32	36	36	32	42	42	40	39
Other	40	34	37	43	34	34	40	44

	1961	1964	1966	1968	1970	1971
Agri/mining	20	19	11	14	6	6
Manufacturing	15	21	22	22	22	18
Construct	4	5	4	5	14	15
Publ utilit	-	-	2	3	8	6
Government	4	2	2	2	2	3
Distributive	29	25	26	23	18	18
Tourist	5	3	3	2	3	4
Pers/Prof	14	14	19	23	22	26
Other	9	10	11	8	5	4

Table I.3: Percentage of Total Bank Loans and Advances Received by Distributive Trades and Personal & Professional Borrowers, Jamaica 1961-71.

	1961	1964	1966	1968	1970	1971
Distributive Trades	29	25	26	23	18	18
Pers/Prof Borrowers	14	14	19	23	22	26
Total	43	39	45	46	40	44

in the direction of capital movement did occur in the 1960's, it was due to a substantial increase in personal and professional lending for the purchase of sophisticated consumer durables.[20] In Jamaica, an average of $9.0 million was annually exported during the period 1950-1957, but from 1964 to 1971, the banks imported an average of $16.5 million annually into the Jamaican economy.[21] And while such credit practices were necessary for the establishment of a relatively widely-based consumer market for the products of the industrialized countries, they adversely affected the process of local industrial development by promoting consumption patterns incongruous with the economic base of the societies; such activities, however, were most profitable for the expatriate banks.

In an effort to undermine the metropolitan orientation characteristic of Canadian and other foreign banking operations in the region throughout the twentieth century, several Caribbean countries (notably Jamaica) began, in the 1960's to institute localization policies for foreign banks; this involved, mainly, the local incorporation of the banks with provisions for substantial local equity ownership of the bank and control by a locally based board of directors. Observers, however, have intimated that localization policies have not really affected the power relations that underlie international banking activities and that control of the local banks has remained in foreign hands.[22] The following commentary by an economist is representative of this position:

> the result of Jamaicanization has been only a passing of theoretical equity participation. The bank as an international institution remains in control... The shareholders have an interest in the profits but are not in an effective position to substitute their collective judgement for that of the bank's management.[23]

Paul L. Chen-Young, a consultant to the International Monetary Fund and the United Nations, in a study commissioned by the Caribbean Association of Industry and Commerce, illustrates another aspect of localization procedures. In the early 1970's, the Royal Bank of Canada made a public offering of 25 percent of the equity of its local operations in Jamaica; the bank had, however, repatriated "the entire profits earned for the operating period prior to going public". Chen-Young further notes that "it is the widespread feeling that the entire amount of shares subscribed for was also immediately repatriated after the issue".[24]

Life insurance is the other major sector of Canadian financial activity in the Caribbean area. Canadian life insurance companies began operations in the West Indies in the 1880's and by the end of World War I all the major Canadian firms (as well as some of the larger American ones) had operations in the area.[25] Throughout the twentieth century a part of the capital mobilized by the sale of insurance policies was invested in government stocks in the region and in private investment (mainly utility bonds), but it appears that the greater portion of the capital was invested overseas.[26] Related financial institutions were also established in the area in the inter-war period; W. C. Pitfield, a major Canadian firm of investment brokers, set up operations in Jamaica in 1937 for the purpose of mobilizing "the savings of the West Indian residents for investments in Canadian securities".[27]

Canadian life insurance companies expanded into the West Indies (and later throughout the world) primarily in search of markets which were more profitable and less regulated than those in Canada and the United States. In Canada, "the large British and American companies, with their long and honourable record, presented formidable competition, and business was secured by home companies only under great difficulties";[28] the West Indies offered more favorable conditions. At the annual meetings of the Canadian Life Insurance Officers Association, executives of Canadian life insurance companies repeatedly outlined how profitable the foreign operations were, mainly because "legislative restrictions in countries other than the United States were slight or non-existent".[29]

In most cases, only a small portion of the capital accumulated through the sale of insurance policies was required to be invested locally,[30] and though "some local investments were made in selected areas where adequate security and a satisfactory return could be assured",[31] most of the funds were repatriated for investment in Canada, the United States or Britain.[32] In fact by the late 1950's, total local investments by the eight life insurance companies operating in the Caribbean represented less than 12 percent of the aggregate business in force in the region. Table I.4 below provides a breakdown by firms of the amount invested relative to the amount of business conducted; the figures refer to total activities in the Caribbean area, though these were mainly concentrated in Jamaica.

Table I.4: Business in Force and Amount of Capital Invested Locally by Canadian Life Insurance Companies Operating in the Caribbean Area, by Firm 1957, 1958; C $ millions.[33]

Company	Business in Force 1958	Amount Invested 1958	Business in Force 1957	Amount Invested 1957	Year of Establishment in West Indies
Confederation Life	45.5	4.4	39.2	4.2	1902
Crown Life	19.7	1.9	19.0	1.3	1925
Dominion Life	19.7	2.5	15.0	1.9	1927
Imperial Life	14.1	1.9	12.4	1.5	1904
Manufacturers' Life	40.2	3.9	35.4	3.0	1894
National Life	16.4	1.1*	13.9	0.7	1936
N. American Life	34.3	7.8	27.8	3.8	1908
Sun Life	27.6	1.5	24.7	1.3	1880
Total	217.6	25.0	187.4	17.7	

*Estimate

As for the local investment activities of the life insurance companies, these centered mostly around government bonds, mortgages and policy loans; this did not constitute a radical departure in the general pattern of investment of the firms, except in relation to industrial stocks. Table I.5 below provides a percentage distribution of the total investments of the ten largest life insurance companies operating in Jamaica (eight of which were Canadian) for the year 1959;[34] as can be observed, industrial stocks and bonds represented only 2 percent of aggregate local investments. In comparison, stocks, as a percentage of total assets of the Canadian life insurance companies world-wide, averaged 5.1 percent during the years 1955-1960 (see Table 1.6 below);[35] significantly, Canadian life insurance companies owned twice as much stock in American industries than they did in Canadian ones.[36] Thereby, the consolidation of local funds for use in the metropolitan areas in conjunction with the investment policies of the life insurance companies did little to promote local industrial development in the Caribbean.

Table I.5: Percentage Distribution by Category of the Total Investments of the Ten Largest Life Insurance Companies operating in Jamaica, 1959

Category	%
Government of Jamaica bonds	26
Public Utility bonds	17
Industrial bonds and stocks	2
Mortgages	32
Policy loans	23
Total	100

Table I.6: Percentage Distribution, by Major Classes, of Total Investments of Canadian Life Insurance Companies to Total Assets, 1955-1960

Category	1955	1958	1959	1960
Government bonds	24.3	19.1	19.8	20.1
Other bonds/debent.	29.8	29.7	28.0	26.7
Stocks	5.2	4.9	5.0	5.2
Mortgage loans	30.1	34.4	35.4	36.2
Policy loans/other	10.3	11.9	11.8	11.8
Total	100.0	100.0	100.0	100.0

Finally, in situations in which local governments introduced legislation to restrict the transfer of funds out of the country and require a greater degree of local investment, Canadian companies usually reacted by withdrawing their business operations. In Mexico in 1930 two of the largest life insurance firms discontinued issuing life insurance policies when the national government required that all foreign companies operating in Mexico "invest the majority of their reserves in Mexican securities"; this was a business condition "which the Canadian companies would not consider".[37]

In the early 1960's, the life insurance companies, in assessing their positions in countries undergoing political and economic nationalist movements, concluded that the emphasis had shifted "from using money to provide for security for the members of society through life insurance to using life insurance funds to provide capital for local government purposes and industrial development...".[38] The response of the Canadian life insurance companies was mostly one of withdrawal; in this regard, however, one life insurance official has noted that "fortunately, the initial investments in the business had been more than fully recovered before these developments occurred".[39]

(ii) <u>Canada vis-a-vis Britain and the United States</u>

As seen, the global politico-economic context within which Canadian economic activity in the Caribbean took place is an element of prime importance. The early pattern of Canadian trade and investment (i.e. during the first two decades of the twentieth century) emerged within the framework of British colonialism. American involvement in the Caribbean until World War II was secondary to British interests and, in some cases, to Canadian interests. But World War II resulted in a significant shift in trade and considerable alterations subsequently took place in the relative positions of Britain, the United States and Canada in regards to trade and investment patterns in the region. Tables I.7 and I.8 below provide an indication of the changes that occurred in Jamaican trade during the period 1930-1971.

The shift in the relative trade positions of Britain, the United States and Canada reflects changes in the importance of different export commodities and in the nature of import

Table I.7: Percentage Distribution of Jamaican Imports by Country of Origin for Britain, United States, Canada and Other, 1930-1971.[40]

Year	Britain	U.S.	Canada	Other
1930	29.8	33.2	16.4	20.6
1934	39.2	18.3	16.0	26.5
1938	33.5	21.0	16.1	29.4
1944	14.8	38.2	31.6	15.4
1950	42.9	14.3	12.0	30.8
1955	40.3	20.8	11.9	27.0
1960	34.4	24.4	10.1	31.1
1965	24.5	31.2	11.3	33.0
1968	20.3	38.4	9.5	31.8
1971	19.8	39.6	7.5	33.1

Table I.8: Percentage Distribution of Jamaican Exports by Recipient Country, for Britain, United States, Canada and Other, 1938-1971.[41]

Year	Britain	U.S.	Canada	Other
1938	58.5	4.0	26.2	11.3
1950	56.7	5.2	26.1	12.0
1957	37.1	22.4	29.6	10.9
1960	31.4	26.3	24.7	17.6
1965	27.3	38.2	15.7	18.8
1968	21.0	46.1	12.5	20.4
1971	19.5	44.8	8.2	27.5

requirements. Intensified industrial activity in the mineral resources sector (and to a lesser extent in secondary manufacturing) shifted the emphasis from Britain, which constituted the main market for traditional agricultural exports, to the United States, the main market for mineral exports:[42]

> One of the key factors making for the change in the direction of trade has been the growth of the bauxite-alumina industry owned by American and Canadian interests and geared almost exclusively to those markets.[43]

Of particular significance to the Caribbean economies is the nature of the import structure and its relation to the export pattern. From the mid-1950's onwards, Jamaican exports to Canada and the United States have consisted largely of bauxite and alumina and have been characterized by a relatively high degree of import content; production in this sector of industrial activity relies heavily on imported elements (e.g. technology, equipment, etc.).[44] Exports to Britain, however, have continued to be comprised mainly of traditional agricultural products, with a substantially lower import component.[45]

More generally, the process of import substitution that has taken place in the various Caribbean economies in the post World War II period appears to have "relied heavily on imported raw materials, capital and techology".[46] The following sections will examine the effects of these developments on the Caribbean economies and their implications for Canadian trade and investment patterns. It would be useful before this, however, to introduce the element of Canadian activity in the Caribbean relative to the degree of American ownership and control of the Canadian economy (a question which will be elaborated upon in the concluding chapter) by focusing on the motor vehicles market in the British West Indies.

During most years in the period 1920-1939, Canada was a principal source of supply of automotive vehicles for the Bahamas, Barbados and Trinidad; it also had a considerable share of the Jamaican market.[47] Even by the mid-1960's, the Caribbean region was still "a prime overseas market for Canadian motor vehicles".[48] There are, however, some particularly singular features to Canada's trade in this sector. Canada's exports consisted primarily of assembled vehicles; the replacement parts and other components for these vehicles came principally from the United States.[49] This situation can be clearly understood if it is considered that the Commonwealth tariff preference granted Canadian motor vehicles had the effect of diverting the export business for the West Indies market from the domestic plants of the American firms to their Canadian branch plants.[50]

Thus Canadian participation in this market was contingent upon the export programme of the American firms in control of the automotive industry in Canada. This was made explicitly clear in the case of the export of Canadian motor vehicles to Trinidad during the 1920's and 1930's. In 1928, 1929 and 1930, Canada supplied most of the cars and trucks that Trinidad imported; from 1931 to 1933, such exports were drastically reduced. While the exchange rate may have mitigated against imports from Canada during those years, the main reason lay in the fact that "two of the largest Canadian exporters were not manufacturing export models" in those years.[51]

(iii) Local Development: Effects on the Canadian Trade Pattern

The pattern of economic activity in Jamaica (as in most of the other Caribbean countries) remained essentially unchanged from the eighteenth century to the mid-twentieth century and was characterized primarily by the export of agricultural products and the importation of manufactured goods. The colonial mode of government did not promote indigenous industrialization and the dominant local economic interests were geared towards the distributive trades and constituted a powerful opposition to the development of domestic manufacturing.[52]

The bauxite-alumina industry, controlled exclusively by American and Canadian interests, developed considerably during the 1950's and 1960's, but mainly on the impetus of American political and economic requirements and it was geared almost totally to the exportation of primary resources.[53] The expansion in the manufacturing sector after 1950 was based, "to an overwhelming degree, on production for the home market, behind the protection afforded mainly by quantitative restrictions on imports".[54]

As part of its programme of import substitution, Jamaica, as other economies of the Third World, offered such "attractive" incentives to foreign as well as local investors as (1) tax-free holidays, (2) duty-free importation of raw materials and plant equipment, (3) accelerated depreciation on buildings and equipment, and (4) government protection against import competition.[55] Such measures, however, served as powerful incentives for the importation of raw and intermediate materials by foreign and indigenous interests to the detriment of the adaptation and use of local inputs and encouraged the use of highly capital-intensive technology; as such, the domestic value added "is confined largely to the employment that is generated".[56] In addition, the technology is obtained from the advanced industrialized countries; such a source precludes the availability of an intermediate level of technology and results in the "use of production techniques unrelated to the factor endowments of the small underdeveloped countries".[57]

Paul Baran has argued that a high degree of capital intensity is not in itself a negative economic factor for it can and does under certain conditions lead to the development of a capital goods industry.[58] Such development, however, is contingent upon (1) the degree to which raw materials are processed into finished products within the economy and (2) the extent to which the form of industrial organization permits the accumulated technology and capital to be available to other sectors.[59]

Over the period 1950-1967, Jamaican mining and processing accounted for only 4.6 percent of the value added of finished aluminum; 95.4 percent of the value added took place in Canada and in the United States.[60] The industry as such is marked by a low degree of horizontal integration with other commodity producing sectors of the economy. The only area to which any substantial backward linkages extend is the construction industry; primarily labor-intensive, it uses mostly local supplies, but machinery and equipment are usually imported. One area where some degree of integration would be expected is in the transportation of primary resources, but that sector is strongly vertically integrated with the aluminum multinationals.[61]

Because of the organization of the industry, capital mobility both within the industry and between the industry and other sectors of the economy appears to be negligible. Decisions regarding the appropriation of the surpluses generated by each subsidiary operation of U.S. and Canadian multinationals rest with the parent firms. Reinvestment will normally occur only if the corporate requirements of the individual firm dictate increased resource production. A study on the question has concluded that "the industry's capacity to contribute to the finance of self-sustaining growth and structural change in the Jamaican economy is severely restricted, indeed virtually non-existent".[62]

Because the import content of investment expenditure is considerably higher than that of consumer goods,[63] there exists a strong upward pressure on the propensity to import in underdeveloped countries even during periods of import substitution. This contention is substantiated by the data in Table I.9 below, which shows a marked relative increase in the importance of capital goods (i.e. machinery, transport equipment, etc.) during the period of import substitution in Jamaica.

Table I.9: Percentage Distribution of Imports by Categories, Jamaica 1938-1968.[64]

	1938	1944	1950	1956	1962	1968
Food	26.1	37.0	21.8	17.4	20.4	18.2
Beverages & Tobacco			1.8	1.9	2.3	1.5
Crude materials (except fuels)	4.6	3.3	2.7	3.6	3.1	2.6
Mineral fuels & Chemicals			14.7	15.8	17.5	15.0
Manufactured Products	63.0	57.3	42.0	34.0	33.4	33.7
Machinery & Transport Equip			16.1	26.3	22.7	28.2
Other	6.3	2.4	0.9	1.0	0.6	0.8
Total	100.0	100.0	100.0	100.0	100.0	100.0

Further evidence to this effect can be obtained by examining the case of British Guiana:

> Before World War II British Guiana normally had an export surplus. Since that time, heavy overseas investment from the United Kingdom and Canada and the expansion of private ventures in the country have, with the exception of 1954, led to an excess of imports over exports in commodity trade. British Guiana has depended on

> foreign factories to produce capital goods required in relatively small volume to step up production of its mines, forests and slowly developing industries.[65]

The implications for Canada, of the pattern of industrialization outlined above, appear to be of a dual nature. In the mid-1960's, Canadian trade reports claimed that the policies of import controls, instituted in the Caribbean economies "as a means of encouraging the establishment of manufacturing industry and stimulating agricultural production", were adversely affecting Canada's trade position.[66] At the same time, however, it was being maintained that the industrialization process in the Caribbean was opening market opportunities for Canadian raw materials, intermediate goods and capital equipment.[67]

In the industrialization of the Caribbean economies, the effect for Canada lay principally in the changing composition of Caribbean imports. While the absolute level of Canadian exports to the Caribbean remained roughly constant, Canada's position with respect to the new import requirements was relatively weak; as demonstrated in the following remarks by a Senate Committee:

> In large part this trend is explained by a diminution of the basic complementarity of the two economies and import replacement policies by local governments. At the same time, however, it appears that Canadian exporters have failed to compete successfully for a share of the new and more sophisticated import needs of the region.[68]

Various groups and institutions, both in the West Indies and in Canada, have stressed continuously, throughout the twentieth century, the complementary nature of the economies of the Caribbean and Canada. The Royal Bank Newsletter of July 1, 1925 notes that "it is basically impossible for Canada and the West Indies to be competitors in any line of trade"; in 1945, the president of the Trinidad Tourist and Exhibition Board remarked:

> Whereas we are a sub-tropical agricultural community with a very limited range of secondary industries, Canada, as a result of her great industrialization in recent years, is fast becoming a major exporter of manufactured goods. Thus we have the perfect combination which should lead to reciprocal trade between an agricultural sub-tropical community and a temperate climate industrial producer.[69]

However, the industrialization programmes of the 1950's and 1960's, aimed as they were toward promoting light manufacturing industry, created domestic patterns of production and consumption which undermined the export of Canadian manufactured products. Furthermore, as Foreign Trade notes in one of its reports, "most of the newly established firms are looking for overseas outlets and may soon be competing with Canadian exporters in markets bordering the Caribbean".[70] Concern was also expressed that increased inter-island transportation and communication would help create export markets for the more industrialized economies of the region (e.g. Jamaica and Trinidad) and at the same time curtail the export of manufactured products from Canada and the United States.[71] The Canadian position was being undermined (1) by the import substitution policies of the Caribbean countries and (2) by the foreign activities of other supplying groups, especially the United States, the European Common Market and Japan.[72] Already by 1952, the Jamaican market for Canadian footwear and sewing machines had become negligible.[73]

In addition to these factors, there was another element which acted as a constraint on the Canadian trade position:

> Very often it appears that the flow of exports from supplying countries to the Caribbean is closely tied to the amount of industrial investment by nationals of those countries.[74]

Established purchasing patterns between parent and subsidiaries as well as other corporate relationships involved in foreign investments affected Canada's position as a supplier of import requirements for the developing secondary sector.

In 1945, a Department of Trade and Commerce report noted that, as a result of predominantly British and American investment in the Caribbean, Canada's position in the industrial sphere was relatively weak:

> Industrial requirements (from Canada) are limited to items necessary for the maintenance of the sugar industry, the oil industry, the mining and sawmilling industries. It is questionable how far Canada can compete in this trade.[75]

In 1968, Foreign Trade, a trade journal published by the Canadian department of Trade and Commerce, suggested that the reason for Canada's weakness in exporting components for consumer durables lay in the fact that it did not associate itself with the local appliance manufacturing industry in the Caribbean.[76] And in its report on Canadian-Caribbean relations, the Senate Standing Committee on Foreign Affairs noted that not only had flour exports to the Caribbean declined since the establishment of local mills, but also a wheat export market had not materialized because American firms were mainly in control of the industry and the mills tended to rely on supplies of American wheat.[77]

The strategy that appears to have been adopted in an effort to resolve such a situation operated at two levels: (1) the promotion of Canadian investment and (2) the intensification of Canadian aid programmes. The second aspect of the strategy will be dealt with in Chapter III; presently the focus will be on the promotion of Canadian investment and the next section will examine the nature of Canadian investment in the Caribbean.

With the introduction of restrictions imposed by the British government on imports by the West Indian colonies from dollar currency areas after World War II, both the Canada-West Indies Magazine (journal of the Canada-West Indian League grouping the major Canadian financial, commercial and industrial interests operating in the Caribbean) and Foreign Trade began promoting Canadian investment in manufacturing "to prevent Canadian products from being permanently displaced by products from the sterling area",[78] and to balance the trade decline due to investments by the United States and Britain. By the late 1950's, it was being stressed that with branch plants in the area, the investing firm would have a market for semi-finished products and could serve "the other Commonwealth areas without encountering the currency problems faced by home-based Canadian exporters".[79] In 1967, Foreign Trade advocated a shift from the promotion of exports to "ownership and management of food processing facilities to retain a share of the local market (in Jamaica)".[80] As well, the Senate Committee examining Canada-Caribbean relations concluded, in its final report, that a substantial increase in Canadian investment was required in the region,[81] while in 1972 the government trade journal supplied the following advice to Canadian business interests:

> The establishment of a plant in this area (Eastern Caribbean) offers the lure of government sponsored industrial incentives, the prospect of modest wage rates, market penetration and/or market maintenance for end products, the opportunity to spread the costs of research and development through the sale of technology, management techniques and perhaps specialized machinery...[82]

(iv) Canadian Investment: Primary Resource Production and Tourism

On the premise that there is a tendency for trade to be closely linked to investment[83] and in consideration of the fact that the Commonwealth Caribbean constitutes Canada's third largest area of private investment (after the United States and Latin America), it would seem valid to investigate the pattern and nature of Canadian direct investment in the region in order to ascertain the degree of correlation between Canadian investment and Canadian exports, especially of capital equipment and component parts, in conformity with the import requirements of the Caribbean economies.

Prior to World War II, Canadian investments in the Caribbean were primarily in banking, life insurance and utilities. As seen above, banking and life insurance operations served as a source of capital, but these did not directly influence exports from Canada. Likewise, utility operations appear to have been very profitable for their Canadian investors,[84] though they did not necessarily provide a market for Canadian equipment and goods. The Commercial Intelligence Journal noted, in 1938, that in the case of the Demerara Electric Company Ltd. of British Guiana most of the equipment originated in the United States or in the United Kingdom, while Canada supplied only minor items; this situation existed despite the fact that the company's head offices were located in Montreal.[85]

By the mid-1960's, Canadian investment was mainly concentrated in mineral resource extraction and in the hotel/tourist industries. Approximately $300 million was invested in bauxite-alumina mining, $100 million in tourist facilities and only $5 million to $10 million in secondary manufacturing.[86] The relatively small amount invested in manufacturing and the nature of the investments - mainly light industry geared for domestic consumption - did not generate any significant Canadian exports in capital and intermediate goods. As such the focus will be on the two major sectors of involvement and their implications for the trade position of Canada.

The first of these includes Alcan's operations in Jamaica (bauxite-alumina) and Falconbridge's investment in the Dominican Republic (nickel mining).[87]

The Alcan investment in Jamaica is part of an oligopolistic structure involving four multinational and vertically integrated corporations, the other three being American. The bauxite is mined and partially processed exclusively by the aluminum companies, with only four percent of total value added taking place in Jamaica;[88] the resource mined is not intended for sale on the world market but is used as raw material input by the "processing units of the metropolitan integrated firms".[89]

While almost all the machinery, equipment and supplies used in the industry are imported,[90] data on Canada-Caribbean trade for the 1960's indicates that exports related to this industry constitute a very small percentage of Canadian exports and, in absolute amounts, average less than $1 million per year. The only exception to this trend is provided by the importation of Canadian supplies for the new Alcan plant at Ewarton, Jamaica in the late 1950's, in which case Canada supplied about one-third ($8 million) of the required materials and equipment. However, in relation to the construction of a $65 million alumina plant for Alcan's subsidiary in British Guiana, Foreign Trade reported extra-ordinary imports of machinery and equipment from Canada of less than $3 million.[91]

These facts, though, must be viewed in the context of the corporate ownership and organizational structure of the world industry. Any assessment of the Caribbean industry vis-a-vis the Canadian trade position must consider the U.S. dominance in the industry and its capacity for technological development; of major significance also is the fact that, in the mid-1960's, 25 percent of Alcan's stock was held in Canada, while 70 percent was held in the United States.[92]

The second single investment of major importance in the region is the Falconbridge nickel mining project in the Dominican Republic valued at approximately $200 million.

In a report on the Falconbridge investment, Canada Commerce noted that "many Canadian firms were successful in supplying equipment for these related projects and the processing plant".[93] But in examining Canadian trade data for the period 1969-1971, which corresponds to the time of the investment, there is little evidence to show that Canada experienced any substantial project-related exports in technologically sophisticated machinery and equipment or in highly processed industrial products or components. From January 1970 to July 1971, while the project was under construction, machinery and equipment exports were mainly of a "general purpose" nature and totalled approximately $5 millon to $6 million. Industrial components and materials accounted for about $3 million, while construction materials totalled about $5 million.[94] Total project related expenditures in Canada of approxiamately $14 million must be considered against total project expenditures abroad of $150 million by Falconbridge.[95]

Once again, in assessing the degree of correlation between investment and trade, consideration must be made of the corporate organization of the firm in question; in this case, the corporate and industrial interests of the parent firm and its inter-corporate relations are of significance.

While 65 percent of the investment was under the control of Falconbridge, close to 90 percent of the investment funds came from U.S. sources, and the major project contractor was an affiliate of the parent firm.[96]

Hotel and tourist facilities constitute the other sector of major importance for Canadian direct investment, in the order of about $100 million;[97] in 1972, more than sixty Canadian companies operated tourist complexes in the Caribbean area.[98]

Throughout the Caribbean, the establishment and development of the tourist industry was facilitated by government incentives and concessions. Jamaica passed the Hotels Aid Law in 1944, granting accelerated depreciation allowances and duty free importation of materials for the construction and furnishing of hotels; in 1968, it also began granting tax holidays. As well, Barbados has, since the early 1960's, allowed for the duty free importation of building materials and equipment, granted generous tax holidays and guaranteed the repatriation of profits.[99] From the Canadian perspective, the Exports Credit Insurance Company, established in 1944 to promote Canadian investments and exports, extended "special consideration to suppliers of hotel equipment and furnishings".[100]

Canadian investment in hotel/tourist facilities in such Caribbean countries as the Bahamas, where tourism is responsible for over 75 percent of total GNP, basically constitutes an extension of Canadian involvement in the financial sector, and includes the participation of banks, life insurance companies and private investment firms. Canadian investment represented 72 percent of total equity in the 202 room Sherton-Kingston Hotel in Jamaica; the Canadian investors included six Canadian life insurance companies and one Canadian chartered bank.[101]

The basis for Canada's interest in this sector hardly seems to lie in a concern for the economic development of the region's economy, as the following excerpts indicate:

> For many reasons Canada should help the Caribbean develop its tourist trade... For Canada it can mean more foreign exchange earnings, more trade, more employment and more experience in tourist resort development abroad.
> The growth of tourism will place demands on the existing infrastructure and transportation facilities, especially airports, and this will generate additional opportunities.[102]

Canadian preoccupation with infrastructure development in the Caribbean will be left to Chapter III which deals with foreign aid and the role of the state; the focus here will be on the economic implications of Canadian investment in this sector.

The Senate Committee examining Canadian-Caribbean relations noted that "too little of the economic benefit of tourism has accrued to local societies".[103] The high percentage of foreign ownership in the industry has resulted in a large outflow of repatriated earnings. In addition, a high proportion of the inputs into the industry (machinery and construction supplies, hotel furnishings, institutional supplies and equipment, food and consumer products) are imported, resulting in leakages from the economies of thirty to forty percent of tourist expenditures.[104]

Food is an important element in this regard for two reasons. The first relates to the effect of the tourist trade on agriculture in the region; already in 1938, the Canadian Chamber of Commerce in a publication on the West Indies, noted that "slowly and surely the best arable land has been turned into golf courses".[105] The second relates to the effect of the tourist trade on the importation of food products. In Jamaica, in 1958, 50 percent of the food used by hotels had to be imported; by 1968, the proportion had risen to about 70 percent.[106] Import levels for this category in the other Caribbean tourist economies were of the same order.[107] In addition, the trend seems to have been generalized in the food sector as a whole, especially in Jamaica. While domestic consumption in meat, dairy products and fruits/vegetables, for the period 1950-1971, rose by 625 percent, 692 percent and 151 percent respectively, increases in imports for these categories were in the order of 1,233 percent, 1,100 percent and 1,025 percent respectively.[108] In the Bahamas, in 1965, close to 50 percent of Canadian trade was in foodstuffs for supermarkets and hotels; and in Barbados, "Canadian exporters of packaged consumer food products...benefitted greatly from tourist travel to the island and an improved standard of living".[109]

In line with this concern for the development of local tastes and consumption patterns geared increasingly towards

North American (i.e. Canadian) standards and in an effort to promote Canadian food products, the Canadian Food Products Trade Mission visited the Bahamas, Barbados, Jamaica, Trinidad and Bermuda in October and November of 1964; then in 1965, the Canadian government, through a trade promotion agency, organized a "Canadian Food Festival" in Jamaica.[110] West Indian economists have argued that this demonstration effect and the resultant tendency toward high consumption adversely affects the local mobilization of capital for economic development.[111] But such cultural diffusion is only the logical extension of a historical relationship of economic dependence. From about 1920 to the present time, food products, alcoholic beverages and tobacco have constituted a very large proportion (in some cases exceeding 75 percent) of Canadian exports to the various Caribbean economies; concomitantly, Canada has been a major, if not principal, supplier of these commodities for many of the Caribbean islands.[112]

The editor of the government publication, Foreign Trade, observed in 1959 that Canada's "exports to the West Indies include a larger percentage of manufactured and processed food products than do our exports to any other foreign market. Such items as processed foods and meats figure largely because, in their concentration on sugar, the islands do not produce enough food for their own needs".[113] In addition to the local planter interests, certain Canadian economic groups were active in promoting the production of sugar in the West Indies. Montreal and Maritime refiners were primarily motivated by the need for a secure and low cost source for their industry which coincided well with the policies of the Canadian state to provide tariff preferences and market guarantees to the Caribbean producers in order to enhance their ability to procure Canadian export products, both agricultural and manufactured.[114] The Canada-West Indies League, which represented both Canadian refiners and exporters as well as banking and life insurance interests, consistently campaigned for Canadian government assistance to the sugar industry in the British West Indies on the grounds that the "collapse of the purchasing power of the West Indies would have an adverse effect on Canada's export trade with these colonies";[115] in conformity with this position, this group also called for the abolition of all government subsidies to Canadian beet sugar growers, as these competed with the West Indian producers.[116]

Finally, the Department of Trade and Commerce, in a report produced in the mid-1940's on the potential for export losses due to increasing local production, provided a further indication of the degree of structural dependence in this sector:

> To these (local production limitations must be added the very potent consideration that the people have become accustomed to living on imported foods and a very large section of the business interest in each colony has been organized around this demand. Consequently, any change that might occure in the inhabitants diet to allow for an increased use of local foods would be a slow process of modification, permitting exporters ample opportunity to make any necessary adjustments.[117]

(v) Concluding Note

Chapter I provided an analysis of the interaction between Canada and the Caribbean in relation to the changing basis of Canada's integration into the world economic system. It showed that the element of major significance in the early pattern of Canada's economic expansion into the region was the predominantly mercantile orientation of the Canadian capitalist class and its linkages with British finance capital within the context of colonial rule in the West Indies. Subsequently, the economic relations between Canada and the Caribbean were affected by the emerging dominance of U.S. monopoly capitalism in the world economy and its effect on the factors and relations of production in Canada.[118] As well, the analysis in this chapter also establishes a basis for the discussion of the role of the Canadian state (in Chapter III) by delineating the socio-economic conjuncture within which Canada's bilateral and multilateral activities were operative.

In dealing with the nature of Canada's involvement in Latin America, Chapter II focuses on very much the same factors and provides documentation which further validates the observations and contentions of Chapter I regarding Canada's external economic activities and strengthens accordingly the analytical and theoretical base for evaluating Canada's role in the world system.

Notes and References to Chapter I

1. See R. T. Naylor, The History of Canadian Business, vol. II (1975) Chapter 16.

2. See C. V. Callender, "The Development of the Capital Market Institutions of Jamaica", Social and Economic Studies supplement to Vol. 14 # 3 (1965).

3. Maurice A. Odle, The Significance of Non-Bank Financial Intermediaries in the Caribbean (1972) p. 70.

4. Financial Post (13/12/58) p. 60: "The entry of the Canadian banks came naturally out of Canada-West Indies trade and its financing requirements". Financial Post hereafter designated as FP.

5. Clive Y. Thomas, The Structure, Performance and Prospects of Central Banking in the Caribbean (1972) p. 4.

6. See Naylor, Vol. 1, Chapters III, IV, V.

7. See Canada-West Indies Magazine v. 23 # 5 (April 1934) p. 134. Canada-West Indies Magazine hereafter designated CWIM.

8. Thomas, p. 4.

9. See Naylor, Vol. II, pp. 230-240; also Foreign Trade v. 134 # 8 (21/11/70) p. 2. Foreign Trade hereafter designated as FT.

10. Monetary Times v. 66 # 3 (21/1/21) pp. 39-41. Monetary Times hereafter designated as MT.

11. MT v. 62 (10/1/19) p. 12.

12. K. Levitt, A. McIntyer, Canadian-West Indies Economic Relations (1967) p. 25. See also FT v. 130 # 11 (23/11/68) p. 8 and Canada Commerce v. 138 # 1 (Jan 1974) p. 39. Canada Commerce hereafter designated as CC.

13. Iserdeo Jainarain, Trade and Underdevelopment: A Study of the Small Caribbean Countries and the Large Multinational Corporations (1976) p. 114; Edward Niven, Capital Funds in Underdeveloped Countries (1961) pp. 46-47; Paul L. Chen-Young, Report on Private Investment in the Caribbean (1973) p. 40.

14. Canada. Dept. of Trade and Commerce, Report of the Proceedings of the Canada-West Indies Conference, 1925 (Ottawa 1925) p. 120.

15. See Owen Jefferson, The Post War Economic Development of Jamaica 1945-1969 (1972) p. 242.

16. Adapted from data in Jainarain p. 112.

17. Data for 1946-1960 from Norman Girvan, Foreign Trade and Economic Underdevelopment in Jamaica (1971) p. 185; data for 1961-1971 from Jainarain p. 114.

18. The bauxite-alumina industry will be examined more in detail in section (iv) of this chapter.

19. Derived from data in Table 2.

20. See Robert Chodos, The Caribbean Connection (1977) p. 112.

21. Jainarain, p. 113.

22. Chodos, p. 119.

23. Daniel J. Baum, The Banks of Canada in the Commonwealth Caribbean (1974) p. 15.

24. Chen-Young p. 42.

25. See "Activities of Canadian Life Insurance Companies Abroad", address by A. B. Wood in Proceedings of the 32nd Annual Meeting of the Canadian Life Insurance Officers Association, Toronto, November 20, 1925, p. 40 - hereafter designated as CLIOA-Wood; "International Business of Canadian Life Insurance Companies" by Alistair M. Campbell, president of The Sun Life Assurance Company of Canada in Proceedings of the 70th Annual Meeting of the Canadian Life Insurance Officers Association, May 22, 1963, Toronto, p. 34 - hereafter designated as CLIOA-Campbell; See also Naylor, vol. II Chapter 16; Robin W. Winks, Canadian-West Indian Union: A Forty Year Minuet (1968) p. 14 and Duncan Fraser, "Canada's Role in the West Indies" in Behind The Headlines, publication of the Canadian Institute of International Affairs, vol. 23 # 2 (1964) p. 37.

26. Callender, p. 163.

27. Callender, p. 53; Canadian Business Magazine v. 39 (Sept. 1966) p. 89 -(hereafter designated as CB).

28. See CLIOA-Wood, p. 40 and CLIOA-Campbell, p. 31.

29. CLIOA-Campbell, p. 34.

30. See <u>Proceedings of the 35th Annual Meeting of the Canadian Life Insurance Officers Association</u>, November 16, 1928, p. 29.

31. CLIOA-Campbell, p. 34.

32. CLIOA-Wood, p.43.

33. FP (13/12/58) p. 61; FP (12/12/59) p. 62.

34. Callender, p. 124.

35. See the <u>Report of the Superintendent of Insurance for Canada</u> 1960 vol. I (Ottawa 1961) p. xx.

36. See the <u>Report of the Superintendent of Insurance for</u> Canada 1960 vol. I p. xxiii.

37. CWIM, v. 19 # 9 (Aug 1930) p. 58.

38. CLIOA-Campbell, p. 35.

39. CLIOA-Campbell, p. 39.

40. Data for 1930, <u>Commercial Intelligence Journal</u> (hereafter designated as CIJ) v. 48 # 1529 (20/5/33) p. 781; for 1934, CIJ v. 56 # 1741 (12/6/37) p. 1043. Data for 1938-1944 from Canada. Dept. of Trade and Commerce, <u>Postwar Trade Reviews: British West Indies and British Guiana</u> (Ottawa, 1946) p. 23; data for 1950-1971 from Jainarain, p. 106.

41. Data for the period 1938-1967 obtained from Ransford W. Palmer, <u>The Jamaican Economy</u> (1968) p. 145; data for 1968-1971 from Jainarain, p. 106.

42. See Palmer, p. 147.

43. Jefferson, p. 204.

44. See discussion in section (iii) of this chapter.

45. Jefferson, p. 205.

46. Jefferson, p. 187; see also Jainarain, p. 107.

47. CIJ v. 36 # 1204 (26/2/27) p. 245.
CIJ v. 37 # 1234 (24/9/27) p. 418.
CIJ v. 39 # 1282 (25/8/28) p. 283
CIJ v. 45 # 1453 (5/12/31) p. 886.
CIJ v. 51 # 1590 (21/7/34) p. 95
CIJ v. 51 # 1597 (8/9/34) p. 382
CIJ v. 57 # 1763 (13/11/37) p. 853.

48. Brewster, p. 30.

49. See, for example, CIJ v. 39 # 1282 (25/8/28) p. 283.

50. See CIJ v. 36 # 1204 (26/2/27) p. 245, CIJ v. 39 # 1282 (25/8/28) p. 283, and Brewster, p. 30.

51. CIJ v. 51 # 1590 (21/7/34) p. 95.

52. For an elaboration of this last point see Jefferson, p. 127.

53. For a comprehensive study of the role of foreign interests in the bauxite-alumina industry in Jamaica, see Girvan op. cit.

54. Jefferson, p. 139; from 1950 to 1970, almost all output in mining was exported whereas about 85 percent of all manufacturing output was consumed domestically, see Jainarain p. 94.

55. See <u>Saturday Night</u> v. 73 # 6 (15/3/58) p. 49; FP (13/12/58) pp. 58-59; FT v. 109 # 1 (4/1/58) pp. 6-7; FT v. 126 # 9 (29/10/66) p. 7; FT v. 130 # 11 (23/11/68) p. 4; CC v. 136 #1 (Jan 1972) p. 8; CC v. 137 # 1 (Jan 1973) p. 2.

56. Jainarain, p. 296.

57. Jainarain, p. 50.

58. See Paul Baran, <u>The Political Economy of Growth</u> (1957), 1968 ed. pp. 285-288.

59. See Girvan, pp. 79-80.

60. Girvan, p. 81 Table 4.2.

61. Girvan, pp. 54-55; see also CB vol. 20 (Aug 1947) p. 97.

62. Girvan, p. 97.

63. Jefferson, p. 194.

64. Data for 1938/1944, CIJ v. 74 # 2188 (5/1/46) p. 16; data for 1950-1968, Jefferson, p. 196.

65. FT. v. 114 # 12 (3/12/60) p. 6.

66. FT v. 126 # 9 (29/10/66) pp. 8-9.

67. FT v. 126 # 9 (29/10/66) pp. 2-3; FT v. 130 # 11 (23/11/68) p. 15; see also page one of the partial text of a speech by the Canadian Minister of Trade and Commerce to the

Halifax Board of Trade on February 27, 1967; "Canada's Trade With the Commonwealth Caribbean" in Statements and Speeches 67/6.

68. Canada: Senate, Report of the Standing Committee of Foreign Affairs of the Senate of Canada on Canada-Caribbean Relations (Ottawa 1970) p. 17.

69. CWIM v. 35 # 5 (June 1945) p. 27.
See also: MT v. 74 # 21 (22/5/25) p. 7; M. L. Girvan, "Canadian Commerce in the Caribbean" in the Royal Bank of Canada publication, Essays on Canadian Economic Problems, vol. II (1928-29) p. 43; CWIM v. 20 # 3 (Feb. 1931) p. 69; CWIM v. 22 # 9 (Aug 1933) p. 268; Royal Bank of Canada Letter, June 1939; CWIM v. 32 # 8 (Aug 1943) p. 5; FP (8/1/49) p. 3; FT v. 109 # 1 (4/1/58) p. 7.

70. FT v. 114 # 10 (5/11/60) p. 24; see also Brewster/Thomas in University of the West Indies, West Indies-Canada Economic Relations p. 59.

71. FT v. 114 # 10 (5/11/60) p. 22.

72. See CC v. 136 # 1 (Jan 1972) p. 4; also Brewster/Thomas p. 14.

73. FT v. 14 # 346 (15/9/53) p. 5; the United States, however, continued as supplier of sewing machines for industrial purposes and the United Kingdom as supplier of the domestic variety.

74. Senate 1970, p. 17.

75. Trade and Commerce 1946, p. 31.

76. FT v. 130 # 11 p. 37 (23/11/68)

77. Senate 1970, p. 59.

78. CWIM v. 39 # 8 (Aug 1949) p. 10.

79. FT v. 109 # 1 (4/1/58) p. 7.

80. FT v. 128 # 6 (16/9/67) p. 14.

81. Senate 1970, p. 17.

82. CC v. 136 # 1 (Jan 1972) pp. 31-32.

83. MT v. 63 # 24 (12/12/19) p. 5.

84. See, for example, the case of the Jamaica Public Service Company Ltd., CWIM v. 19 # 8 (July 1930) p. 27.

85. CIJ v. 58 # 1771 (8/1/38) pp. 40-41.

86. FT. 126 # 9 (29/10/66) p. 3; FT v. 130 # 11 (23/11/68) p. 2.

87. This writer considered it relevant to include an examination of the Falconbridge project in this section given that the pattern of Canadian involvement in the Dominican Republic in this sector closely resembles the one in the rest of the Caribbean region.

88. Girvan, p. 81 Table 4.2.

89. Palmer, p. 37; see also FT v. 11 # 273 (23/3/52).

90. FT v. 126 # 3 (6/8/66) p. 7.

91. FP (12/12/59) p. 59; FT v. 116 # 11 (18/11/61) p. 12; FT v. 118 # 10 (17/11/62) p. 17; FT v. 124 # 11 (27/11/65) p. 4; FT v. 130 # 11 (23/11/68) p. 4.

92. S. Brubaker, Trends in the World Aluminum Industry (1967) p. 101.

93. CC v. 136 # 2 (Feb 1972) p. 14.

94. CC v. 136 # 2 (Feb 1972) p. 15.

95. See John Devrell et al., Falconbridge: Portrait of a Canadian Mining Multinational (1975) p. 132.

96. Business Latin America (hereafter designated as BLA) 1970, p. 46.

97. Levitt/MacIntyre, p. 24.

98. CC v. 136 # 1 (Jan 1972) p. 3; see also CIJ v. 38 # 1273 (23/6/28) p. 905; Saturday Night (hereafter designated as SN) v. 73 # 6 (15/3/58) p. 22; SN v. 74 # 15 (18/7/59) p. 27; and FP (13/12/58) p. 64.

99. MT v. 131 # 7 (July 1963) p. 53 and Jainarain, p. 307; the Canadian Chamber of Commerce, in its publication Trade and Travel in the West Indies (issued 1938) rather perceptively noted that many of the British West Indies colonies had to turn to tourism as a source of revenue and employment as they lacked the political status to negotiate (at an international level) better terms of trade for their primary product exports, see p. 92.

100. FT v. 129 # 11 (25/5/68) p. 33.

101. See CC v. 138 # 11/12 (Nov-Dec 1974) p. 24; FT v. 124 # 11 (27/11/67) p. 16; these were Confederation Life, Dominion Life, British American Life, Imperial Life, Manufacturers' Life, National Life and the Bank of Nova Scotia - see MT v. 130 # 7 (July 1962) p. 74.

102. FT v. 132 # 3 (2/8/69) p. 21.

103. Senate 1970, p. 47.

104. Jainarain, p. 314; the high import component in installations and furnishings results largely because "materials used in the new hotels are usually selected by overseas architects," see FT v. 110 # 4 (16/8/58) pp. 4-5.

105. Canadian Chamber of Commerce, Trade and Travel in the West Indies, p. 30.

106. Jefferson, p. 177.

107. Jainarain, p. 314.

108. Jainarain, p. 269 - Table 11.8.

109. FT v. 124 # 11 (27/11/65) p. 27.

110. FT v. 122 # 13 (26/12/64) p. 5.
FT v. 123 # 12 (12/6/65) p. 6.

111. Demas, pp. 50-51 The Economics of Development in Small Countries with Reference to the Caribbean (1965).

112. In 1931, 1932, Canadian exports of food, beverages and tobacco to Jamaica represented 75 percent of total Canadian exports to that country and supplied close to 40 percent of Jamaica's total import requirements for that category, whereas only 16 percent of Jamaica's total import requirements were supplied by Canada during those two years; see CIJ v. 46 # 1480 (11/6/32) p. 994 and CIJ v. 48 # 1529 (20/5/33) p. 780. Likewise, Canada was Jamaica's largest supplier of food, beverages and tobacco during 1934; see CIJ v. 52 # 1635 (1/6/35) p. 974. In 1950, Canada supplied 12 percent of the Bahamas' total import requirements, though 72 percent of Canada's exports were made up of food, drink and tobacco, providing for 24 percent of the Bahamas' imports in that category; see FT (28/4/51) p. 684. See also: CIJ v. 37 # 1232 (10/9/27) p. 343; CIJ v. 42 # 1366 (5/4/30) p. 497; CIJ v. 46 # 1478 (28/5/32) p. 900; and FT v. 118 # 10 (17/11/62) p. 8.

113. O. Mary Hill, "Canada's Trade with the West Indies" in Canadian Goegraphical Journal Vol. LVIII (Jan 1959) p. 5.

114. MT v. 45 # 21 (19/11/10) p. 2119; FP (23/7/49) p. 8; FP (11/6/49) p. 12; CWIM v. 33 # 3 (March 1944) p. 10.

115. CWIM v. 19 # 1 (Oct. 1930) p. 101.

116. See, for example, CWIM v. 33 # 3 (March 1944) p. 10.

117. Trade and Commerce, 1946, p. 30.

118. This point is further elaborated in Chapter IV section (i).

CHAPTER TWO

CANADA AND LATIN AMERICA: THE NATURE OF THE RELATIONSHIP

Introduction

The countries of Latin America (i.e. Central and South America) grew out of the breakdown of the Spanish and Portuguese empires during the nineteenth century. Although Brazil emerged as a relatively stable nation-state out of Portuguese-held territory, most of the former Spanish colonies underwent a lengthy period of civil wars and internal political and military struggles.

During the latter part of the nineteenth century Britain began to exert considerable economic influence in the newly emerging countries of Latin America. The industrial expansion of Britain at this time required a steady source of industrial raw materials and foodstuffs; in addition to Britain, other European countries such as Germany and Belgium became active in the region, both in terms of trade and investments. Foreign investments went mainly into railways, public utilities, mining, banking and to a lesser extent manufacturing; trade relations involved mainly the export of primary commodities from Latin America to Europe and the importation from Europe of manufactured goods and industrial equipment. Thus the impact of economic activity in Latin America was significantly limited by (1) the foreign control and ownership of the more dynamic sectors and (2) the tendency for the economies to be organized around the production and export of single primary commodities, the demand for which was totally determined by non-indigenous elements. As a result of such factors, the Latin American economies were generally unstable and characterized by high levels of imports concomitant with a low degree of industrialization and technological capability, a lack of integrated markets (due to poor or non-existent communication and transportation networks among the countries) and the general absence of strong indigenous financial sectors.

This broad categorization of Latin America reflects the economic state of the region to World War I. The advent of World War I disrupted world trade patterns and substantially cut off Latin America from its European sources of manufactured goods and industrial products, which resulted in a process of internal industrial development; World War I also "resulted in a decline in the relative importance of European investment in Latin America and an increase in the influence of North America--both the United States and Canada".[1]

This chapter will examine the nature of the economic relationship between Canada and Latin America; it will be relevant to include Mexico in this study, given that it was originally part of the Spanish empire and underwent circumstances similar to the former Spanish colonies in Latin America and also given that the pattern of Canadian economic activity in Mexico resulted from much the same factors as in Latin America.

Section (i) will provide an assessment of Canadian investment in Mexico and Latin America and demonstrate that the initial pattern of economic activity was due to (1) Britain's interest in developing the economic infrastructure of Latin American countries and (2) the strong link of the Canadian capitalist class with British finance capital and the essentially mercantalist orientation of the former group as indicated by its domestic and foreign economic undertakings. The case study of the Brazilian Traction, Light and Power Company (section iii) elaborates on the nature of Canadian economic activities within the British context. Section (ii) examines the indigenous pattern of industrialization in Latin American economies and the increasing involvement of foreign capital (mainly American) in this process (during the inter-war and post World War II periods) in regards to Canadian economic relations. The survey of the activities of Massey-Ferguson Limited in Latin America (section iv) complements this analysis by delineating the elements inherent in the pattern of Canadian external economic expansion within the framework of a world economy dominated by American monopoly capitalist interests and a Canadian industrial economic structure dependently linked to the United States.

(i) The Nature of Canadian Investments

Overall, Canadian investments in Mexico and Latin America, which began to take place in the first decade of the twentieth century, were directed towards public utilities and banking, with lesser concentrations in railways, mining and manufacturing.[2] It was a pattern which resembled Canadian economic involvement in the Caribbean except for the fact that there had been very little prior trade between Canada and Latin America, and Canada's initial economic link with Latin America did not arise from trade relations.

The operational mechanism basic for Canada's economic expansion into Mexico and Latin America was constituted by the establishment in Canada of enterprises whose major or entire focus of productive activities was outside the country. Canadian banks (e.g. the Bank of Commerce and the Bank of Montreal) were major investors in these enterprises.[3] In this respect, however, there is one factor of overriding significance which must be noted, namely that British capital was primarily responsible for Canadian economic activity in these areas. The following excerpt from a report in the Monetary Times of August 20, 1915, clearly outlines the nature of this relationship:

> Canada has been the headquarters of many companies operating in Mexico and elsewhere in South America. Canadians are acting as their directors, but it is capital raised in Great Britain which is financing these enterprises. The amount actually invested by Canadians in these Mexican undertakings is very small.[4]

Thus, while the political instability which characterized the Mexican Revolution (circa 1911-1931) appeared to threaten the economic basis and profitability of Canadian enterprises in Mexico, the fact was that these represented predominantly British funds directed to Mexico by companies chartered in Canada.[5] Displaying considerably less concern over the apparent threat than the business interests who were appealing to the United States for its intervention,[6] Canada's major national business newspaper noted the essential feature of the situation:

> While Canadians have interested themselves in various companies in the troubled republic, it is British money which has financed them.[7]

Canadian banks became firmly established in the major countries of Latin America shortly after the first world war. By 1924, the Royal Bank had six branches in Venezuela;[8] by 1929, it had four branches in Brazil;[9] and "from the mid-1920's to the mid 1940's, the Royal (Bank) was the largest non-Columbian bank in Columbia."[10] However, while the Latin American operations of the Canadian banks represented major activities on their part, Canadian banks tended to occupy a less important position in Latin America than they did in the Caribbean. In Brazil, for example, the operations of the Royal Bank constituted, on the average, about one-seventh of the total activities of the foreign banking sector.[11] This can be explained by the fact that, unlike the British West Indies which were under the political and economic domination of Britain, the Latin American countries achieved independence before the end of the nineteenth century. The conditions present in the British West Indian colonies which precluded the emergence of domestic financial interests did not exist in the Latin American countries, especially those undergoing some degree of industrialization, and indigenous financial groups developed, often in conjunction with state and overseas private interests. Generally, the trend in the twentieth century has been for a decline in the importance of foreign banks, and the case of Brazil is representative. In 1913, foreign banks held 40 percent of all bank deposits; in 1930 foreign banks handled 35 percent of all banking activity; while in 1952 foreign banks were responsible for 6.4 percent of all deposits and 5.2 percent of all loans of banks in Brazil.[12]

As in the Caribbean, Canadian banks were able to establish themselves in Latin America largely because of the nature of their domestic organization in Canada. Also, because the United States lacked any national banking system, its banks were hindered, although not legally prevented, from participating in any large way in international banking and, consequently, most of the competition for Canada in the foreign banking sector of Latin America came from Britain until World War II. Afterwards, such factors as foreign aid, multinational corporations, international banking consortiums and the International Monetary Fund considerably affected the conditions of international banking and finance. Chapter three will elaborate on this.

Canadian investment in Latin America (not including banking and life insurance operations) was estimated at $200 million.[13] In 1958, the book value of Canadian private long term investment was estimated at $329 million and represented about 30% of the total private investment by Canadians abroad (excluding the United States). But the total investment in Latin America of all companies incorporated in Canada was estimated at approximately $1.5 billion. The discrepancy lay in the non-resident ownership of Canadian companies with operations in Latin America.[14] Such a pattern of involvement occurred early in Canadian-Latin American economic relations and, as the figures above indicate, characterized the major portion of Canadian investments.

In 1928, the Canadian Eagle Oil Company was established to take over certain properties of the Mexican Eagle Oil Company. The former was a Canadian corporation in name and registration only, as very little of its stock was owned by Canadians. And while the International Petroleum Company, established in 1916 and headquartered in Toronto, constituted an important influence in the economies of Peru and Columbia until the 1960's, it was primarily a subsidiary of Imperial Oil, itself a subsidiary of Standard Oil (N.J.). Other Canadian companies operating in Venezuela and Ecuador were in fact controlled by British interests.[15]

This substantial degree of Canadian based but foreign controlled operations had, as will be demonstrated shortly, significant ramifications for Canada's economic position vis-a-vis the Latin American countries.

Canadian investment in Latin America tended, for the first half of the twentieth century, to be concentrated in utilities. By 1954, about 75 percent of Canadian total investment was in utilities (hydro development, power distribution, municipal tramways and telephone service), principally in Brazil, Mexico and Venezuela.[16]

The Canadian International Power Company established, over the years, subsidiary operations in Mexico, El Salvador, Bolivia and Venezuela.[17] In Bolivia, for the most part, it owned the utility company providing hydroelectric power to the main industrial area.[18] It appears that the company, in establishing itself at the time and in the manner in which it did, succeeded in controlling the most lucrative sectors of the industry in Bolivia for a long period of time:

> The government-owned electric companies... have a greater generation capacity than the private sector and invest more capital into development of generating plants and transmission lines. However, inequality exists in the area of distribution. The private sector has 45% of the country's customers, but these are the cream of the market in the affluent urban areas. This enables the private companies to control 60% of total electric consumption. The state...supplies the marginal...districts, which consume little and are costly to service.[19]

By the mid-1920's, Mexican enterprises "started and controlled" by Canadians, represented about $135 million in capital (book value). For comparative purposes, it may be noted that Britain had approximately $825 million invested, the United States $500 million and other European interest $588 million. The Mexican Tramway, Light and Power group, which operated the utilities in Mexico City and the surrounding district, was responsible for the major portion of Canadian investments (i.e. about $100 million).[20] Although the Mexican Tramway Company was taken over by the national government following a strike in 1945, the Mexican Light and Power Company Limited has remained a Canadian registered company, albeit largely owned by non-residents.[21]

Two features of the Canadian pattern of investments in Mexico during the period 1910-1960 must be considered. Firstly, Canadian foreign investment as a percentage of total foreign investment in Mexico declined substantially, particularly during the period 1940-1960. From Table II.1 below,[22] it may be observed that in 1939 Canada was a source for approximately 25 percent of foreign investment in Mexico. By 1957 Canada's share was reduced to 13 percent, while the United States increased its share from 60 percent to 78 percent during the same period. Secondly, although Canada, by the end of the 1950's, still ranked "second to the United States as an investor in Mexico", this investment was still principally in public utilities. In the manufacturing sector Canada ranked far behind the United States and European interests.[23]

Table II.1: Sources of Direct Foreign Investment in Mexico, by Country for 1939, 1948, 1957, on a percentage basis.

Country	1939	1948	1957
United States	60.2	71.8	78.4
Canada	25.4	15.8	13.5
Sweden	5.2	5.1	1.0
United Kingdom	7.0	4.9	4.3
Other	2.2	2.4	2.8
Total	100.0	100.0	100.0

(ii) The Development of Local Economies and the Pattern of Trade

The nature and extent of Canada's economic relations with Latin America is an important factor in assessing its position in the world system. This section will focus on economic development in Latin America and determine its implications for Canada's export trade. As well, related external elements operating within the framework of the Latin American economies will be considered and their respective impact assessed.

In a report in 1930, the General Manager of the Royal Bank of Canada characterized Canadian-Latin American trade relations as follows:

> It is because of the similarity of the natural products of Latin America to those of Canada that Latin Americans are more interested in our manufacturers than in our natural products.[24]

The implications of such an assessment are essentially that Canada and the Latin American economies are competitive in so far as primary sources and raw materials are concerned but complementary in so far as Canada is an industrialized nation while the Latin American countries are mainly primary goods producers. The latter position is fairly representative of the general view held by state and finacial interests in Canada on the matter, except in regards to Argentina which, it was felt, competed directly with Canada for world markets in primary products (especially wheat).[25] Generally, Argentina had been seen as one of Canada's main competitors since the beginning of the century. In 1911, the Monetary Times noted of Argentina: "Its resources and possibilities are generally considered to rival those of Canada".[26] Additionally, the strong trade ties which had been developed with Britain in the late nineteenth century and the early part of the twentieth century (due mainly to the role that British capital played in the country's development) persisted even after World War I (despite the decreased role of Britain in Latin America) and effectively obviated what was considered a potential market for Canadian manufactured goods.[27]

The question of the export potential of Canadian manufactured goods is a particularly signficant one in the light of the assumed complementary nature of Canada and the Latin American economies. The report of the General Manager of the Royal Bank of Canada which was quoted above specifically refers to such manufactured export products as sewing machines, automobiles and agricultural implements. Canada's position as a producer and exporter of these goods will be examined later in this section; presently, it will be relevant to note the general shift that occured with World War II.

World War II (as well as World War I) cut off Latin American countries from their European markets and sources of manufactured and semi-manufactured goods, resulting in a greater degree of dependency on the United States. More significantly, however, difficulties in obtaining traditional imports, in conjunction with an influx of foreign capital seeking profitable sectors of investment, resulted in an expansion of indigenous industrial production; as well, this had, as a general consequence, an "increase in trade interchange between the various republic themselves".[28]

The vice-president and general manager of the Royal Bank of Canada, at its annual meeting in December of 1944, in reporting on the "steady development of the bank's foreign business in the Caribbean and South America", remarked in the following manner on the economic nature of the Latin American countries, in as much as Canada was concerned:

> The South American countries are potential purchasers of large quantities of equipment of all kinds for modernizing and expanding already established manufacturing facilities, for developing new industries, and carrying out public works programs.[29]

At about the same time as this, John Humphrey wrote The Inter-American System: A Canadian View in which he indicated that in the post war period, the import requirements of the industrializing Latin American countries would be geared to certain manufactured goods, especially machinery and capital equipment.[30] Humphrey contended, however, that these requirements would be less suited to the products that Canada was exporting and that Canada's capacity to adjust to such a situation was relatively weak:

> With unimportant exceptions, Canada has never been able to compete with the great manufacturing countries except in sheltered markets.[31]

In regards to the development that did take place, Canada's export trade followed a consistent and expanding trend. However, the commodity composition of Canadian exports, particularily in the more industrialized economies of Latin America, underwent considerable change. While, in 1920, 96 percent of Canada's exports to Latin America consisted of manufactured or partially processed goods, the pattern by the 1950's was toward the export of less processed products. Underlying this trend, however, are two significant elements which appear to be at the basis of the evolution of Canadian economic relations with Latin America.

The first deals with the capacity of Canadian business interests to establish markets in rapidly changing conditions:

> More and more Canadian firms are being required to face intense competition on major "one shot" products rather than supplying consumer goods on a continuing basis as a result of consumer preferences built up over a long period of time.[32]

The second operates at a more global level and involves the interaction of internal and external factors:

> Although Canada and Brazil should have complementary economies, because of the development of secondary industry (frequently under the spur and guidance of U.S. capital investment) the economies are in fact competitive.[33]

The industrialization of the Latin American economies resulted, in some cases, in "substantial reductions or the complete elimination of Canadian exports of particular items".[34]

In the late 1950's and early 1960's, the assessment of the Canadian state and of private interests in Canada was (as it had been in the early 1940's) that the industrial development of Latin American countries based on import substitution policies (which generally involved self-sufficiency in consumer goods only) would create larger markets for Canadian raw materials, component parts and capital goods; and even in cases, such as Mexico and Brazil, where domestic production of capital goods was occuring, a market would still exist for technologically sophisticated equipment.[35] Nevertheless, it was also recognized that investments were required in local manufacturing industries "to maintain or establish" markets in this area.[36] While this line of analysis may have been essentially correct, its application had severe limitations in that such an evaluation failed to consider the element of Canada's capacity and capability for adapting to the developments in the import structure of Latin American economies.

In considering the nature of imports in 1966 for all Latin American countries, it is clear (from Table II.2 below) that the emphasis is on capital goods, raw materials and intermediate components; it is equally clear that, in general, Canada's position as a supplier of Latin American imports is relatively weak.

Table II.2: Nature of Imports by Major Categories and Source of Imports by Major Suppliers for Latin America, 1966.[37]

Nature of Imports		Source of Imports	
Categories	%	Country	%
Capital goods	40	United States	40
Raw/intermediate	35	Western Europe	30
Consumer goods	15	Latin America	10
Fuels	8	Canada	4
		Japan	4

In this regard, it would be relevant to consider the nature ot the imports for which Canada is a source.

In the Brazilian economy, the import structure emphasizes machinery and equipment, chemicals and pharmaceutical products (See Table II.3 below).

Table II.3: Percentage Distribution of Brazilian Imports By General Categories, 1967, 1970.[38]

Category	1967	1970
Foods, beverages, tobacco	19.6	10.3
Raw materials, fuels	19.4	17.0
Machinery, equipment	21.3	28.1
Chemicals, pharmaceutical	13.8	15.7
Other manufactured goods	25.0	28.0
Other products	0.9	0.9

But from Canadian trade data,[39] it is evident that the recent trend in Canadian exports to Brazil has not been in the field of capital goods or technologically sophisticated products. In Peru, as well, imports of capital goods (machinery, equipment and construction materials) for the years 1960, 1962, and 1964 amounted to \$161.9 million, \$270.0 million and \$254.6 million, respectively; for the corresponding years, Canadian exports of capital goods to Peru totalled \$2.9 million, \$3.8 million and \$5.2 million, respectively.[40]

Significantly, it is in the areas that Canadian exports are strongest that domestic development appears to be providing the most intense competition. The pattern of development in Mexico has resulted in a general self-sufficiency in durable consumer goods; increased local production, however, in such industrial products as newsprint and synthetic rubber would undermine two of Canada's most important markets in that country.[41] And while industrial expansion in Mexico resulted in markets for machinery and equipment, Foreign Trade reported in 1967 that "Canada is not considered as an important source of sophisticated capital goods by Mexico".[42]

Domestic industrial development in the CACOM areas has also constituted a source of preoccupation for the Canadian export trade. The local establishment of flour mills has undermined the export of Canadian flour and local import substitution programmes have affected the export of consumer goods from Canada.[43] As well, strong competition has developed from LAFTA producers in several of Canada's most important markets for semi-processed commodities (e.g. newsprint, zinc ingots and aluminum ingots).[44]

The pulp and paper industry is considered to be an important sector in Canada. Cheap and abundant sources of raw materials and a high level of technological development have resulted in a competitive advantage for the industry on the world market, and pulp and paper exports have contributed substantially to Canada's balance of payments throughout the twentieth century.

Cut off from the traditional sources of imports during World War I, the more advanced Latin American countries (notably Brazil, Argentina, Chile and Columbia) became engaged in establishing their respective indigenous pulp and paper industries during the early 1920's. Until the 1950's, however, the local industries were limited to the production of paper (most grades except newsprint and fine papers) with their pulp and machinery requirements being imported.[45]

The state appears to have played a strong role in the development of the industry (at least in the case of Brazil) in conjunction with local industrial and financial interests. In 1947, the Brazilian government provided the foreign exchange (in the form of a loan) required for the purchase of machinery while the local operators "undertook to build the hydro-electric power plant and the pulp and paper mill with their own resources".[46]

By the mid 1950's, there was a growing tendency in the pulp and paper industries in Latin America for paper manufacturers to become more closely integrated with domestic pulp producers.[47]

The establishment of a newsprint mill in Mexico in 1958 is indicative of the development that took place in that country during the 1950's.[48] By 1966, Mexico had reached near complete self-sufficiency in basic paper products (except newsprint);[49] at about the same time, Brazil was becoming self-sufficient in wood pulp and water power.[50] Table II.4

below indicates the degree of expansion that took place in the Brazilian pulp industry.

Table II.4: Source of Wood Pulp Consumed in Brazil, 1955-1962, Percentage by Category.[51]

	1955	1956	1957	1958	1959	1960	1961	1962
Domestic	42	47	47	60	65	72	80	83
Imported	58	53	53	40	35	28	20	17

But following closely on this process of self-sufficiency in the basic pulp sector were three other important developments: (1) local production of paper and paper products; (2) local production of pulp and paper machinery and equipment; and (3) substantial exports of wood pulp.[52]

In 1960, Foreign Trade noted that the drop in pulp shipments from Canada to Chile reflected the growth of Chile's pulp and paper industry; such a development, however, not only undermined Canadian exports in this sector, but also affected Canada's position relative to the neighboring markets, once Chile (and other Latin American countries) reached an export potential, expected to occur in the early 1980's.[53]

The emergence of an export potential in manufactured products in the Latin American economies, particularly in sectors in which Canada had world markets, constituted a new dimension in trade and investment relations between Canada and Latin American countries. The character of this situation is exemplified in the following passage excerpted from Foreign Trade:

> For the most part our imports are tropical agricultural products or raw materials that have a unique economic advantage. Beyond these categories, Latin American exports tend to be competitive with rather than complementary to Canadian exports.[54]

The development of export potential appears to be an economic priority in several Latin American countries, particularly Brazil. In 1970, the state owned Banco do Brazil announced that its overseas branches would offer import financing to purchasers of Brazilian goods.[55] In 1972, a consortium of twenty-five Brazilian firms (including several foreign subsidiaries) was established, with "substantial backing and support from the Brazilian government", to promote the export of Brazilian goods to West Africa.[56] Other state export promotion policies include duty free import of complete industrial plants, provided that the production is essentially for export; in addition, export programmes are required of large multinational corporations in return for tax concessions.[57]

In response to these influence and to the general shift in the pattern of import requirements to commodities in which Canada has little or no competitive advantage, various investment mechanisms, such as licensing agreements or partnerships, have been proposed as a means by which to create "safe" markets for capital and intermediate goods.[58] The analysis below will focus on the foreign sector of the Latin American economies, assess its impact on Canadian external relations and identify other related constraints significant to Canada's economic position.

Humphrey, in The Inter-American System: A Canadian View, argued that Canada's export trade in manufactured goods was built up largely on a system of Empire preferences; he also contends that it was chiefly to take advantage of these preference that a large number of American firms subsidiary operations in Canada. And, while these branch plants constituted the major source of Canada's manufactured goods, their capacity for export was largely contingent upon economic conditions in the United States. The Great Depression in the United States, Humphrey maintained, had a serious effect on Canada's trade position, unlike the results, noted earlier, it had in Latin America.[59]

During the period from the mid-1920's to the early 1930's, Canada's exports to Brazil were comprised mainly of three items - sewing machines, automobiles and rubber manufactures; for the fiscal year 1929, exports of these three items amounted to $3.1 million out of total Canadian exports to Brazil of $5.8 million.[60] What is particularly significant about this export pattern is that Canada's three major export items were "produced by branch factories of U.S. firms operating in Canada".[61]

However, automobile exports from Canada to Brazil declined continuously from 1924-5 onwards, to the point where, in 1934, the Commercial Intelligence Journal noted that they "have now disappeared from the statistics".[62] Two elements were operational here; one related to the export policies of the American firms, the other to their pattern of investment.

The decrease in export car sales by the American factories operating in Canada during the years 1928, 1929 was attributed to "the heavy shipment of American cars...which overstocked the (Brazilian) market";[63] however, while Canadian exports of automobiles to Brazil had been eliminated by 1934, the Commercial Intelligence Journal reported, in that year, that "U.S. car exports to Brazil are now showing a steady improvement".[64] The investment factor is illustrated by the establishment of an assembly plant in Brazil by one of the multinational U.S. firms and the resultant decline in Canada's Brazilian auto trade during 1925-26 in the order of 55 per cent.[65]

Likewise, during the 1930's, one of Canada's major exports to Mexico was automobiles;[66] however, the development of Mexico's authomobile industry in the post World War II period, mainly by American interests:[67] (1) undermined the Mexican market for Canadian auto exports,[68] (2) enhanced the position of U.S. suppliers of auto parts to the detriment of Canadian exports,[69] and (3) competed directly with Canadian branch plants of the American firms for export markets, by exporting to the Caribbean and Central and South America.[70]

Table II.5 below provides an indication of the dominant role played by U.S. factories in relation to Canadian exports to Brazil and the steady decline in the export of these products from Canada during the years 1929-1933. The importance of these branch plants is also indicated by the fact that the loss of export trade due to these three items between 1930-31 and 1931-32 represented 80 per cent of the total loss of Canada's trade to Brazil.[71]

Table II.5: Selected Canadian Exports to Brazil, 1929/30-1932/33; Can $ million.[72]

Category	1929/30	1930/31	1931/32	1932/33
Sewing machines	1,731,517	746,356	152,895	432,330
Rubber products	1,136,020	1,128,961	280,073	410,472
Automobiles	247,431	15,032	1,699	374
Total	3,114,968	1,890,349	434,667	843,176

The same circumstances which characterized the auto trade can be found in the case of the exports of rubber products, mainly tires. In reporting on the substantial drop of exports in that sector between the year 1930-31 and 1931-32 (see Table II.5 above) the Commercial Intelligence Journal remarked that "branches of U.S. export rubber companies do not specify as between U.S. and Canadian tires when indenting and the export house, located usually in New York, allots the requirements as between Canadian and U.S. factories".[73]

Such mechanisms, though, resulted in temporary or short term imbalances; in the long term, Canadian exports were most affected by the local establishment in Latin America of plants by U.S. firms which had previously supplied these overseas markets by means of exports from their Canadian branches. Thus, as a consequence of increased domestic production by both local manufacturers and foreign firms, Canada's exports of rubber products to Brazil had practically ceased by 1941.[74]

Similar conditions were also to be found in other industries. Adding machines from Canada were sold in Brazil through a local agent "directed from the U.S. plant"; as a result, Canadian exports of these goods were dependent upon "the allotment for export given the Canadian plant".[75]

Furthermore, the Commercial Intelligence Journal, in one of its trade reports, documents a number of cases in which Canadian manufacturers, whose production was based on foreign patents, found their export markets seriously affected or completely eliminated when the patent holding firm decided to curtail exporting rights and appropriate for itself the foreign business or grant a license to manufacture the product to a local producer. The report concluded that "too many Canadian firms are depending upon buying limited rights on foreign patents after they have been commercialized which, in so far as foreign trade is concerned, places them in a blind alley".[76]

In its more contemporary manifestations, this general phenomenon has additional ramifications. As part of their post World War II industrialization programs based primarily on import substitution policies, most of the Latin American and Caribbean economies have allowed the duty free importation of capital and intermediate goods. To a large extent, these types of incentives have eliminated the competitive margin once provided to Canadian exporters by Empire tariff preferences.

In a report on Trinidad, <u>Foreign Trade</u> notes that "in the field of raw materials and semi-processed goods, Canadian shippers have, on occasion, lost the edge of preferential tariff because the new industries enjoy duty free import privileges."[77] The Senate Standing Committee on Foreign Affairs, in its 1970 report on Canadian-Caribbean relations, perceived the inter-relation between such developments and the industrial structure of the Canadian economy:

> ...some U.S. corporations, which formerly found it advantageous to supply West Indian imports through Canadian subsidiaries, now find it more efficient to supply these exports from closer, more efficient plants in the United States.[78]

Not unrelated to these factors is the element of foreign investment. In Latin America, during the first four decades of the twentieth century, foreign corporations constituted very substantial markets for supplies in such sectors as railways, gas/electricity distribution, tramways and mining, although the origin of the capital involved as well as technological considerations had a determining influence on the source of the supplies.[79] As elaborated in more detail in the case study of Brazilian Light in Section (iii), the source for much of Canadian-based investments in Latin America was British capital; additionally, Canada's capacity to service the markets created by its investment (particularly Brazilian Light) was largely conditioned by its industrial and technological dependence on the United States.

Generally, Canadian markets in these sectors of the Latin American countries were precariously based on investments (mostly controlled by non-residents) which (with the possible exception of hydro-power development, which in the post World War II period came increasingly under the domain of state and indigenous interests) were in sectors which did not have substantial industrial and technological linkages both in the case of Canada and the host economy. In addition, these investments reflected and reinforced the prevailing pattern of capital investment and production in Canada. The fact that Canadian General Electric and Canadian Westinghouse were the major sources of machinery and equipment for Brazilian Light indicates that even in the primary sectors of investment by the Canadian capitalist class, a condition of structural dependency existed. As such, while Canadian investments in Latin America may have created a demand for certain Canadian exports, these investments were not of a nature to render Canada in an influential position in the sectors which were prominent in the industrialization process of Latin American countries.

There is another dimension of foreign investments worth noting. In conjunction with the corporate needs of multinational firms, foreign investments have taken place less for the traditional purpose of creating an export market for the home economy than for development of a foreign industrial sector and market. The involvement of Massey-Ferguson in Latin America is a prime example of this phenomenon. Significantly, though, during virtually the first fifty years of the twentieth century, Canadian exports of agricultural implements and machinery were negligible.[80] Subsequent to the investments and company takeovers by Massey-Ferguson, this sector of Brazilian industry has become a market for components and machinery, the source of which is Massey-Ferguson. This is not to say, however, that Canada derives all or even most of the economic benefits. Massey-Ferguson, while a Canadian owned and controlled company, has most of its production operations as well as its international corporate headquarters and research and development facilities outside of Canada.

More generally, much of the industrialization in underdeveloped economies is the result of foreign investment by multinational corporations and as such, the markets for the required capital goods and component imputs are largely controlled by the parent firms.[81] This phenomenon has affected Canada not only in the manufacturing sectors but also in primary sectors, where Canada's position was generally considered competitive.

The development of agricultural processing industries in the underdeveloped and industrializing economies in the late 1950's was characterized by the establishment of large flour mills which were "affiliated with world-wide milling and grain interests" and the procurement policies of which were to be dictated by the corporate requirements of non-Canadian firms.[82] In 1966, Canadian trade authorities were concerned that the Ecuador market for wheat, which accounted for 75 percent of Canada's trade with that country, would become substantially closed to Canadian exports due to the sale of the country's largest flour mill to U.S. interests.[83]

Foreign investment in another sector of the economy also affected Canada's continental position both vis-a-vis Mexico and the United States. As part of its post World War II industrialization programme, Mexico intensified production in the mining sector. By the mid-1950's, however, the major companies engaged in mining in Mexico were U.S. owned, which helps to explain why over 95 percent of Mexico's machinery imports were from the United States, rendering Canada's share of this market negligible.[84] In addition, however, Mexican exports of minerals competed directly with Canadian mineral exports in the United States, which constituted a substantial market for both Canada and Mexico.[85]

Finally, in considering the elements introduced above, note must also be taken of such para-economic factors as international aid and finance (which is the subject of Chapter III). In the case of Mexico's modernizing programme of its railway system in the 1950's, which involved expenditures of $45 million mainly for imported equipment which Canada was qualified to supply, Canada's participation in this project was effectively precluded because the foreign component was to be financed by a loan from the American Export-Import Bank.[86]

Additionally, the question of Canada's dependency vis-a-vis the United States in its manufacturing and resource sectors (elaborated in Chapter IV) must be taken into account when considering Canada's failure to participate more actively as a foreign investor, for example, in Mexico's industrialization, despite the Mexican state's encouragement of foreign investment.[87]

(iii) The Brazilian Traction, Light and Power Company[88]

The first element to consider in examining the establishment of a Canadian based company in Latin America is the global politico-economic framework in which it occurred; the following passage outlines this context clearly:

> Dr. Pearson's genius lay in engineering, construction and operation and the system was built under his direction chiefly by Americans using American standards. On the other hand, the legal and financial departments were staffed largely by Canadians and Britons.[89]

Dr. F. S. Pearson, who pioneered the electrification of tramway systems in the United States, was unable to get domestic financing for his project in Brazil, circa 1900. Consequently, he turned to Canadian interests.[90]

The Canadian interests responsible for the incorporation in Canada of the Sao Paulo Tramway, Light and Power Company and the Rio de Janero Light, Heat and Power Company[91] had also been involved (with British finance capital) in the construction of the Canadian transcontinental railway system and, upon completion of this project, had turned their attention to hydro development and power distribution in Canada.[92] As such, Canadian investment in Latin American utilities took place within a framework which incorporated a pattern of economic involvement on the part of the Canadian capitalist class which had a strong intra-sectoral bias (both domestically and internationally), concomitant with the primary needs and interests of British finance capital. This relationship helps to explain "what would otherwise be a surprising development, namely that Canadian initiative was largely responsible for the establishment of a great electrical enterprise in a country 5,000 miles away with which no previous Canadian association existed".[93]

During the first quarter of the twentieth century, the company acquired a number of competing utilities systems from Brazilian as well as foreign interests (tramways, power, gas distribution and telephone systems) so that, by the mid-1920's, it virtually had monopoly control in the major metropolitan areas of Brazil. In 1922, the Commercial Intelligence Journal remarked that Brazilian Light constituted the largest power developer in Brazil.[94] It was also at about this time that the Brazilian Hydro Electric Company was incorporated as a subsidiary of Brazilian Light, for the purpose of constructing hydro-electric plants.[95]

The company, however, began to divest itself, by stages, of holdings that were becoming less profitable, mainly because they would require huge capital investments.[96] The company discontinued tramway operations (Sao Paulo in 1941, Santos in 1951) and relieved itself of its gas holdings, because "of the need to modernize plants". And during the 1960's, Brazilian Light withdrew completely from transportation and telephones;[97] by this time the profitability of the telephone system had been seriously undermined by importing restrictions and the need for considerable capital outlays.[98]

This does not imply, however, that the company's undertakings were not successful. In fact, the firm's activities were highly profitable. For the period 1899-1950, surplus earnings, in excess of dividend payments, amounted to more than double the total capital investment. A total of $164 million had been invested in a corporation that in 1952 showed an equity for ordinary shareholders of $300 million, and this after depreciation and "other reserves against plant, etc., of $232 million".[99] In the post World War II period, less demand was placed on the firm to meet its own capital requirements.

The international credit agencies, established in the post World War II period to promote world economic conditions geared to the needs of large capitalist interests based in the advanced industrialized countries, saw this sector as a legitimate recipient for its funds. The industrial development of Latin America would serve the large capitalist interests by creating substantial markets for capital goods and technologically sophisticated products, but it was readily perceived that a precondition of such a situation was the existence of cheap sources of electrical energy.[100] Brazilian Light was the first private company to obtain a World Bank loan. From 1949 to 1958 it obtained loans totalling $120 million.[101]

In 1964 it received $96 million as a result of the sale of its telephone system to the new military government. The contract required, however, that the company reinvest two-thirds of this amount in Brazil.[102] Brazilian Light set up an investment and development bank "to handle the proceeds from the sale of its telephone subsidiary"[103] and began diversifying (in conformity with a worldwide pattern characterizing multinational firms) into "real estate, tourism, meat packing, beer, forest products and metal fabricating", mainly by acquiring domestic companies.[104] In addition, Brazilian Light established various subsidiaries through which it could control operations in leasing, consumer credit, mutual funds and the primary resources market of the stock exchange:

> Brasnac's and OEG's operations are mainly in equity holdings. Brasnac owns a string of mining companies and an export-import firm ...which is being converted into a trading company to market Brazilian manufactures through the Canadian parent company's marketing arm.[105]

As well, by the intermediary of its investment bank, Brazilian Light became an investor in the foreign operations of several major American multinational corporations.[106]

Notwithstanding this substantial diversification, the company remained, throughout the post World War II period, a major force in the power sector of the Brazilian economy.

In the early 1950's, Brazilian Light distributed 65 percent of the total electric power generated in Brazil (and supplied as well over 80 percent of the telephone service).[107] In the early 1970's the company, through its power subsidiary, generated about 50 percent of the power supplied to the most populated and industrialized regions of the country and marketed, as well, about 30 percent of the power produced by the state-owned utilities in those areas.[108]

According to a speech in 1967 by the president of the Canadian holding company to the shareholders, the consequences for Canada of the Brazilian Light investments and other related developments, have been generally positive:

> We believe that the choice made many years ago of Canada as the corporate home for the international groups of investors entering the utility business in Brazil has been of real benefit to Canada...Our activities have resulted in substantial employment in Canada...It has been our policy over the years to promote the purchase in Canada of equipment and supplies for our plants in Brazil...Our activities have over the years contributed significantly to Canada's balance of payments.[109]

The reference to Canada as the corporate home for a group of international investors, underscores a pattern, noted earlier, that is dominant in Canadian foreign economic relations. The Alcan investments in Jamaica and Guyana, the Falconbridge project in the Dominican Republic, the Mexican Light and Power Company, as well as the International Petroleum Company, and the Canadian International Power Company investments in various Latin American economies, were all executed according to this international investment practise. Brazilian

Light was no exception. The Commercial Intelligence Journal noted in 1923 that of the £94 million of British capital invested in Brazilian railways and tramways, almost half (£44 million) was invested in Brazilian Light; in 1959, 45 percent of owner registered share, which accounted for 63 percent of total equity, were held by non-residents.[110]

Canadian purchases of capital equipment and materials were closely related to the changing nature and development of the company. The initial investments involved transportation equipment which was imported mainly from the United States. During the 1920's and 1930's, as the company entered the fields of power development and distribution and gradually expanded into other sectors, purchases were made in Canada of generators, motors, turbines, telephone equipment, etc.[111] In 1944, a 205 mile transmission line was built entirely of Canadian materials[112] and, in referring to the years 1947-1952, the Financial Post noted, of Brazilian Light, that it was "an undertaking that...has funnelled Canadian goods worth over $50 million into the country".[113]

Significantly, however, the sources in Canada for the technologically sophisticated machinery and equipment were mainly Canadian General Electric and Canadian Westinghouse, Canadian subsidiaries of two American firms. In the 1950's, Brazil provided a market for about 50 percent of Canadian Westinghouse's export sales and about 7 percent of Canadian General Electric's. And, in order to help with the familiarization of Canadian products, Brazilian engineers were trained in Canada at Canadian General Electric and at Canadian Westinghouse, in cooperation with Brazilian Light. Indicative of the degree of industrial and technological dependence of the Canadian economy, and characteristic of Canada's external economic role, six of the seven contractors involved in the sale of electrical equipment to Brazil (supported by a $26.5 million Export Development Corporation loan to Brazilian Light) were American subsidiaries and one was a British subsidiary.[114]

The gradual diversification of Brazilian Light from its traditional sectors, the participation of international aid and credit institutions in economic development and the increasing industrialization of Brazil (involving self-sufficiency in capital goods) have further affected the pattern of foreign procurement of the company. Commenting on the $90 million loan that the company obtained in 1952 from the International Bank for Reconstruction and Development, the Financial Post noted the following:

> The great feature of this coup in industrial statemanship is that it cut through whole jungles of foreign exchange problems and let Brazilian Light go shopping in the world markets...[115]

It was also reported in the Financial Post that, of the expansion programme valued at approximately $100 million (for which IBRD loan was provided) only $20 million were to be spent in Canada.[116] And, indicative of the degree of local development in Brazil, Brazilian Light, in 1967, spent $32 million on Brazilian made capital goods and imported only $3 million worth.[117]

(iv) Massey-Ferguson Limited

Massey-Ferguson is a Canadian owned and controlled firm, although it has its corporate headquarters and carries out most of its research, development and production in the United States. In 1973, Massey-Ferguson had 66 manufacturing plants in twenty-six countries and marketed its products in 180 countries. Massey-Ferguson has 87 percent of its assets located outside of Canada, undertakes 92 percent of its production and sells 93 percent of its products outside of Canada. In the decade between 1963 and 1973 the degree of Canadian ownership varied from 59 percent to 84 percent.[118] Of particular concern here is the nature of the activities of Massey-Ferguson in Brazil and its influence on the industrial and agricultural sector of Brazil as well as several other Latin American countries.

Currently the Brazilian operations of Massey-Ferguson (formerly Massey-Harris) constitute the third largest money maker in the world-wide network of the company. The firm established a sales branch in Brazil in 1938 and set up a manufacturing plant in 1957. Current Brazilian assets are in the order of approximately $300 million, and Massey-Ferguson has had, since 1970, 50 percent of the tractor market in that country. The rest of the market is shared equally between Valmet (a Finnish company) and CBT (a state owned firm).[119]

The Brazilian subsidiary operations are vertically integrated; the local company owns or controls a foundry, a forging company, an engine manufacturer, and has a 40 percent interest in a farm implements firm.[120] Having thus secured reliable sources of supply, the company has insisted in Brazil (as in other Latin American economies) on the "interchangeability of capital intensive parts".[121] As an executive of the company has noted, one of the key features in the development of the firm was the establishment of a "global strategy". This involved the integration of all the facets of production (planning, development, engineering, manufacturing and marketing) as well as the operations of the firm's subsidiaries within a global framework.[122]

In examining some of the recent activities of the firm in Brazil, it becomes evident that these have significant implications for the nature of socio-economic development in Latin America. Massey-Ferguson has maintained an on-going program of influencing the Brazilian government to put greater emphasis on the modernization of agricultural techniques through more liberal credit and tax policies. The firm appears to have been successful in this regard, given that the government has provided funds to finance the purchase of machinery by farms and has eliminated the sales tax on farm machinery. Significantly, <u>Foreign Trade</u> assessed in 1947 that the establishment of "a large scale agricultural equipment industry (in Brazil) would require as a preliminary condition a successful campaign to foster the use of modern equipment". It proposed, as one possible mechanism, "government financing of purchases".[123]

The firm has also undertaken a program "to develop and disseminate new technology"; it has provided the Brazilian association of wheat farmers with the services of a world renowned geneticist; provided fellowships to more than 16 scientists for study at an international agricultural centre in Mexico; and has made available scholarships to Brazilian agronomists for study in various Brazilian institutions.[124]

As part of an extensive marketing campaign, Massey-Ferguson operates a training centre in Sao Paulo that "gives free courses in the use and maintenance of farm equipment for Massey-Ferguson distributors, customers, operators and students of educational institutions linked to farming". More than 4,000 people from Brazil and other Latin American countries have been trained at the centre. The admission criteria for foreign participants appears to be basically that Massey-Ferguson export tractors and machinery from its plant in Brazil.[125]

The firm has also organized an extensive network for providing courses in agrarian institutions and engineering schools throughout Brazil. The programme consists of lectures on agricultural and industrial machinery given by local Massey-Ferguson executives and managers. The essential feature of the programme is that Massey-Ferguson makes "its own machinery and equipment available to these schools for training purposes".[126]

While it appears certain that Massey-Ferguson's efforts in government and public relations will result in the creation of a larger market for its products, the firm's involvement transcends the economic sphere and its activities exert an important influence in the area of social and cultural development. The firm has been instrumental in promoting and financing Brazil's more than 8,000 4-S clubs, geared to the education of rural youth and modelled after the 4-H clubs in the United States. One of the firm's Brazilian directors is also the president of the national committee of the 4-S clubs and Massey-Ferguson has worked with about 60 other firms operating in Brazil to raise money to finance the club's activities.[127]

Finally, in several Latin American countries, Massey-Ferguson has accepted (or rather welcomed) government participation in its investment projects, for it "gives stability to the investment, as the government is not likely to enact legislation that would adversely effect its holdings".[128] And even in cases where joint venture agreements involve gradual, though long term government take over, "(Massey-Ferguson) will still have licensing and know-how agreements to augment its diminished share of the profits".[129]

This mode of foreign investment represents a generalized tendency among multinational corporations and demonstrates that the internationalization of capital no longer signifies capital movement but rather is based on the global integration and control of the technological base and productive activities of a firm. As Walter Light, president of Northern

Telecom Limited, indicated in an interview with the Financial Post in 1977, in remarking on multinational investments and operations, "you will tend to reduce your exposure so that your investment is zero, and your shareholders' exposure is very low".[130]

Notes and References to Chapter II.

1. R. J. Alexander, "Foreign Investments in Latin America" in Canadian Forum v. 29 # 342 (July 1949) p. 78.

2. R. J. Alexander and W. Singer, "Canadian Investments in Latin America" in Inter-American Economic Affairs v. 4 # 4 (Spring 1951) p. 74.

3. G. Mount, "Aspects of Canadian Economic Activity in the Caribbean" in Laurentian University Review v. 5 # 1 (Nov 1972) p. 90.

4. Monetary Times (hereafter designated as MT) v. 55 (20/8/15) p. 9.

5. Mount, p. 90.

6. MT v. 52 (1/5/14) p. 16.

7. MT v. 52 (30/1/14) p. 250.

8. Commercial Intelligence Journal (hereafter designated as CIJ) v. 34 # 1165 (29/5/26) p. 693.

9. MT (13/9/29) p. 5.

10. G. Mount "Aspects of Canadian Economic Activity in the Caribbean" in Laurentian University Review v. 5 # 1 (Nov 1972) p. 89. See also Canada West Indies Magazine (hereafter designated as CWIM) v. 23 # 5 (April 1934) p. 134.

11. Alexander/Singer, p. 78.

12. Foreign Trade (hereafter designated as FT) v. 130 # 11 (28/5/55) p. 21; Alexander/Singer p. 78.

13. R. A. Mackay and E. B. Rogers, Canada Looks Abroad (1938) p. 145.

14. R. M. Will "Economic Aspects of Canadian-Latin American Relations" in International Journal v. 15 # 4 (Fall 1960) p. 353.

15. Canadian Business (hereafter designated as CB) v. 26 (May 1953) pp. 23-25; MT v. 80 # 8 (24/2/28) p. 3; Alexander/Singer p. 80; see also J.C.M. Ogelsby, Gringos From the North, Essays in the History of Canada-Latin American Relations 1866-1968 (1976) p. 93.

16. Will, p. 354.

17. CB v. 26 (May 1953) pp. 23-25; MT 25/5/28 p. 14; Financial Post (hereafter designated as FP) 10/1/53 p. 9; M. H. McCollum, Who Owns Canada? (2nd ed. 1947) p. 36.

18. Business Latin America (hereafter designated as BLA) 1970 p. 135.

19. BLA 1972 p. 312.

20. MT v. 79 # 7 (12/8/27) pp. 3,4.

21. FP 5/5/51 p. 42.

22. FT v. 110 # 8 (11/10/58) p. 16.

23. CB (May 1953) pp. 23-25; FT v. 110 # 8 (11/10/58) p. 18.

24. Wilson, Royal Bank of Canada 1930.

25. Canadian Bank of Commerce Letter (1936) p. 5; table below:
A survey of the relative position of Argentina and Canada in world wheat trade for the period 1925-1934 indicates a steady rise in the wheat exports of Argentina as a percentage of total wheat exports but a decline for the same economic activity in regards to Canada. In 1925-26, Argentina's wheat exports represented 14.1 percent of total world wheat exports while Canada's wheat exports accounted for over 48 percent of total wheat exports; 1933-34, however, Argentina's share of world wheat exports had risen to 26.8 percent, while Canada's share had declined to 37 percent.

26. MT (29/7/11) v. 47 # 5 p. 513.

27. Canadian Bank of Commerce Letter (1936) pp. 4, 5.

28. See CIJ v. 64 # 1934 (22/2/41) p. 231; CIJ v. 67 # 2020 (17/10/42) p. 355; CIJ v. 69 # 2062 (7/8/43) pp. 113, 114.

29. Sydney G. Dobson, Vice-president and general manager of the Royal Bank of Canada, see CWIM v. 34 # 6 (Dec. 1944) p. 6.

30. John P. Humphrey, The Inter-American System: A Canadian View (1942) p. 11.

31. Humphrey pp. 11-12.

32. FT v 133 # 7 p. 30 (28/3/70).

33. FT v 129 # 5 p. 15 (2/3/68).

34. FT v 127 # 1 p. 7 (7/1/67).

35. FT v. 116 # 9 (21/10/61) p. 5.
FT v. 118 # 8 (20/10/62) p. 5.
FT v. 118 # 12 (15/12/62) pp. 11-12.
FT v. 119 # 13 (29/6/63) pp. 4-5.
FT v. 124 # 3 (7/8/65) p. 31.
FT v. 124 # 5 (4/9/65) p. 16.
FT v. 124 # 13 (25/12/65) p. 6.

36. FT v. 110 # 8 (11/10/58) p. 18.

37. Compiled from data in FT v. 127 # 1 (7/1/67) p. 6.

38. BLA 1973, p. 280.

39. FT v. 125 # 2 (22/1/66) p. 11.
FT v. 135 # 11 (22/5/71) p. 12.
Canada Commerce (hereafter designated as CC) v. 137 # 7 (July 1973) p. 8.

40. FT v. 126 # 6 p. 14; FT v. 125 # 8 (16/4/66) p. 31.

41. FT v. 127 # 3 p. 10 (4/2/67).

42. FT v. 127 # 3 p. 10 (4/2/67); CC v. 136 # 9 p. 25 (Sept 1972).

43. FT v. 129 # 10 pp. 3-4 (11/5/68).

44. FT v. 125 # 2 p. 21 (22/1/66); FT v. 133 # 7 p. 18 (28/3/70).

45. CIJ v. 26 # 938 (1922) p. 112.
CIJ v. 27 # 968 (19/8/22) p. 325.
CIJ v. 35 # 1192 (4/12/26) p. 679.
Pulp and paper machinery was often obtained from Canada and the United States, "much of it secondhand"; see FT v. 2 # 38 (20/9/47) p. 528. It is significant also to note that the Canada-U.S. pulp and paper industry were largely integrated on a continental basis in terms of ownership, production, marketing; this relationship and its implications for Canada's external position will be elaborated upon in Chapter IV.

46. FT v. 2 # 38 (20/9/47) p. 527.

47. See the case of Brazil, FT v. 116 # 3 (29/7/61) p. 22; also FT v. 109 # 3 (1/2/58) pp. 11-12.

48. FT (7/12/57) pp. 12, 13.

49. FT v. 125 # 6 (19/3/66) p. 28.

50. FT v. 126 # 8 (15/10/66) p. 16.

51. FT v. 116 # 3 (29/7/61) p. 22.
FT v. 126 # 8 (15/10/66) p. 16.

52. FT v. 133 (28/3/70) # 7 p. 13; Brazil is expected to become a major competitor to Canada and the United States see CC v. 136 # 9 (Sept 1972) p. 13.

53. FT v. 114 # 12 (3/12/60) p. 19.

54. FT v. 127 # 1 (7/1/67) p. 8.

55. BLA 1970, p. 136.

56. BLA 1972, p. 98.

57. CC v. 137 # 7 (July 1973) p. 6.

58. FT v. 126 # 8 (15/10/66) p. 16.
FT v. 129 # 5 (2/3/68) p. 15.

59. Humphrey p. 12; Andre Gunder Frank, Capitalism and Underdevelopment in Latin America (1969) p. 297.

60. CIJ v. 45 # 1433 (18/7/31) p. 90; for Latin America as a whole, exports of rubber and rubber products and automobiles and automobile parts, represented over 40 percent of total Canadian exports. See H.E.M. Chrisholm, "Canada's Trade with South America" in the Journal of the Canadian Bankers' Association, v. 37 # 1 (Oct 1929) p. 40.

61. CIJ v. 47 # 1488 (6/8/32) p. 231.

62. CIJ v. 51 # 1591 (28/7/34) p. 157.

63. CIJ v. 43 # 1380 (12/7/30) p. 48.

64. CIJ v. 51 # 1591 (28/7/34) p. 157.

65. CIJ v. 36 # 1204 (26/2/27) p. 251; CIJ v. 45 # 1433 (18/7/31) p. 93; in so far as automobiles are concerned, the same situation existed in Venezuela - see CIJ v. 46 # 1466 (5/3/32) p. 333.

66. CIJ v. 52 # 1635 (1/6/35) p. 1004.

67. FT v. 110 # 8 (11/10/58) p. 24.
FT v. 122 # 12 (12/12/64) p. 15.

68. By 1952, the Mexican automobile industry produced approximately 90 percent of domestic motor vehicle requirements (i.e. cars, trucks, buses).

69. By the end of the 1940's, 98 percent of Mexican imports of auto parts were supplied by the United States see FT v. 6 # 136 (6/8/49).

70. FT v. 12 # 308 (22/11/52) p. 24.

71. CIJ v. 47 # 1488 (6/8/32) p. 231.

72. CIJ v. 49 # 1547 (23/9/33) p. 515.

73. CIJ v. 47 # 1488 (6/8/32) p. 232.

74. CIJ v. 65 # 1978 (27/12/41) pp. 747-48.
CIJ v. 67 # 2024 (14/11/42) p. 448.

75. CIJ v. 36 # 1204 (26/2/27) p. 252.

76. CIJ v. 41 # 1327 (6/7/29) pp. 8,9.

77. FT v. 124 # 11 (27/11/65) p. 26.

78. Senate 1970, p. 18.

79. See, for example, CIJ v. 41 # 1327 (6/7/29) p. 4.

80. CIJ v. 36 # 1213 (30/4/27) p. 517.
CIJ v. 55 # 1710 (7/11/36) p. 881.
CIJ v. 74 # 2197 (9/3/46) pp. 206, 207.

81. See, for example, FT v. 125 # 2 (22/1/66) p. 33.
FT v. 125 # 10 (14/5/66) p. 34.

82. FT v. 110 # 5 (30/8/58) p. 29.

83. FT v. 125 # 12 (11/6/66) p. 34.

84. FT v. 110 # 8 (11/10/58) p. 23.

85. FT v. 110 # 8 (11/10/58) pp. 22, 23.

86. FT v. 8 # 197 (7/10/50) pp. 586, 587.

87. MT v. 64 # 3 (16/7/20) p. 46; FT v. 110 # 8 (11/10/58) p. 17.

88. Hereafter, in the text, for the sake of simplicity and clarity, all of the firm's operations will be referred to by the title "Brazilian Light"; note that the name of the Canadian holding company was changed from "Brazilian

Light, etc" to Brascan in 1969.

89. F. J. Mulqueen, "A Canadian Enterprise Abroad" in The Canadian Banker v. 59 # 1 (Winter 1952) p. 36.

90. MT v. 80 # 8 (24/2/28) p. 3.

91. These companies were later to form the "Brazilian Light"; for a more complete early history of the company, see MT v. 45 # 23 (3/12/10) p. 2331; Maclean's Magazine v. 60 # 16 (15/8/47) p. ? ; FP 23/2/52 p. 15.

92. James Ross, William Mackenzie, H. S. Holt and Donald Mann became directors of one or more of the following companies: Canadian General Electric, Toronto Electric Light, Toronto Railway, Montreal Light, Heat and Power, Saint John Railway (N.B.), Winnipeg Electric Street Railway; see Mulqueen p. 35.

93. Mulqueen, p. 35.

94. CIJ v. 26 # 950 (1922) p. 567.

95. Mulqueen, pp. 42-45.

96. FP 5/5/51 p. 42.

97. Mulqueen, p. 49 FT v. 127 # 12 (10/6/67) p. 10.

98. See FP (30/10/76) Special Report on Brazil pp. B-7, B-8.

99. Mulqueen, p. 53.

100. FT v. 111 # 11 (25/5/59) and FT v. 118 # 9 (3/11/62) pp. 8-9.

101. The Globe and Mail, June 24, 1958.

102. With the $ 31 million from the telephone company sale which could be taken out of Brazil, the firm acquired nearly one-quarter of the common stock of a major Canadian beer company; see Clyde Snager, Half a Loaf: Canada's Semi-Role Among Developing Countries (1969) p. 179.

103. Toronto Star, June 22, 1966.

104. FP (30/10/76) p. B-7.

105. BLA 1973, p. 351.

106. BLA 1970, pp. 31-32.

107. FP (5/5/51) p. 42; FT (17/2/51) p. 260.

108. BLA 1973, p. 351.

109. Quoted in Sanger, p. 181.

110. See CIJ v. 28 # 990 (2/1/23) p. 109 and Will, p. 353.

111. CIJ v. 39 # 1287 (29/9/28) p. 480.
CIJ v. 51 # 1591 (28/7/34) p. 160.

112. Mulqueen, p. 48.

113. FP (21/6/52).

114. See FP December 1972; also EDC News Release (15/12/72).

115. FP (23/2/52) p. 15.

116. FP (23/2/52) p. 15.

117. Sanger, p. 179.

118. Statement of Albert A. Thornbrough, president of Massey-Ferguson Ltd., Toronto, Before the Group of Eminent Persons to Study the Impact of Multinational Corporations on Development and on International Relations, United Nations, Geneva, Nov. 7, 1973.

119. FP (18/10/75) p. D-6.

120. FP (30/10/76) p. B-7.

121. C.I. Bradford and C. Pestieau in Canada and Latin America The Potential for Partnership (1971) pp. 209-210.

122. W. Lattman, "Massey-Ferguson - A Multinational Company", Proceedings of the 70th Annual Meeting of the Canadian Life Insurance Officers Association May 22-23, 1963. (Toronto) p. 24.

123. Business International 1971, p. 132; FT v. 2 # 35 (30/8/47) pp. 377-378.

124. BLA 1972, p. 192.

125. BLA 1972, pp. 192 and BI 1971, p. 132.

126. BLA 1972, p. 192.

127. Including such firms as Ford-Willys, Sears Roebuck, Esso, Nestle, IBM, Chase Manhattan Bank. BLA 1972, p. 192.

128. BLA 1975, p. 379.

129. BLA 1973, p. 267.

130. FP 300, Summer 1977, p. 9.

CHAPTER THREE

THE ROLE OF THE CANADIAN STATE

(i) Introduction

This chapter examines the role of the Canadian state within the pattern of Canada's foreign socio-economic relations with the Caribbean and Latin American countries; the discussion focuses on the question of international aid and credit relative to Canada's external economic position.

Canada's foreign aid programmes did not formally come into existence until the late 1950's,[1] though there are other dimensions to the role of the state which had their beginnings during the last decade of the nineteenth century. In 1892, the Department of Trade and Commerce began sending commercial agents throughout the West Indies as a service to Canadian companies involved in the Canadian-Caribbean trade;[2] following the post World War I decline in export trade, the Department of Trade and Commerce formalized this service by establishing the foreign trade commissioners corps.[3] It will be shown below that Canada's aid and credit programmes are geared primarily to the promotion of external trade and, by consequence, industrial benefits from Canada; as such, these programmes relate closely to the work of the foreign trade commissioners. As Canadian Business noted in 1966, "the close government-business partnership in the aid field was underscored" by the appointment of the president of one of Canada's largest corporations to the post of head of the Aid Office.[4] Prior, however, to the formation of credit and aid agencies (the Exports Credit and Insurance Corporation in 1944, the External Aid Office in 1960)[5], Canadian chartered banks constituted the primary instrument for financing export trade and, along with the government trade agents, providing commercial intelligence to Canadian economic interests.[6] As British and German banks had done in the previous decades,[7] the Canadian banks, as a result of their foreign branch networks,[8] assisted in the foreign trade of Canada. In 1923, the Monetary Times characterized as follows the role that the Canadian banks played:

> They have established their connections in foreign countries and have thus provided an entree for Canadian goods as well as Canadian business in general.[9]

(ii) Canadian Foreign Aid

The earliest forms of economic assistance extended by Canada occurred within the framework of trade agreements and generally involved some kind of reciprocal trade concession on the part of the recipient country; the prime consideration in such matters, from the Canadian point of view, lay in the economic benefits for Canada. One case which clearly demonstrates this is the establishment of the steamship service between Canada and the British West Indies in the mid 1930's.

While such a service had been requested by British West Indian interests as part of the 1935 trade agreement negotiations, the Canadian Business Magazine reported in 1947 that the steamship service had "paid ample dividends" for Canada especially during the Second World War when normal shipping facilities were either non-existent or at a very high premium.[10] Canada's formal aid programmes emerged (1) in response to economic measures imposed by semi-industrialized countries which tended to restrict the export of Canadian goods (especially manufactured goods) to these countries and (2) as a direct result of the gradual undermining of new and traditional export markets by the foreign aid programmes of economically developed countries, notably the United States.

In regards to the first factor, there was a need for an economic mechanism to stimulate exports in markets where post World War II economic conditions had necessitated the adoption of exchange and trade controls; this situation occurred in a number of Latin American countries.[11] In Brazil, there was a rapid decline in Canadian exports during the 1950's due to foreign exchange controls; in 1952, Canadian exports to Brazil amounted to $81 million while in 1955 these totalled only $11.5 million.[12] There was a need on the part of semi-industrialized and underdeveloped countries in Latin America for hard currency (principally American dollars) for the purchase of capital goods as their industrialization was largely based on a process of import substitution. One of the critical elements in this regard was the fact that in most cases exports went to soft currency areas while imports had to be obtained from hard currency areas;[13] consequently, certain restrictions were placed on the use of dollars for the importation of luxury items and manufactured goods.

In the British West Indies, it was a case of Canadian aid counteracting the effects of British imposed measures relating to the "uncovertability of sterling currency and dollar import allotments";[14] these measures resulted in a greater degree of dependency by the West Indies on sterling areas for their imports with a correspondent decrease in the importance of non-sterling countries (e.g. Canada and the United States) as sources for British West Indian imports.

In regards to the second factor, the U.S. AID Program undercut, in various Latin American economies, Canadian exports of traditional agricultural goods and largely precluded Canadian participation in the capital and intermediate goods import market; the following assessment by Foreign Trade accurately reflects the situation:

> (the) revival of various sources of aid and financial credit...has tended to tie imports more and more to sources of supply in countries providing these facilities.[15]

The U.S. programmes were not the only ones that Canadian interests had to contend with. In certain Commonwealth Caribbean countries, British aid was restricting "supplies and services for new capital facilities" to local and British companies.[16] As well, the Brazilian steel industry was financed largely by means of bilateral aid from the United States, Japan and France, with much of the aid tied to the "donor supply source", thus precluding Canadian participation in the development of this industry.[17]

Also significant in understanding the establishment of Canadian aid programmes is the fact that, even in areas in which it was thought that Canada had a competitive standing, foreign aid programmes of other countries constituted a substantial external constraint to Canada's efforts in obtaining a share of the market:

> Power generating machinery and telecommunication equipment are needed (in the CACOM) but they are often tied to aid sources.[18]

In addition to these external factors, there is an internal dimension to the question of aid related development. In its report to Parliament in 1969, the Canadian Ministerial Mission to Latin America noted that certain developments in the Latin American economies would have adverse effects for Canada, which was already experiencing difficulties in accommodating itself to shifting patterns of import requirements:

> Production of newsprint in Chile and other countries and the establishment of auto production and other industries by major international companies in Latin America, coupled with regional tariff preferences, will lead to intensified competition with Canadian exports to these markets.[19]

As a response to this, the report suggested that a "central element of Canada's export trade of the future must lie in the field of specialized and advanced technology and expertise", and identified certain sectors as those in which Canada should concentrate its effects.[20] This categorization essentially defined the state's position on the degree of complementarity that existed between Canada and the Latin American economies; however, these "areas of concentration" also correlate closely with the sectors, as Foreign Trade notes, "in which Canada concentrated in the process of its own industrialization".[21] As such, it may be valid to postulate that one consequence of the Canadian aid programmes lies in the intensification and reinforcement of the historical pattern of economic development in Canada; this point will be taken up in the concluding chapter.

Canadian financial assistance to the Caribbean was first introduced, as noted above, in the mid 1940's; it was formally organized under an official government programme in the late 1950's and expanded consistently throughout the 1960's and 1970's. As the following passage indicates, political and economic factors were clearly at its basis:

> This goodwill helps in maintaining and increasing Canadian market penetration in these islands and Canadian manufacturers might consiser taking advantage of this favourable climate for business.[22]

The ever increasing level of funds being made available for Canadian external aid is an indication that the objectives of the programme were being fulfilled and trade reports in this regard have been consistently positive:

> (The increase in exports in the Caribbean) is a reflection of the Canadian development assistance program in the area and of other multilaterally financed projects in which Canadian suppliers have been able to play a significant role.[23]

Canadian aid exists in two formats, bilateral and multilateral, and is usually distributed according to two categories, grants or development loans. While the aid programmes are generally geared towards financing the procurement in Canada of "goods and services with a high Canadian content", the mode of distribution of funds has a particular bearing on the procurement method as the following excerpt from Canada Commerce indicates:

> The way goods are purchased for C.I.D.A. projects depends on whether they are financed by a grant or a loan. In the case of a loan, it is the foreign government that does the shopping from a list of suppliers approved by the Canadian government and with the assistance of C.I.D.A.. Where development assistance is financed by a C.I.D.A. grant, C.I.D.A. rather than the recipient government does the purchasing...[24]

It will be argued below that it is significant that the Canadian technical assistance programme for Latin America and the Canadian educational development programme for the Caribbean were entirely financed by grant funds.[25]

Table III.1: below indicates a strong orientation, in Canada's bilateral aid programme to the Caribbean, towards the development of social and economic infrastructure. Interestingly, the economic activity categories in the breakdown of allocations correlate strongly with the areas identified by the Latin American Ministerial Mission as sectors in which Canada should concentrate its export trade efforts, sectors in which it presumably had a competitive position in international markets. It is relevant here to question the emphasis placed on two particular economic sectors, "technical assistance" and "education".

Table III.1: Canadian Bilateral Aid - Disbursement of Allocations in the Caribbean by Economic Activity, 1958-68[26]

	C$'000	%
Technical assistance	10383.4	36
Transportation	9791.6	34
Education	3119.1	11
Public Utilities	2606.1*	9
Natural Resources	1606.9	6
Agri/rural development	556.7	2
Industrial plants, etc.	518.9	2
Health/Social services	185.8	-
Commodities	65.8	-
Total	28834.3	100

*Figure corrected as per data in CIDA Annual Review 1967-68, p. 38.

Technical assistance involves primarily the use of the services of consulting engineers; it will be useful to determine why the Canadian state considers this economic activity a priority in its foreign aid programmes.

It appears that, in allocating funds for aid to the Caribbean, emphasis is placed on combined or integrated projects which involve a wide range of technical and capital assistance.[27] It has been noted above that Canadian aid to the Caribbean is geared mainly to the development of capital infrastructure sectors; what is particularly significant in this regard is that there is a high degree of correlation between consulting engineering services and capital infrastructure development.

There are five phases normally associated with the elaboration of a capital development project; Foreign Trade has identified these as follows: "feasibility survey, engineering and design, construction, equiping, and management".[28] It is generally recognized by state and industrial interests that participation in the construction of a project (as well as supplying equipment and deriving continuing economic benefits from such undertakings) are contingent upon having been involved in the two primary stages.

Table III.2 below designates the major users of consulting engineering services by sector and provides an analysis of the financing sources for these services; it is clear from the data that Canadian state funds are focused on the infrastructure sectors.

Canadian preoccupation with consulting engineering services is also reflected in a wider context. In Brazil, many infrastructure projects are carried out with foreign financial assistance; in this respect, the "Canadian and international bodies providing this aid can be expected to consider Canadian engineering services for the design, execution and supervision" of these projects.[29]

In Argentina, heavy investments were projected during the 1960's and 1970's; the crucial element for Canada in this regard was the source of the aid and the accompanying procurement limits.[30] As well, between 1964 and 1972, Canada allocated $74 million to the Development Loan Trust Fund for Latin America, which was administered by the Inter-American

Table III.2: Percentage Distribution of Financing Sources for Consulting Enginnering Services, 1966.[31]

	Forestry	Power	Aerial Surveys	Mining	Industrial	Hydraulics	Transport	Other
Canadian government	26	70	31	-	7	25	27	14
Canadian private	5	14	6	28	3	-	-	15
U.S. gov't & private	4	-	-	31	13	-	-	11
Foreign govt/priv.	4	-	5	7	1	-	4	6
Local gov't & private	57	3	47	22	76	31	60	53
Internat'l agencies	4	13	11	12	-	44	9	1

*Table covers Latin America, Caribbean, Africa & Asia.

Development bank. These, however, were bilateral aid funds, tied to the procurement of goods and services in Canada and were used mainly for pre-investment studies, hydro-electric development projects, electric power systems and telecommunications, all sectors of economic activity which require a high component of consulting engineering services.[32]

The mode of interaction between state and private interests which has dominated the development of socio-economic infrastructure in Canada also appears to be reflected in the international sphere of Canadian economic activity, as the following passage indicates:

> They serve to introduce many consultants to foreign work and help them to acquire experience without facing the chill winds of competition. The international experience that they build up helps enormously when they go to bid for contracts under the World Bank or the UN Special Fund...[33]

In this regard, it is noteworthy that, for the period 1959-1967, Canada was the third largest supplier of consulting services for UN Development Program projects.[34]

But the main reason for Canada's preoccupation with consulting services relates to the commercial opportunities that such contracts provide:

> Equally important is the influence that the consultant often exerts on Canadian sales of materials and equipment and allied services.[35]

A contract that a Canadian based engineering firm obtained in Brazil (under an I.A.D.B. loan) involved not only the purchasing of equipment required for various power projects, but also the training of Brazil power system procurement officers.[36] The firm in question was Montreal Engineering Ltd. which, though currently foreign owned, has been active in engineering projects in Latin America since the 1920's; this association underscores the point that the pattern of Canadian investment in Latin America and the Caribbean - heavily oriented towards public utilities - is an element not unrelated to state interest in this field.[37]

Canada's concern with securing a strong position in the world market for consulting services is due to two major factors. The first factor, and essentially the one introduced above, relates to the aid programs of foreign powers, which undercut market opportunities for Canadian interest; the second factor relates to external, non-official competition, involving connections among foreign consulting engineering firms and capital equipment suppliers, the nature of which is described in the following account:

> Some European and American consulting firms have developed working arrangements with financial organizations... A limited number of European capital equipment manufacturers use their connections with consultants to offer free feasibility studies and engineering services in exchange for letters of intent on equipment to be purchased.[38]

Finally, development programmes in the semi-industrialized and underdeveloped countries which offer opportunities for consulting engineering firms, construction contractors and manufacturers of capital equipment constitute a partial solution to the extensive fluctuations in demand in the Canadian home market (and the resultant idle productive capacity) as well as the intense competition (particularly from American and European sources) to meet what demand there is.[39] In this regard, it may not be invalid to argue that the situation in Canada whereby foreign consultants, contractors and manufacturers often obtain contracts over Canadian firms is the result of Canada's dependent economic status vis-a-vis the United States and its non-dominant status in the world economy which produces a structural constraint in that Canada is required, in return for participating in world markets (both in developed and underdeveloped countries), to adopt a liberal policy in its own development programmes.

The second major sector towards which Canadian financial aid is directed is education and training, which includes the development of educational systems, teacher training, and technical, agricultural and scientific education.[40] One of the reasons for Canadian involvement in this field is the substantial interest shown by international aid agencies, such as the World Bank group and UNDP, in education programs; the contracts that they fund are open to international bidding.[41]

In its own bilateral program, Canadian aid is directed to creating a need and providing market opportunities for educational equipment and services from Canada.[42] According to trade reports Canadian efforts in this direction appear to have been successful:

> Canadian school building contractors have been outstandingly successful in all individual programs. Canadian manufacturers of school furniture, in competition with international firms, have secured several individual and joint contracts.[43]

But the elements of competence and international competition are not the overriding factors in this question, for most of Canada's aid in this sector is in the form of grants. As such, it is C.I.D.A. that is mainly responsible for the purchase of Canadian educational equipment and the construction of schools in the Caribbean.[44]

Another feature of Canadian involvement in the Caribbean Educational Programme lies in training local teachers in Canada as well as providing Canadian teachers in area schools; Foreign Trade provides a very perceptive analysis of the economic implications of these arrangements:

> Canadian educational equipment also should receive a boost from the many teachers in the Eastern Caribbean who have been trained in Canada. In addition, more than a hundred Canadian teachers are training students and teachers in the Eastern Caribbean... Their familiarity with our equipment should be an asset in promoting Canadian made teaching aids.[45]

And by grant financing the education/training programmes in Latin America and the Caribbean, C.I.D.A. insures the installation of Canadian equipment and therefore its promotion in these regions.

(ii) <u>Canada and the International Aid Agencies</u>

During the post World War II period, international aid agencies, such as the World Bank group, the United Nations Special Development Programme and the Inter-American Development Bank became increasingly important sources of finance for infrastructure and capital development projects in semi-industrialized and underdeveloped countries and played an important role in generating markets for the export of goods and services from the industrialized countries; the analysis below will examine Canada's interaction with these organizations.

The World Bank Group consists of the International Bank for Reconstruction and Development (IBRD), the International Finance Corporation (IFC) and the International Development Association (IDA). The majority of the loans by the IBRD are in the fields of electrical power projects and transportation systems while those of the IDA are mainly in infrastructure development (water, sewage, sanitation, housing); these loans are made directly to governments or for projects for which the national governments act as guarantors. The terms of reference of the IFC differ from those of the IBRD or the IDA in that the IFC can invest directly in capital projects, hold equity interests in private companies and provide loans to private investors without government guarantee. The IFC was established in 1956 to promote industrial development in underdeveloped countries "by encouraging the growth of productive private enterprise and direct private foreign investment".[46]

Canada has been a member of all three agencies since their establishment and has apparently derived considerable benefit from its membership by providing goods and services to the Bank's borrowers. The important factor here is that most of the World Bank contracts are awarded under international competition and Canadian firms are eligible to compete for the business. If Canadian companies (including foreign owned or controlled ones) are successfully competitive in certain economic sectors, it is due mainly to the absence of non-economic constraints such as procurement policies based on company ownership and affiliation. Total identifiable expenditures in Canada (to December 31, 1968) as a result of World Bank activities amounted to $207 million, with unidentifiable expenditures totally another $44 million - "well over twice the amount of Canadian paid subscriptions to the Bank"; but while Canadian companies have supplied a variety of goods and services, "they have competed most successfully in the fields of electric power and railways".[47]

This general pattern seems to have been repeated in the case of Canada's participation in the United Nations Special Development Programme, which was established mainly to provide a source of funds for pre-investment surveys of natural resources. The Montreal Engineering Co. Ltd., as a member of a Canadian-American consortium, participated in a complete inventory of hydro potential in Brazil; Canadian firms were also involved in a power and irrigation study in Guatemala and a hydrological resources survey in Ecuador.[48]

The third organization with which Canada has been involved is the Inter-American Development Bank (IADB), which is a basic source of funds for power development in Latin America.[49] Though Canada was not a member of the organization until 1972, $74 million worth of Canadian bilateral aid for Latin America was administered by the IADB between 1964-1972, mainly for technical assistance and feasibility studies. A report in External Affairs makes clear the purpose for which these funds were intended:

> Canadian development loan funds for use in Latin America, as elsewhere, may be used only to finance procurement in Canada of goods and services having a high Canadian content...[50]

When Canada joined as a full member of the Bank in 1972, the Canadian Minister of Industry, Trade and Commerce noted that Canada's membership would provide significant new trade opportunities for domestic companies.[51] In fact, Canada's membership gave its business interests the right to bid on IADB contracts, not just to the extent of Canadian contributions (which were $100 million for the period 1972-75), "but for procurement of goods and services worth more than $600 million a year".[52]

The pattern of relations that emerged in the last several decades between corporate interests and these international organizations is also an area of interest and significance. Until the early 1970's, these institutions were not only involved in financing development projects in Third World countries, but also "provided much of the economic planning and project decision-making".[53] Consequently, consulting engineering firms (such as the Canadian based T. Ingledow & Associates) found it "essential to cultivate close relations" with the international aid agencies".[54]

It was for very similar reasons that Canada became a member of the Economic Commission for Latin America (ECLA) in October 1961, as the following statements indicate:

> It is a prime source of information on economic trends and events in Latin America, both in general and in specific fields...
> Its findings and recommendations have a way of becoming policy for governments and are therefore a direct interest to Canadian firms dealing in the area.[55]

Even by the mid-1970's, when semi-industrialized and underdeveloped countries had a greater input into planning and investment decisions, the international organizations remained as important sources of information.[56]

(iv) Canada's Aid Programmes: Implications for Canada and the Recipient Countries

This section will outline some of the socio-economic implications for Canada of its involvement in bilateral and multilateral aid programmes; as well, it will demonstrate the nature of the consequences of these activities for the recipient countries.

Both the bureaucratic and the political spheres of the state apparatus in Canada have, over the years, consistently emphasized the economic benefits of Canada's foreign aid programme. In 1963, Foreign Trade categorically dispelled the notion "that aid programs consist of gifts of Canadian dollars abroad, placing strains on the balance-of-payments position and involving no advantages to Canadian industry". The government journal reported that "nearly all" of the funds budgeted for that year or the previous bilateral assistance appropriations had been spent on the procurement of goods and services in Canada.[57] A report in External Affairs in 1965 elaborated on this question and provided the following assessment of the Canadian aid programmes:

> First, the resources allocated to foreign aid serve directly to stimulate the growth of our economy by contributing to the level of production, exports and employment.
> Second, the provision of foreign aid enables Canadian producers, engineers and educators to gain valuable experience and Canadian products and skills to become known in new areas.[58]

Canadian foreign assistance had been designed and operated effectively as a mechanism to promote trade and stimulate economic development in Canada by providing markets for excess capacity production; excess capacity was recognized as a key inhibiting factor to economic progress because it obviated the need for new investments and provided no positive inducement for technological improvements.[59] Thus in 1966, it was estimated that every $1 million aid allocation resulted in the utilization of 120 man-years of Canadian labor.[60]

This was as a result of the tied aid nature of bilateral grants which, in addition to the aforementioned benefits to Canada, was alleged to have other advantages; a report in Canadian Business describes one of these:

> Misappropriation or waste of funds by recipient countries, the subject of many controversies in the United States, become nearly impossible since virtually all aid allocations are spent in Canada by federal agencies.[61]

In commenting on this policy of aid based on "procurement in Canada", the Canadian Secretary of State for External Affairs in 1967 indicated that this procedure existed as a result of "economic necessity, rather than by conviction", namely that other donor nations, especially more economically influential ones, practised this policy.[62] Consequently, any change in Canada's position in this regard would be contingent upon changes in the organization of international aid or in the procurement regulations of the principal donor countries.

One additional element relevant to Canada's policy of tied aid lies in the nature of the exports which Canada's aid programmes ostensibly promotes. One observer has been highly skeptical of the competitiveness of some of these products:

> Indeed, as often as not the reason for emphasizing export promotion through aid is to try to provide markets abroad for products where Canada is not competitive internationally and shows little prospect of doing so.[63]

However, whether such a contention can be substantiated or not is less important than the realization that international aid plans have played a considerable role in organizing operations within the world economy for the benefit of industrial and financial corporate interests in the advanced capitalist economies.

In dealing with the effects of the policies of the international aid organizations on underdeveloped and semi-industrialized economies, a prime element of consideration is the strong orientation of the World Bank group (exemplified particularly by the activities of such subsidiary agencies as the IFC) towards promoting the growth and development of the private sector and towards stimulating the international flow of goods and private capital.[64]

Particularly relevant in this regard is the influence that some loans may have in determining a certain pattern of industrial development. In 1966, for example, the World Bank provided Jamaica with a $22 million loan to cover the foreign exchange requirement of a ten year power development programme by the Jamaica Public Service Co. Ltd., a subsidiary of a Canadian based corporation.[65] The power project, however, was geared principally to accomodating increased activity in the bauxite-alumina sector and expansion in the tourist resort industry, thus contributing little to a diversified industrial base for Jamaica, but enhancing the productive viability of the Canadian, American and other foreign interests operating in these sectors.

Equally considerable is the effect that certain policies may have on national industrial producers in semi-industrialized economies. As discussed above, the organization of international aid (whether bilateral or multilateral) is geared to the economic needs of industrially advanced countries; multilateral aid programmes which provide a major source of funds for capital development projects in underdeveloped areas constitute a mechanism for creating conditions concomitant with the interests and needs of large industrial producers, contractors and consultants based in developed countries. Thereby, in situations where a significant portion of a project or a country's imports have been financed by an international lending agency, the normal tendering procedures (i.e. worldwide bidding) effectively undermines the competitive position of local manufacturers (particularly capital goods producers) vis-a-vis suppliers in the developed countries.[66] More generally, it is a case of dominant world capital allowing national capitalist interests to be competitive within a domestic context, but once drawn into the world system, local capitalists are no longer able to compete. This situation is readily reinforced by the technological dependency that characterizes the subordinate relationship of industrial producers in semi-industrialized economies to multinational interests.

In relation to Canada's bilateral aid programmes, its emphasis on financing infrastructure rather than revenue-earning productive activities (albeit a necessary condition for economic development) has in the long term serious implications for the debt-servicing potential of underdeveloped economies.[67] Furthermore, Canada's particular concern with promoting sector assistance in the Caribbean could prove counterproductive relative to local programmes for integrated development. An example of this is Canada's role in developing the region's air transport system which is geared almost exclusively to the tourist trade from the metropolitan countries; given such an orientation, the intra-regional transport and communication systems remain underdeveloped.

The Canadian Senate Standing Committee on Foreign Affairs, in referring to Canada's bilateral tied aid programme, commented in its report on Canadian-Caribbean relations that such trade promotion mechanisms result "in a distortion of development priorities in project design and selection, and sometimes involves the purchasing of inferior and/or overpriced goods and services".[68] Additionally, bilateral aid grants (designed essentially to cover the foreign exchange requirements of purchases to be made in the donor's country) often fail to take into consideration the indirect as well as the direct foreign exchange requirements of a development project.[69]

ing U.S. producers in financing exports and providing loans to semi-industrialized and underdeveloped countries for the acquisition of U.S. products and services. Between 1934 and 1950, the U.S. Export-Import Bank extended credits of $120 million to Mexico, and loans totally $775 million had been authorized for Latin American countries.[73] Alternatively, due to the normally limited supply of foreign exchange reserves in countries where capital development projects most often take place, the ability of Canadian producers to compete in this particular international market was contingent upon offering "extremely favorable financing arrangements".[74] In many cases, long term financing was required not only for foreign import purchases, but also for local production costs.[75] Additionally, Canadian chartered banks, although they had played a major role in promoting foreign trade in the period prior to World War II, became increasingly unwilling to undertake the risks and problems associated with development export financing.[76]

It is to this end that the Exports Credit Insurance Commission (ECIC) was established by the Canadian state in 1944.[77] The terms of reference of the institution seem however to have been too restrictive, especially in respect to its limitation concerning medium term financing and particularly in the area of capital goods.[78] In 1969, the Exports Development Corporation (EDC) was established to replace the ECIC and attempted to provide an operational framework more conducive to rendering Canadian products competitive in international markets; the new agency provided "long term export loans to foreign buyers of Canadian capital equipment and technical services", "export credits insurance", and protection to Canadian foreign investors against "the inability to repatriate earnings or capital, expropriation, and war or revolution".[79] In addition, the corporation's mandate took into account the dominant role that the multinational corporation plays globally and in the Canadian economy in terms of determining investment and organizing production and marketing; due to the resultant specialization and fragmentation of productive operations at the international level, the EDC made provision to insure, in cases where such transactions would also facilitate the export of Canadian goods and services, the export sales of foreign affiliates of Canadian and Canadian based firms (irrespective of ownership or corporate relationship). Between 1969 and 1972, the EDC financed export requirements totalling $246 million for projects in Latin America,[80] mainly in pulp and paper, power systems, transportation, telecommunications and consulting engineering services.[81]

(vi) State Promotion of Investment Abroad

The Canadian state is also involved in promoting investment abroad and aid is one of a number of mechanisms used for such purposes:

> CIDA's work in infrastructure and preinvestment assistance provides vital "seed money" for activity in the private sector.[82]

CIDA's Investment Incentives Programme offers financing for feasibility studies of investment opportunities in underdeveloped and industrializing economies. Its Business and Industry Division provides information on investment opportunities "by soliciting and collecting data from developing countries and making them available to potential investors in Canada".[83] And, in addition to generally promoting Canadian investment abroad and proclaiming the relative merits of such arrangements as licensing agreements, joint ventures and management contracts,[84] the Canadian state, through CIDA, has also made available funds in underdeveloped countries which can be used by Canadian investors to purchase capital equipment;[85] the investment and export insurance programme administered by the EDC, as noted above, complements this framework.[86]

It would be useful in examining the question of state promotion of investment abroad to refer to a statement made by a senior executive of the EDC in an interview, published in an EDC sponsored advertisement in the Financial Post of April 29, 1978:

> It should be said immediately that EDC would not support a project that was inimical to Canadian interests. Thus, if a foreign investment was going to compete with Canadian industry to the detriment of that industry, and, say result in the closing of a plant in Canada, and on the other hand not offer sufficient advantages to Canada to offset this adverse action, we would simply not support the project.[87]

The statement reproduced above can be interpreted as representing the EDC's view of itself in relation to the dynamics of world capitalism. Developments in the semi-industrialized and underdeveloped countries in the last two decades have led to circumstances in which Canada is now competing directly with these countries for markets or investments (particularly in the export of manufactured goods and resource extraction and processing, respectively). One dimension of this question lies in Canada's weak manufacturing sector, based largely on branch plant assembly type operations dominated by foreign multinational firms, a situation which characterizes as well the manufacturing sector of a number of less industrialized economies; these, however, are actively engaging in strong export promotion, aided by the organization of multinational production operations which involve intra-corporate transfers of component inputs. The second dimension is found in Canada's heavy reliance on the primary sector for its economic development; this, though, is a sector which multinational firms are beginning to exploit to a far greater degree in semi-industrialized and underdeveloped countries; the multinationals, acting in response to their corporate capital need of securing more profitable sources, can easily integrate their projects with the development programmes of these countries, which are often geared to the most expedient forms of economic growth.

The consequences for Canada of such circumstances and the general EDC policy in regards to financing Canadian foreign investment are clearly demonstrated in INCO's expansion into Guatemala and Indonesia and the subsequent curtailment of nickel mining operations in Canada. Thus, notwithstanding the massive layoffs by INCO in Canada as a result of the bringing into production of these new (and presumably more profitable) mining projects in underdeveloped countries, it was reported that the "benefits from EDC and related financing ($23 million for the Guatemala enterprise and $56 million for the Indonesian one) are sales of Canadian equipment and technical services".[88]

Such are the "compensating benefits" required by the EDC so as to qualify a large Canadian multinational firm for financing of an investment abroad that would contribute to undermine a major industry in the primary sector of the Canadian economy. The limitations of the EDC position are further manifested when considering the degree of technological dependency in the Canadian mining industry vis-a-vis the United States relative to the capability to produce capital goods, undertake research and development, etc.;[89] it is unlikely, then, despite the structural subordination of the Guatemalian and Indonesian mining sectors, that Canada will derive the economic benefits normally associated with multinational expansion.[90] Finally, in the case of INCO's expansion into Indonesia, it appears that two of the principal beneficiaries were Canadian subsidiaries of American firms, Canadian Bechtel Ltd. and Montreal Engineering Co.[91]

(vii) <u>Non-government Agencies: CALA, CESO, CEA, ADELA</u>

Alongside the Canadian state's involvement in the Caribbean and Latin America, there have emerged a number of non-government agencies and associations which engage in essentially para-state operations, supported in many cases by state funds; this section will complete the chapter on the role of the state by examining the activities of these organizations.

The Canadian Association for Latin America (CALA), the most prominent of these groups, was formed in 1969 and seeks "to include all companies which have an interest in exports, imports or direct investment" in Latin America.[92] It was first headed by the president of Brazilian Light, and in 1973 its membership included seventy-two Canadian corporations and professional firms.[93] In keeping with its chief concern of trade and investment, the association, along with maintaining close relations with the Department of Industry, Trade and Commerce, holds annual conferences at which it invites between fifty and sixty "leading business leaders, heads of state enterprises and senior officials of planning institutions who are in a position to influence the acquisition of Canadian goods, services and investment".[94]

The Canadian Executive Service Overseas (CESO), incorporated in 1967 as a federally chartered non-profit corporation and almost totally funded by the state, is headed by a board of directors, "most of whom are senior officers of major Canadian organizations".[95] CESO provides the services of executives to private enterprises in underdeveloped countries on a cost free basis; by means of its activities in these countries, the organization serves as a promotional tool for Canadian products and technology and is also in a position to provide Canadian business interests with commercial information. Another group, the Canadian Export Association (CEA), comprised of engineers and equipment manufacturers, concerns itself mainly with increasing Canadian procurement for projects financed by the World Bank group and other international agencies.[96]

In addition to the activities of these organizations Canada also asserts its position in the world economy by means of its participation in the Atlantic Development Group for Latin America (ADELA), essentially a multinational private investment company incorporated in Luxembourg in 1964. Its shareholders include only industrial corporations, banks and financial institutions; in 1968, these totalled 120, with the United States holding the largest bloc (37 firms) and Canada the second largest (ten firms, including the five chartered banks).[97] Its main purpose is to develop capital investment in private enterprise in Latin America by making investments in conjunction with local and foreign private capitalists as well as international financing and development organizations:

> ...through its operations it endeavours to encourage trends favourable to private capital and assists private enterprises in Latin America to achieve conditions suitable for private investment.

Its priorities include the development and establishment of multinational enterprises based on markets created by regional and continental trading arrangements, the liberalization of capital flows and the establishment of capital markets and private financial institutions.

(viii) Summary and Conclusion

In the final analysis, the evidence presented in this chapter indicates a consistent qualitative and quantitative expansion in the role of the Canadian state in affirming and promoting the position of Canadian economic interests in the Caribbean and Latin America, concomitant with changing world social and economic conditions.

Reacting to the sharp decline in trade after World War I, the Canadian state established the foreign trade commissioners corps; following the implementation of import restrictions on the part of semi-industrialized and underdeveloped countries in the post World War II period and, in an effort to counteract the negative effects of the aid and credit programmes of foreign states on Canada, the Canadian state instituted its own aid and credit programmes to promote markets and investments abroad.

Both in its original design and in its application, the central focus of the Canadian aid policy has been geared to providing for industrial and commercial benefits in Canada, the technological dependency and structural under-development of certain key sectors in the Canadian economy notwithstanding. The relation of bilateral and multilateral aid programmes to the development needs of semi-industrialized and underdeveloped countries has mattered only in as much as it has been politically expedient and necessary in the creation and maintenance of a world economic order attendant to the capital requirements and the expansionist tendiencies of dominant corporate interests based in the advanced industrialized countries.

The level and degree of Canadian involvement in this process is both dictated and constrained by the nature of Canada's dependent capitalist development and the particular features of its integration into the world economic system. As such, the external economic policies of the Canadian state must recognize and relate to (1) the strong dependence of the Canadian economy on export markets to compensate for a heavy reliance on the primary sector and the existence of a weak and disintegrated industrial structure, (2) the external economic position of Canadian capitalist interests historically conditioned by investments and trade patterns established in the early part of the twentieth century, and (3) the internal and external dimensions of the global organization of technological development, production and marketing by dominant multinational corporations which maintain subsidiary operations in Canada as well as in a number of industrially developed, semi-industrialized and under-developed countries.

Notes and References to Chapter III

1. There are prior instances of Canadian aid, such as the $4.7 million extended to the British West Indies during the 1943-45 period (see Canada-West Indies Magazine, hereafter designated CWIM, v. 35 # 6 July 1945, p. 11); it was not until 1960, however, that the Canadian aid programmes were formally organized under the External Aid Office.

2. See Robin W. Winks, Canadian-West Indian Union: A Forty Year Minuet (1968) p. 21; see also O. Mary Hill, The Department of Trade and Commerce, Canada's Salesman to the World (1977).

3. See Monetary Times, hereafter designated as MT, v. 64 # 3 (Jan. 16, 1920) p. 10.

4. Canadian Business, hereafter designated as CB, v. 39 (Sept 1966) pp. 96, 99; Maurice Strong, then president of Power Corporation of Canada Ltd. was appointed head of the Aid Office.

5. The Exports Credit and Insurance Corporation (ECIC) became the Export Development Corporation (EDC) in 1970; the External Aid Office was reorganized under the name of the Canadian International Development Agency (CIDA) in 1968.

6. See trade reports of the Bank of Commerce and the Royal Bank of Canada.

7. MT v. 62 (Jan 10, 1919) p. 12.

8. Section (i) in Chapter One and section (i) in Chapter Two elaborate on the nature and extent of the economic activities of Canadian banks in the Caribbean and Latin America, respectively.

9. MT v. 70 # 3 (Jan 19, 1923) p. 6; see also address by the Vice-president of the Royal Bank of Canada at the Bank's fifty-second annual meeting, January 13, 1921, in Canadian Annual Review of Public Affairs (1920) p. 881: "The Commerce Reports of the Dominion have year by year afforded ample testimony of the national service rendered by the bank in extending our markets abroad. Wherever we have opened branches, trade with Canada has been stimulated".

10. CB v. 20 (August 1947) pp. 36, 97.

11. See, for example, Saturday Night v. 64 # 25 (March 29,

1949) p. 35; Saturday Night v. 64 # 51 (Sept 27, 1949) p. 36.

12. CB v. 30 (Sept 1957) p. 114.

13. Saturday Night v. 64 # 25 (March 29, 1949) p. 31.

14. MT v. 126 # 7 (July 1958) pp. 40-41.
Saturday Night v. 64 # 22 (March 8, 1949) p. 35.

15. Foreign Trade, hereafter designated as FT, v. 125 # 2 (22/1/66) pp. 10-11; FT v. 125 # 12 (11/6/66) pp. 32-33.

16. FT v. 126 # 9 (29/10/66) p. 11.

17. Canada Commerce, hereafter designated as CC, v. 136 # 2 (Feb 1972) p. 6.

18. FT v. 129 # 10 (11/5/68) p. 3.

19. FT v. 131 # 3 p. 9 (1/2/69).

20. These sectors were telecommunications, consulting engineering services, airport construction, mining/forestry/fishing equipment, hydroelectric equipment, grain storage facilities, port equipment, pulp & paper machinery, nuclear reactors, road/railway equipment, educational equipment; see FT v. 131 # 3 p. 9 (1/2/69).

21. FT v. 133 # 7 p. 5 (28/3/70).

22. FT v. 126 # 9 p. 18 (29/10/66).

23. FT v. 134 # 8 p. 24 (21/11/70); see also report on Jamaica. FT v. 133 # 2 p. 16 (17/1/70).

24. CC v. 137 # 7 p. 31 (July 1973).

25. FT v. 134 # 8 p. 29 (21/11/70) includes feasibility studies, technical advisers, teacher training, etc.

26. FT v. 130 # 11 p. 17 (23/11/68).

27. FT v. 130 # 11 p. 18 (23/11/68).

28. FT v. 120 # 8 (19/10/63) p. 23.

29. FT v. 130 # 12 (7/12/68) p. 18.

30. FT v. 130 # 12 p. 15 (7/12/68).

31. FT v. 130 # 12 (7/12/68) p. 3.

32. CC v. 136 # 7 p. 12 (July 1972).

33. FT v. 130 # 12 p. 3 (7/12/68).

34. FT v. 130 # 12 pp. 5-7 (7/12/68).

35. FT v. 130 # 12 p. 3 (7/12/68).

36. FT v. 133 # 3 (31/7/70) p. 30; also significant in this regard has been the training of Brazilian engineers at Canadian General Electric and Canadian Westinghouse plants in Canada, in cooperation with Brazilian Light.

37. FT v. 124 # 6 (18/9/65) p. 28.

38. FT v. 130 # 12 (7/12/68) p. 22; see the case in Peru of the link between the engineering firm of Motor Columbus and the Swiss based equipment supplier Brown Boveri, FT v. 120 # 8 (19/10/63) pp. 28-31.

39. FT v. 109 # 10 (10/5/58) pp. 3, 4.

40. FT v. 130 # 11 (23/11/68) p. 9.
FT v. 135 # 14 (Aug 1971) pp. 22, 24.

41. $50 million by 1970; see FT v. 134 # 8 (21/11/70) pp. 10, 28.

42. FT v. 135 # 14 (Aug 1971) pp. 22, 24.

43. FT v. 134 # 8 (21/11/70) p. 11.

44. FT v. 134 # 8 (21/11/70) p. 29; in Jamaica, the non-government market (mainly private and professional purchasers) for educational and training equipment as well as medical equipment is indirectly influenced by government aid but more importantly, it is largely dependent upon the role of the Canadian banks in providing the necessary credit. See FT v. 130 # 11 (23/11/68) p. 12.

45. FT v. 134 # 8 (21/11/70); significant in this regard is the historical link between Canada and the West Indies in the education field - see CWIM v. 31 # 7 (July 1942) pp. 14-15; CWIM v. 36 # 2 (Mar-Apr 1946) p. 14; CWIM v. 39 # 3 (March 1949) editorial on West Indian students in Canadian universities.

46. FT v. 120 # 8 (19/10/63) pp. 4, 5.

47. FT v. 133 # 3 (31/1/70) p. 6.

48. FT v. 120 # 8 (19/10/63) pp. 6, 9, 10, 11.

49. For the period 1961-1970, the IADB spent $210 million towards financing projects worth over #1 billion; see FT v. 134 # 9 (5/12/70) p. 15.

50. External Affairs v. 19 (June 1967) p. 208; see also FT v. 122 # 7 (3/10/64) p. 8.

51. CC v. 136 # 7 (July 1972) p. 16.

52. CC v. 137 # 7 (July 1973) p. 31.

53. CC v. 136 # 7 (July 1972) p. 3.

54. FT v. 125 # 7 (2/4/66) p. 6.

55. FT v. 116 # 11 (18/11/61) pp. 28-29.

56. CC v. 136 # 7 (July 1972) p. 3.

57. FT v. 120 # 8 (19/10/63) p. 19.

58. External Affairs v. 17 # 3 (Feb 1965) p. 93.

59. See K. J. Charles, "Foreign Aid - What's In It For Us?" in Canadian Dimension v. 3 # 3, 4 (mar-Apr 1966) p. 45 and Irving Brecher, "Canada's Foreign Economic Aid" in The Canadian Banker v. 69 (Winter 1962) p. 45.

60. CB v. 39 (Sept 1966) p. 96.

61. CB v. 39 (Sept.1966) p. 96.

62. External Affairs v. 19 (July 1967) pp. 291-292.

63. G. L. Reuber "The trade-offs among the objectives of the Canadian foreign aid" in International Journal v. 25 (Winter 1969/70) p. 131.

64. FT v. 126 # 11 (26/11/66) p. 5.
FT v. 127 # 13 (24/6/67) p. 8.
CC v. 136 # 7 (July 1972) p. 5.

65. FT v. 126 # 2 (23/7/66) p. 12.

66. Business Latin America 1969 p. 131; FT v. 127 # 3 (4/2/67) p. 10.

67. See David Powell, Problems of Economic Development in the Caribbean (1972) p. 60 for an elaboration of this point; see also External Affairs v. 19 # 7 (July 1967) p. 290.

68. Canada, Senate, Report of the Standing Committee on Foreign Affairs of the Senate of Canada on Canada-Caribbean Relations (1970) p. 29.

69. Demas p. 54

70. CC v. 136 # 7 (July 1972) p. 2.

71. Globe and Mail, Toronto, (17/5/77) p. B-3, "Capital Projects Seen as Source of Exports".

72. FT v. 127 # 8 (15/4/67) p. 19; see conditions for market participation in the expansion of the steel industry in Brazil in FT v. 113 # 1 (2/1/60) p. 16.

73. FT v. 8 # 184 (8/7/50) pp. 50-53; In 1941, the Bank agreed to lend Brazil $20 million for the construction of a steel plant "on condition that it is spent on plant and material from the United States". See Commercial Intelligence Journal v. 64 # 1931 (1/2/41) pp. 127-128. In 1960, the Bank provided a $70 million development loan to Columbia which "was to be used to acquire U.S. equipment, materials and services". See FT v. 114 # 12 (3/12/60) p. 12.

74. FT v. 129 # 5 (2/3/68) p. 22.
FT v. 126 # 4 (26/11/66) p. 21.
FT v. 129 # 5 (2/3/68) p. 33.

75. FT v. 130 # 10 (9/11/68) p. 32.

76. R. G. P. Styles, "The Export Development Corporation" in The Canadian Banker v. 76 (Sept-Oct 1969) p. 17.

77. See FT v. 111 # 2 (18/7/59) p. 17 and FT v. 120 # 8 (19/10/63) pp. 16-18 for articles on the ECIC.

78. Styles, p. 17; see also Financial Post, hereafter designated as FP, (28/7/56) p. 17.

79. FP (29/4/78), EDC Advertising Supplement p. 2.

80. CC v. 136 # 9 (Sept 1972) p. 26.

81. FT v. 127 # 3 (4/2/67) p. 8.
FT v. 134 # 9 (5/12/70) p. 19.
CC v. 136 # 9 (Sept 1972) pp. 12, 26.
CC v. 136 # 12 (Dec 1972) p. 27.
CC v. 137 # 9 (Sept 1973) p. 24.

82. Senate 1970, p. xix.

83. Senate 1970, p. 32; FT remarks: "These documents, although restricted in nature, are available to representatives of industry for review...". FT v. 127 # 8 (15/4/67) p. 20.

84. Such as safeguarding export markets, providing profitable opportunities and substantial tariff advantages in trade areas, e.g. CACOM, CARIFA; see FT v. 124 # 7 (2/10/65) p. 25 and CC v. 136 # 1 (Jan 1972) pp. 6, 32.

85. CC v. 137 # 1 (Jan 1973) pp. 2, 3.

86. FT v. 136 # 1 (Jan 1972) pp. 3, 8.

87. FP (29/4/78) EDC Advertising Supplement p. 3.

88. FP (5/11/77) p. 11 "EDC's INCO funds worked for Canada".

89. See Pierre L. Bourgault, Innovation and the Structure of the Canadian Industry (Background Study for the Science Council of Canada, Oct. 1972, Special Study # 23) especially sections on resource-based industries.

90. See Norman Girvan "MNC and Dependent Underdevelopment in Mineral Export Economies" in Social and Economic Studies v. 19 # 4 (1970) pp. 490-526 and O. Sunkel, "Transnational Capitalism and National Disintegration in Latin America" in Social and Economic Studies v. 22 # 1 (March 1973) especially pp. 163-165.

91. FP (5/11/77) p. 11.

92. Herman Konrad, "Old Wine or New Wineskins" in Newstatements v. 1 # 3 (1971) p. 45.

93. Business Latin America 1969, p. 176; CC v. 137 # 7 (July 1973) pp. 29, 30.

94. CC v. 137 # 7 (July 1973) pp. 29, 30.

95. CESO Annual Report 1975-76 p. 3; see also Business Latin America 1970 p. 327.

96. CC v. 137 # 2 (Feb 1973) p. 12.

97. Material on and references to ADELA are based on the report in FT v. 129 # 12 (8/6/68) pp. 12-15.

CHAPTER FOUR

CANADA'S ROLE IN THE WORLD SYSTEM: AN ASSESSMENT AND THEORETICAL CONSIDERATION OF THE QUESTION

Introduction

R. B. Sutcliffe, in his study of industrial development,[1] provides a hierarchical differentiation of countries according to their degree of industrialization by comparing a number of economic indicators;[2] according to the criteria employed by Sutcliffe, Canada falls into the top category and is classified as a "fully industrialized" nation.[3] In another study, this one by W. W. Rostow, Canada is deemed to have passed through all the stages required of a country to attain the status of maturity and full industrialization, its economy characterized by a high degree of mass consumption.[4]

As indicated in the introduction to this study, however, such an assessment of Canada does not seem to be universally shared; there exists an important school of political economic thought in Canada which regards the Canadian economy as structurally imbalanced, underdeveloped in certain key sectors and lacking in the critical agents of self-sustained growth and development.[5] The debate, though, is carried into a different sphere of discussion with the contention, by certain proponents of this school of thought, that Canada's economy is externally dominated and undergoing a phase of "recolonization".[6]

This argument, while in contrast to the position of non-Marxists such as Sutcliffe and Rostow, is also diametrically opposed to the position of such neo-Marxists as Pierre Jalee. Jalee, in his book Imperialism in the Seventies, identifies the imperialist countries as "the industrialized capitalist countries which participate as beneficiaries in the imperialist international division of labor";[7] he indicates that both the United States and Canada, among others are to be considered imperialist.

Although rejecting the idea of Canada as a colony on the premise that such a position lacks any valid theoretical ana analytical basis, it will be the purpose of this final chapter to focus on the problematic nature of the Canadian economy and its role within the world capitalist system. The first section will evaluate the nature and consequences of the transition which characterized the Canadian economy as it shifted its focus and primary operational context from Britain to the United States. The second section will review briefly various theories of imperialism and examine critically the notion of Canada as an imperialist nation; it will be shown that both internally and externally, Canada fails to incorporate the structural relations characteristically determinate of an imperialist country. Section (iii) will consider the extent to which it may be valid to designate Canada by the terms sub-imperial, semi-periphery and go-between, primarily by evaluating the conceptual basis of each of these terms. Finally, by taking into account the assumptions as well as the empirical and analytical findings of this study, section (iv) will provide a theoretical assessment of the central question of Canada's role within the world system and attempt to resolve the dichotomous nature of the debate surrounding the issue.

(i) Canada's Development and External Economic Expansion: The Transition from British Colonialism to American Monopoly Capitalism

During the nineteenth century and until World War I, most of Canada's trade and investment took place within the framework of British colonialism; however, Canada's position vis-a-vis Britain changed considerably as a result of the emerging predominance of U.S. economic interests during the inter-war period in the world economy generally and in Canada particularly. Table IV.1 below[8] indicates the extent of the decreasing importance of Britain for Canada, both in terms of imports and exports.

The same trend occured in respect to foreign investment in Canada. In the period prior to World War I, British investments clearly represented the largest share of foreign capital in Canada and British capital played a major role in financing the construction of the railways, government expenditures and infrastructure development.[9] World War I, however, undermined the viability of the London finance market as a source of capital and, while British investment in Canada remained dominant over other sources until the early 1920's,

Table IV.1: Imports from Britain as Percentage of Total Imports into Canada; Domestic Exports to Britain as Percentage of Total Canadian Exports, 1875-1970.[8]

Year	Imports	Exports
1875	51.1	49.1
1880	48.3	48.3
1890	n.a.	48.7
1900	25.1	57.2
1910	25.7	50.0
1920	17.3	26.9
1930	17.6*	27.1
1940	13.4	42.9
1950	12.8	15.1
1960	10.7	17.4
1970	5.3	7.5

n.a - not available
* figure is for 1931

from 1914 onwards U.S. investment in Canada was increasing at a much greater rate than British investment.[10] In contrast to British investments which were mainly in portfolio form (i.e. loans, bonds, purchases of government securities, etc.), the largest percentage of U.S. capital was in the form of direct investment, involving varying degrees of ownership and control. A study by the Dominion Bureau of Statistics, published in 1949, outlines some of the implications of this form of investment for the Canadian economy:

> Besides the heavy imports of parts and materials from the United States there are numerous payments for management and professional services, royalties and research as well as the payment of dividends and profit to parent companies and other investors in the United States.[11]

This pattern developed to the extent that in 1970's the real value of American direct investment in Canada is estimated at $50 billion;[12] this investment represents about 80 percent of all foreign capital in Canada and is concentrated in the key resource sectors and high technology industries of the economy.

When relating the ownership structure of the Canadian economy to the particular question of the overall export capability of Canadian industry, it becomes important to consider, as a number of studies have noted,[13] that the nature of this relationship could mitigate against a strong export orientation on the part of Canadian branch plants. The survey of trade patterns between Canada and Latin America in Chapter Two demonstrated that the exports of the branch plants operated on an allotment basis, contingent upon the production, investment and export policies of the parent firm. On another level, though, there appears to be a real dilemma on the part of state and private concerns in Canada in assessing the impact of American subsidiary operations in Canada on Canadian external trade and investment. Trade reports indicate that competition for Canadian exporters of manufactured goods and capital equipment is very intense from multinational U.S. firms, "many of them with offices in Canada";[14] yet, at the same time, the Commons' Subcommittee on Trade Policy, in commenting on Canada's policy for increased trade relations with Latin America, suggested that foreign based firms operating subsidiaries in Canada expand their export programmes.[15]

However, when considering that in the mid 1960's American subsidiaries alone accounted for 48 percent of total Canadian exports of manufactured goods,[16] two implications of major significance are immediately evident. The first involves the establishment of related plants by the parent corporations in other areas; this could substantially curtail exports by their Canadian branches. Thereby, given the heavy reliance of domestic exports of manufactured goods on foreign subsidiaries, a large part of Canada's export capability is predicated upon the multinational investment policies of firms located outside of Canada. The second element relates to the export capability of Canadian-owned firms relative to that of foreign subsidiaries in Canada and the distinct advantages possessed by the latter. The multinational operations of the parent firms provide the Canadian branches with international marketing and credit facilities; they also provide them with captive markets for intermediate products as well as the backing of large research and development programmes. On the surface, then, it would appear that a solution would lie in the development and growth of domestically based multinational corporations.[17] However, the Science Council of Canada has noted in this regard that "to be successful internationally, these corporations must build on the base of a strong domestic market, and the present fragmentation of this market is an almost insuperable obstacle".[18] Furthermore, in addition to the specific consequences which the operations of foreign branch plants have for Canadian exports and investments, Canadian based multinational corporations are also vulnerable to the dynamics of an oligopolistically determined world economy. The "internationalization of corporate ownership",[19] though not a feature unique to Canadian multinationals, coupled with the tendency for the corporations' major operations "to gravitate to the region in which their largest markets are located",[20] has resulted, in the case of a number of important firms, in the transfer outside of Canada of key corporate activities. The case of Massey-Ferguson is a prime example; the majority of its production operations are located in the United States, as well as its corporate headquarters and research and development department.

There also exists an interrelation between the potential for Canadian investment abroad and the operations of foreign subsidiaries in Canada; the following passage aptly summarizes its nature:

> Canadian mills are expected to intensify their interest in investment in pulp and paper and converting operations abroad while foreign interests continue to do the same in Canada.[21]

As demonstrated in Chapter Two, the Latin American markets for Canadian wood pulp, paper products, newsprint as well as pulp and paper machinery and equipment are being seriously undermined by local developments in the sector. Bradford and Pestieau noted this trend in their 1971 study of Canada-Latin America economic relations;[22] in response to this, the Canadian Pulp and Paper Association recommended that Canadian firms become vertically integrated with local producers and establish new plants in order to safeguard market access. Significant in this regard, generous Brazilian government incentives have attracted substantial involvement in the local industry by Japan, the United States, Taiwan, Spain and Sweden,[23] but relatively little interest has been shown by Canadian firms. Given, however, that the main pulp and paper producers in Canada are either subsidiaries or associate companies of American multinational firms with Latin American operations, it is not surprising that the capacity for Canadian investment abroad as a means of protecting export potential in this field is considerably restricted.

The Canadian state seems to regard sophisticated technological goods and services not only as the basis of the export trade of the immediate future, but also as the critical element in the entire pattern of industrial development in Canada.[24] As noted in Chapter Three, there exists two very distinct markets for such commodities; one in the developed economies and the other in the less advanced and the underdeveloped economies. Successful penetration of the former "depends upon the ability to provide new concepts of design, manufacturing and construction, aimed at minimizing the labor content and maximizing production".[25] There is much evidence, however, to suggest that the indigenous capacity for innovative research and technological development in Canada is very weak.[26]

In 1976, Canada's research and development expenditures represented only 0.9 percent of its total Gross National Product, a level of investment lower than that of any other Western nation.[27] The lack of research and development investment precludes the introduction of "new products, processes, manufacturing methods, industrial engineering and new industries".[28] And, because technological innovation is a dominant factor in economic growth, Canada's low capability in this area has resulted in a structural economic weakness particularly in regard to high technology industries which have constituted the basis for the economic development of other industrialized countries; additionally, it has meant that industrial growth in Canada has had to rely primarily on market expansion.

A recent study in the United States has shown (1) that high technology products provide a positive trade balance while low technology products account for a trade deficit, and (2) that employment growth in high technology industries has proceeded at a much faster rate than in low technology ones.[29] In Canada, however, the import share of the Canadian market for manufactured goods in the high technology sector rose from 34 percent to 40 percent during the 1966-1976 period; the corresponding figures for the low technology sector were 11 percent and 17 percent, respectively.[30] Also indicative of the structural composition of the Canadian economy is the fact that in

1976 Canada's manufacturing industries accounted for only 19 percent of the nation's work force, as compared to 26 percent in 1950;[31a] that a concomitant decrease in the general level of employment did not result is largely due to the growth of the tertiary or service sector.[31b] However, whereas the development of the tertiary sector in advanced industrialized economies occurred as a function of organizational changes in the production and distribution of goods, in Canada the growth of this sector was based on different factors. In the advanced economies, the emergence of the modern corporation represented the integration of the "productive" and "non-productive" activities in the process of the creation and extraction of surplus;[31c] likewise, occupational shifts resulting from an increase in the capital-intensive nature of the factors of production due to a greater application of technology were closely linked to new requirements in the economic process. In Canada, the relative size and composition of the tertiary sector is reflective of (1) the historical prominence of the financial sector in the economy and (2) the branch plant nature of a considerable portion of the indigenous economy. The first factor has resulted in the emergence of a sector of employment based heavily on purely administrative functions, separate from the sphere of production; the second demonstrates a lack of internal integration with the productive sector, as the employment in the service sector generated on this basis is pursuant to the organizational requirements of foreign corporate interests.

Finally, it has been further maintained (by the chairman of the Science Council of Canada) that "fundamental shifts in the global technology market will exert even greater pressure on Canada to regress to a strictly resource exporting status with little economic self-determination".[32] It is worth noting, however, that this phenomenon is not of recent origin; historically, both internal and external forces have adversely affected Canada's capability in this field.

During the last quarter of the nineteenth century and throughout the twentieth century, the state, in collaboration with the dominant economic interests in Canada, pursued developmental policies which, intrinsically were not geared to promoting a capacity for technological development.[33] And, significantly, it appears that the leading member of the banking sector in Canada still adheres to such an orientation, as exemplified in the following passage:

> Political and value judgements - rather than business or economic judgements - threaten to push us away from our historically successful development path.[34]

The external dimension of this question is constituted by the establishment in Canada of American industrial corporate interests (in the early part of the twentieth century) in the high technology, capital intensive and rapid growth industries of the "second industrial revolution" - i.e., machinery production, automobiles, electrical appliances, chemicals, etc. This process was greatly facilitated by the economic orientation of Canada's financial, commercial and state interests and lay the basis for the type of economic expansion that was to occur in the succeeding decades. (The nature of Canada's capitalist class and its relationship to the process of economic development in Canada is further elaborated in the second part of this chapter.)

One of the mechanisms that made this process possible was the patent system which, by providing for foreign patent protection through licensing agreements and branch incorporation, was instrumental in bringing about a domestic structural dependence on American technology; the fact that 95 percent of all patents issued in Canada in 1976 were registered to foreign interests is indicative of the role which it has played. The "Working Paper on Patent Law Revision" prepared by the Department of Corporate and Consumer Affairs in 1976, provides additional support for such a contention:

> The patent system is supposed to be an instrument for advancing national technological development. Yet the statistics with respect to foreign participation in Canada's patent system argue for the possibility that this law may be serving as a brake on the development of Canada's industrial infrastructure.[35]

Furthermore, as demonstrated in Chapter Two (in the case of Canadian firms exporting to Latin America), firms which are dependent upon foreign patents for their production operations are often limited or restricted insofar as their export capability is concerned.

Thus, it seems clear that if Canada's participation in the developed economies market for advanced technology is contingent upon an innovative capacity for industrial development, then its position can only be a relatively weak one.

In terms of the market in the underdeveloped and less advanced economies, the main factor, as seen in Chapter Three, is the availability of financing. International organizations as well as independent bilateral programmes constitute the major sources of this financing, but Canada's position in this respect is affected by the fact that "there are limits on the amounts of money available and in consequence the wealthier countries have the advantage because they can provide financing and grant aid on a larger scale".[36]

In trying to ascertain Canada's position in the world capitalist economy by considering the interrelation of the elements elaborated in this section, the question as to whether or not Canada possesses the economic mechanisms to be in effective control of its foreign activities is deemed to be both valid and necessary, and such a line of inquiry already appears to have been adopted by state trade interests:

> Do we have the economic independence necessary to take the decisions that count and the means to carry them out? Are we able to shape our trade and monetary policies in an optimum way for Canadian interests, or is the room to manoeuvre left to decision makers in Canada so small that Canadian interests may go by default or be left to others to defend?[37]

Canadian foreign economic activity, viewed as an element in the world economy, appears to be the logical result of external influences operating at the international level but is also clearly reflected in the internal process of economic development in Canada. Early Canadian trade and investments took place within the context of British colonialism;

throughout the twentieth century, these changed mainly to be accomodated within the dominance of U.S. monopoly capitalism. The dialectical process by which the internal and external spheres became integrated within this framework is exemplified by the entry of Alcan into the bauxite-alumina sector of Jamaica. Such Canadian economic involvement was in function of a monopoly capitalist design for a secure source of raw materials and industrial capability in this sector, and corresponded closely to developments in Canada at the time.

(ii) Capitalist Development in Canada and the Notion of Canada as an Imperialist Country

The first element to consider in dealing with the question of Canada as an imperialist country is the existence of various theories of imperialism. Barratt-Brown, in The Economics of Imperialism, identifies the three main theoretical perspectives which have been elaborated in respect to imperialism as neo-classical, Keynesian and Marxist.[38] Neo-classical and Keynesian theories tend to view imperialism as a process of political and military expansion, undertaken in terms of some economic motive. Basically, the Marxist view of imperialism distinguishes itself from this position by (1) rejecting the notion of comparative advantage through specialization and free trade that underlies the neo-classical theory or the idea of a power struggle among mercantilist states that is fundamental to the Keynesian position, and (2) focusing, instead, on the process of economic expansion in terms of the diffusion of capitalist relations of production throughout the world economy in conformity with the structural requirements of certain social formations.[39]

Barrett-Brown notes that, while Marx did not elaborate a theory of imperialism per se, the variety of interpretations of the Marxist theory of imperialism all have, as a fundamental premise, Marx's notions of "overproduction" and "falling rate of profit".[40] Lenin's conceptualization of imperialism focused upon the export of capital as a mechanism to counteract reduced opportunities for the indigenous use of capital in advanced capitalist countries due to a state of excess productive capacity generated by the process of the concentration of capital and the application of technological innovations; concomitant with the export of capital is the artificial creation of a single world division of labour. Implicit in Lenin's theory is the idea that only in fully industrialized and advanced capitalist countries do the objective preconditions for imperialist economic expansion exist.

The following analysis will be directed principally toward the idea of Canada as a fully industrialized and advanced capitalist country, for any claim that Canada is an imperialist country would have to assume such a condition.

Rostow identifies five stages in the process of economic development through which every country is supposed to pass;[41] as indicated above, Canada is alleged to have attained the ultimate stage. In terms of Rostow's theory, the third stage or the "take-off" is the crucial stage through which a country must pass in order to become modernized or industrialized. "Take-off" requires (1) the build up of social overhead capital (i.e. social, commercial and industrial infrastructure), (2) the shift from a primary concern with agriculture and trade in raw materials to heavy involvement in manufacturing through the technological development of agriculture and industry, and (3) an appropriate political and social institutional framework (i.e. "the emergence to political power of a group to lead modernization").[42] Canada's "take-off", according to Rostow, occurred "in the quarter century preceeding 1914".[43]

Such an assertion needs to be confronted with an examination of the extent to which such pre-conditions were present in Canada at the time that they are alleged to have been. It will be helpful here to briefly review some of the conceptual models of growth and development and related analytical works that have been elaborated by Canadian political economists in an effort to account for the nature and degree of industrialization in Canada.

W. A. Mackintosh elaborated a stage theory of growth which incorporated the creation of an internal market, the building of an economic infrastructure and the establishment of industry. His model stressed "the connection between external demand for Canadian resources and the attainment of a mature industrial society", claiming that "export led growth and expansion was the basis of industrial development".[44]

Harold Innis, in contrast, expounded the view that industrialization in Canada would be a dependent process because a staple-oriented economy is neither self-regulating nor self-generating and is tied to foreign industrial centres by market and trade relations.[45]

Alternatively, R. T. Naylor's study of the transition from commercial capitalism to industrial capitalism in Canada,[46] which focuses on the process of capital formation, acknowledges the existence of all three of Rostow's preconditions for "take-off"; Naylor's analysis, however, disputes Rostow's contention that such factors lay the basis for the development of an integrated and independent industrial economy.

Naylor's analysis shows that the group which led the process of industrialization in Canada was of a commercial capitalist orientation; and while it may be argued that there may not necessarily exist a fundamental conflict between the requirements of commercial capitalism and the dynamics of industrial capital accumulation, it is nevertheless important to recognize that the relative position of commercial capitalists and industrial capitalists in the Canadian economy has a direct bearing on the pattern and structure of economic development in Canada.[47] In fact, the ultimate contention of Naylor's analysis is that the merchant-financial interests which dominated the process of industrialization were able to maintain and indeed reinforce existing patterns of trade and commerce rather than see these become completely subjugated to the requirements of an industrial structure.

One of the most important prerequisites, for Rostow, of "take-off" or industrialization is increased productivity in the agricultural sector so as to provide a cheap supply of food for an expanding population; as well, Rostow maintains, "agriculture must yield up a substantial part of its surplus income to the modern (industrial) sector".[48] But the evidence presented by Naylor shows that (1) wheat production was almost totally geared for export and sale on the world market and consequently prices were highest during periods of market expansion, and (2) rather than contribute to industrial capital formation, the organization of wheat production and other staple related activities absorbed much of the income generated in other sectors of the economy.[49]

Rostow also asserts that, in Canada as in the United States, France, Germany and Russia, the development of railways played a decisive role in initiating the self-sustained growth of the basic industrial sectors.[50] Here Rostow's position corresponds to the traditional view held in Canada of the role the railways played in the general industrial development of the country. It emphasized that the railways created a demand for materials and equipment and, in a larger scope, helped to create a large enough market to justify modern means of production.[51] As a critique to this position, however, Naylor suggests that the function of railways can better be analyzed in terms of the objectives and business needs of the interests responsible for the promotion and development of these enterprises. With respect to their primary role, Naylor maintains that the railways must be considered as the means by which the long distance staple trade could be carried out rather than as an instrument of industrial expansion.[52]

Finally, any expansion in Canadian production which may have occurred during this period must be considered in terms which take into account such factors as (1) the influence of the Patent Law of 1873 which, by allowing the inflow of American technology, essentially obviated the creation of an indigenous, technological innovative capability, and (2) the American industrial control exerted through licensing agreements prior to the initial period of heavy direct investments (i.e. 1920's), the result of the latter being an even greater state of dependency by Canadian subsidiary producers on patent firms for machinery, parts, research and development, marketing policies, etc.[53]

One can extend this line of analysis to encompass the evolution of Canada throughout the twentieth century and question whether the relations of production may have so developed and capital become concentrated to the point where Canada, in accordance with the Marxist-Leninist theory, has reached the monopoly stage of capital; in doing so, however, it is most important to consider that the level of development and the degree of capital concentration are in large part the result of foreign branch plant operations in Canada, particularly in manufacturing and resource extraction.[54] Furthermore, while it may be argued that Canada's industrial indicators may be comparable to those of advanced capitalist countries, it must be recognized that the level of industrial production is less significant overall than the structure of the economy. Numerous government reports have demonstrated that an internal structural integration of the economy is lacking in Canada;[55] Rostow also recognizes this, as is indicated in his discussion of Canada's attainment of economic maturity:

> ... one can have nations moving into that stage before they have absorbed fully and efficiently the technologies that go with their versions of technological maturity .[56]

He fails, however, to draw out the necessary implications of such a situation.

Using the export of manufactured goods as a gauge for the structure of the Canadian economy, it may be noted that such exports constitute about one-third of Canada's export trade compared to about three-fifths in the case of West Germany, Britain and the United States.[57] More significantly, if automobile exports to the United States are excluded, given the corporate continental integration of the automobile industry, Canada's ratio of manufactured exports to total exports falls to less than one-sixth.[58] The structural weakness of Canada's manufactures export sector is further indicated by the nature and composition of Canada's exports to the United States. The Canadian Senate Committee on Foreign Affairs studying Canada-United States relations recently provided, in volume two of its report, an analysis of Canada's exports to the United States for the period 1971-1977.[59] The report indicates that, on the average for the period under consideration, 41.9 percent of Canada's exports to the United States were "end products"; the study notes, however, that more than 65 percent of this category (or 27.1 percent of total Canadian exports to the United Sates) was represented by automotive products. Additionally, the study shows that although "fabricated materials" constituted 33.5 percent of total exports, over 50 percent of this category of goods (or 17.4 percent of total Canadian exports to the United States) was made up of forest products.

The analysis carried out thus far constitutes a re-evaluation of the process of industrialization that occurred in Canada which, implicitly, seriously questions whether Canada has ever attained, internally, a degree of capitalist development concomitant with a potential for imperialist expansion. Despite this, however, the nature of Canadian external economic activity throughout the twentieth century, particularly in the Caribbean and Latin America, remains a contentious issue.

Documentation contained in this study has shown that the initial capital exports (to the West Indies as well as Latin America) reflected the close integration of Canada's dominant economic group with British finance capital and were indicative of the internal pattern of Canadian capitalist development. In referring to this pattern of external economic expansion, R. T. Naylor noted that Canadian capital showed "itself to be more mobile intra-sectorally and internationally than inter-sectorally and intra-nationally".[60]

Canadian capital exports went primarily to finance stock trading in the United States and to establish railway and utility operations in the British West Indies and Latin

America, but both these forms of economic expansion "helped develop the necessary infrastructures within which American corporations were then able to take advantage in their own commercial and corporate expansion".[61] And in examining the level of Canadian foreign investment throughout the twentieth century, (rather than just capital exports which would include repatriation of profits by foreign investors and other forms of intra-corporate remittances), the significant element to consider is whether the high non-resident component (mainly of a corporate nature) of these external economic activities does not seriously undermine the claim that Canada is an imperialist country.

The Dominion Bureau of Statistics, in its review of Canadian investment abroad during the period 1926-1948, noted that the "amount of investment in which there is a clear Canadian beneficial ownership would be considerably less than the total of all direct investments by Canadian companies".[62] In the period from 1954 to 1964, the proportion of Canada's foreign direct investment controlled by Canadian residents decreased from 73 percent to 57 percent, while the proportion controlled by American interests increased from 26 percent to 39 percent.[63]

This line of inquiry does not, however, carry with it the implicit assumption that foreign projects undertaken by Canadian capitalists may in any way be more beneficial to the underdeveloped country in which it occurs than those by recognized imperialist countries, such as the United States and Great Britain. Chapters I and II amply document the nature of Canadian investment projects and their effects on the economy and social structure of Caribbean and Latin American countries. In the case of the Alcan investments in Jamaica, the operations of the banks and life insurance companies in the Caribbean, the investments in the tourist sector in the Caribbean and the public utilities investments in Latin America, it has been demonstrated that very few of the linkage effects of Canadian or Canadian based investments take place in the local economies. In addition, the total receipts between 1946 and 1965 of Canadian investment abroad (interest and dividends) were estimated by the Dominion Bureau of Statistics at $1.4 billion, thus exceeding the total net outflow of capital ($1.2 billion) during the same period.[64] However, because of its own industrial, technological and financial dependency (particularly vis-a-vis the United States), Canada is not in a position to appropriate for itself much of the surplus derived from its foreign investments; indeed, as has been shown, many of these investments took place within the hegemonic relations that characterized Canada's link first with Britain then with the United States.

At this point, though, there appears to be a contradictory situation. Canada is a net exporter of capital, but this is not because of a lack of investment opportunities at home (as per the Marxist-Leninist theory); the high level of direct foreign investment in Canada testifies to this. However, there is another dimension to this question which is illustrated by the following excerpt from a federal government study of

Canadian foreign investment:

> In the decade of the 1960's there developed a considerable increase in Canadian interest in stocks in U.S. companies. The rapid growth of industries based on highly advanced technology such as electronics, aerospace, communications, etc., was a feature of the U.S. economy of this period. In the absence of similar investment opportunities in Canada, Canadian investors (especially institutional investors) tended to seek out U.S. equities and there was some portfolio switching from Canadian equities.[65]

This demonstrates that despite the fact that Canada does not lack investment opportunities these are necessarily restricted and limited (because of Canada's weak research and development capability) to those corporate interests which can provide the technology. In many cases the result will be the establishment of a subsidiary or branch plant operation, organized to function in accordance with the production and marketing requirements of a foreign parent firm. It also demonstrates that despite the fragmented nature of the Canadian economy, the financial sector is highly concentrated and centralized, and the historical forces which geared capital investments intra-sectorally and internationally in the early part of the current century are still operative today.

(iii) Canada as Sub-Imperialist, Semi-Peripheral, Go-Between

There have been a number of different positions taken, from a global perspective, relative to Canada's role in the world economy. Section (ii) discussed the case of Canada as an imperialist and advanced industrialized country; this section will examine the concepts of sub-imperialism, semi-periphery and go-between and determine how accurately they may reflect Canada's relative status.

The notion of Canada as sub-imperialist results largely from an analytical position which (1) contends that Canada does not have the military capability normally required of an imperialist country and that Canada fulfills a junior military role vis-a-vis the United States, (2) recognizes that "Canadian owned and Canadian based capital, particularly banking capital, have been able to take advantage of relations of unequal exchange with Third World countries to drain economic surplus...", and (3) postulates that Canadian external economic activities are essentially subordinate to the exigencies of international monopoly capitalist structures and institutions.[66] From such premises, it is concluded that Canada is essentially a middle-size, intermediary state which acts to expand and protect U.S. interests in other countries, and as such can be designated as a sub-imperialist country. In order to ascertain the analytical validity of such a position, however, it will be necessary to examine the conceptual basis of the term "sub-imperialism".

Sub-imperialism, as a specific categorization, was first used by the Brazilian sociologist Ruy Marini in the late 1960's to describe Brazil's position vis-a-vis the United States.[67] The term was subsequently used by other writers in relation to Israel, Iran, South Africa and Canada.[68] Marini defines sub-imperialism as "the form which dependent capitalism assumes upon reaching the stage of monopolies and finance capital".[69] The idea of a country becoming sub-imperialist by fulfilling certain objective requirements is implicit in Marini's definition and is made explicit in some of his writings, as is manifest in the following passage:

> The solution which was found appropriate to a dependent country in the process of converting its imperialism to sub-imperialism was that of offering partnership to foreign monopolies in the exploitation of the Brazilian worker and in the earnings derived from commercial expansion... [70]

As such, the concept of sub-imperialism became operative within Marini's structural analysis of the dependent process of development in Brazil.

It became evident in Brazil, by the early 1960's, that further growth in productive capacity (realizable through the application of technology) would require a considerable expansion of the internal market; however, an important segment of the indigenous capitalist class, involved in the production and export of raw products, was opposed to any substantial agrarian reform, upon which the creation of a large internal market was contingent. Brazil achieved its internal expansion of production essentially by fulfilling certain conditions necessary, within the framework of world monopoly capitalism, for obtaining external markets in durable and non-durable goods. This involved (1) establishing a wage policy concomitant with an export potential in manufactured goods in a dependent capitalist country (i.e. low wages), and (2) a modern industrialization programme which incorporated investment opportunities for foreign capital and greater technological dependence in return for a wider role in capitalist production.[71]

Conceptually, then, sub-imperialism emerges from a dialectical process whereby a dependent capitalist country is allocated an external market within the international division of labor pursuant to the production and marketing policies of dominant multinational investors; the term has little bearing, though, on questions of foreign investment or capital exports by non-dominant or dependent capitalist countries, such as Canada, Brazil or Israel.

Canada has, during the twentieth century, been designated by a large number of multinational corporations as the locus for a large part of their productive capacity geared to supplying the imperial or commonwealth market (except Britain) and Latin America.[72] Given, then, that foreign branch plant operations constitute a major part of export capacity in Canada, the indigenous process of industrialization may be viewed as sub-imperial, but it has become apparent that sub-imperialism has little conceptual validity when used in relation to Canadian foreign investments or as a refinement of the notion of Canada as imperialist, as seems to be the prime intention of writers who apply the term to Canada.

Interestingly, the position taken above relative to Canada's external role appears to correlate strongly with Immanuel Wallerstein's notion of semi-periphery, as defined in the following passage:

> In an expanding world economy, semi-peripheral countries are beggars, seeking the 'aid' of core countries to obtain a part of the world market against other semi-peripheral countries.

> Thus becoming the agent of a core country, the sub-imperial role is, if not a necessary condition of further economic gain, at least the facile road to it .[73]

In Wallerstein's tri-modal system (core, semi-periphery, periphery), core countries are those which feature "high profit, high technology, high wage diversified production", while peripheral countries are characterized by "low profit, low technology, low wage less diversified production".[74] Structurally, that is in terms of productive apparatus, trade patterns, wage levels and profit margins, semi-peripheral countries occupy an intermediate position relative to these widely differentiated groups and, concomitant with this position, semi-peripheral countries serve a politico-economic function in the world system in so far as they act "as a peripheral zone for core countries and ... as a core for some peripheral countries".[75]

Wallerstein finds the term "sub-imperialism" inadequate for describing a country's role in the world economic system, though he provided little explanation for taking this position.[76] Given the critique of sub-imperialism presented above, however, it remains to be determined whether Wallerstein's notion of semi-periphery provides a more valid analytical framework for the question at hand. This task can be seen to be particularly important when it is observed that Wallerstein includes in his category of semi-periphery "a wide range of countries in terms of economic strength and political background".[77] Considered to be semi-peripheral are such diverse countries as Brazil, Zaire, Italy, Algeria, Israel, Turkey, Korea, Vietnam, Canada and most of the countries of Eastern Europe. It seems clear from this that what is required is a clear idea of the distinguishing characteristics of a semi-peripheral country.

In this regard, it is relevant to note the fundamental premise of Wallerstein's tri-modal perspective of the world economy. According to Wallerstein, in order to differentiate the roles played by various countries at specific points in time and to understand the process by which countries transcend these roles, it is essential to carry out a comparative evaluation of the "wage patterns and margins of profit of particular products";[78] merely identifying a "particular product with a structural sector of the world economy" is insufficient, given the overlap of production processes and the transfer of certain production operations within a constantly evolving international division of labour among core, semi-periphery and periphery.

However, while it is certainly possible to identify discrepancies in wage patterns between core and periphery and between a major part of the semi-periphery and the core, the wage patterns between comparable sectors in Canada and the United States are virtually indistinguishable.[79]

Elaborating on the singularity of the semi-periphery relative to the core or periphery. Wallerstein notes that "it is in the interest of a semi-peripheral country to <u>reduce</u> external trade, even if balanced, since one of the major ways in which the aggregate profit margin can be increased is to capture an increasingly larger percentage of its <u>home</u> market for its <u>home</u> products".[80] In relation to Canada, however, such a position has certain analytical deficiencies; it fails to consider (1) the structural composition of the economy, (2) the origin of control over national sectors of economic activity, and (3) the nature of the indigenous bourgeoisie (e.g. the degree and manner in which it may be integrated with external capital).

Wallerstein does, at one point, consider the nature of the indigenous bourgeoisie in semi-peripheral countries, but only to the extent of establishing the existence of a structural difference between the bourgeoisie of the semi-periphery and that of the core relative to corporations originating in core countries; he does not, however, extend his analysis to the consequences of this relationship for the process of development in a dependent situation.[81]

It appears, then, that the concept of semi-periphery as proposed by Wallerstein, although useful as part of a tri-modal paradigm in explaining structural changes in the world economic system, is an inadequate tool with which to perceive the process of economic development in Canada; it does not provide the necessary terms of reference with which to assess the role of Canada in the world economy.

Wallerstein's discussion of the "high wage route to dependent development"[82] does, however, provide a particular insight for understanding Canada's process of economic development in a relational framework and in comparison to the pattern of industrialization and transition from peripheral status of some of the semi-peripheral countries identified in his analysis.

The integration of Canada into the world capitalist economy also saw the early development of capitalist social relations; the forces of production, both in the primary and secondary sectors, were characterized by a high degree of capitalist integration (i.e. the capitalist mode of production was predominant).[83] In contrast, economic development or industrialization, in virtually every other country identified by Wallerstein as semi-peripheral, involved undermining the pre-capitalist mode of production, extending capitalist property relations and engaging a gradually larger proportion of the labour force in capitalist production.[84]

Johan Galtung also proposes, within a total system perspective, a model for evaluating structural relations among countries.[85] Departing from the Marxist-Leninist approach, Galtung develops a theoretical framework which incorporates the notion of the "vertical division of labor within as well as between nations", with these two levels of organizations being structurally linked.[86] Like Wallerstein, Galtung's system is trimodal, consisting of a core, periphery and go-between sector. However, while Galtung's analysis of the interaction between core and periphery is carried out at both an abstract and concrete level, his notion of go-between lacks any such theoretical elaboration; it is conceptualized in very mechanistic terms, as the following passage clearly indicates:

> Concretely it (the go-between nation) would exchange semi-processed goods with highly processed goods upwards and semi-processed goods with raw materials downwards. It would simply be located in between center and periphery where the degree of processing of its exports is concerned.[87]

As well, the hypotheses which Galtung presents with regards to go-between relations further illustrate the economic determinism which underlies his notion and the rigidity of the historical specificity which characterizes it.

Such a narrow conceptual framework is not congruent with the analytical requirements of the question which it addresses. Additionally, it is inadequate for assessing such factors as shifts in patterns of trade and locations of productive facilities, concomitant with a process of technological evolution inherent in the changing structural requirements of dominant multinational producers and investors.

(iv) Conclusion

From the discussion presented above, it can be argued that, at a structural level, Canada cannot be considered comparable to the advanced industrial economies of the world; it is equally clear that, given the early development of capitalist relations and forces of production, Canada does not exhibit the social attributes of underdevelopment, characteristic of the Central and South American countries. On this basis, it may be postulated that Canada has experienced, during the last century, a process of dependent capitalist development.

The notion of dependent development is essentially an expansion of Gunder Frank's theory of underdevelopment,[88] formulated to account for the economic growth and development which does occur under conditions of structural dependency (as is currently the case in some Third World countries). The key to understanding the relevance of this idea to the dynamics of international capitalism lies in the contention by Dos Santos[89] whereby the interrelation between developed and dependent economies (or metropole and periphery) has passed from a phase of financial-industrial dependency to a technological-industrial phase, in which the multinational corporation plays a central role. In the former phase, capital was consolidated in the peripheral areas for raw material extraction and agricultural production; in the latter phase, a modification in the pattern of dependency has occurred, whereby the periphery also serves as a sector of industrial production which imports capital goods and technology from the advanced countries.

In such a context, the multinational firm is more than merely a new mechanism to ensure that productive activities in dependent economies are undertaken within a world capitalist framework, (i.e. in terms of the trade and investment requirements of international capitalist groups); it represents a new form of capital which has become dominant in determining the nature of interdependence among countries.

Osvaldo Sunkel, in his study "Transnational Capitalism and National Disintegration", formulates the same idea when he notes that "this new model of international economic relations is based, operationally, on the transnational conglomerate".[90] The structural organization within which this process takes place consists, according to Sunkel, of "an internationalized nucleus of activities, regions and social groups of varying degrees of importance in each country".[91]

In developed countries, the economy is largely integrated into the world capitalist system, whereas in peripheral countries, the economy is mainly composed of marginal sectors and the internationalized sector is relatively small. Interaction within the international sphere of activity revolves around the multinational corporation (or, as Sunkel describes it, "an institutional framework of vertically and horizontally highly integrated oligopolistic enterprises"),[92] which also reinforces the polarization at the domestic level in dependent economies and contributes to internal national disintegration.

It is in terms of this analytical framework that Sunkel views the integration of Canada and the countries of Latin America into the world capitalist system.[93] But, while such a model may be useful for delineating the dependent nature of economic development in Canada, it can less readily deal with the external component of Canadian economic activity.

In the final analysis, it would appear that Canada's internationalized or integrated capitalist sector, like its counterparts in Latin American countries, has a domestic role to play, which is to develop and organize the productive and trade apparatus relative to the requirements of dominant capitalist interests based in the advanced industrialized countries. More significantly, however, this sector, because of the specific nature of the integration of the Canadian economy into the world system, has also had (as this study clearly indicates) the "responsibility" to develop and maintain these economic structures and relations in certain semi-industrialized and underdeveloped countries. Canadian economic interests, indigenous as well as foreign based, continue to execute this role, in conformity with the changing needs of international capitalism, but they do so within a dynamic process over which they have little influence. As such, in defining Canada's role in the international division of labor, it is important to consider (1) the extent to which U.S. monopoly capital is responsible for the industrial concentration and other structural imbalances in the world economy and (2) the extent to which the basis of the power of the multinational corporation lies in its monopoly of advanced technology.

Finally, in examining the nature of the hegemonic relations under which Canada's internal and external economic activities have developed, there emerges a strong basis for the role that the Canadian state has undertaken in promoting the private accumulation of capital on an international scale. Although the operational mechanisms which the state has employed are geared, as seen in Chapter III, toward providing industrial and commercial benefits for indigenous Canadian capitalist interests, their functional basis is not constituted by factors endogenous to the Canadian economic system; the whole process has been determined and constrained by the global dynamics of monopoly capitalism. And ultimately, while Canadian foreign economic activities may affect the process of development of certain semi-industrialized and underdeveloped countries, they also serve to intensify the structure of dependency between Canada and the United States, to reinforce the nature of the capitalist class in Canada and to accentuate the non-progressive pattern of internal economic growth.

Notes and References for Chapter IV

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2. Sutcliffe, pp. 19-21.

3. Sutcliffe, pp. 23-25.

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5. See, for example, Robert Laxer (ed), Canada Ltd., Toronto, 1973; Kari Levitt, Silent Surrender, Toronto 1970; Ian Lumsden (ed), Close the 49th Parallel, Toronto 1969.

6. See Levitt, Chapter 1; also Laxer, p. 6.

7. Pierre Jalee, Imperialism in the Seventies, New York, 1972, p. xxvii.

8. Arthur J. R. Smith, "Historical Perspective on Canada-U.K. Economic Relationship" in Peter Lyon (ed) Britain and Canada: Survey of a Changing Relationship (1976) pp. 138-140.

9. Canada, Dominion Bureau of Statistics, Department of Trade and Commerce, The Canadian Balance of International Payments 1926-1948, (Ottawa 1949) p. 77.

10. Levitt, pp. 64-70.

11. DBS 1926-1948, p. 85.

12. Canada, Senate Standing Committee on Foreign Affairs, Canada-United States Relations (Ottawa 1975) p. 4.

13. See, for example, Science Council of Canada Report No. 15, Innovation in a Cold Climate: The Dilemma of Canadian Manufacturing (Ottawa, October 1971).

14. FT v. 130 # 12 (7/12/68) p. 18.

15. BLA 1971, p. 359.

16. FT v. 127 # 8 (15/4/67) p. 4.

17. As the federal minister of Industry, Trade and Commerce suggested in 1972; see interview in FP 9/12/72 p. 3. For a brief summary of his position see reference note no. 9 to Introduction.

18. Science Council Report No. 15 p. 35.

19. BI 1973, p. 145.

20. Science Council Report No. 15 p. 35.

21. FT v. 127 # 8 (15/4/67) p. 8.

22. Bradford/Pestieau pp. 221-222.

23. FP (30/10/76) p. 16.

24. "A central element of Canada's export trade of the future must lie in the field of specialized and advanced technology and expertise..." FT vol 131 # 3 p. 9 (1/2/69). "(The pace of industrial development in Canada) is very critically a function of export development in the high technology goods and services field." President of the Export Development Corporation in the Globe and Mail (1/4/77) Report on Business p. 2.

25. FT v. 127 # 8 p. 19 (15/4/67).

26. See Cordell - op. cit., The Science Council of Canada Report (1977), and Pierre L. Bourgault's Innovation and the Structure of Canadian Industry (Background Study for the Science Council of Canada, Oct. 1972 - Special Study # 23).

27. FP Special Report (10/6/78) p. 35 (Hutchison).

28. FP (5/11/77) p. 4.

29. FP Special Report (10/6/78) p. 35.

30. FP (17/12/77) p. 36.

31. (a) FP (17/12/77) pp. 1, 2; (b) Globe and Mail (30/12/77) p. B 1; (c) see Harry Braverman, Labor and Monopoly Capital, New York, 1974 chapter on the modern corporation, chapter 12.

32. Globe and Mail, Report on Business (7/6/78) p. B 1.

33. See Naylor, The History of Canadian Business 1867-1914, Volumes I & II (1975).

34. The Chief Economist and Assistant General Manager of The Royal Bank of Canada in CC v. 138 # 9 (Sept 1974) p. 29.

35. BI 1976, p. 223.

36. FT v. 127 # 8 (15/4/67) p. 19.

37. CC v. 137 # 11 (Nov 1973) p. 31.

38. Michael Barratt Brown, The Economies of Imperialism, 1974, see introductory chapter.

39. Barratt Brown, pp. 97-98.

40. Barratt Brown, pp. 60-64.

41. These are (1) existence of traditional social and economic structures, (2) establishment of pre-conditions "take-off", (3) "take-off", (4) drive to maturity, (5) age of high mass consumption, affluence, etc. See Rostow, op. cit.

42. Rostow, pp. 8, 9, 17, 18, 39.

43. Rostow, p. 8.

44. See Daniel Drache, "Rediscovering Canadian Political Economy" in Journal of Canadian Studies, XI, 3 August 1976, p. 8.

45. Drache, pp. 7-8.

46. See R. T. Naylor, The History of Canadian Business 1867-1914, (Vol. I & Vol. II) Toronto 1975.

47. On this point see the discussion between Naylor and a critic in Canadian Dimension, June 1974, pp. 2, 56 and November 1974, p. 63.

48. Rostow, pp. 21-24.

49. See Naylor, Vol. I, pp. 11-14; in comparison, the U.S. wheat sector emerged to service the large domestic market and the export market was only marginal - see CIJ v. 30 # 1058 (10/5/24) pp. 568-69.

50. Rostow, p. 21.

51. See for example, S. Rosenblum, "Economic Nationalism and the English-Canadian Socialist Movement" in Our Generation, XI, 1 pp. 7-8; L. R. MacDonald, "Merchants against Industry: An Idea and Its Origins" in Canadian Historical Review, LVI (Sept 1975) pp. 266-69; S. McBride, "Setting Naylor Straight" in Canadian Dimension, June 1974, pp. 2, 56; and S. Ryerson "Who's Looking after Business" in This Magazine X, 5 & 6 (Nov-Dec 1976) pp. 41-46.

52. Naylor, vol. I, p. 6; vol. II, Chapter One.

53. Naylor, vol. II, pp. 38-39, 74.

54. See Report of the Task Force on the Structure of Canadian Industry: Foreign Ownership and the Structure of Canadian Industry, Ottawa 1968, pp. 426-427.

55. See, for example, Report of the Task Force on the Structure of Canadian Industry, op. cit.; Arthur J. Cordell, The Multinational Firm, Foreign Direct Investment and Canadian Science Policy (Background Study for the Science Council of Canada, No.22) Ottawa, 1971; and, Pierre L. Bourgault, Innovation and the Structure of Canadian Industry (Background Study for the Science Council of Canada, No. 23) Ottawa, 1972.

56. Rostow, pp. xiii, 69.

57. See Ian Lumsden, "Thoughts on Canadian Dependency" in This Magazine IX, 5 & 6 (Nov-Dec 1975) p. 44.

58. See Cordell, op. cit., p. 63 Table IV.3.

59. See Canadian Senate Standing Committee on Foreign Affairs, Canada-United States Relations (Vol. II: Canada's Trade Relations with the United States, Ottawa 1978) p. 7, chart 1. Included in "end products" are such commodities as automobilies and parts, industrial machinery, aircraft and parts, farm machinery and tractors, communication and related equipment; included in "fabricated products" are forest products, chemicals, coal and petroleum products, iron and steel products, nonferous metals and alloys. The other two main categories, "crude materials" and "food products", constitute 19.2 percent and 4.6 percent, respectively, of total Canadian exports to the United States.

60. R. T. Naylor, "The Rise and Fall of the Third Empire of the St. Lawrence" in G. Teeple (ed) Capitalism and the National Question in Canada, p. 37; also see Naylor, vol. I, pp. 220-221.

61. See DEC/LAWG, "Corporate Power, the Canadian State, and Imperialism" in C. Heron (ed) Imperialism, Nationalism, and Canada, Toronto 1977, p. 51.

62. DBS 1926-1948, p. 96.

63. Canada, Dept. of Industry, Trade and Commerce, Direct Investment Abroad by Canadians 1946-1967 (Ottawa 1971) Table CDX-16 p. A-35.

64. Direct Investment Abroad by Canadians 1946-1967, p. i.

65. Statistics Canada. Canada's International Investment Position, 1926-67. (Ottawa 1971). p.83

66. DEC/LAWG, op. cit., pp. 64-65.

67. Ruy M. Marini, "Brazilian Interdependence and Imperialist Integration" in Monthly Review vol. 17 # 7 (Dec 1965); and Ruy M. Marini, "Brazilian Subimperialism" in Monthly Review, vol. 23 # 9 (Feb 1972).

68. See L. Lockwood, "Israeli Subimperialism?" in Monthly Review, vol. 24 # 8; T. Draimin and J. Swift, "What's Canada doing in Brazil" in This Magazine VIII, 5 & 6 (Jan-Feb 1975).

69. Johan Galtung in his article "Conflict on a Global Scale: Social Imperialism and Sub-Imperialism - Continuities in the Structural Theory of Imperialism" in World Development IV, 3 (March 1976) also provides a definition of sub-imperialism, albeit of a very mechanistic nature; see page 163.

70. Marini, "Brazilian Subimperialism" pp. 16-17.

71. Marini, "Brazilian Interdependence ...".

72. See M. Watkins, "Economic Development in Canada" in I. Wallerstein (ed) World Inequality, Montreal 1975, p. 79.

73. Immanuel Wallerstein, "Dependence in an Interdependent World: Limited Possibilities of Transformation within the Capitalist World Economy" in African Studies Review XVII, 1(April 1974) p. 21.

74. Immanuel Wallerstein, "Semi-Peripheral Countries and The Contemporary World Crisis" in Theory and Society III, 4 (Winter 1976) p. 462.

75. Wallerstein, Theory and Society, p. 463.

76. Wallerstein, African Studies Review, p. 3.

77. Wallerstein, Theory and Society, p. 465.

78. Wallerstein, African Studies Review, p. 5.

79. See, for example, Globe and Mail 25/11/77, p. B 4.

80. Wallerstein, African Studies Review, p. 6; in contrast, however, the Canadian state appears to favour promoting foreign trade and investment as a solution to its economic problems - see for example Robert Chodos, The Caribbean Connection (1977) p. 77, The Gray Report (The Canadian Forum edition, 1971) p. 187, and M. Watkins in Canada Ltd. (op. cit.) p. 258.

81. Wallerstein, Theory and Society, p. 467.

82. Wallerstein, African Studies Review, p. 9, 19.

83. See John Hutcheson, "The Capitalist State in Canada" in Canada Ltd. (op. cit.) p. 166.

84. This idea is also contained in Rostow's work, though not developed to the same analytical degree; Rostow notes that the process of industrialization in Canada involved mainly economic and technical factors, and not, as in the case of most industrialized countries, fundamental changes in the social structure and political system. See Rostow p. 17.

85. Johan Galtung, "A Structural Theory of Imperialism" in The Journal of Peace Research VIII (1971) pp. 81-118.

86. Galtung, Journal of Peace Research, p. 81.

87. Galtung, Journal of Peace Research, p. 104;

88. Andre Gunder Frank, Capitalism and Underdevelopment in Latin America, New York 1967.

89. See R. H. Chilcote, "A Critical Synthesis of the Dependency Literature" in Latin American Perspectives I, 1 (Spring 1974) pp. 15-

90. Ovaldo Sunkel, "Transnational Capitalism and National Disintegration in Latin America" in Social and Economic Studies XXII, 1 (March 1973) p. 139.

91. See Sunkel's schematic model pp. 147-148.

92. Sunkel, p. 164.

93. Sunkel, p. 168.

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