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# THE RHETORIC OF TRADE AND THE PRAGMATISM OF POLICY: CANADIAN AND NEW ZEALAND COMMERCIAL RELATIONS WITH BRITAIN, 1920-1950

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## INTRODUCTION

In April 1948 Prime Minister Mackenzie King pulled Canada out of secret free trade negotiations with the United States. Although many officials in the Department of External Affairs believed that a continental free trade agreement was in Canada's best interests, King confided to his diary that he could not let the negotiations go forward because a successful outcome would destroy the British Empire and Commonwealth: 'I am sure in so doing, I have made one of the most important decisions for Canada, for the British Commonwealth of Nations that has been made at any time.'<sup>1</sup> In October 1949, while being fêted in London, Prime Minister Sydney Holland of New Zealand, made one of his characteristic spontaneous and ill considered statements. He declared, 'I want the people of Britain to know that we will send all the food that they need, even if we have to send it free'.<sup>2</sup> These two stories tell historians a lot. The first striking thing is how emotion, self-importance and flattery can go to the heads of prime ministers, sometimes in ways that make a meaningful impress upon external policy and foreign relations. These anecdotes can also be unpacked to reveal more important historical insights. First, the connection to Britain was obviously a subject that inspired powerful emotional responses in leaders from Canada and New Zealand after the Second World War, and presumably also reflected the attachment of many of their citizens to Britain. Second, Canadian and New Zealand politicians understood trade to be a meaningful connection to Britain, both as an expression and pillar of their relationship. The third insight stems from these two observations and has methodological implications: trade policies and

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<sup>1</sup> King diary, 21 April 1948; available on-line at <http://king.collectionscanada.ca/EN/default.asp>. M. Hart, 'Almost But Not Quite: the 1947-1948 Bilateral Canada-U.S. Negotiations', *American Review of Canadian Studies*, 19, 1 (Spring 1989), 25-58.

<sup>2</sup> Bruce Brown, 'From Bulk Purchase to Butter Disputes: New Zealand's Special Trading Relations with Britain', in Robert G. Patman, ed., *New Zealand & Britain: A Special Relationship in Transition* (Palmerston North, 1997), p. 43.

patterns can be read to gain insight into relations between states. For example, trade patterns and policies were measures of the warmth or chilliness of a relationship and could also be used to change that temperature. Trade links were also a subliminal and powerful form of international contact. What people consumed both shaped and affirmed individual values, tastes, and preferences which in turn informed national identity and influenced international connections.<sup>3</sup> Moreover, trade policy revealed the relationship that governments aspired to, even if they were not always realized. Commercial connections and the policies that sustained them can help historians to better understand the motivations behind and the nature of diplomatic alignments.

Trade is an especially promising source for relations between Britain and its former colonies. Twentieth century British politicians certainly believed that trade ties were essential to political goals, especially the preservation of the British Empire. After the First World War British politicians formulated trade policy in a strategic way, to counteract constitutional developments, such as the Statute of Westminster, and the growing independence of the 'old dominions', in order to sustain British influence, even if it existed in an informal condition.<sup>4</sup> Britain was displaced by the United States as the centre of a global economy after the First World War<sup>5</sup> and devastated financially by the

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<sup>3</sup> There are, for example, many works which examine the spread of American commercial influence, although they are not simply accounts of cultural capitulation but also of resistance, adaptation and appropriation. Victoria de Grazia, *Irresistible Empire: America's Advance Through Twentieth Century Europe* (Cambridge MA, 2005). Reinhold Wagnleiter, *Coco-colonization and the Cold War: the cultural mission of the United States in Austria after the Second World War* (Chapel Hill and London, 1994). Jeff R. Schutts, 'Born again in the Gospel of Refreshment: Coco-colonization and the Re-making of Postwar German Identity', in David F. Crew, ed., *Consuming Germany in the Cold War* (Oxford and New York, 2003), pp. 121-150.

<sup>4</sup> Darwin has argued that granting constitutional rights and equality was a way to nip dominions' nationalism in the bud. J. Darwin, 'Imperialism in decline?: Tendencies in British Imperial Policy Between the Wars', *The Historical Journal* 23, 3 (1980), 657-679. Philip Williamson made the case that perpetuating imperial economic unity was 'a central issue in the preservation of the self-governing Empire following the 1926 Balfour Report' P. Williamson, *National Crisis and National Government: British Politics, the Economy and Empire, 1926-1932* (Cambridge 1992), 80. T. Rooth, *British Protectionism and the International Economy: Overseas Commercial Policy in the 1930s* (Cambridge, 1993), pp. 10, 318; I. M. Drummond, *Imperial Economic Policy 1917-1939: Studies in Expansion and Protection* (London 1974), 422; J. Gallagher and R. Robinson, 'The Imperialism of Free Trade', *The Economic History Review*, second series, Vol. VI, no. I, (1953), 4.

<sup>5</sup> Historians agree that the imperial economy fragmented between 1919 and 1939 although they identify different dates in the 1920s and 1930s to mark this change. W. K. Hancock, *Survey of British Commonwealth Affairs Vol. II: Problems of Economic Policy, 1918-1939* (London, rpt 1964), p. 291. R. F. Holland identifies the mid to late 1930s as the time when dominions and Britain opted for the international economy. See 'The End of an Imperial Economy: Anglo-Canadian Disengagement in the 1930s', *The Journal of Imperial and Commonwealth History* (1983), 2, 159-174. N. Mansergh, *The Commonwealth*

second, contributing to the country's relative and relentless economic and political decline. Maintaining an imperial economy with Britain at its centre might stave off, even reverse, this decline. As J. E. Coulson of the Foreign Office explained in 1945, 'our position as the center of the British Commonwealth will, if we can maintain harmonious economic relations with the Dominions, go far to provide us with the power which we require for the backing of our foreign policy.'<sup>6</sup>

Nationalist historical narratives of Canada, Australia, New Zealand and South Africa intersect with narratives of British decline, even if they are sometimes told as though they were entirely separate.<sup>7</sup> Nationalist accounts trace an inexorable progression from colony to nation<sup>8</sup> and generally regard the period between the First and Second World Wars as crucial to their nationalist awakening, signaled in part by their emergence as individual and independent actors in world affairs.<sup>9</sup> The timing and pace of the Canadian, Australian, New Zealand and South African experiences of decolonization differed, but the broad outline and pattern were the same. Such accounts generally focus on political and constitutional developments, but there is a parallel economic story. In the late 19<sup>th</sup> and early 20<sup>th</sup> centuries, the settler colonies experienced tremendous economic growth within an imperial-international economy: they were specialized; their development was export-driven; and they were semi-industrialized by the start of the First World War.<sup>10</sup> After 1918 the dominions realized the limits of imperial trade – particularly the British market – and they became increasingly engaged in international

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*Experience* (London, 1969), pp. 245-6. Rooth, *British Protectionism*, p. 34. I. M. Drummond, *British Economic Policy and the Empire 1919-1939* (London, 1972), p. 114.

<sup>6</sup> J. E. Coulson, 'The Effect of our External Financial Position on our Foreign Policy', 30 March 1945, NA: FO371/62420.

<sup>7</sup> A. Hopkins 'Back to the Future: From National History to Imperial History', *Past and Present*, no. 164, (Aug. 1999), 202-3.

<sup>8</sup> There are many studies of nationalism in the colonies of settlement, many of which trace the beginnings of the process to the late 19<sup>th</sup> century. See J. Eddy and D. Schreuder, eds, *The Rise of Colonial Nationalism: Australia, New Zealand, Canada and South Africa First Assert Their Nationalities 1880-1914* (Sydney, 1988), C. Berger, *Sense of Power: Studies in the Ideas of Canadian Imperialism* (Toronto, 1970), K. Sinclair, *A Destiny Apart: New Zealand's Search for National Identity* (Wellington 1986), W. J. Hudson and M. P. Sharp, *Australian Independence: From Colony to Reluctant Nation* (Carlton, Vic., 1988).

<sup>9</sup> As Phillipa Mein Smith put it recently, 'The 1930s and 1940s was a formative era in nation-building through the conscious 'making' of New Zealand.' *A Concise History of New Zealand* (Cambridge, 2005), p. 150. F. McKenzie, 'Coming of Age: Independence and Foreign Policy in Canada and Australia, 1931-1945', in M. MacMillan and F. McKenzie, eds, *Parties Long Estranged: Canada and Australia in the Twentieth Century* (Vancouver, 2003), pp. 34-61.

<sup>10</sup> D. Denoon, *Settler Capitalism: The Dynamics of Dependent Development in the Southern Hemisphere* (Oxford, 1983), pp. 14-15, 212.

and regional economic activity and took action in an independent vein, such as establishing independent central banks.<sup>11</sup> The underlying assumption that political and economic approaches were parallel meant that rudimentary economic development and on-going commercial attachment to Britain was evidence of persistent colonial subordination whereas economic diversification and commercial detachment confirmed their decolonization and arrival as fully fledged states.

Recently several historians have challenged nationalist historical interpretations. Tony Hopkins maintained that the ties between Canada, New Zealand and Australia remained strong, vital and varied well into the 1950s, 'long after responsible government and dominion status had been conferred.'<sup>12</sup> This interpretation has a specific economic version. John Singleton and Paul Robertson have argued that a discrete imperial economy persisted up to the 1960s.<sup>13</sup> James Belich has pushed the argument even farther, claiming that Britain effectively recolonized New Zealand economically after the Second World War.<sup>14</sup> Ronald Hyam and Peter Henshaw have demonstrated commercial and financial interdependence between Britain and South Africa long after a Nationalist government, 'for whom there was no higher ambition than to free their country from subordination to Britain', was elected in 1948.<sup>15</sup> These argument, as well as passionate

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<sup>11</sup> G. R. Hawke, *The Making of New Zealand* (Cambridge, 1985); J. D. Gould, *The Rake's Progress: the New Zealand Economy Since 1945* (Auckland, 1982); J.L. Granatstein, *How Britain's weakness forced Canada into the arms of the United States* (Toronto, 1989); M. Hart, *A Trading Nation: Canadian Trade Policy from Colonialism to Globalization* (Vancouver, 2002). Hart's interpretation is not primarily concerned with the link between economic developments and political evolution. His argument is that when Canadian trade policy became more rational and professional, and moved towards closer trade relations with the US, it became more mature (p. 124). The underlying logic is not wholly different from those who advance nationalist political interpretations.

<sup>12</sup> Hopkins, 'Back to the Future', 220.

<sup>13</sup> J. Singleton and P. Robertson, *Economic Relations between Britain and Australasia 1945-1970* (Basingstoke, 2002). As Singleton explained it, other economic historians have overlooked the persistent economic ties between New Zealand and Britain so that they can 'focus on the areas of commercial endeavour in which New Zealand was independent.' 'New Zealand, Britain and the Survival of the Ottawa Agreements, 1945-1977', *Australian Journal of Politics and History*, 43 2, (1997), 177.

<sup>14</sup> J. Belich, *Paradise Reforged: A History of the New Zealanders from the 1880s to the Year 2000* (Honolulu, 2001).

<sup>15</sup> P. Henshaw, 'Britain, South Africa and the Sterling Area: Gold Production, Capital Investment and Agricultural Markets, 1931-1961', *The Historical Journal*, 39, 1 (1996), 197-223. R. Hyam and P. Henshaw, *The Lion and the Springbok* (Cambridge, 2003), chapter 6. As they put it, South Africa's membership in the sterling area 'signified a commitment to sustain a world-wide monetary and trading system that was the economic counterpart to and underpinning of the British empire and Commonwealth.' p. 118. Tim Rooth, 'Britain, South African Gold, and the Sterling Area, 1945-50', *Journal of Imperial and Commonwealth History*, vol. 32, no. 1 (2004), 93-114.

declarations of attachment to Britain like those made by King and Holland, cast doubt on nationalist political narratives.

This paper attempts to reconcile these contradictory historiographical trends. It focuses on trade relations between Canada, New Zealand and Britain from 1920-1950, beginning with a brief analysis of trade patterns between New Zealand and Canada with Britain. It then explains Canadian and New Zealand trade policies to better understand government interests, priorities and objectives. Canada and New Zealand are fruitful comparators because of their similarities and differences. They were both former colonies of settlement of the British Empire. Early economic activity concentrated on resource extraction and their economies developed within an imperial-international context. Although both were physically distant from the mother country, they rallied to Britain's side in the Anglo-Afrikaner war as well as the two world wars. Both had large neighbours (Australia and the United States) to whom there were well developed family, cultural, economic and political ties as well as complex feelings of attraction and repulsion. They were also alike in being small states in the international community. There were important differences too. Histories and patterns of settlement meant that New Zealand was colonized by Britons whereas Canada's French and English communities developed different conceptions of the new nation, such that the tie to Britain was a source of chronic political tension. In addition, Canada and New Zealand seemed to be at opposite ends of the spectrum when it came to willingness to submit to British direction in international affairs as well as on questions of constitutional clarification and evolution of relations between Britain and the dominions. Their differences make an interpretation potentially more far-reaching because Canada and New Zealand constitute two kinds of examples.

#### TRADE PATTERNS BETWEEN NEW ZEALAND, CANADA AND BRITAIN, 1920-1950

Canadian and New Zealand trade patterns from 1920-1950 break up into three sections, corresponding roughly to each decade. From 1920, when trade patterns reverted to "normal" circumstances after the First World War, to 1929 (the eve of the Depression) Canada's principal exports were overwhelmingly primary in character and a handful of items accounted for a large proportion of overall exports. There was some

diversification. For example, American branch plants in Canada exported manufactured goods. But such diversification did not last.<sup>16</sup> Canada remained primarily an exporter of food products and natural resources and had two principal markets: Britain and the United States. New Zealand exports were overwhelmingly headed for the British market and despite slight annual variation, at the close of the decade its position was virtually the same as in 1920. 19<sup>th</sup> century commercial links between New Zealand and Australia had largely fallen away. From 1920 to 1950, New Zealand exports to Australia dropped from roughly 5% to 2.5%, in large part because they were natural competitors in this field. Both produced agricultural products for export. Because of a global trend towards agricultural protection there were few markets other than Britain that were accessible to New Zealand's agricultural products. In part because of this, New Zealand developed as a farm for the industrial imperial metropole.<sup>17</sup> Technological advance, such as refrigeration in the 1880s, sustained this economic relationship. The first trip made by *The Dunedin* in 1882 carrying mutton and butter to London is legendary in New Zealand history.<sup>18</sup>

The period from the Depression until the eve of the Second World War witnessed economic upheaval and international tension. Canadians and New Zealanders felt the effects of international economic collapse. Both countries appreciated the value of an imperial solution to their economic problems in the form of the Ottawa Imperial Economic Conference of 1932 which reinforced intra-imperial trade in an attempt to offset rising protection all over the world. Following the conference Britain regained the top spot as a market for Canadian exports, a position it held until 1939. As for New Zealand, exports to Britain dropped by almost 15 percentage points over the course of the decade. Even so, Britain remained overwhelmingly the most important destination.

The years of the Second World War and the initial period of postwar recovery, roughly the 1940s, witnessed global devastation and preliminary reconstruction. The war had almost no visible effect on the destination of New Zealand's exports. Despite the

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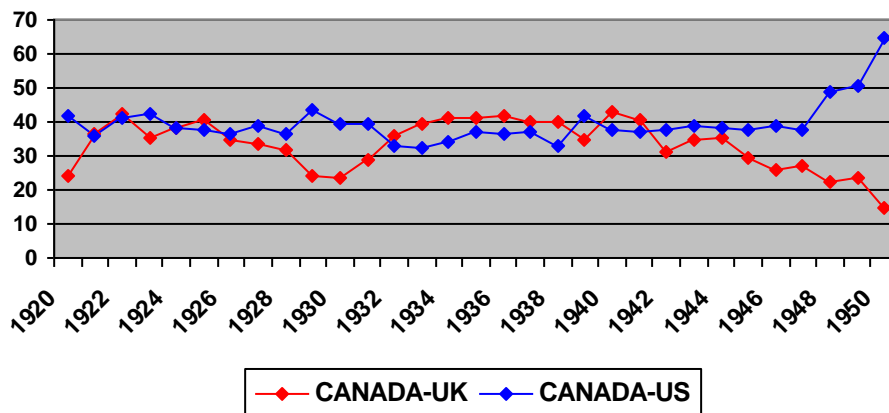
<sup>16</sup> Hart, *A Trading Nation*, pp. 95-97.

<sup>17</sup> This is a standard description of the New Zealand economy. For example, W. J. Gardner claimed that New Zealand's prosperity in the late 19<sup>th</sup> century was bound up in 'expansion as John Bull's remote farm.' 'A Colonial Economy' in Geoffrey Rice, ed., *The Oxford History of New Zealand*, 2<sup>nd</sup> edition (Auckland and New York, 1992). Author interview with James Meade, 1993.

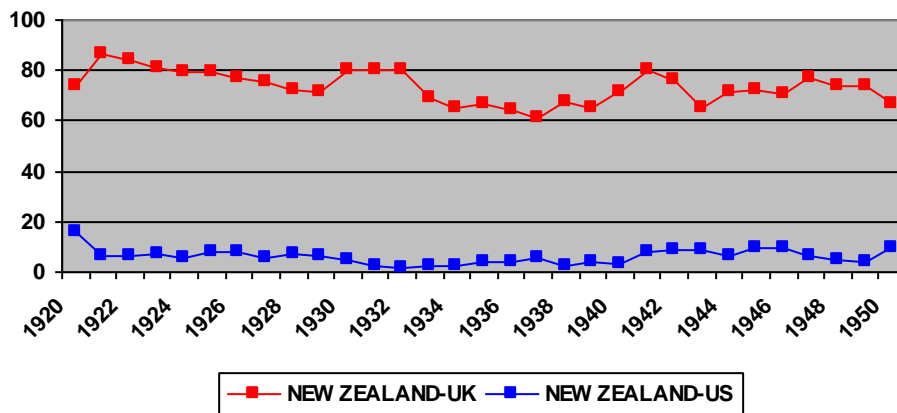
<sup>18</sup> Belich, in *Paradise Reforged*, claims 1882 is the best known date in New Zealand history, p. 53.

disruption to trade over thousands of miles, Britain saw only a slight decrease and the US a slight increase. Britain and the US continued to trade position as top market for Canada. After the war, the US finally and definitively supplanted Britain as Canada's main market. New Zealand exports to Britain held steady although there was a gradual and long-term decline evident after 1950. (Graphs 1a & 1b)

Graph 1a: EXPORTS FROM CANADA TO BRITAIN AND THE UNITED STATES, 1920-1950 (% of total)<sup>19</sup>



Graph 1b: EXPORTS FROM NEW ZEALAND TO BRITAIN AND THE UNITED STATES, 1920-1950 (% of total)<sup>20</sup>



The export stories of the two dominions were different in important respects, including the distribution of exports and the volatility of trade patterns. Even so, their

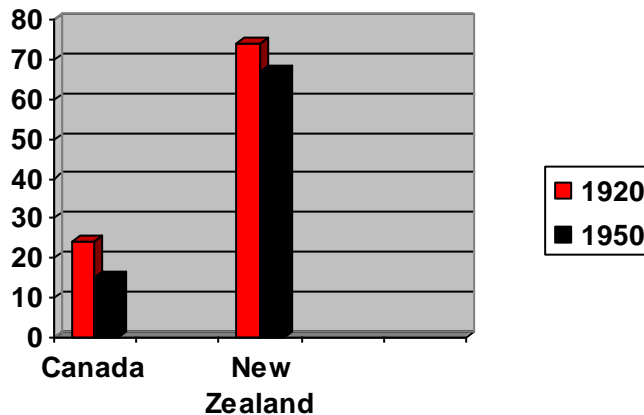
<sup>19</sup> B. R. Mitchell, *International Historical Statistics: The Americas 1750-1993*, 4<sup>th</sup> edition (London, 1998).

<sup>20</sup> B. R. Mitchell, *International Historical Statistics: Africa, Asia and Oceania 1750-1993*, 3<sup>rd</sup> edition (London and New York, 1998).



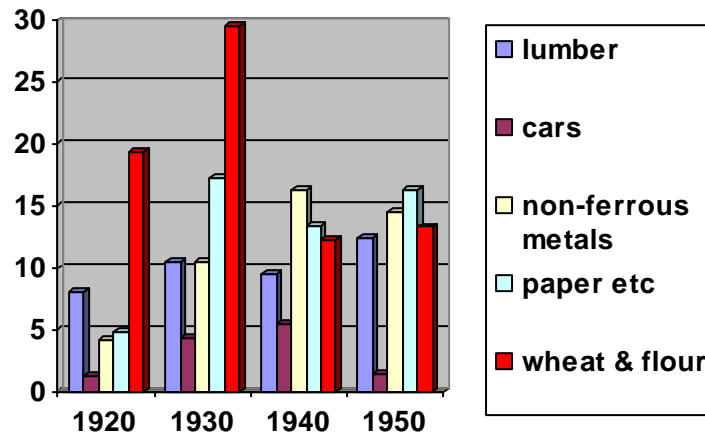
export patterns followed the same general direction: there was an absolute drop in trade with Britain of roughly 10% between 1920 and 1950. (Graph 2) This was a more significant drop for Anglo-Canadian trade, representing a relative fall of 38% (from 24.1% to 15%). These downward adjustments occurred even though the commodities being exported did not change greatly. Over this thirty year period, the top five Canadian and New Zealand exports were constant although the ranking changed slightly. (Graph 3a) For example, in Canada, newsprint was second in 1926; first in 1948; wheat was first in 1926; second in 1948. In New Zealand, wool and butter held steady at one and two throughout the period, cheese and lamb switched places to three and four. (Graph 3b) These findings suggest that economic development was not transforming what was produced for export, although some of these exports were subject to more refining.

Graph 2: EXPORTS TO BRITAIN (% of total exports)

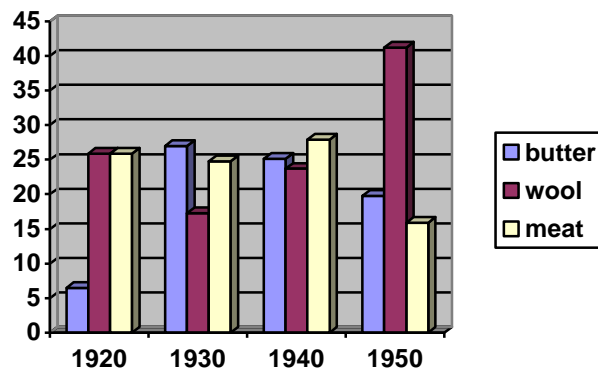


Graph 3a: CANADA'S MAIN EXPORTS 1920, 1930, 1940, 1950 (% of total)<sup>21</sup>

<sup>21</sup> *Canada Yearbook 1948-9, 1952-3.*



Graph 3b: NEW ZEALAND'S MAIN EXPORTS 1920, 1930, 1940, 1950 (% of total)<sup>22</sup>



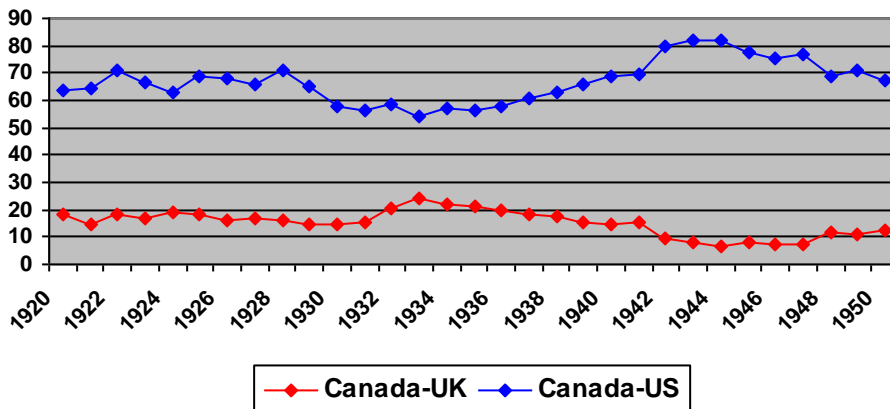
As for imports, the US was a far more important source of supply for Canada than Britain, a position it had enjoyed since the late 19<sup>th</sup> century.<sup>23</sup> New Zealand imports were in a holding pattern with Britain the most important supplier by a great deal. The US and Australia were other important sources of supply. British imports in Canada increased briefly after the 1932 Ottawa Imperial Economic Conference but reverted to 1920s levels by the start of the Second World War. American imports fell in the early

<sup>22</sup> *New Zealand Official Yearbook 1924, 1933, 1944, 1953.*

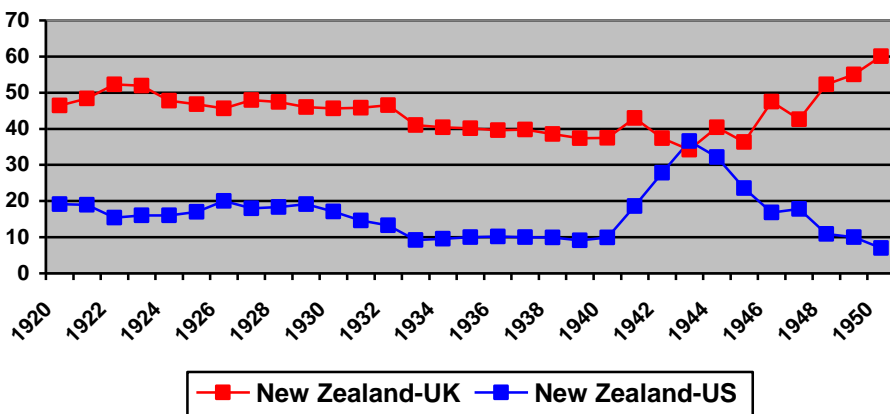
<sup>23</sup> The United States first surpassed Britain as a supplier to Canada in 1876. Britain regained top spot between 1880-1882, slipped again until it pulled even with the US in 1887, and thereafter lagged far behind.

part of the decade but were restored by its end. As for New Zealand, imports from Britain and the US both dropped roughly 10% during the 1930s. As was the case for exports, the 1940s were volatile. During the war American products sold in Canada increased while British products fell. The gap narrowed slightly in the early postwar years. American goods flooded New Zealand during the war, in particular when American servicemen were based there. The effect did not last. After the war the United States resumed its prewar level of supply whereas Britain's importance increased over its prewar position. (Graphs 4a & 4b)

Graph 4a: IMPORTS TO CANADA FROM BRITAIN AND THE UNITED STATES 1920-1950 (% of total)

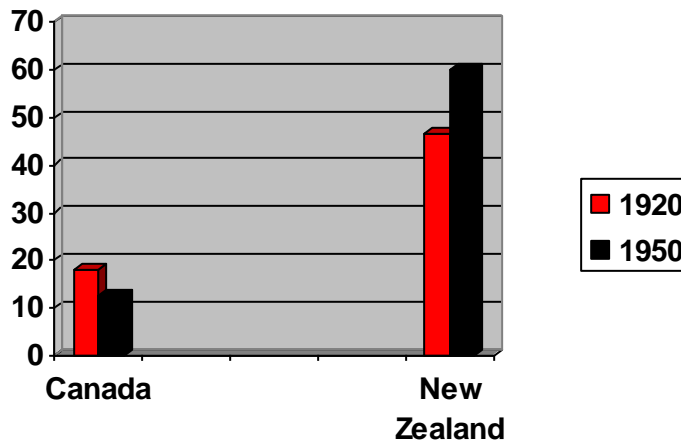


Graph 4b: IMPORTS TO NEW ZEALAND FROM BRITAIN AND THE UNITED STATES 1920-1950 (% of total)



British imports in Canada ended in 1950 approximately 30% lower than where they had started in 1920 but significantly improved their position in New Zealand. (Graph 5) There were fluctuations and dips, responses to international circumstances and pressures as well as national economic growth and diversification. Britain's market share in Canada and New Zealand remained significant for both Canada and New Zealand in terms of value. Although proportionally British trade with New Zealand was far more impressive, the total value of trade with Canada was larger.<sup>24</sup>

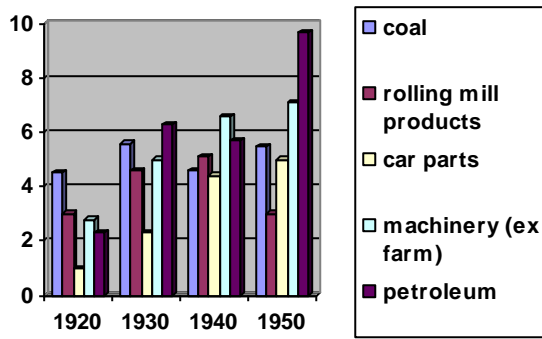
Graph 5: IMPORTS FROM BRITAIN (% of total)



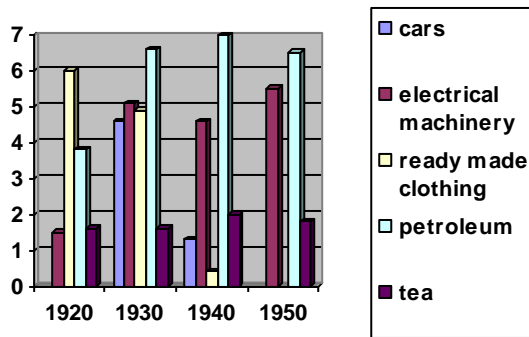
The principal commodities imported were also surprisingly constant. In Canada, coal was the top import in 1926, it ranked third in 1948; petroleum was the second most important import in 1926; first in 1948. The main shifts were in the importance of farm machinery (14<sup>th</sup> in 1926, 4<sup>th</sup> in 1948) and cars (11<sup>th</sup> in 1926, 5<sup>th</sup> in 1948). (Graph 6a) New Zealand saw some changes in its imports. Cars were the top import in 1926; 5<sup>th</sup> in 1948. But the overall composition of leading imports was fairly constant. (Graph 6b)

Graph 6a: CANADA'S MAIN IMPORTS 1920, 1930, 1940, 1950 (% of total)

<sup>24</sup> New Zealand's population, one seventh the size of Canada's, consumed about 60% of the amount of British products that Canadian consumers did in 1920 and almost 70% as much in 1950.



Graph 6b: NEW ZEALAND'S MAIN IMPORTS 1920, 1930, 1940, 1950 (% of total)

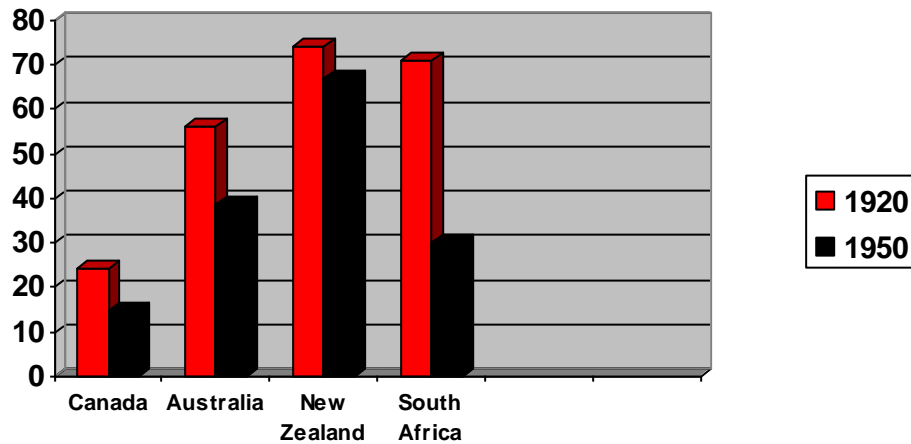


The economic picture that emerges by 1950 is of economic growth but not that much development. The persistence of natural resources and food as primary exports, as well as dependence on outside suppliers for machinery, fuel and other manufactured goods, meant that the Canadian and New Zealand economies, although industrializing, still specialized in agriculture and natural resource extraction. While Canada could be considered an industrial state by 1950, New Zealand was a developing economy.

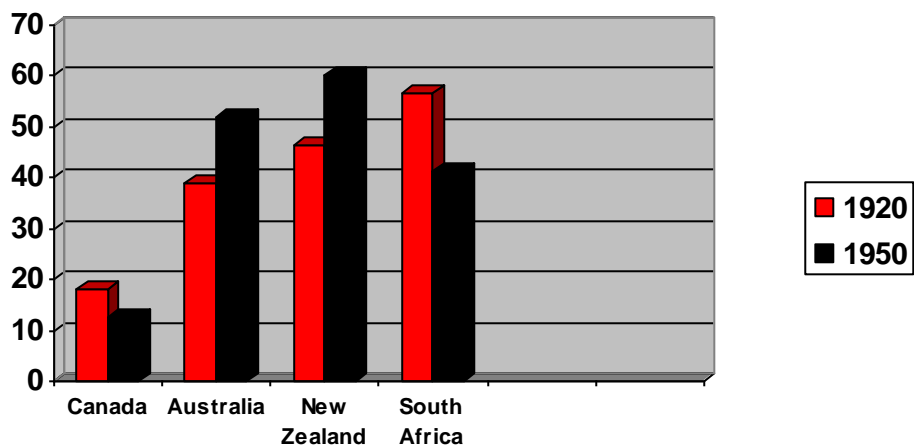
This brief overview reinforces the views of Singleton and Robertson and others that an imperial economy was evident after the Second World War in terms of volume of trade as well as patterns of economic development which perpetuated commercial links between the dominions and the former mother country. If the study was broadened to include Australia and South Africa the argument would be even more compelling. (Graphs 8a & b) Where there was a deterioration of imperial trade, more noticeable for Canada than New Zealand, there was a gradual evolution away from imperial trade rather

than some identifiable watershed. The persistence of an imperial trade network has implications for the nationalist conception of dominions' history. Were Canada and New Zealand still in a colonial relationship with Britain? Were they somehow less autonomous and independent than the nationalist accounts assert?

Graph 8a: EXPORTS FROM THE 'OLD DOMINIONS' TO BRITAIN, 1920-1950 (% of total)



Graph 8b: IMPORTS FROM BRITAIN TO THE 'OLD DOMINIONS', 1920-1950 (% of total)



TRADE POLICY IN CANADA AND NEW ZEALAND

This analysis of trade policy focuses on two episodes: the Ottawa Imperial Economic Conference of 1932 and its aftermath and the international effort to set up the General Agreement on Tariffs and Trade after the Second World War. In both instances, Canadian and New Zealand officials were forced to come to terms with the possibilities and limitations of an imperial economy and an international economy in which the United States was central. Canadian and New Zealand governments had to choose whether to trade in an imperial context, represented by Britain, or to focus on international trade, represented by the United States. There was a sense that these choices were mutually exclusive and had implications for Canadian and New Zealand international relations more generally.

In 1930 Prime Minister R. B. Bennett of Canada campaigned on a promise to use tariffs to blast into foreign markets. While the economic logic underpinning this policy was not clear, the political message was welcome: a government under Bennett would not sit idly by. After the election, Bennett called for an imperial solution to the Depression, not surprising given Canadian exports were more immediately affected by the closing of the American market than New Zealand. In addition, the Conservative party in Canada had a long tradition of nurturing ties to Britain.

During the Ottawa Imperial Economic Conference of 1932, Canadian negotiators focused on discussions with Britain and had little interest in negotiating with any other delegation. However, Canadian officials were not inclined to make concessions to British exports, also desperate for sale abroad.<sup>25</sup> The British delegation, which had arrived badly prepared, was shocked and dismayed by the absence of common cause and mutual support. British officials singled out Bennett and Stanley Bruce, the leader of the Australian delegation, for special censure for demanding concessions in a brutal way, ‘as if they were dictating terms to a beaten enemy, as indeed they were – and all were at once conceded.’<sup>26</sup>

New Zealand negotiators also approached the conference with eyes focused on Britain. Like their Canadian colleagues, they expected to offer little in return for

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<sup>25</sup> Rooth, *British Protectionism*, p. 95.

<sup>26</sup> J. Garner, *The Commonwealth Office 1925-1968* (London, 1978), p. 106.

preferred treatment in the British market. As the British trade commissioner in Wellington observed, 'there is some idea here of endeavouring to get something for nothing out of Ottawa.'<sup>27</sup> But the Ottawa Conference of 1932 was not much of an opportunity for Wellington to improve the terms of trade with Britain. New Zealand tariffs on British commodities were already low and Britain purchased the vast majority of New Zealand exports duty free. London and Wellington could only reaffirm a commitment to continue to exchange favourable conditions.<sup>28</sup>

Public statements at the beginning and end of the Ottawa conference affirmed the integrity and strength of the Empire and Commonwealth. On the opening day, J.G. Coates of New Zealand declared 'It is instinctive in our people that, in adversity, we should seek not merely our own self-preservation but also the preservation and advancement of other members of the family of British nations.'<sup>29</sup> Stanley Baldwin, leader of the British delegation, proclaimed at the end of the conference that the willingness to extend preferential tariffs to one another was significant because it revealed that the dominions were choosing 'closer imperial unity' over 'purely national interest'.<sup>30</sup> The extension of preferential tariffs reinforced the idea of a Commonwealth economic bloc. The agreements defined preferential margins - the difference between the lower imperial rate and the higher foreign/general rate - which were then set out in contractual terms. Preferential margins could not be altered without the consent of the beneficiary, which encroached on the autonomy of all participating governments. But even though they worked within an imperial economic context, Canadian and New Zealand trade policies, not to mention those of Britain, Australia and South Africa, were nationalist in conception. The imperial preference system bestowed its advantages on imperial and Commonwealth exports by raising tariffs on 'foreign' (meaning non-Commonwealth) commodities, not by lowering tariffs on Commonwealth goods.<sup>31</sup> And preferential tariff rates were kept sufficiently high to offer protection to new industries in

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<sup>27</sup> Forrest Capie, 'Australian and New Zealand Competition in the British Market, 1920-1939', *Australian Economic History Review*, xviii, I, (March 1978), 50.

<sup>28</sup> Drummond, *Imperial Economic Policy*, 246.

<sup>29</sup> N. Mansergh, ed., *Documents and Speeches on British Commonwealth Affairs, 1931-1952, Vol. I* (London, 1953), p. 128.

<sup>30</sup> Mansergh, ed. *Documents and Speeches 1931-1952, Vol. I*, p. 122.

<sup>31</sup> Hancock, *Survey of British Commonwealth Affairs, vol. II, pt. 1*, p. 85; D. Macdougall and R. Hutt, 'Imperial Preference: a quantitative analysis', *The Economic Journal*, 64 (June 1954), 250-1.



Canada and New Zealand. Hardly surprising, commentators at the time, and historians reviewing the conference after the fact, agree that there was little in the proceedings or results to justify enthusiasm for imperial trade.<sup>32</sup>

The imperial economic option was not the answer to Canada's trade woes. When the United States introduced the Reciprocal Trade Agreements Act (RTAA) in 1934, Canada was quick to line up to negotiate a new trade agreement. Britain and Australia also joined the queue. The Canadian-American negotiations led to agreements in 1935 and 1938, in which imperial preference was used as bait to entice the US to make more far-reaching concessions.<sup>33</sup> The Canadian approach to trade was pragmatic. Sentiment had little impact in the way Canadian policymakers or trade negotiators understood the national interest.

One might have expected New Zealand to be interested in the opening of the American market through RTAA because the price of New Zealand's agricultural exports had plummeted during the Depression and officials like Coates, minister of finance from 1931-1935, recognized that the British market 'was not bottomless'.<sup>34</sup> Nonetheless, New Zealand expressed no interest in the possibility of negotiating a trade agreement with the US. It did, however, introduce measures to offset its economic vulnerability. A radical Labour government, first elected in 1935, introduced quantitative restrictions to minimize economic upheaval brought on by external forces and thereby ensure decent living conditions for all of its citizens.<sup>35</sup> The government took these steps even though its key trading partners objected to their methods.

During the Second World War, the US emerged as a more important ally to New Zealand. Wellington opened a legation in 1942 and sent the deputy prime minister and minister of finance, Walter Nash, to head it. A Canadian legation had been established in

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<sup>32</sup> Max Beloff, *Imperial Sunset: vol. 2, Dream of Commonwealth 1921-1942* (London, 1968), p. 188, fn 6. Hugh Keenleyside, *Memories of Hugh Keenleyside: vol. 1, Hammer the Golden Day* (Toronto, 1981), p. 415. Drummond, *British Economic Policy 1919-1939*, chap 3; Drummond, *Imperial Economic Policy 1917-1939*, chap. 6. Hancock, *Survey of British Commonwealth Affairs, vol. II, pt. 1*, pp. 210, 245. P. Cain and A. Hopkins, *British Imperialism: Crisis and Deconstruction* (London and New York, 1993), p. 144; R. F. Holland, *Britain and the Commonwealth Alliance 1918-1939* (London, 1981), p. 145; N. Mansergh, *The Commonwealth Experience* (London, 1969), pp. 244-6.

<sup>33</sup> I. M. Drummond and N. Hillmer, *Negotiating Freer Trade: the United Kingdom, the United States, Canada and the Trade Agreements of 1938* (Waterloo, 1989).

<sup>34</sup> Brown, 'From Bulk Purchase', p. 42.

<sup>35</sup> Mein Smith, *A Concise History*, p. 155.

Washington in 1927. Although New Zealand officials tended to view Anglo-American proposals for a reformed international economy - what would become the General Agreement on Tariffs and Trade - with suspicion, Canadian officials were enthusiastic. Ottawa identified multilateralism as the ideal framework for postwar trade, especially as officials predicted that Canada would have to increase postwar exports over the prewar level by 60% to ensure prosperity. Canada turned into a champion of GATT, defending the principles upon which it was based as well as trying to broker agreements when disputes emerged between its principal sponsors, Britain and the United States, as they did over the future of imperial preferences at the inaugural meeting of GATT in Geneva in 1947. The conference was on the brink of collapse because of Britain's refusal to abolish, or significantly retrench, preferential tariffs and American insistence that its credibility was contingent on the abolition, or significant retrenchment, of preferential tariffs.<sup>36</sup> The government of Canada, galvanized into the self-appointed role of helpful fixer, unilaterally gave up a couple of preferences and asserted its right to amend, and remove, preferences without consulting the beneficiary, thereby revoking the contractual core of the imperial preference system. American officials played up this concession to convince President Truman that the US had largely achieved its goal of dismantling imperial preference.<sup>37</sup> Canadian actions thereby facilitated Anglo-American agreement, but not primarily out of a devotion to helpful fixing. The multilateral organization of world trade along liberal and non-discriminatory lines was in Canada's best interest. Without both British and American backing the GATT would not come to life.

The importance Ottawa attached to the GATT suggests that it conceived of its economic future within an international context rather than an imperial one. This priority was acknowledged implicitly in the lack of Canadian interest in Anglo-Canadian negotiations. The British pressed Ottawa to open negotiations since it was keen to improve its market share in Canada. But British overtures were largely rebuffed, in large measure because they had little to offer to Canadian exporters. In addition, lowering preferential rates would require equivalent and uncompensated reductions in the general

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<sup>36</sup> F. McKenzie, *Redefining the Bonds of Commonwealth 1939-1948: the politics of preference* (Basingstoke, 2002), pp. 199-220; T Zeiler, 'GATT Fifty Years Ago: U.S. Trade Policy and Imperial Tariff Preferences', *Business and Economic History*, 26, 2 (Winter 1997), 712.

<sup>37</sup> Memo by Brown for Truman, 'Action at Geneva with Respect to British Preferential System', 17 Oct. 1947, Truman Library: WHCF/CF/Box 51/State Department Trade Agreements 1946-49.

rate of duty. And preferences functioned as the effective level of protection which Ottawa was intent on retaining.<sup>38</sup>

Rejecting the possibility of deepening the Anglo-Canadian trade relationship did not mean that Canada was submitting to the logic of continentalism. The American economy, roughly twelve times the size of the Canadian economy, ensured that the economic relationship would be lopsided. In Canada, debates about continental economic organization, and the political consequences that might arise, had been hotly debated since the mid-19<sup>th</sup> century. Different strands of the debate revealed attraction and repulsion for both Britain as well as the US. Fear of continentalism resulted in an effort to retain a meaningful commercial relationship with Britain. Even though the Anglo-Canadian trade link was weakening, it was remarkably resilient in light of the pull of continental economic forces, at work since the 19<sup>th</sup> century. If one looks again at the pattern of Canadian exports (Graph 1a), the balance achieved between the UK and US as markets for Canadian goods, to the point that they regularly swapped top spot, represented the ideal to a government intent on not choosing one ally over the other. Canadian trade policy, indeed its whole foreign policy, can be described as a policy of counterbalance. The postwar trade pattern, in which the importance of the British market slumped quite dramatically represents the futility of government efforts to maintain commercial equilibrium.

New Zealand was more skeptical about the benefits of GATT. Even though studies confirmed that a more liberal international economy would most effectively promote New Zealand's prosperity,<sup>39</sup> New Zealand was nonetheless intent on consolidating its niche in the British market. Despite economic forecasts of slow growth in consumer demand in Britain,<sup>40</sup> New Zealand and Britain had concluded four-year bulk purchase agreements for mutton, cheese and wool in 1944. These agreements were extended until 1954, effectively locking up New Zealand supply for a decade. While it is tempting to characterize this approach as one in which there was a refusal to acknowledge changes in the workings of the international economy and the limitations on

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<sup>38</sup> McKenzie, *Redefining*, pp. 229-30.

<sup>39</sup> Memo for Prime Minister from Secretary of Treasury, 'Preferences and Tariffs', 18 Oct. 1945, NANZ: EA1/104/4/1 pt. 3; Nash to Johnsen (Geneva), tel. 82, 9 July 1947, NANZ: EA1/104/4/1 pt. 7.

<sup>40</sup> 'Suggested Approach by New Zealand to Commercial Policy Discussions', 30 Jan. 1946, NANZ: Nash/Bundle 80/1350-7.

the British market, such a description would be largely incorrect. New Zealanders feared the return of a global economic depression after the war (a widely shared fear) and doubted that the US would be able to reduce its own tariff on mutton, lamb and other key exports.<sup>41</sup> Hence Singleton and Robertson noted that the Commonwealth economic system was ‘a bulwark against global economic (in)stability.’<sup>42</sup> In addition, despite its small size, New Zealand had an advantage that it could and did capitalize on: Britain needed its agricultural exports for hungry and tired British citizens who believed that a New Jerusalem was due to them.<sup>43</sup> New Zealand’s leverage vis-a-vis Britain was sufficiently strong that it erased, temporarily, the disparities of size and power. Indeed, Britain encouraged New Zealand to continue its agricultural production after the war to address Britain’s own food shortage which reinforced their trade dependence at the expense of engagement in the international economy.<sup>44</sup>

Apprehension about economic instability was qualified by determination to limit national vulnerability to the forces of international economics. New Zealand representatives at the inaugural GATT meetings insisted upon the right to use quantitative restrictions, (which New Zealand officials referred to euphemistically as import selection), even though such a measure was anathema to the Americans, contrary to the thrust of economic liberalism, and looked on askance by the British.<sup>45</sup> New Zealand defended restrictive devices on the grounds that they were used only to the extent made necessary ‘by the limitation of our resources’<sup>46</sup> and that such measures had an expansionary effect on New Zealand’s economy.<sup>47</sup> Although such restrictive measures contravened the liberalizing aims of the Geneva conference, the government of New

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<sup>41</sup> Memo by Department of External Affairs, ‘Article VII of the Mutual Aid Agreement’, 17 Oct. 1945, NANZ: EA1/104/4/1 pt. 3; Minister of External Affairs to charge d’affaires in Washington, tel. 74, 2 Feb. 1946, NANZ: EA1/104/4/1 pt. 5.

<sup>42</sup> Singleton and Robertson, *Economic Relations*, p. 215.

<sup>43</sup> The Beveridge report laid out the idea of a New Jerusalem.

<sup>44</sup> Singleton, ‘New Zealand, Britain and the Survival of the Ottawa Agreement’

<sup>45</sup> Minister of External Affairs to New Zealand Trade Delegation, Geneva, tel. 84, 19 July 1947, NANZ: EA1/104/4/1 pt. 7.

<sup>46</sup> Proposals for Consideration by an International Conference on Trade and Employment, memo by Ashwin for Fraser, 7 Dec. 1945, NANZ: EA1/104/4/1 pt. 4.

<sup>47</sup> Minister of External Affairs to New Zealand trade delegation in Geneva (Nash to Johnsen), tel. 72, 7 July 1947, IC14/16 K.2.

Zealand insisted that, 'New Zealand's case is entitled to as much consideration as that of any one of the great powers.'<sup>48</sup>

New Zealand's trade dependence on Britain was in a different league from Canada. Britain was absolutely indispensable to the prosperity of New Zealand pastoralists, but New Zealand was not essential to the British economy. This fundamental imbalance in the New Zealand-British trade relationship must be borne in mind. In addition, New Zealand's economic position was rendered precarious by its reliance on wool, butter and meat exports. Circumstances beyond its control, let alone that of Britain, could cripple the New Zealand economy. New Zealand's trade policies were therefore formulated with location, size and apprehension about involvement in the international economy in mind. One should not therefore accept emotional pronouncements, like that of Holland, as evidence of a willingness to subordinate New Zealand's economic interests to those of Britain. Sentiment had a tactical utility to strengthen New Zealand's leverage in negotiations with Britain. New Zealand's strategy succeeded in the late 1940s because the power balance with Britain was roughly balanced by Britain's desperate need for food. The policy worked well in the short term. In 1953, New Zealand was the third richest country in the world. But in the long run New Zealand's trade policy was flawed; as Britain recovered economically and had less need of New Zealand meat and butter, Wellington had less pull. The bilateral balance of power tilted in favour of Britain, leaving Wellington facing an uncertain international trade environment.<sup>49</sup>

## CONCLUSIONS

The terms of the GATT negotiations were greeted with much protest and dismay in Ottawa, Wellington and London, particularly concerning imperial preference and connections to the mother country. Parliamentary debates on trade policy were passionate and conjured up powerful and visceral language of attachment which in turn

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<sup>48</sup> Minister of External Affairs to New Zealand trade delegation, Geneva, tel. 84, 19 July 1947, NANZ: EA1/58/2/2/1 pt. 3. The same determination and sentiment had been evident in 1944 when Prime Minister Fraser wrote to Nash: 'it would be a poor reward for our country's immense war effort to be threatened in any way with industrial disaster at the hands of our friends.' Fraser to Nash, tel re US-UK postwar commercial policy, 11 Jan. 1944, NANZ: EA1/104/4/1 pt. 2.

<sup>49</sup> Singleton, 'New Zealand, Britain and the Survival of the Ottawa Agreement', pp. 170, 178.

linked issues of trade to national identity and international alignments. For example, Walter Nash reassured anxious politicians on the eve of the Geneva conference that ‘There is not a chance of anything being done by this Government that will breach the relations of New Zealand with the Old Country.’<sup>50</sup> In London an insightful British M.P. observed, sentimental pronouncements were misleading when it came to understanding the substance of trade policies. ‘Words have certain connotations which people are apt to accept without thinking about them, and then we go on talking about Empire trade without analysing the position.’<sup>51</sup>

Understanding the motivations and goals of Canadian and New Zealand trade policy cannot end with politicized language of association, such as was evident in King’s self-important diary entry and Holland’s impetuous outburst. Canadian and New Zealand calculations concerning trade were unsentimental, as bureaucratic analyses revealed. Simon Reisman, who joined the Canadian Department of Finance after the war, explained that officials looked upon the revision of preferential tariffs as ‘a constructive exercise’.<sup>52</sup> Mitchell Sharp, also a member of the Department of Finance in the 1940s, acknowledged that there was a powerful emotional connection to Britain, but it ‘had nothing to do with preferences.’<sup>53</sup> Government economists and bureaucrats calculated how best to ensure markets would remain open to their exports. The consensus was that the British market would not grow sufficiently to support their anticipated growth and development. Realizing the limits of the British market did not lead to wholesale repudiation in favour of an American-centred international economy. Canada and New Zealand both continued to value the British market. For Canada, the British market offered balance and freedom to maneuver that went with such an equilibrium; for New Zealand it was the preferred choice for a small and vulnerable power. One could say that their trade policies were incoherent, as some historians have described Canadian trade policy.<sup>54</sup> There was an

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<sup>50</sup> *Hansard*, 29 Oct. 1947, p. 319.

<sup>51</sup> *Hansard*, 466 H.C. Deb, 5s, 29 Jan. 1948, cols 1254-6. Fieldhouse wrote that even though imperial self-sufficiency was revealed as futile in 1932 ‘some hot air continued to seep out in the rhetoric of old Commonwealth hands down to the 1970s.’ D. K. Fieldhouse, ‘Keith Hancock and Imperial Economic History: A Retrospect Fifty Years On’ in Fieldhouse and Madden, eds, *Oxford and the Idea of Commonwealth*, (p. 151.

<sup>52</sup> Author interview with Reisman, 1992.

<sup>53</sup> Author interview with Sharp, 1992.

<sup>54</sup> R. S. Bothwell and J. English, ‘Canadian Trade Policy in the Age of American Dominance and British Decline, 1943-1947’, *Canadian Review of American History* 8, 1 (Spring 1977), 63.

underlying coherence: to sell exports, wherever possible and to make those sales as secure as possible in an uncertain world. Politicized and emotional rhetoric can obscure this point. And yet that rhetoric cannot be ignored. It signaled a desire, at the level of governments, to maintain a British connection. New Zealand's trade patterns more closely corresponded to diplomatic aims because the government was largely responsible for the sale of agricultural exports whereas there was considerably less direct government intervention in Canada.<sup>55</sup>

This reading of trade patterns and policies attempts to reconcile recent arguments about an imperial economy with prevailing nationalist political interpretations and advances a methodological suggestion. Trade *patterns* between Britain, Canada and New Zealand remained surprisingly vital despite industrial development, economic diversification, and the strength of regional economic forces up to 1950. The economic-nationalist narrative therefore exaggerates the dominions' divergence from an imperial economy. However the persistence of an imperial economy does not refute the primacy of nationalism which is revealed when one examines trade *policy* in Ottawa and Wellington. Evidence from the imperial economic conference of 1932 and the negotiations that led to the creation of the General Agreement on Tariffs and Trade highlights the choices made by the dominion governments in which historic and sentimental attachment to Britain did not ultimately determine policies. Throughout the thirty year period under study, the logic of economic nationalism dictated that New Zealand should consolidate its position in the British market since few others were accessible to its exports and that Canada should retain trade links to Britain to safeguard national sovereignty and identity which seemed equally threatened by too close association with either Britain or the United States. In short, Canada and New Zealand chose to operate in an imperial economy because they benefited from doing so.

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<sup>55</sup> One exception was the Anglo-Canadian wheat agreement of 1946.