Attached is the draft of part of the chapter of the Annual Report, dealing with trade of industrial areas. The section herewith covers trade developments in North America.

The text is still subject to considerable editorial, and possibly presentational, changes apart from any minor factual amendments which may be necessary in the light of information which the secretariat may receive at a later date.

Any comments on the attached draft should reach the secretariat not later than 25 September 1964.
In what is now the longest phase of economic expansion since the war, North America experienced in 1963 the third year of continued economic growth. Aided by the tax reduction of 1964*, the rate of growth of the United States' gross national product still shows no signs of substantial weakening and may gain new strength as a result of further tax cuts to be introduced in 1965. With total North American industrial production increasing by 5 per cent and gross national product by 4 per cent, economic growth was relatively smaller than the year before but appeared to be more balanced as - unlike the development in 1962 - private and public consumption and investments expanded at the same rate as gross national product.

So far, private investment (primarily residential construction) and private consumption, in particular of durable consumer goods, had been the dynamic forces of the present boom in both the United States and Canada. Public consumption, on the other hand, increased strongly in the United States, but remained constant in Canada. In 1963, external demand appeared as an additional strong expansionary force. After a moderate growth of about 2 per cent in each of the two preceding years, total North American exports expanded by 8 per cent to $27.25 billion; by countries, United States exports increased at this average rate to $20.7 billion, while those from Canada rose 10 per cent to $6.5 billion. Since the growth of internal trade slowed down slightly in 1963, this sudden export expansion was entirely due to increased demand from outside North America. Largely, it was the effect of the rapid growth of private consumption in Western Europe, in particular in the Economic Community, and of the revival of economic activity in the United Kingdom and Japan. Also, considerable foreign exchange earnings made by some non-industrialized countries in 1962 appeared as additional demand from this side. A further positive factor was certainly the increasing competitiveness of North American export products. In contrast to the development in Western Europe, North American wages and prices have remained nearly stable during the present boom. Both in the United States and Canada, hourly earnings in manufacturing rose by about 3 per cent annually since 1960, an increase not exceeding that in output per man hour so that labour cost per unit of production stagnated. Consequently, consumer prices did not rise by more than 1 per cent annually in both countries, while wholesale prices in the United States have remained at the same level for the past five years, and expanded by only 2 per cent annually in Canada.

However, the growth in North American exports was also partly due to such temporary factors as poor harvests particularly in Eastern Europe, which were at the origin of large Canadian wheat sales to the USSR, and to the severe 1962/63 winter in Western Europe, leading to a considerable increase in United States coal shipments to this area. In fact, over one tenth of the absolute increment in total North American exports can be attributed to these rather exceptional trade developments. Also, United States government-financed
agricultural exports (under Public Law 480 and Mutual Security, Sections 402 and 550) rose by 6\frac{1}{2} per cent, or $100 million to $1.63 billion, a moderate increase when compared to the 13 per cent growth in commercial agricultural exports, but significant in view of the decline in 1962 of government-financed agricultural exports. However, more important for the United States balance of trade development was a 36 per cent (or $290 million) expansion in government-financed exports of manufactured goods to $1.1 billion.

While the prolonged boom did not lead to a significant reduction in both countries' level of unemployment, some improvements occurred with respect to another problem area: the balance of payments. In contrast to the sharp acceleration in export growth, the rate of increase of North American imports declined from 10 per cent in 1962 to only 4\frac{1}{2} per cent the following year when total imports (at f.o.b. prices) reached $23.1 billion; this reduction was entirely confined to United States imports, which increased only 5 per cent to $17 billion (against 13 per cent the year before), while Canadian imports rose by 4 per cent to $6.1 billion, or slightly faster than in 1962. The Canadian trade balance surplus increased by $300 million while the deficit in the current balance was reduced by the same amount to $480 million. However, primarily due to lower direct foreign investments and short-term capital inflows, the balance-of-payments surplus remained nearly unchanged at $140 million.

For the United States, the favourable development of foreign trade brought a $610 million increase in the trade balance surplus (to $4.94 billion)\(^1\), of which, however, only $220 million were gained in commercial transactions, the rest through higher government-financed exports. On the other hand, the net accounts on investment income, services, military and other government expenditure remained fairly unchanged while the net private capital outflow continued to increase. In total, the deficit in the United States balance of payments (excluding special transactions) was moderately reduced by $270 million to $3.3 billion. However, these annual figures conceal important changes which took place during the second half of 1963 when the balance-of-payments deficit decreased to $1 billion, compared to $2.3 billion registered for the first six months of the year. This improvement, which apparently continued to gather strength in the first half of 1964, was almost entirely due to the decline in net private capital exports following the proposal for introduction of a temporary interest equalization tax, in order to reduce new issues of foreign securities (which effectively fell from $1.25 billion in the first half of 1963 to $270 million in the second half).\(^2\)

\(^1\)Balance of total United States trade, i.e. including special category exports excluded from the export total quoted above.

\(^2\)The tax, which will increase portfolio borrowing costs in the United States by about 1 per cent, was enacted in summer 1964, but will be retroactively effective as of July 1963.
Trade Between Canada and the United States

While United States exports to Canada continued to accelerate by 8 per cent to $4 billion in 1963, the rate of growth in Canadian exports to the United States fell sharply from 10 per cent in 1962 to 4 per cent the following year. In contrast to the development in 1962, when the expansion of North American exports had been entirely restricted to internal trade, total exchanges between both North American countries rose by 6 per cent to $7.67 billion, a rate of increase slightly below that registered the year before, and considerably smaller than that in total North American exports to outside areas.

Generally, the slow-down in intra-North American trade occurred in primary products, while exports of manufactured goods expanded by 6 per cent as in 1962, with the bulk of the increase in machinery and transport equipment. Particularly United States exports to Canada of machinery and transport equipment rose by 10 per cent to $1.72 billion, the absolute increase of $162 million constituting nearly 60 per cent of the increment in total United States deliveries. However, most of the export growth in this product group was confined to agricultural machinery and tractors of which sales expanded by $50 million or nearly one quarter, to automobile parts for assembly of which exports rose by $74 million or 27 per cent, and to civilian aircraft of which shipments increased five-fold to $41 million. In contrast, United States exports of electrical machinery declined slightly, and of new passenger cars sharply by nearly one half.

Other substantial increases in United States exports to Canada, occurred for food products; in particular shipments of grains and preparations rose by 44 per cent to $169 million. Deliveries of coal, coke and briquettes increased by 14 per cent to $136 million, those of other fuels remained constant. In contrast, sales of agricultural raw materials, of ores and metals and of chemicals rose moderately, and exports of other manufactured goods even declined.

Canada's exports of machinery and transport equipment to the United States expanded by 8 per cent, with the bulk of the increase equally in non-electrical, and particularly agricultural machinery. Sales of chemicals and other manufactured goods, on the other hand, rose only moderately; in particular shipments of paper and paper products, substantial Canadian export items, remained stable at $607 million. Deliveries to the United States of food products declined slightly, of uranium oxide sharply from $139 million to $90 million, while exports of non-ferrous metals stagnated. On the other hand, Canadian exports of timber and pulp rose by 6 per cent to $640 million, of iron ores by 19 per cent and of iron and steel even by 31 per cent.
Exports to outside areas

In contrast to the slight decline registered the year before, total North American exports to the rest of the world increased by 9 per cent to $19.58 billion in 1963. United States exports, reaching $16.74 billion, expanded by 7 per cent or more than twice as fast as in 1962, while Canadian exports, which had declined substantially that year, rose by 17 per cent to $2.84 billion. However, nearly one quarter of this increase in Canadian exports was accounted for by wheat sales to the Soviet Union of $129 million, which in turn constituted the bulk of the 46 per cent increase in North American shipments to the Eastern trading area. Apart from this spectacular but most likely temporary export gain, deliveries to the industrialized countries advanced relatively faster than those to non-industrial areas; by product categories, sales of primary products rose by 12 per cent to $9.8 billion or exactly twice as fast as those of manufactured goods.

Exports to the industrialized countries, which had declined by 4 per cent in 1962, rose by 11 per cent to $10.4 billion in 1963. Over one third of the absolute increase of $1 billion was absorbed by Japan, to which total North American exports expanded by 23 per cent to $1.98 billion, slightly above the 1961 level from which they had fallen to $1.6 billion in 1962. Reflecting the new expansion of economic activity in Japan, however, accompanied by slackening investment growth, the bulk of the export increase was in primary products, of which shipments rose by 31 per cent to $1.4 billion, while exports of manufactured goods advanced by only 4 per cent, largely due to a decline in machinery exports from both Canada and the United States. Canada, which expanded its deliveries to Japan by 37 per cent, sold primarily more agricultural raw materials and ores, while the 20 per cent increase in United States exports to $1.7 billion was concentrated on food products (of which deliveries increased by over one half), agricultural raw materials and chemicals.

North American exports to Western Europe rose by 8½ per cent to $8.42 billion in 1963, after slight declines by 1 per cent during the two preceding years. Deliveries of manufactured goods, which had continued to expand steadily during the past few years, rose by 10 per cent or considerably faster than exports of primary products, which increased by 7 per cent, back to the 1961 level of $4.73 billion, after they had continuously fallen since 1960. Over one half of the absolute increase in North American exports to Western Europe was in fuels and "other manufactured goods", reflecting, on the one hand, the effect of exceptional weather conditions and interruptions in French coal output due to a strike in March 1963; on the other hand the rapid growth in demand for consumer goods, particularly in the Economic Community. In fact, United States coal exports expanded by 41 per cent, an increase almost entirely absorbed by the EEC. Of other manufactured goods (i.e. primarily consumer goods) both Canadian and United States exports expanded by more than one quarter,
again primarily to the EEC. In contrast, exports of machinery and transport equipment to Western Europe, which had still increased by nearly 11 per cent in 1962, rose only moderately by 4 per cent to $1.89 billion. Partly, this development reflects the contraction in investment growth in most West European countries, partly, it is the result of halving the United States sales of civilian aircraft as demand for large jet passenger planes has temporarily been filled by deliveries made during the previous three years. Food exports equally advanced at a slower pace, i.e. by 3 per cent to $2.5 billion; since sales to EFTA nearly, to the EEC completely stagnated, most of this increase was taken up by other West European countries.

Contrary to the development in sales to the industrialized countries, North American exports to non-industrial areas had not declined in 1962, and advanced only slightly faster the following year, i.e. by 6 per cent to $8.73 billion. The absolute increase of $505 million was largely accounted for by higher shipments to South-East Asia and to Australia, New Zealand and South Africa as a group (to which exports increased by 18 per cent and 15 per cent respectively). In particular, exports to Pakistan and Thailand advanced by about one third, to India and the Philippines by over 20 per cent, primarily due to higher shipments from the United States of food products, machinery and transport equipment, and of iron and steel. In contrast, sales to the Middle East, which had increased by one fifth in 1962, dropped by 6 per cent to $850 million the following year, largely the result of a 10 per cent decline in shipments to Egypt, Saudi Arabia and Iran, and a halving of exports to Syria. Nearly all product groups were involved in this export decline which was, however, particularly pronounced for chemicals, oils and fats, and machinery and transport equipment.

The continuous decline in total North American exports to Latin America since 1958 came almost to a halt in 1963, when exports dropped only slightly by $10 million to $3.36 billion. However, this development was the effect of a 20 per cent rise in Canadian exports, which nearly compensated a further 3 per cent decline in United States exports. Interestingly, most of the Canadian export gain was made in machinery and transport equipment, of which sales rose by almost four fifths, precisely the products of which United States exports fell by 11 per cent. On the other hand, United States food exports continued to rise substantially. With regard to individual Latin American countries, North American exports to Mexico, Colombia, Venezuela and Peru expanded at rates of about 7 per cent, increases not sufficient to offset an average 22 per cent decline in combined exports to Argentina, Brazil and Chile, the three countries with severest financing difficulties.

Exports to Africa advanced only moderately, due to a sharp decline in United States food shipments, which was barely compensated by an 11 per cent increase in sales of machinery. By countries, exports to Liberia, Ghana and Kenya registered substantial declines, while those to Morocco, Angola and Congo-Leopoldville and South Rhodesia rose between 8-12 per cent.
Imports from outside sources

In 1962, total North American imports from outside sources had increased by as much as 10 per cent, an expansion far exceeding that of the economy and notably of industrial production, and entirely attributable to 13 per cent higher purchases by the United States. During the following year, the rate of growth of United States imports diminished to 5 per cent, while Canadian imports, which had declined the year before, increased by 7 per cent to $1.95 billion. In total North American imports reach $15.15 billion, a 5 per cent increase over 1962 mainly taking place during the second and third quarter of the year and levelling off thereafter.

The slight slackening in North America's economic growth and investment activity, and a relatively smaller increase in particularly the United States manufacturing industry's inventories, largely replenished during 1962, partly explain the pronounced deceleration in import growth. In fact, imports of primary products other than food rose only 4 per cent, compared to 6 per cent the year before, while purchases of machinery and transport equipment, which had expanded by 8 per cent in 1962, just rose $1.76 billion. Furthermore, the slight slack in the growth of North American private consumption on the one hand, and the declining competitiveness particularly of West European export products on the other should provide additional explanations for the slow-down in import growth. For instance, North American automobile purchases from outside sources rose only by $7 million to $581 million in 1963 while they had grown by 20 per cent the year before; and imports of chemicals and other manufactured goods, which had registered increases of 13 per cent and 17 per cent respectively in 1962, expanded not more than 5 per cent. Only imports of foodstuffs, usually less sensitive to fluctuations in domestic economic development, increased by 7 per cent to $4 billion, or at the same rate as in 1962. Particularly large gains were recorded for United States imports of meat, fruits and sugar; in the latter case, however, mainly because of rising prices.

The contraction in import growth was particularly pronounced for deliveries from Western Europe which reached $5.64 billion, only 3 per cent above the level of 1962 when the increase had been more than twice as high. It was largely due to a stagnation in food imports and a very moderate expansion in imports of machinery and transport equipment. As in the preceding year, the growth in North American imports from Western Europe was entirely accounted for by higher purchases by the United States, rising by 5 per cent to $4.7 billion. Canadian imports, on the other hand, fell by 1 per cent, primarily due to a 7 per cent decline in deliveries from the United Kingdom whose sales of road motor vehicles dropped by one half. In contrast, United States imports from the United Kingdom expanded by 7 per cent as a result of considerably higher purchases of pig iron and rolled products, and of manufactured goods other than machinery and transport
equipment. As a result, the relative gain in total North American imports from EFTA was only slightly smaller than in 1962. In comparison, the growth in purchases from the EEC diminished sharply from 8 per cent to 3 per cent. Shipments from the Federal Republic of Germany and France advanced only moderately, while those from the Benelux countries fell sharply; a development not compensated by a 10 per cent growth in imports from Italy, almost entirely accounted for by higher purchases by the United States of specific consumer goods, such as textile clothes, footwear and art objects.

North American imports from Japan, on the other hand, again registered a substantial increase of 10 per cent to $1.62 billion which was, however, less than half the growth of 1962, and almost entirely confined to higher purchases by the United States. In particular, Japanese deliveries to the United States of machinery rose 10 per cent, of road motor vehicles by $15 million, or three quarters, and of rolled steel products by $82 million (to $200 million). On the other hand, food shipments from Japan declined by one tenth.

Total North American purchases from the non-industrial areas expanded slightly faster than those from industrialized countries. Interestingly, all of Canada's absolute increment in imports came from non-industrial countries, as deliveries from Western Europe and Japan, taken together, slightly declined. In particular, Canadian purchases from Latin America increased by one tenth, from the Middle East and South-East Asia by nearly one fifth, from Australia, New Zealand and South Africa as a group by over one third and from Africa by almost 60 per cent, with the bulk of the increases in foodstuffs and oil. On the other hand, the non-industrial areas furnished only 40 per cent of the absolute increase in United States imports, as deliveries from Latin America, the largest supplier, advanced by just 1 per cent. Consequently, total North American imports from Latin America, which had increased by 6 per cent in 1962, rose not more than 3 per cent to $4.46 billion the following year. Only deliveries from Argentina expanded sharply by one half, largely due to higher purchases of meat and sugar, while imports from Mexico, Peru and Brazil increased moderately at rates ranging between 2-4 per cent, and those from Colombia and Chile declined by 10 per cent and 7 per cent respectively.

North American imports from the Middle East, the only area from which shipments had fallen in 1962, recovered by increasing 8 per cent to $430 million, largely due to substantially higher Canadian oil imports. Deliveries from South-East Asia expanded by 6 per cent to $1.51 billion, a growth shared by most exporting countries and confined to food products and textiles. Food imports from this area into the United States increased by 12 per cent, into Canada by one third. United States purchases of textile yarns and fabrics rose by over $40 million; on the other hand, its rubber imports from South-East Asia fell by 14 per cent. Total North American imports from Australia, New Zealand and South Africa as a group rose by 11 per cent to $837 million after they had grown by one half the year before. On the other hand, imports from Africa expanded by 12 per cent to $521 million, or four times as fast as in 1962, largely due to increased purchases of food products, coffee and cocoa.
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<th>Year</th>
<th>Food products</th>
<th>Agricultural raw material</th>
<th>Ore and metals</th>
<th>Fuels</th>
<th>Total primary products</th>
<th>Chemicals</th>
<th>Machinery and transport equipment</th>
<th>Other manufactures</th>
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<td>0.68 0.78</td>
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**Notes:***
- The data on which this table was based are in general in terms of the revised Standard International Trade Classification in respect of 1960, 1961, 1962, 1963, while those for the previous years are classified according to the original SITC.
- The data for the two periods are thus not always strictly comparable; adjustments applied in order to improve the comparability are described in the Appendix.
- For the years 1950, 1961, 1962, 1963, the data which have been used for this table have been in general in terms of the revised SITC. The data for the previous years have been classified according to the original SITC.
- The table is a summary of the data from the full table, which is available in the Appendix.