"This means simply then that any substantial improvement in our current position will have to come largely in the area of merchandise trade. In fact, for Canada fully to pay her way in the world without running further into debt, a commodity-trade surplus in the neighbourhood of $1 billion each year would seem to be necessary.

"A formidable task by any standard of measure, but, over time, not beyond our capabilities. Let me try to indicate the sort of changes and developments that would be required.

DEFICIT OUTSTRIPS RESOURCE DEVELOPMENT

"Because of the limited size of the domestic market, the economic exploitation of Canada's ample natural resources has involved the production of resource products far in excess of domestic needs. These resource products have always comprised the bulk of Canada's exports and even today account for five-sixths of our total sales abroad. Many of these items are sold in highly processed form and the actual extraction of particular products has in many instances been dwarfed by the subsequent processing operations, which now comprise many of Canada's largest and more prosperous industries. Moreover, the range of Canada's resource-based exports has steadily broadened. A considerable proportion of Canada's present export total represents items such as iron ore, petroleum, natural gas and uranium, which have come into prominence only during the last 10 or 15 years. It was development of these major new lines of production, along with large-scale expansion throughout a broad range of established resource industries, that provided the spark for Canada's post-war resource boom. Virtually all of this new capacity represented potential production for export or of an import replacing character. Yet, despite this extensive support to Canada's foreign earnings position, it has still not been adequate to meet the tremendous growth in foreign payments that has accompanied two decades of prosperity. Hence, the anomalous situation of a record foreign-earnings deficit following upon one of Canada's greatest periods of resource development.

WEAKNESS OF SECONDARY MANUFACTURING LINES

"To a large degree this excessive rise in our foreign payments has been attributable to Canada's mushrooming demands for manufactured products, coupled with continued heavy reliance upon foreign sources of supply. Canada's industrial makeup includes a quite broad and diversified range of secondary manufacturing lines. However, with certain notable exceptions, these industries are not strongly competitive internationally and have confined their sales largely to the domestic market. Even today from 90 to 95 per cent of secondary manufacturing output is sold domestically. Moreover, many of these industries rely extensively upon imports of parts, as well as finished products, to supplement their own production lines.

"It is this uneveness in Canada's industrial structure that seems to underlie the paradoxical situation surrounding our external balance. For example, while dollar receipts from our largest export item, newsprint, have increased severalfold in recent decades to a level now exceeding $¾ billion, our trade position in automotive products has shifted from a near balance in certain inter-war years to a deficit at present running well in excess of $½ billion annually. Or again, while proceeds from grain sales have risen considerably over the postwar period, our trade position on farm equipment, including tractors, has deteriorated by about $100 million. Even if a better performance in standardized items could be realized, Canada is still faced with ever mounting import requirements of specialized products. The increasingly rapid pace of technological advance and the growing complexity of many types of equipment tends to increase Canada's already heavy dependence upon imports of machinery and equipment, particularly of the more specialized kinds.

"In a world where sheer size of operation and breadth of technical knowledge is becoming more and more important, Canadian producers have to work hard even to hold their own.

INDUSTRIAL STRUCTURE MUST EXPAND

"What does it all mean? Simply this, that world demand for Canadian food products and industrial materials has not kept pace with our growing requirements for many types of manufactured goods. It seems clear, therefore, that any permanent solution to Canada's foreign balance-of-payments problems must lie in the direction of a further substantial broadening and filling out of Canada's industrial structure on a competitive basis. New areas of economic production must be sought out wherever markets can be developed, particularly in secondary manufacturing.

"Growth is a continuous process and the development of a strong and viable framework of manufacturing industries in Canada will not be achieved by one-shot efforts. It is largely for this reason that the new Department of Industry has been established to help foster industrial growth in Canada. The energies of the new department will serve to assist, not to replace, the efforts now being put forward by private industry. In today's complex world, a specialized government agency of this kind, with detailed knowledge of particular industries, has an important role to play in helping to clear the way to better all-round economic performance. By concerning itself only with manufacturing, the new department will give its full attention to this one area that has assumed such crucial importance in the present phase of Canada's economic development.

LINEAR TARIFF CUTS NO SOLUTION

"For the same reason, Canada has given strong support to the Kennedy trade proposals and is prepared to participate actively in the coming negotiations. In charting the course to be taken in these negotiations, Canadians have had to take account of the fact that the programme of linear tariff reductions put forward by the United States would provide much less by way of improved sales opportunities in world markets for industrial materials than for manufactured products. Bearing in mind that manufactured products at present make up about two-thirds of Canada's

(Continued on P. 6)