The decline in the volume of imports in 1948 was accompanied by a decline in the relative importance of the United States as a source. In 1947, about 77 per cent of our imports originated in the United States; in 1948 only about 69 per cent is expected to originate there. On the other hand the percentage of our imports coming from the sterling area will rise from 13 to 18. These changes are, of course, in the direction of the pre-war situation: in the years 1935-39 61 per cent of our imports came from the United States and 29 per cent from Commonwealth countries.

The movement towards the pre-war pattern in our imports is the result of two main factors. On the one hand the increased ability and determination to export to dollar countries on the part of a number of war-damaged countries (but mainly the United Kingdom) has made more of their goods available to us. On the other hand, our import controls have on balance been so constructed as to encourage imports from these countries. Thus our imports from the so-called "non-scheduled" countries (in effect all countries except the United States) of goods covered by Schedule II of the Emergency Exchange Conservation Act are expected to rise from $80 million in 1947 to about $130 million in 1948, while the quota limitation will cut the import of these goods from the United States from $212 million to about $90 million.

To summarize this brief statement, the recent developments in our foreign trade include both favourable and unfavourable features. On the credit side is (1) the substantial improvement in our net commodity exports which has been a very important factor in strengthening our external financial position in 1948 and (2) a substantial reduction in our bilateral disequilibrium on commodity account. In 1947 we had a trade deficit of about $900 million with the United States: this year our trade deficit may not greatly exceed $300 million, with about two-thirds of the improvement accounted for by increased exports and the balance by reduced imports. Our surplus with the United Kingdom will be reduced from $754 million to about $560 million and with other countries from $306 million to about $185 million. While it would certainly be over-ambitious for us to attempt to reduce our traditional bilateral disequilibrium to negligible proportions, the experience of the past few decades, and in particular the past few years, makes it very clear that the smaller this disequilibrium is, the fewer and more manageable are our international financial problems likely to be.

On the debit side of this account we must enter, as at least part of the price paid for the favourable development, (1) an appreciable reduction in imports of consumer goods and (2) some increase in our dependence on exports of unprocessed or only partially processed goods. The pinch of the former we are all feeling as we go. The pinch of the latter is still pretty well localized, but to the extent that it impedes the diversification of our economy we shall all pay for it in the years ahead.

I revert now to our over-all balance of payments, which is the best single index of our international financial position. I said a few minutes ago that in the situation which confronted us a year ago, with our surplus or net earnings on current account practically eliminated through the rapid growth in imports, with our lending to foreign countries at levels far in excess of our net earnings, and with our international cash reserves depleted to the danger point it was clearly necessary for us to do two things. One was to increase our current account surplus and the other was to establish a more tenable relationship between our current account surplus and the amount of our foreign lending. The first part of this programme succeeded beyond expectation and, as I have indicated, our over-all current account surplus this year may well be in the neighborhood of $450 million.

....../7