

There is a danger that the failure to find satisfactory solutions to the trading problems of the developing countries on a multilateral basis may result in a series of increasingly anarchic preferential arrangements between the metropolitan powers and their former colonial territories, and the establishment within the world of more clearly defined and antagonistic spheres of economic influence. This would have dangerous implications for international political relationships. I suggest, therefore, that the nations of the Northern Hemisphere are going to have to give more attention to the trading problems of the less-developed countries than we have so far.

Indeed, if all of us put as much effort into that as we devote to restraining their textile exports, we might achieve a good deal! Specifically, I should suggest we begin by making a renewed attempt to work out sensible agreements covering trade in sugar and in cocoa. Then, we ought to scrap all tariffs on "so-called" tropical products. The United States Government has authority to negotiate free entry into the United States for a wide range of these products. We in Canada are certainly prepared to do as much. Together we should press our European friends to be a bit bolder and more imaginative.

Further advance in the trade field must be accompanied by progress in improving the international payments system. There is not much point in pressing ahead with the removal of barriers to trade if the world financial system is not capable of supporting the increased volume of trade we hope to achieve, and of meeting the balance-of-payments problems that many countries face from time to time.

The present payments system came into being in the brave years of the mid-forties. With the chaos and confusion of the depression and war years still fresh in their minds, the governments of that period constructed a new system based on internationally-agreed exchange rates, linked in value to gold, with reserves held in the form of gold and reserve currencies, supplemented by conditional credits. The administration of this new international system was entrusted to a new institution, the International Monetary Fund. This system has served us well in the whole post-war period. The Fund as an institution has won for itself a vital role in the development and management of the international payments system.

But in recent years it has become increasingly apparent that some improvements are required. In particular, it has been recognized that the growth of reserves in the form of gold and reserve currencies will probably be insufficient to satisfy the growing needs. This is not because either gold or reserve currencies are unacceptable as a form of reserves. For Canada, U.S. dollars are quite satisfactory and we have been converting some of our gold into dollars during the past year. The problem is essentially one of the total quantity available for all countries. Most countries would prefer to have these needs met by increases in the reserves they actually own rather than by increased access to lines of credit such as the Fund provides.

For the past two or three years continuous efforts have been made to develop a new form of international reserve asset to supplement gold and reserve currencies. We have sought methods of defining the form and of controlling the quantity and use of this new asset so as to avoid building either an inflationary or a deflationary bias into the system.