

such items as interest and dividends, still amounted to \$1 billion. Last year, the total current-account deficit was only one-third of the peak imbalance of 1959.

PURSUIT OF TRADE DIVERSITY

Our concern with our trade imbalance with the United States and our determination to increase sales to that country does not mean that there has been any change in our basic policy of multilateral trade or in our efforts to seek markets throughout the world. The structure of the Canadian economy is such that the large-scale exchange of goods and services with many countries is the essence of Canadian economic life.

We have had some success in this respect. There has been an impressive growth in sales to Western Europe and Japan. We have been able to develop new markets throughout Central and South America. And the successful negotiation last year of the major grain contracts with the U.S.S.R. and Mainland China represents further trade diversification.

As a result of these large wheat contracts, Russia and Mainland China will be among our top half dozen foreign markets in 1964. We probably cannot expect to achieve such large export sales of wheat to these countries in the ensuing years. But there is evidence that steady markets for wheat and for some other types of commodity can be developed and maintained with the Sino-Soviet bloc - particularly as these countries are brought into increasingly intimate trade contact with market economies throughout the world. It seems unlikely, however, that our trade with these countries will develop to the stage where it will make any dramatic change in our trading patterns. Much depends upon their needs for our goods and on the decisions taken by their leaders, which may involve many considerations beyond those concerned with trade. Nevertheless, our readiness to deal in a fair and straightforward manner with the governments of Communist countries who need our goods could result in the development of greater mutual understanding and a reduction in international tension....

BASIS OF GATT

The basis on which the GATT operates, of course, is that of multilateral and non-discriminatory trade. The Agreement was, in fact, drawn up in an attempt to avoid the restrictive beggar-my-neighbour type of trading system which had gained such a tight hold on world commerce during the depression years of the thirties. As we have seen, most of the planned economies of the Communist world, by contrast, still operate under strict state controls and trade on an entirely bilateral basis. Therefore, the ability of such countries to participate in the work of the Agreement, with all its rights and obligations, is limited by the nature of their economic system and trade practices.

Nevertheless, GATT has in the past proved to be a most flexible instrument, capable of adapting to a wide number of problems. While the efforts so far made to seek a solution to this particular problem

have not yet met with any substantial results, the successful participation of certain of the state-trading countries in the work of the GATT, and the continuation of efforts to work out methods of closer contact, give promise that some progress may be made through this forum in dealing with the general problems.

FAR-REACHING TRADE NEGOTIATIONS

The "Kennedy round" of GATT negotiations beginning next month could be the most important for Canada and for the world trading community held so far in the post-war period. These far-reaching trade negotiations are to cover all classes of products, including agriculture, and will deal with non-tariff as well as tariff barriers. The "Kennedy round" presents the possibility of substantial reductions in the rates of duty on thousands of U.S. dutiable items. There is a possibility of major cuts in the tariffs surrounding the expanding economies of the EEC and Japan; and there is also the possibility of the removal of non-tariff barriers confronting many of our exports to world markets.

ADVANTAGES TO CANADA

I believe that Canada's trading and overall economic position can be strengthened through our participation in these negotiations. Any substantial improvement in our current-account position will have to come largely in the area of merchandise trade. To a large extent this means an increase in export sales, particularly of manufactured products. Such increases in the exports of manufactured commodities can only be achieved through large-scale production for world markets, which in turn depends upon Canada obtaining better access to foreign markets. Consequently, a reduction in world trade barriers is an important factor in attaining our economic objectives.

For this reason, Canada supports the efforts being made for world trade liberalization and is prepared to participate fully in the coming negotiations. The major industrialized nations, in particular the United States, the European Economic Community and Britain, agreed that, with certain exceptions, these negotiations should be conducted on the basis of across-the-board linear tariff cuts rather than on a selective commodity-by-commodity basis, as in previous negotiations....

A programme of linear tariff cuts would provide much less in terms of sales opportunities in world markets for basic industrial materials than for manufactured products. Manufactured products at present make up two-thirds of Canada's imports, but only about one-sixth of our exports. Consequently, an acceptance of a linear approach by us would provide much more scope for the expansion of sales of manufactured products in Canada than for the sale of Canadian products abroad. Such a course of action would worsen rather than alleviate Canada's balance-of-payments problem.

This was recognized at the ministerial meeting and it was agreed that participation by countries such as Canada could be on a different basis, ensuring reciprocity of benefits but not excluding