

must try to ensure that world trade is conducted on as wide and as free a basis as possible. It is easy enough to state this general orientation. The real problem is how to continue to move in this direction in a realistic manner. I believe it is important that in the "Kennedy round", and in future trade negotiations, we ensure that the particular problems of the smaller economies, are adequately taken into account. This is an objective we should share in common. Canada is still the United States' largest market. Our mutual interest lies in finding methods of freeing trade in which Canada can participate enthusiastically - methods which fit Canada's circumstances.

In devising our approach to tariff negotiations, we have always shied away from any simple mathematical formula. We adopted a more selective approach to the "Kennedy round" than the United States did, and I expect we shall continue to favour the selective approach to tariff cutting in the future, simply because this enables us to participate more effectively in negotiations.

What I mean by this is that we are bound to look for those opportunities where a significant tariff adjustment in the markets of the great economic entities would provide us with the opportunity to move out of the confines of our small national markets and produce and sell on the same continental or intercontinental scale as do the industries of the United States and the European Community.

The Canada-United States Automotive Products Agreement was one essay in such a policy. We realized that to improve the efficiency of our industry we had to make a smaller range of car parts and a smaller range of vehicles. This could only be done if we had free entry to a mass market; for these products and for this industry, this meant the market of the United States. At the same time we were prepared to provide free entry in our market - albeit with some conditions and limitations for an initial period....

It is, I think, most important to understand two points. First, that the form of the automotive agreement - by which I mean the conditions we attached to free entry in Canada, and the understandings reached with each company - was peculiar to this industry. For other products, other arrangements. Second - for this industry it was free entry into the market of the United States, which was essential for Canada. For other products, free entry elsewhere may be equally important.

Let me take an example. One broad sector for which there is obvious scope for a greater international division of labour is forest products - lumber, wood products, pulp and paper. But the great expansion of markets for these products will not be confined to North America. Much of it will be in Europe and Japan. A purely bilateral trade arrangement between Canada and the United States in this sector would be second best to a tariff arrangement involving all the industrial countries of the free world. Canada and the United States would both gain much more from a multilateral than from a bilateral arrangement....

ROLE OF STATE-TRADING ECONOMIES

We must...recognize the potential importance for world trade of the state-trading economies of the Far East and of Eastern Europe. Mainland China, the U.S.S.R. and the Communist countries of Eastern Europe are becoming increasingly significant as traders. Certainly, they are important customers for us in Canada. In our experience, the markets of the state-trading countries are difficult to cultivate. Often, their willingness to buy is limited by the preoccupation of the governments of these countries with achieving bilateral balances with their individual trading partners in the West, as well as by their shortage of foreign exchange. In Eastern Europe, competition from traditional suppliers in the West - from Britain, France and Germany - is a powerful factor. These countries have been trading with Eastern Europe for many years. They know the markets; they are in a position to give effective after-sales service for their sales of capital equipment, and they are not hesitant about extending fairly generous credit facilities in order to make sales.

In cultivating these markets, much will depend on the initiative and imagination of our businessmen and financial institutions in developing trade with these countries. Recently, there have been signs of a greater readiness, on the part of some of these countries, to pursue more independent trading policies and even to restore or create, at least to some degree, some features of the market economy. I believe we should stand ready to help them trade with the free world economies, if they wish to do so.

I turn now to the trade problem of the developing countries. The ending of colonial rule and the emergence of new nations in the less-developed parts of the world has raised acute problems for the continuance of the non-discriminatory multilateral trading system as embodied in the GATT. In the United Nations Conference on Trade and Development these countries have pressed for special tariff preferences in our markets. They believe these new preferences would help them sell their manufactured products in greater volume and at higher prices. They have also pressed for international agreements to increase and to stabilize their earnings from primary products.

On the basis of our Canadian experience, I am inclined to doubt that new preferential tariff systems would be of much assistance to developing countries. On the other hand, I doubt that, if all of us scrapped our protective tariffs on goods imported from the developing countries, there would be many very serious problems of adjustment for our own industries. The real difficulty facing most of the developing countries is that their industries, by and large, are simply not efficient enough.

I find singularly unattractive the schemes now being elaborated in certain quarters in Europe for a system of tariff preferences for the developing countries limited and confined by import quotas and licensing schemes. If we must give preferences to the developing world (and I remain convinced that they would be helped very little if we did), then I don't