

VERNMENT



STATEMENTS AND SPEECHES

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No. 51/24 FOREIGN TRADE IN A TIME OF PARTIAL PEACE

An address by the Secretary of State for External Affairs, Mr. L.B. Pearson, delivered at the Canadian International Trade Fair in Toronto, on June 5, 1951.

...During and after the last war, Canada, together with many of the nations of the world, laid plans for the expansion of international trade on broad and equitable principles. In the Havana Charter and in the General Agreement on Tariffs and Trade, we drew up a basis of international co-operation on commercial matters. Under the latter Agreement, which contains many of the principles of the Havana Charter, a concerted attack has been launched against barriers to trade. At Bretton Woods we agreed on devising a comprehensive plan for stabilizing world currencies to prevent the wide fluctuations in exchange rates which, after the first World War, and again in the 30's, proved so disruptive to international commerce.

These were the commercial policies of peace. They were intended to set the atmosphere in which mutually beneficial trade would develop multilaterally over the widest possible area. In Canada, these policies fitted well into a peaceful foreign policy formulated in accordance with the principles of the United Nations Charter. We continue to subscribe to these policies, and in general have opposed, in times of peace, any attempt to modify them to further narrower political objectives.

The commercial policies of war are of a different order. The objectives of such policies in wartime cease to be based on broad principles of mutual improvement of standards of living among trading nations and are formulated in the narrow but essential context of defeating the enemy. I need scarcely recall for many of you who are here tonight the disruption that war brings to peacetime trade, nor how production and commerce become instruments of war, and trade is directed into channels which will best contribute to victory. The object of such policies is to weaken the enemy and to strengthen our own economic basis for military operations.

We are now in a new situation, intermediate between peace and all-out warfare, and it has been necessary to review the relationship between commercial and diplomatic foreign policy in the light of that situation. Economic policies in a period of three-quarters peace, one-quarter war, are far more difficult than those of total peace or total war since partial peace, as I interpret it, implies the hope that total war will not break out. The diplomacy of partial peace, therefore is a struggle for position;

on our side, for a position which, we feel, gives the best hope of maintaining and extending peace. There are three fundamental tenets of free world policy in this situation. First, our strength should be adequate for defence and sufficiently great to discourage any aggressor from entering into open conflict with us, yet not so overwhelming or used in such a way as to encourage the mistaken conclusion that we are arming for aggression ourselves. Secondly, our productivity for peaceful ends must be maintained and increased to provide a firm basis for a healthy, dynamic and democratic society, and to give an example to communist-dominated countries of the benefits of our free way of life. Finally, this production must be used, in part, to aid the under-developed free countries to improve their material well-being and their ability to resist aggression.

The division of public expenditure between these broad requirements is one of the most difficult problems facing governments of the Western World. The division depends on the best assessment that can be made of the likelihood and, if likely, of the timing of any concerted armed attack on the western world. The greater the risk of imminent aggression, the more essential it is to bring our armaments rapidly and collectively to a level which will provide a strong deterrent and an adequate defence. In doing this we do not abandon the hope that total war will not break out. Nor should we act, politically and diplomatically, as if it will or must. Diplomatically, for instance, we should not get into a position of rigidity, taking firm positions in advance on questions in such a way as to remove our freedom to manoeuvre later.

One concrete indication of our hope for peace is the extent to which we are planning to provide technical and capital assistance to the under-developed countries through the United Nations and under the aegis of the Colombo Plan to help them out of their economic difficulties. These and other economic policies of partial peace will inevitably place great strain on productive capacity now and in the future, but I am confident that with the spirit of co-operation we have now achieved among free nations we shall be able to meet the present economic requirements of our political policies.

The commercial policy of the present situation is a compromise policy. It has two broad divisions: First, there is the policy to be adopted in trading with Russia and its satellite or associated countries. Secondly, there is the policy to be adopted in trading with countries of the free world.

As to the first, some people hold the view that the free world should cut off all trade with Russia and the satellite countries, notwithstanding the fact that some of the free countries on the periphery of the iron curtain have longstanding and important trade relations with their communist neighbours. I, personally, do not think such a course is desirable or necessary at present. The severance of all trade relations with these countries would, in many cases, be as harmful to the economy of the free world as it would to the countries behind the curtain. In some cases the effects on the free world might be even more harmful, both economically and politically.

There is, however, common agreement on one aspect of our trade relations with the Soviet communist countries. The Canadian Government together with many other countries

of the free world have for some time prohibited the export, to the Soviet bloc, of armaments, commodities of strategic importance and materials in short supply. This is a policy of elementary common sense. The export of these strategic commodities to Soviet communist countries has been reduced to a trickle and efforts are constantly being made to stop any illegal traffic that still exists. There should be no division of opinion on this policy.

It is quite another matter, however, to cut off all trade in products which cannot be used for war purposes. International trade has always been a major avenue for establishing relations with other countries. Although these relations may have, at times, given rise to disputes, the fact that trade can be carried on only when it is mutually beneficial for both buyer and seller has made it desirable to maintain the best possible commercial relations with important market areas or important sources of supply. In the past, the cutting off of all trade relations with a country has been regarded as an indication of open hostility, and of the virtual certainty of that hostility breaking out shortly into open war. Neither the Canadian Government nor, I believe, the Canadian people would consider it wise to cut themselves off irrevocably from the peoples of the countries under Soviet domination unless, of course, the policies of their governments leave us no other choice. That would be a final diplomatic step to take. Finality in diplomacy - which is something more than decisiveness and firmness - is unwise unless it is forced on you.

Canada has no aggressive feelings or intentions toward the peoples of communist states. We wish that the policies and purposes of their governments were such as to make it possible for us to conduct mutually advantageous trade relations with them. Such trade might conceivably help to remove some of the fear and distrust which has now been planted in them by their rulers. This aspect of our commercial policy in the present situation should not be based on despair. On the other hand, it should not be based on innocence. We must not allow our passion for peace to blind us to realities, and one such reality, I am afraid, is the fixed hostility of communist governments which can and does express itself in commercial as well as political matters.

The free world is building up its strength in order to make it patently clear to the Soviet communist world that we will brook no further aggression. We fully recognize that the future peace of the world depends to a very large extent on the realization in Russia and the satellite countries that they cannot resort to war for the furtherance of their expansionist aims without tragic consequences for them; that the free peoples will defend themselves with all the military and economic might they possess. This, however, does not mean, in my view, that we must stop every form of commercial intercourse with Soviet Communist countries; but merely that we will not allow such trade to contribute to aggression, or to the strengthening of the forces - economic and political - that make for aggression. We will trade when it is to our political and economic advantage to do so, having regard to our obligations to our friends and allies as well as to ourselves. That policy seems to me to make sense. The iron curtain, let us not forget, is theirs, not ours. There is, in fact, much to be said for the view, stated in New York on Friday last by Senator Brian McMahon,

that instead of lowering a curtain of our own, we should try to cut windows in the other fellow's.

We are confronted with a particularly delicate problem in the application of this policy to our trade with the People's Republic of China. Canada has had traditional relations of friendliness with the peoples of the great land mass of China and we greatly regret the rift that has developed in the past two years between China and Canada and the other countries of the free world. Since the Korean conflict began, this rift has become deeper and wider because of the aggressive intervention of the Peking government in that conflict and its attitude towards our nationals in China. At this moment our own troops, together with other forces of the United Nations, are fighting Chinese troops who are defying the United Nations and contesting the right of the Koreans to decide for themselves the form of their own government.

It is easy and natural to point to the United Nations casualty lists and, without further consideration, conclude that here at least the policies of partial peace are no longer applicable; that here, at least, we should adjust our thinking to a new and realistic situation and cut off all intercourse with the source of the military power we are now fighting. This quick verdict, however, does not take into account all the implications and long term effects which are involved. Let me dwell for a moment on some of them.

The first point to bear in mind is that we are not in an all-out war with the People's Republic of China; we are engaged in a limited United Nations action to defeat aggression in Korea. If open and total warfare were to break out between China and the Free World, the conflict would be far bloodier even than it is today in Korea. It would, in all likelihood, spread to every corner of the earth and no human being would be safe from its devastation. This is the disastrous outcome we are striving to prevent and it means, I submit, that we must ourselves take no avoidable - I emphasize the word avoidable - step in our relations with the Peking regime which would bring it about. This is not a policy of weakness but of wisdom; nor should it be applied in a weak or "appeasing" way. It is - as I see it - a policy based on a cool and careful calculation of the strength, the purposes and the policies of the people we are up against, and of our own.

The leaders of the People's Republic of China are taking grave risks with all-out war these days but that does not necessarily mean that they wish deliberately to extend the conflict in Korea. They have before them a stupendous task of restoring the economy of their vast country which has been shattered by warfare over many years. It may be that in the future they will come to realize that hostility to the Western World will hold back that restoration, while mutually advantageous trade may become, in time, a basis for a peaceful long-term relationship, the sort of relationship we still wish to have with the Chinese people; the sort of relationship, I am sure, that the Chinese people would wish to have with us if their communist leaders would permit it. We should be careful before we take steps which may finally remove the possibility of any such basis.

It is obvious of course that many of the products that would be useful for the development of China are also

of strategic importance. Consequently, it is out of the question that these should be sent there under the present circumstances. Long before the United Nations resolution was passed last month prohibiting the export of certain strategic materials to the mainland of China, Canada had been enforcing such a policy, adjusting the list of such goods as the situation in Korea required, and after consultation, particularly, with our friends in Washington. We have also done our best to ensure that not only should these goods not go from Canada, but that our country should not become a back door through which United States firms would trade with China in contravention of their own country's regulations.

All this, however, does not mean that we have cut off every form of trade with the Chinese people. Before doing that, we should ask ourselves the following questions. What would be gained at this time if we were forced to close completely the trade door into China; impose a naval blockade to make this policy effective, and cut off the few remaining links between the people of China and the free world? Would China's ability or will to fight against the United Nations in Korea be destroyed or weakened by this course; or would it merely rouse even further, national and anti-foreign feeling in China and thrust her more securely into the orbit of the Soviet Union? Would it thereby make it more difficult for us to impress on the Chinese the true aims of the free world and to counteract the malevolent purposes of Russian propaganda? The answer to these questions should determine our economic and commercial policy towards China in present circumstances. But the answer is not as easy to find as some seem to think.

My own view is that we should not allow our commercial policy toward China at this time to become more stringent than our overall foreign policy toward her, and that we should not seek to put a complete embargo on all trade with her, unless the policy of the Peking Government gives us no alternative in the matter.

In supporting this policy I do not ignore the natural feelings of our soldiers, sailors and airmen now fighting in Korea, who, in battle, would not enjoy the thought that their own countrymen were engaged in trade - even if it were only an exchange of pig bristles for mouth organs - with the countrymen of their enemy on the next Korean hillside. I should like to make it quite plain that the only defensible government objective in continuing such trade would be to maintain the hope of preventing a disastrous spread of the present conflict which would involve a very much larger number of our people. If that hope were removed, then, of course, every commercial contact would have to go too.

Let me turn now to the second aspect of commercial policy in the period of partial peace: our trade relations with countries of the free world. In a sense these present a more complicated and certainly a larger problem than our commercial relations with Cominform countries. The fundamental issue involved in our relations with the free world is the extent to which we should press for a reduction of trade barriers between free countries and a further integration of our economies during this period. Already the rising percentages of national incomes which are being devoted to defence production have created numerous trade problems. The most urgent is the scarcity of certain raw materials. The next most important is

probably the emergence of varying degrees of inflation. In some countries of the free world raw material shortage and inflation have caused new balance of payments problems and these in turn have given rise to new barriers to trade. The unfortunate result of trade barriers is the inevitable encouragement they give to inefficient production. They tend to decrease the total productivity of the free world which can be devoted to the combined needs of defence, assistance to under-developed countries and civilian consumption.

We can ill afford these artificial barriers to efficient production and international trade during the present situation when, as I have said, the emphasis must be on maximum productivity. We must continue the integration of the economies of the free world. This was the intention which we in Canada had in mind on a regional basis in pressing for Article 2 of the North Atlantic Treaty - the article on economic co-operation among North Atlantic allies. I suggest that the extension of this principle to all free countries be maintained and made more effective.

I mean by this last statement that during the period of partial peace the commercial policies of free countries trading amongst themselves should, as far as possible, provide for a continuation of the progress already achieved in realizing the liberal policies envisaged by the General Agreement on Tariffs and Trade. We should continue the tedious but rewarding task of reducing trade barriers and keep the ultimate goal of a large free world trading area constantly before us. To this end we should encourage, for instance, the production of defence goods where they can be made most cheaply - and, of course, most quickly. Wherever strategic factors allow, new industries should be developed in areas where their existence will be justified when the present period of tension ends so that they may be fitted easily into a peaceful world economy.

This, to me, is the meaning of economic co-operation between countries of the free world. It is the policy of maximum efficiency, maximum production, and finding the way to minimize the impact of defence requirements on civilian standards of living.

I have touched on only the fringes of this problem of international trade in the world of today. It is a dual problem. On the one hand, it involves trade relations with our friends and our desire to deepen and widen those relations. On the other hand, it involves trade relations with those who refuse to co-operate with us, and our determination, while not cutting off all trade with them, to ensure that such trade will not increase their capacity to do us harm.

The effective and successful pursuit of this dual policy will demand by our own and by friendly governments, qualities of wisdom and steadiness, as well as a long and enlightened view of our own best interests.

I hope that our foreign trade policy will be based on those qualities, and thereby will make its vital contribution to the economic strength of the free world, which is one of the foundations of peace.