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CANADIAN FOREIGN POLICY IN RELATION TO CANADA'S EXPORTS

Address by Mr. Howard Green, Secretary of State for External Affairs, to the Canadian Exporters' Association Seignior Club, Montebello, Quebec, October 14, 1959

.... The importance of our export trade to our national economy deserves to be underlined. We export more goods per capita than any other country in the world, and 20 per cent of our national income derives from the sale of Canadian goods abroad. Consequently, no nation has a greater interest in the maximum growth and freedom of international commerce than ours. Unless, in fact, we can continue to develop our sales in world markets, our relatively high standard of living must inevitably fall.

We must, therefore, secure as large a volume of international trade as is possible, and this can only be achieved by providing our customers with goods they want at prices they are willing to pay. You, as Canadian exporters, are serving Canada well in this respect, and I congratulate you for your very considerable achievements. You are doing a good job. It is a job, however, in which you must be able to adjust quickly to changing world situations. I shall speak later of current developments in Europe, and of the question of our attitude to the under-developed countries of the world. Both situations present us with challenges as well as opportunities.

In the Government of Canada the primary responsibility for the promotion of Canadian exports abroad of course lies with my colleague, the Minister of Trade and Commerce, and in speaking to you tonight on the subject of "Canadian foreign policy in relation to Canada's exports", I hope it will not be thought that I am a poacher on his territory. It has been said that international affairs are something, usually unpleasant, which happens to somebody else. It has also been alleged that international affairs are concerned with rather exotic and rarified matters, remote from the practical problems of the workaday world. Perhaps, in another time, this was so, but I can assure you that in our complex postwar world it is no longer the case.

In the months since I assumed my present office, I have frequently had to deal with down-to-earth problems relating to international trade and economic relations, for such matters are, in fact, part and parcel of our external relations. For this reason, I should like to make a few observations on the international economic scene, and to outline for you what our policy is towards some current problems. I might add here that not only is foreign policy closely bound up with trade policy; it is also closely connected with many aspects of our domestic policies. You cannot keep these things in water-tight compartments. Policies which we might think apply only within Canada turn out to have important consequences for our friends abroad, and for our own external trade interests, and Canadians have a similar interest in what happens in other countries.

I do not think it is too simplified a definition to say that the purpose of a country's foreign policy - any country's foreign policy - is to look after the best interests of its citizens. Some of these interests are economic, some of them are cultural, some are personal; all of them are inexorably bound up in the overriding objective of maintaining world peace. And I submit that, second only to this paramount objective, and indeed, a prime factor in its achievement, is the promotion of the economic well-being of the world. Human beings whose economic circumstances are improving will, in general, be less likely to have aggressive designs on their fellows, and it is also true that the more prosperous a country is, the more difficult it will be for a government to place that prosperity in jeopardy for the sake of some chauvinistic objective. We have, in short, a substantial interest in our neighbour's prosperity and welfare.

One reflection in our foreign policy of the importance which the Canadian Government attaches to the promotion of the economic well-being of the international community has been the active part we have played in the field of assistance to the less-developed regions of the world.

The problem of assisting the under-developed countries in their programmes of economic development is an exceedingly complex one; there is no across-the-board formula which can be applied. For this reason, Canadian assistance, if it is to be fully effective, must take many forms in order to meet the individual needs of recipient countries.

Some of our assistance has been provided under the auspices of the United Nations, which has in many ways proven itself to be extremely well suited to such purposes. It can act as a clearing house for the diverse skills of the international community, and also act as an agency for the pooling of funds. The economic work of the United Nations General Assembly is handled by the Assembly's second committee, which is becoming a very important forum for the discussion of all these questions. This committee deals with such matters as international commodity problems, economic development of the under-developed countries,

and technical assistance. It has some notable achievements to its credit, including the recent creation of the United Nations Special Fund. In the past year, Canada was the largest per capita contributor to the Special Fund and the Expanded Programme of Technical Assistance.

More recently there have been discussions concerning the proposed new International Development Association. This Association, in the form in which it is envisaged at present, would have an initial capitalization of \$1 billion, of which Canada's share would be about \$38 million. Although some aspects of it still have to be worked out, this Association could give a strong impetus to the economic development of less-developed countries.

One of the oldest established and, I would venture to say, one of the best assistance programmes in existence is the Colombo Plan. This programme was originally established to further co-operative economic development within the Commonwealth in South and Southeast Asia, and it has been an outstanding success, both as a development programme and as an example of Commonwealth co-operation.

Since 1951 Canada has contributed close to \$300 million under the Colombo Plan; we have, for example, joined with India in building an atomic reactor, located near Bombay. We have sent engineers and equipment to Pakistan for the construction of the Warsak Dam, aerial survey teams to Malaya, India and Pakistan, and fisheries experts and equipment to Ceylon.

As you know, I have just returned from New York, where I am attending the current session of the United Nations General Assembly. One of the things which has particularly impressed me has been the tremendous fund of good-will towards Canada which exists among the countries of Africa and Asia, and Canada's participation in the Colombo Plan has done a great deal to bring about this result.

As one means of continuing to develop our close relations with these countries, we expect to open a new diplomatic mission in Nigeria next year; in the recent past we have also opened offices in Ghana and Malaya. These countries look to us for friendly co-operation as they take their place in the international community, and it is our duty - and very much in our best interests - to provide such help as we can. I would urge you as Canadian exporters to take advantage of the good-will which exists towards us in these parts of the world. I am sure that there are opportunities now to get in at the beginning in establishing growing trade relations with these newly developing countries.

I should also like to point out that the improvement of living conditions and commercial life in the less-developed areas of the world cannot but increase the ability of these countries to maintain more flourishing economies and a larger foreign trade, both import and export. I am not thinking only of the direct increase in our exports as a consequence of these programmes. Economic aid, as a whole, from Canada and from other countries, helps to build up stronger economies with which, over the years, we can do a growing business.

For example, in 1958 the Canadian Government established a \$10-million fund to assist over a five-year period in the economic development of the new West Indies Federation. A large part of this fund will be spent on two ships, to be constructed in Canada, for inter-island services; the remainder will be devoted to technical assistance and other projects. By providing such assistance we are not only seeking to assist in the development of the new Federation; we are also investing in an important potential market for Canadian goods.

One does not need to be an economist to understand that the size of a market is determined not only by population but by purchasing power. When the economies of these countries have become more developed, we can look forward to a steady expansion of our international markets. In the meantime, the goods and services which we are providing are making known to officials, engineers, and businessmen of these countries the abilities and skills of modern industrial Canada in the best possible way.

Important as foreign assistance programmes are in the promotion of the economic life of the international community, they are not the only means to this end. The rate of international economic growth depends also on the flow of international trade and private capital, and this is a field in which, under our non-state trading system, governments can only assist and encourage and not play a direct part. Nevertheless, the policies which governments adopt are by no means unimportant.

For these reasons, and also because of Canada's position as one of the world's major trading nations, Canadian foreign policy has had as one of its prime objectives the establishment of a multilateral system of trade and payments. Under such a system, barriers to the flow of international trade and payments are reduced to moderate levels and made non-discriminatory in their application.

The great benefit of a multilateral system is that trade tends to flow in accordance with relative price considerations instead of being artificially channelled in one direction or another by the need to strike a bilateral balance. The most is made of the world's stock of productive resources and that stock is likely to increase more rapidly than under any alternative system. For these reasons, the achievement of a multilateral

system is essential to a maximum rate of world economic development. Moreover, in practical terms, the present Canadian pattern of trade requires a multilateral system.

I think one of the principal economic lessons the world has learned is that narrowly bilateral trading arrangements are frequently self-defeating policies, and also work against the expansion of world trade, which is so important to exporting countries such as Canada.

The establishment of the General Agreements on Tariffs and Trade and the International Monetary Fund - both institutions which Canada has firmly supported and in which she has played an active part - was of great significance in this respect, since they commit member countries to non-discrimination in trade and are designed to achieve currency convertibility and the elimination of trade and exchange restrictions. The prevalence of severe foreign exchange difficulties in many parts of the world following the Second World War frustrated the achievement of the multilateral system for a number of years. More recently, however, with the improvement in world economic and financial conditions, there has been considerable progress.

In this connection, I should like to say a few words about the Commonwealth Trade and Economic Conference which was held in Montreal just over a year ago. This, the first full-scale Commonwealth Conference of its type in over a quarter of a century, not only strengthened the trade and economic ties among the countries of the Commonwealth, but it gave a new impetus to multilateral trade policies on a world-wide basis. This was well illustrated by the theme adopted by the Conference: "An expanding Commonwealth in an expanding world". The many important discussions and negotiations that were held between individual Commonwealth partners were based on the realization that the Commonwealth, by enlightened co-operation, should reaffirm its place as a force for expansion of world trade, economic growth and the social betterment of peoples throughout the world.

The concrete results of the Montreal Conference were impressive in themselves. Perhaps equally important is the atmosphere which that Conference helped to create. While there may be differences of opinion about how many of the subsequent events were directly attributable to the Conference no one would deny that the constructive attitude displayed in Montreal has influenced the later policies of many countries inside and outside the Commonwealth. To assess the value of the Montreal Conference one has only to imagine how much different the present situation and prospects might have been if the Conference had not taken place or if it had gone off in a restrictionist direction.

One of the most important results of the Montreal Conference for Canadian exporters was that it gave an impetus to the relaxation of dollar import controls. The United Kingdom announced the elimination of restrictions on a number of items important to Canadian exporters, and at the same time invited colonial authorities to adopt similar measures. Since that time, restrictions on dollar imports have been relaxed by British Guiana, Nigeria, the West Indies and a number of other territories.

These are measures of considerable importance to Canada. As the only Commonwealth country in the dollar area, Canada has felt the impact of the sterling area's dollar shortage, and the consequent restrictions on dollar imports have in many cases cancelled out the benefits to Canada of Commonwealth tariff preferences. The recent removal of import licensing on dollar goods by the Australian Government was, therefore, most welcome, and I have also been greatly encouraged by the recent announcement at the meeting of Commonwealth finance and economic ministers that the United Kingdom has renewed its pledge to remove the remaining barriers against dollar area exports as soon as possible.

At the end of 1958 the United Kingdom and a number of major European trading countries announced that their currencies would henceforth be externally convertible. As a result, Canadian exporters are now able to sell anywhere in the world and accept payment in sterling or certain European currencies with the full assurance that they can convert such currencies freely into dollars. This is an important development and a welcome one; its implications for the future are perhaps of even greater significance. The move to external convertibility in effect removed any reason for the maintenance of import restrictions on dollar goods. Although there will no doubt be a time lag before the logic of this situation is everywhere translated into practice, I am happy to say that some European countries have already almost entirely eliminated their import restrictions on dollar goods, and I am confident that other countries will take an early opportunity to follow this example.

Canada's direct trade and investment relations with the United States are matters of immense importance to our whole economy. I cannot do more than touch on them briefly at this time. The recently published figures for the first six months of 1959 have aroused some concern at the continuing size of our deficit on merchandise account with the United States. For this period our trade deficit with the United States is \$415 million, compared with \$384 million in the first six months of 1958. The change is largely the reflection of the rapid development of our economy in 1959, and the consequent demand for United States imports. The deficit for the same period in 1957 was \$706 million, and in 1956 it was \$690 million, so that the figure I have given (\$415 million for the first six months of this year) must be compared with the earlier

years as well as with last year. Nevertheless, we cannot be complacent about this situation. We must redouble our efforts to bridge this gap in our trade with the United States - both by greater direct exports to the United States and by greater surpluses in our accounts with the rest of the world. In the light of this trade relationship on the North American continent, our great concern to see an end of discrimination and restriction in world markets as a whole takes on new urgency.

So far as direct United States account is concerned there has been an encouraging increase in our exports this year of the order of about 10 per cent. We continue to watch closely the situation regarding restriction on our lead and zinc exports to the United States, and we are glad that agreement has been reached ending restrictions on the movement of Canadian oil to that market. A broader and more helpful - and more realistic - United States attitude on defence contracts and on strategic considerations in certain purchases has also improved the direct Canada-United States trade picture.

I should now like to consider briefly some of the recent developments in Europe which I know are of considerable interest to you. The European Common Market, grouping six important trading countries, is now a reality; the first steps have been taken towards the creation of a tightly-knit economic community of some 160 million people, with tariffs eliminated within the area, and a common tariff and common economic policy towards the outside world.

The United Kingdom and the other European countries which are not members of this Common Market last year tried to negotiate a 17-country European Free Trade Area which would have included the Common Market of the Six. These negotiations broke down and the Common Market countries have moved ahead on their own. Faced with this division in Europe, the United Kingdom and the other European countries have been closely examining alternative ways of protecting their trading interests.

The course which it now appears will be adopted is the establishment of a Free Trade Association of the countries known as "The Outer Seven" - the United Kingdom, Norway, Sweden, Denmark, Austria, Switzerland and Portugal. Plans for this Association have gone ahead very quickly, and it is expected that the first reduction of tariffs and quota restrictions within this group will take place on July 1, 1960. The main feature of this Association will be the progressive removal of tariffs on all industrial goods within the area over a ten-year period, with each member country setting its own external tariffs. Quota restrictions within the area are to be progressively removed, and special arrangements short of internal free trade are to be worked out for agriculture and fisheries.

These European regional developments could have far-reaching implications for Canada. First, and most obviously, they will have direct effects on our export trade. Canadian exports to the countries of the Outer Seven totalled \$884 million last year, representing about 20 per cent of our total exports; sales to the Common Market countries represented a further 12 per cent. What the actual consequences of the recent trade arrangements in those countries will be for Canadian exports in the future will, to a large extent, depend on the detailed nature of the arrangements: the height of the tariff, the use of quota restrictions, the agricultural policies which are adopted, and so on.

The test for customs unions and similar regional arrangements is whether they are trade-creating or merely trade-diverting, and this again depends to a considerable extent on the degree to which restrictive policies are adopted towards the rest of the world. If the present European groupings avoid narrow and restrictive attitudes in their external policies, it is possible that the result will be an expansion instead of a curtailment in trade opportunities for outside countries.

Secondly, the way in which the European trade groupings develop will inevitably influence the commercial policies of countries in other parts of the world. If they result in increased trade discrimination against Canada and the rest of the world, the development of multilateral trade, not merely in Europe, but in the rest of the world, may suffer a serious reverse. The commercial policies of countries outside Europe, including the United States, might well be influenced in a restrictive direction, and such a chain of events, once started, could go a considerable distance before it was stopped.

In this connection, I might also mention Article II of the North Atlantic Treaty, which commits member countries to collaboration in their international economic policies. Restrictive and discriminatory groupings, if they should develop, would not be in keeping with the letter of spirit of this obligation, and I am confident that our European friends and allies will also have this consideration in mind as they work out their new programmes.

For these reasons, Canada, in concert with other countries, has been trying to influence these developments in a trade-expanding rather than a trade-restricting direction, and I am reasonably optimistic that we will be successful. With the improvement in world economic and financial conditions in recent years there has been considerable progress toward the multilateral objective. I hope that countries will continue to work towards the establishment of an integrated world economy and not a series of independent and mutually exclusive systems.

At this point I should like to emphasize that the Canadian Government is in sympathy with the broad objectives of the movements towards European unity. We have from the outset welcomed the development of institutions designed to bring about increased co-operation in Europe. Such institutions as the Organization for European Economic Co-operation, the European Productivity Agency, and the Economic Commission for Europe, have done a great deal of valuable work. They have certainly improved the standard of living and contributed to the welfare of the peoples of the European countries; they also strengthened political ties between these countries. In these respects they have made a substantial and valuable contribution; they are worthy achievements, and I applaud them.

It should also be evident from my foregoing remarks that there is no contradiction in our present policy of welcoming the political and economic integration of Europe while expressing concern about the possible growth of restrictiveness in European trading policies. Rather, we consider that the one need not entail the other. We believe that, properly developed, they can become examples of international co-operation for the good of the whole international community, rather than for the limited benefit of a few of its members.

It is clear that the past year or so have been marked by the passing of what might be called the postwar world, and a new phase is beginning. Western Europe has largely completed its reconstruction after the ravages of the Second World War and has now reached a position of unprecedented strength and prosperity. The world's main trading currencies have been made convertible and the outlook for increased trade and freer payments has been greatly improved.

The relative mildness of the three postwar recessions - none of which has really represented more than a pause before a period of even greater expansion - has given the international trading community confidence in the basic strength and stability of the world economy, as well as encouraging national governments in their moves to dismantle restrictive measures.

One problem which is of great and immediate concern to me, as the Minister responsible for External Affairs, is disarmament. Aside from the terrible threat to mankind of nuclear weapons, which must overshadow all foreign policy in this age, there is the heavy burden of defence - a burden in terms of taxes and in terms of the great demands for the skills and resources of our people and country. Sometimes one hears the concern expressed that our free enterprise economy requires the stimulation of an arms race to keep it from depression that we cannot, in fact, tolerate disarmament because of its economic consequences.

This idea may not be expressed so bluntly, but it may be in the background of some attitudes. I have no hesitation in saying that I regard such expressions of fear or concern as unsound and wrong. Our economy is entirely capable of making this adjustment, and of providing a greater flow of other goods to meet the needs of our own people and our customers abroad. Disarmament talks, in which Canada will take part, will soon be starting again, and I know that the Canadian people have no doubts about the vital importance of success in these efforts.

In facing these problems of the modern world, it is not enough to be able to lead from a position of military strength, which must be maintained while we seek agreement on disarmament; there must be economic strength and stability as well. We need a healthy economic environment on which to base our efforts for world peace. I am convinced that the greatest challenge, the most pressing problem which faces our civilization today is that over half the world's population bears the shackles of severe poverty, ignorance, disease and illiteracy, and there can be no assured peace or stability for the world until these shackles have been removed. It is not enough to speak of peace and political freedom to peoples who are economically retarded and who are determined to better themselves at whatever price may be required. If our system is really superior, we must be able to demonstrate it tangibly; the concrete economic benefits must be made self-evident.

It is for this reason, if for no other, that international trade and economic matters must be an integral part of foreign policy, for the present challenge is not one that we can afford to ignore. I am confident that the growing economic strength of the Western world will enable us to meet it successfully.

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