

total value of U.S. direct investment abroad at the end of 1967 was in Canada or in the less developed countries of Africa, Asia, and Latin America, including all the major oil-producing countries.

Beginning in 1965 it was judged necessary to discourage the outflows of investment funds which generate these important earnings, first through a voluntary and then through a mandatory control program. Much attention has been given to the "improvement" in the balance of payments under the 1968 mandatory program. To the extent these improvements were achieved by reduction in planned investment, they may be transitory, involving reduced investment income in future years.

The outlook for our external payments during the coming year depends to a considerable measure on the buoyancy of domestic demand for output and on credit market conditions here relative to those abroad.

If we are successful in slowing down the rate of inflation, this should result in some reduction in the growth of imports and ultimately contribute to the competitiveness of U.S. exports. In addition, the adverse balance-of-payments effects of the steel and copper strikes of 1968 will not be repeated in 1969, though there may be some unfavorable effects of the prolonged dock strike. Some improvement in the merchandise balance may thus emerge during the coming year, possibly resulting in a small increase of the 1969 trade surplus over 1968.

At the same time, it would be imprudent to assume that the capital accounts, whose performance was exceptionally favorable in 1968, will be equally helpful in 1969.

Beyond measures to strengthen our external payments position generally we shall also need to give attention to trade policy. Here our basic objective must be to continue the progress made during the postwar period toward a more liberal and open international trading system, one from which we and our trading partners receive the mutual benefits of international specialization and exchange. Not only does trade make a direct contribution toward a more productive use of our resources and consequently toward a higher level of living, but it is also one of the strongest stimulants to healthy competitive behavior in the domestic economy. The restraining influence which world competition places on our domestic prices is of particular importance in inflationary periods such as this.

In the postwar period great strides have been made toward reducing tariff impediments to international trade. Much remains to be done in reducing the nontariff barriers such as quotas, taxes, unjustified health and sanitary regulations, and discriminatory government procurement policies which have limited the access of our exports, particularly of agricultural products, to foreign markets.

It is particularly important for its part that the United States not take actions which would prejudice our negotiations for a general liberalization of nontariff barriers, a liberalization which would benefit us, and we must be especially conscious of the effects that our remaining trade barriers have in denying less developed countries access to our markets and those of other advanced countries.

Economic growth and improved living standards in the world's poor countries are essential to a stable world order and an expanding world economy. There is much that the United States can do to assist this