

My Ministers remain wholeheartedly committed to a peaceful settlement of the Vietnam conflict through negotiations. No such solution is possible at present, however, as North Vietnam has failed to respond in any meaningful way to repeated proposals for discussions. In these circumstances allied military activity must continue.

The civilian medical unit in Qui Nhon continues to render outstanding service. In addition, a sixteen-man Joint Services medical team will leave shortly for South Vietnam.

My Prime Minister has just returned from Washington where last week he took part in meetings of the SEATO and ANZUS Councils and of the Foreign Ministers of the allied countries which have sent military forces to South Vietnam.

Earlier this month my Minister of Agriculture attended the ECAFE Conference in Tokyo. Aid to Asian countries through the Colombo Plan has been maintained at a high level and New Zealand has participated fully in the initial work of the Asian Development Bank of which it is a foundation member. My Ministers welcome the possibilities for more rewarding relationships opened up by the abandonment of Indonesia's policy of aggression against Malaysia.

My Government continues to play an active role in encouraging the economic, social, and political development of the peoples of the South Pacific. In the case of Western Samoa this activity is reinforced by the Treaty of Friendship which links the two countries. Substantial assistance is still being given to the Cook Islands, to Niue and the Tokelau Islands. A detailed study has been put in hand of the possibilities for the development of the airfield at Rarotonga.

During 1966, as a member of the Security Council, New Zealand had special opportunities to emphasise the need for the United Nations to act with responsibility and deliberation in its efforts to settle international conflicts. This policy will be maintained.

My Government continues to attach importance to the Commonwealth as a valuable international organisation for political consultation and for economic and social co-operation. It therefore regrets current stresses and divisions within the Commonwealth, including the difficulties created by Rhodesia's failure to return to constitutional rule.

A Republic of Botswana Bill and a Lesotho Bill will be presented for your consideration. There will also be amendments to the Cook Islands Act and the Tokelau Islands Act.

In the field of the national economy, internal economic conditions remained buoyant during 1966 and a rapid rate of growth was achieved. New Zealand's farms and factories have continued to expand their capital equipment and their production.

My Ministers considered, however, that if the economy expanded at too fast a rate an insupportable burden would be placed upon the balance of payments. Measures were therefore taken over the last eighteen months to slow down the rate of expansion. Overseas loans were arranged to sustain the proper development of the economy.

In the latter part of last year there were clear indications that these measures were achieving their objective. Unfortunately during recent months the external trading position has deteriorated markedly. This has been due primarily to the unexpected and sharp decline in wool prices and to the passing to the Wool Commission of substantial quantities of the wool offered at sales this year.

The resulting threat to the nation's overseas reserves received the immediate attention of my Ministers. They have kept under constant review the action which might best be taken to safeguard the economic welfare of New Zealand.

In February my Prime Minister announced a series of measures to lessen the pressure on the external balance of payments. In the first instance these would reduce the internal demand which had resulted in a level of imports and of other payments overseas that was higher than could be sustained by export earnings.