Troubles Ahead

Canadian economic policies since Confederation have been based mostly on a relatively simple "industrial strategy" of encouraging the development of natural resources and raw materials through the importation of foreign capital and negotiation of entry into foreign markets for resources and raw materials. This has been supplemented by never doing anything to disturb the United States, our largest market while, at the same time, fostering relatively strong protection for a small Central Canada manufacturing base.

It can be argued that the strategy has served us well. After all, we live on the most inhospitable half of the North American continent but have one of the highest standards of living. — albeit at the cost of one of the largest per capita international debts. There are several reasons for believing that this strategy will not serve Canada well in the future.

One is that the world demand for raw materials, relative to industrial production, is declining. Fewer raw materials are required to obtain the same volume of output, e.g. newsprint is thinner, there is less steel in cars, fibre optics are replacing copper.

Another is that our producers are losing market share for product after product. For example, New Caledonia is now a major producer of nickel, Chile lands newsprint in California, Australia supplies coal to other Pacific Rim countries, and Zaire is a major copper producer. This is compounded by the fact as Canadian production costs rise, many Third World countries are as interested in earning hard currency from exports as they are in receiving a reasonable rate of return on investment for their producers.

Finally, Canada's largest customer is the United States and while manufacturing remains a major factor in the American economy, the driving force for growth in that market is "knowledge" and "services", not major users of natural resources.

Given these factors it is questionable whether Canada can maintain its high level of trade, and therefore its standard of living, through a continuation of the strategy of the past. The experience of Taiwan, Japan, South Korea and other extremely successful trading countries — none of which is particularly endowed with natural resources — demonstrates that comparative advantage is not a static concept. Rather, the success of those and other countries clearly underscores the fact that competitive advantage in international trade is created by dynamic public policy.

It is, in the final analysis, policies that enrich countries — not resources. The easy times are over: Canadians in the 90s will have to live by their wits.

James Gillies, York University, Toronto

Aerospace Success

Canada has accelerated into the front ranks of aircraft-producing countries in the past few years. The industry has concentrated on production of regional and commuter planes, and specialized aircraft of that size.

Since taking over Canadair Ltd., Bombardier Inc. has been very successful at first in marketing retrofit kits for the older Canadair CL-215 water-bomber, which also is used overseas for search-and-rescue and coastal patrol, and then in introducing the newer CL-215T with turbo-props instead of piston engines. And Canadair is developing a new Challenger-based 50-seat Regional Jet. It has not flown yet, but by this summer there already were 116 orders for it, worth nearly $2 billion. Also this summer, Bombardier bought from the British government Belfast-based Short Brothers PLC, which produces a wide range of aircraft and at the time of the purchase had orders worth $1.9 billion.

The de Havilland Division of Boeing of Canada Ltd. is pressed to keep up with orders for its Dash-8 commuter aircraft. As of this summer, about half of the more than 310 ordered by 38 airlines in 15 countries had been delivered and new orders are steady.

Canadian firms also are large producers of aircraft parts, engines, avionics, and — almost a Canadian specialty — flight simulators of all sizes. In this field, CAE Industries Ltd., with its large and very busy LINK Flight Simulator Division, recently secured a $385-million (U.S.) National Aeronautics and Space Administration contract to build training systems for the astronauts who will operate the U.S. space station.

The bottom line is that it's a fine record. By all indications, it will be substantially surpassed in coming years.

John Gellner, Toronto