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# Statement

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**"GLOBAL COMPETITIVENESS AND  
CANADA'S INTERNATIONAL TRADE STRATEGY"**

**NOTES FOR A SPEECH BY  
THE MINISTER OF ENERGY, MINES AND RESOURCES  
AND MP FOR PROVENCHER,  
THE HONOURABLE JAKE EPP,  
TO THE CANADIAN CLUB**

**WINNIPEG, Manitoba  
April 19, 1991**

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**Canada**

Ladies and Gentlemen,

It is a pleasure to be back in Winnipeg and I welcome this opportunity to discuss the issue of Canada's global competitiveness with you today.

Canada's ability to compete in the global economy is a critical issue for all of us because it will profoundly affect the future prosperity of the entire country.

The purpose of my remarks today is to highlight the important role that Canada's international trade strategy will play in preparing us to compete at home and abroad in the twenty-first century.

Global competition and international trade are important to Canadians because our prosperity depends on them. We export over one quarter of everything we produce and over 3 million Canadian jobs depend on our ability to compete and trade in international markets.

Manitoba is the second most export-oriented province in Canada with total exports valued at more than \$3 billion a year. Manitobans have recognized the importance of international competition and trade for well over a century. In the early days, Manitoba was a major player in the international grain trade. Today, Manitoba has a highly diversified economy and exports goods and services to more than 100 countries.

International trade has been particularly important to Manitoba's manufacturing sector. Sixty per cent of all manufacturing output is exported and the United States is the largest international market. Principal exports to the U.S. include aircraft assemblies and parts, computer technology and auto parts and accessories. Exports to the U.S. total \$1.5 billion.

These statistics illustrate that Manitoba's high standard of living depends on its ability to compete and trade in global markets. So I think we can all agree that Manitoba's future prosperity depends on more international trade, and not less.

Canada's future prosperity depends on our ability to compete abroad. If our goods and services cannot compete around the world, they will eventually be unable to compete here at home. However, Canada cannot compete if we cannot trade.

After all, what good are high-quality competitively priced Canadian products if we are locked out of world markets by export subsidies and import barriers?

And how can any country develop its manufacturing industries if it does not have access to the large markets required to generate cost-efficient production runs, research and development, and capital investment?

What is the incentive and spur to become competitive internationally and to reap the benefits of increased exports, lower priced consumer goods, higher value-added jobs here in Canada, better incomes and more interesting occupations?

The answer to all of these questions lies in obtaining better access to foreign markets by negotiating effective international trade treaties. This has been one of the primary goals of our government since we took power in 1984. This goal guided us during the negotiation of the Canada-U.S. Free Trade Agreement (FTA) and throughout our negotiations under the General Agreement on Tariffs and Trade (GATT). This goal will also guide us during the upcoming North America Free Trade Agreement (NAFTA) negotiations.

Given the importance of trade to Canada's prosperity, common sense dictates that we must pursue our international trade objectives on all fronts -- bilateral, trilateral, and multilateral.

The FTA, NAFTA and GATT are all designed to secure open markets for Canadian exporters, to make Canada an attractive location for investment, and to establish the basis for a globally competitive Canadian economy.

These three initiatives chart the course that we will continue to follow because we believe free markets are the best way to promote Canadian interests. The other main opposition parties were against the FTA and now they are against free trade with Mexico. The choice is therefore clear.

The opposition parties offer Canadians outdated protectionist policies that would have Canada retreat from the global economy and try to survive by confining ourselves to a domestic market of 26 million people.

The lessons of history are clear. Protectionism produced the Great Depression. That's why we reject the protectionist policies of the opposition. Protectionism has not worked in the past and it will not prepare Canadians for the twenty-first century.

Our government believes in trade liberalization because it has created unprecedented prosperity in Canada for over 40 years. Trade liberalization has a proven track record in Canada.

The choice is not between our three initiatives, because all three are necessary and complementary. The GATT recognizes this because it creates rules to promote an open free trade environment and it specifically provides for free trade agreements. The GATT has endorsed the FTA and the NAFTA because

these agreements promote increased international trade to the benefit of all GATT members.

Let's look at each of our three international trade initiatives and discuss how they can help Canadians adjust to and succeed in the increasingly competitive global trading environment of the twenty-first century.

Canada has always been a strong supporter of the GATT and we have been working hard to achieve a successful outcome to the Uruguay Round. At the present time, it is not clear that the GATT Round will in fact succeed. As I will discuss in my concluding remarks, the GATT's fate depends on the U.S. Congress and on whether the Americans and Europeans can resolve their differences on agriculture.

Does the GATT matter to Manitoba?

The answer is clearly yes.

The U.S.-European agriculture subsidy wars have harmed Manitoba grain farm and the industries in Winnipeg, Brandon and other towns that support them. The Organization for Economic Co-operation and Development (OECD) estimates that support and protection to the farming sector cost the world's 24 richest countries some \$250 billion in 1989 alone. Nowhere have these wasteful subsidy battles been more harmful than here in Western Canada.

The federal government has been providing billions of dollars to Western producers to help them survive this subsidy war, but this is only a temporary solution. We must, use the GATT negotiations to get an agreed set of multilateral rules to govern agricultural trade and to achieve a level playing field which will enable Canadian producers to compete on the basis of their natural advantages and not the increasingly shallow pockets of Canadian taxpayers.

While agriculture is the key to a successful conclusion of the GATT negotiations, there are other areas of importance to Manitoba's economy. For example, service industries are vital to your future prosperity. Manitoba companies have established an enviable reputation in the fields of telecommunications, transportation and engineering services. The present GATT does not cover trade in services, even though they represent the fastest growing sector of international trade. That's why we are participating in the Uruguay Round and trying to develop a framework and set of rules to cover trade in services.

In February the GATT negotiations resumed, breaking the impasse which had developed at the last ministerial meeting in Brussels in December. Canadian officials have been participating in

negotiations in Geneva and elsewhere and I am hopeful that in the coming months we will be able to resume the high-level political dialogue that is essential if we are to resolve our differences.

What about the FTA? Has it made a positive difference to Manitoba? Again the answer is yes.

Even if it is still far too early to provide a definitive assessment of the FTA, there is some solid preliminary evidence that has been produced by several major institutions and think tanks. The Royal Bank, a respected international accounting firm and the Canada West Foundation have all recently concluded that the FTA is working for Canada. Let's look at the facts on jobs and investment.

The Royal Bank of Canada recently produced a comprehensive analysis of the economic effects of the FTA. The study is convincing because it goes beyond the newspaper headlines and carefully analyzes the economic data regarding investment. It concludes that investment and jobs are moving to Canada. The following facts are revealing.

In 1988, just prior to the implementation of the FTA, there was a net direct investment outflow out of Canada of \$2.5 billion. In the first three quarters of 1990, these figures showed a substantial improvement for Canada because there was a net direct investment inflow of \$880 million into Canada from all countries.

The Royal Bank concluded that this net direct investment turnaround of over \$3 billion suggested, and I quote:

... that overseas investors see Canada as an increasingly attractive base for their North American operations. The FTA has, if anything, encouraged this perception by providing more secure access to U.S. markets and the ability to utilize more extensive economies of scale.

There is additional independent evidence to support the Royal Bank's findings. Earlier this month, *The Globe and Mail* published an article regarding a recent study that shows free trade has prompted more investment in Canada. The study was prepared by the international accounting firm KPMG Peat Marwick Thorne. One of the firm's senior officials agreed that this rise in domestic investment is a "rebuttal" to free trade critics who say the deal has produced only closed plants and a drift of investment dollars southward.

When we discuss the economic effects of the FTA, I think it is important that we talk about empirical facts that are based on solid economic research. The Canada West Foundation has produced numerous research studies on the FTA. Last February, it published a balanced evaluation entitled *On Track -- The Canada-*

*U.S. Free Trade Agreement After Two Years.* In its discussion of jobs, it stated:

Plant closings and job layoffs tend to be highlighted in the Canadian media, while news of plant expansion and new jobs is usually not headline news. The Canadian Labour Congress recently suggested that 225,000 jobs have disappeared because of the FTA. This is a clear misrepresentation.

As the Canada West Foundation also points out, there were 215,000 more jobs in Canada in September 1990 than in September 1988, prior to the FTA. I am not going to stand here and tell you that all of these 215,000 jobs were created by the FTA. The truth is that no one factor is solely responsible for job losses or job creation.

Everyone knows that the Canadian economy is currently in a recession. This is not our first recession, nor will it be the last. Canadians recognize that our free market economy is not static and that economic cycles are unfortunately part of life.

The Royal Bank found that the job losses associated with the current recession are much lower than what we experienced in the 1981-82 recession and their economists concluded that the FTA "may even have moderated the impact of the recession through higher levels of investment." We believe that the FTA has also positioned Canada for a strong recovery as we move into the next economic cycle.

The Canada West Foundation found that Manitoba had the second highest average U.S. export increase in the country. These facts and economic studies are confirmed by specific examples here in Manitoba.

Take Northern Telecom for example. The FTA has made Northern Telecom more competitive in the U.S. in two ways. First, the American customs duties on some of their exports dropped by about 30 per cent during 1989. Second, the elimination of Canadian customs duties on some of their imported components has allowed Northern Telecom to price finished products more competitively in the U.S. and elsewhere.

Another good example is GPT Canada Ltd., which manufactures electronic products here in Winnipeg. GPT has already benefited from the removal of American tariffs on some of its telephone answering systems and is now gearing up to use European technology to manufacture goods in Winnipeg for export to the large U.S. market. The company currently employs 150 people and has been hiring at a rate of five people per month.

Pollard Bank Note is another Winnipeg company that will benefit from the FTA. It expects to see a big market open up in the

United States for its lottery tickets. By targeting American states that are close to Winnipeg, Pollard Bank Note will be able to compete for another \$40 million of business every year. This is a good example of what happens when you open up new markets for competitive Canadian companies.

There are many other examples that all add up to create benefits for Manitobans. I think your Department of Industry, Trade and Tourism summed it all up when it said:

The Agreement has made it much easier, and will make it more so in future, to do business in the U.S. from Manitoba and all Canada.

However, the FTA is not simply about the U.S. market. We also see the FTA as providing a stepping stone to increased trade in other markets. With better access to the American market, we can increase our competitive skills which will enable us to move more effectively into markets around the world.

This is one of the reasons why Canada recently launched a trilateral initiative with the United States and Mexico to create a North American Free Trade Agreement.

Many of you may be wondering why Canada needs a North American Free Trade Agreement, and what good it will do us. There are really two basic reasons. First, we want to be part of the NAFTA so we can be on an equal footing with the U.S. for attracting investment and so we can protect our interests when the trading rules are defined for the continent we share with the U.S. and Mexico. We also want to participate in these talks because we see emerging opportunities in the Mexico market.

Imagine what would happen if Canada were not at the trilateral negotiating table.

First of all, a U.S.-Mexico Free Trade Agreement that excluded Canada would counteract some of the FTA's investment advantages. Why? Because investors in the U.S. could now have access to all three North American markets, whereas investors in Canada would only have access to two. If Canada were not involved in this enlarged free trade area, important job-creating investment could well decide to go elsewhere.

It is not in Canada's interests to have the U.S. create a series of "hub and spoke" trading relationships in which the Americans are the hub and Canada and several other countries are mere spokes. That's why Canada must be front and centre in these key negotiations that will affect our access to the emerging North American market.

There are several reasons why we see opportunities in building a North American market.

First, the Mexican free trade initiative will allow us to build on our traditional North American market and to improve Canadian access to a market of over 80 million people. It makes good business sense to increase trade and investment on the continent we share with the United States and Mexico. With its central location, Manitoba is strategically positioned to take advantage of these opportunities.

Second, in the past four years, U.S. trade with Mexico has tripled to over \$60 billion. We must ensure that Canadian exporters get their fair share of the growing North American market.

Third, in the larger North American market, Canadian industries can invest with confidence, develop their technology and economies of scale, and increase their competitiveness.

Fourth, Canada can use the North American market as a springboard to increase our exports to Latin America and around the world. We see North America as the base from which we must develop our international competitiveness. If we cannot compete in our own backyard, how can we expect to compete abroad?

Fifth, by offering investors access to North America, Canada will become an increasingly attractive location for investment and jobs.

Sixth, recent developments in the GATT, Asia, Europe 1992 and eastern Europe have convinced us that a strong integrated North American market is in our national interests. We believe in a strong multilateral trading order, but we cannot ignore the development of regional trading blocs.

By participating in the Mexican free trade initiative, we can build a North American free trade market with a gross domestic product of over 7 trillion dollars. This is larger than the European Community's 12-nation market.

The population of North America is over 360 million. This is almost three times the size of Japan's domestic market of 125 million, and is considerably larger than the European Community's market of about 325 million.

But simple arithmetic does not tell the whole story. By joining together in a free trade agreement, Canada, the U.S. and Mexico will create an integrated North American market that is greater than the sum of its parts. Our three countries do not share identical competitive advantages in areas such as technology, labour, resources and capital. These differences in our



competitive advantages create synergies that will increase our ability to compete with Europe and Asia.

And last but not least, we are participating in the Mexican free trade initiative because we see exciting emerging opportunities south of the Rio Grande. Mexico is already Canada's largest market in Latin America. Until recently, Canada's opportunities in Mexico were limited by various trade barriers. But recently things have changed.

The Mexican government has now seized upon open markets and increased trade as the best way to strengthen Mexico's economy. In addition to joining the GATT world trading order in 1986, the Mexican government has recently taken numerous measures to increase two-way trade.

Let's look at the evidence.

In the past five years, the average Mexican customs tariff has decreased from over 25 per cent to around 10 per cent. Import licences and border restrictions have also been radically reduced, and Mexico has started to deal seriously with its debt.

Canadian exporters have been quick to seize the growing opportunities in Mexico. In 1989, our exports to Mexico increased by over 20 per cent. But we do not think that is good enough. We believe the present amount of trade and investment between Canada and Mexico is far too small.

Despite the impressive growth figures, Canada's shipments to Mexico in 1989 were only worth about \$600 million. That's less than half of 1 per cent of total Canadian exports.

There is no doubt that free trade with Mexico will accelerate the development of our trading relationship. Increased two-way trade will help the Mexican economy grow. Free trade will also enable Canadian companies to sell more products into the expanding Mexican market.

A free trade agreement will secure our access to the Mexican market and increase investor confidence. Increased investor confidence will promote investment and job creation as Canadian companies gear up to seize the opportunities of the emerging Mexican market.

The purpose of the Mexican trade initiative is to build a North American free trade market that includes Mexico. Many people have asked us what this means for the Canada-U.S. FTA.

We believe that the FTA can serve as a model in negotiating a North American free trade agreement. But I want to stress that the FTA has already been signed, sealed and delivered in Canada

and the United States. Canada is not obligated to renegotiate any provisions of the FTA. However, if it makes sense to alter any specific provisions of the FTA to achieve an expanded North American market, we may consider such improvements.

Can Canadians compete with Mexico's lower wages?

The answer, of course, is yes.

The fact is that we are already competing with Mexican imports, 80 per cent of which now enter Canada duty free. Even with higher wages, Canada has not been flooded with Mexican imports. That's because Canadian workers are highly productive and they produce quality goods and services others want to buy.

Wages alone do not determine competitiveness. If low wages were the only factor in the equation, then high-wage countries such as Japan, Germany and Canada would not rank among the world's top exporting nations -- would they?

And let's not forget that Mexico wants free trade precisely because Mexicans want to strengthen their economy and increase their wages and standard of living. Many people seem to forget that Japan was a low-wage country not so long ago.

Some critics say that Canada should not increase trade with Mexico because we do not share the same working conditions and safety and environmental standards. These critics are missing the entire point. It is only through freer trade and a stronger economy that Mexico can ever hope to improve its environmental and world standards. Earlier this week, *The Globe and Mail* reported that a Mexican environmental activist had observed that a free trade agreement would help Mexico to strengthen its regulations and that free trade was "the one opportunity for Mexico to get the standards of a developed country."

To improve the environment, Mexico must build public transportation systems, sewage treatment plants and irrigation projects. With our proven expertise in these areas, Canada can play an important role in these important projects.

Canadians can compete and we have a strong track record when it comes to adjustment. Let's put this adjustment issue into perspective. Adjustment really boils down to how we deal with the impact of greater global competition on our domestic industries and employment.

Again, Canadians have a clear choice between the policies of our government, and the policies of the main opposition parties.

The protectionists believe that the best way to adjust is to close our borders and try to ignore the rest of the world.

Unfortunately, these protectionist policies only provide short-term relief and do nothing to prepare for Canada's long-term future. The protectionists also ignore the fact that Canadians cannot consume everything we produce. To prosper, we must trade. Wheat is a good example of the linkage between our prosperity and our ability to trade.

Our government believes international trade treaties help ease the adjustment for Canadian workers because they cushion the effects of increased competition with safeguards and transitional measures. For example, the five- and ten-year tariff reduction periods in the FTA will gradually allow Canadian industries to adjust from the competition of a market of 26 million people to a market of over 260 million people.

When we negotiated the FTA, we recognized that Canadian businesses might wish to accelerate tariff reductions and adjust sooner rather than later. That's why the FTA provides for accelerated elimination of tariffs subject to bilateral consultation.

In the first round of tariff reduction accelerations, hundreds of Canadian businesses came forward and told us they were ready to compete and were not prepared to wait. As a result, tariff reductions were accelerated on more than \$6 billion in bilateral trade last April.

Last month, we announced the results of the second round of FTA tariff reduction accelerations which will come into effect on July 1. This year about \$2 billion in bilateral trade is involved and I am particularly pleased we were able to eliminate American duties on Canadian fresh or chilled beef, canola seed and flax seed. These tariff eliminations will make Manitoba products more cost competitive and create benefits for the West.

This \$8 billion worth of accelerated tariff reductions over the last two years demonstrates that Canadians are effectively adjusting to free trade with the U.S. Also, the fact that we have increased our spending on job training programs by almost 50 per cent illustrates that our government is prepared to assist with adjustment if necessary.

The above facts demonstrate that we are off to a good start with the FTA and that Canadians are seizing the opportunities of increased trade with our largest trading partner.

I would like to conclude my remarks with a brief discussion of the American fast-track negotiating process because it may affect both our Mexican and GATT international trade initiatives.

The starting point of the fast-track process is the U.S. Constitution, which grants Congress the power to negotiate and

implement international trade treaties. In practice, Congress delegates this power to the President and his officials.

Congress recognizes that any agreement reached internationally should be the same agreement that is voted on in the United States. Fast-track negotiating authority therefore requires Congress to vote on the treaty's implementing legislation within a fixed deadline. Second, Congress cannot reopen the treaty because an "all or nothing" vote is required on the package as a whole. Congress cannot pick and choose.

President Bush recently requested a two-year extension of fast-track negotiating authority. If neither the House of Representatives nor the Senate disapproves before June 1, 1991, the fast-track procedure will apply for another two years.

There is no guarantee that Congress will automatically grant the President a two-year extension of fast-track negotiating authority. If President Bush fails to attain his negotiating authority, both the Mexican and GATT trade liberalization exercises could be placed in serious jeopardy.

During the next six weeks of the fast-track extension process, the Bush Administration will be under considerable pressure to bow to congressional demands for increased protectionism. Stay tuned for the interesting headlines that will be coming out of Washington in the coming weeks. In the meantime, we will continue to make sure that Canadians receive the full benefits of the FTA.

As Canada approaches the twenty-first century, we must prepare ourselves for increased competition here at home and abroad. If we fail to meet the challenges of the global economy, our prosperity will suffer the consequences. We cannot afford to ignore reality.

To ensure we are prepared for the future, we have adopted a three-pronged international trade strategy and we will continue to do whatever is necessary to help those who want to compete.

We will help exporters by negotiating international treaties to increase access to foreign markets and assisting them with innovative trade development programs.

We will help our workers by integrating effective adjustment measures in our treaties and developing effective job training and adjustment programs.

And we will help our farmers by standing firm in the GATT negotiations and fighting for our rights in trade disputes.

The FTA, NAFTA and the GATT are the essential elements in our international trade strategy. We believe when you consider all the facts and weigh the alternatives, this is the right strategy for Manitobans and for all Canadians.

Thank you.