

Minister of Industry,
Science and Technology and
Minister for International Trade



Ministre de l'Industrie, des
Sciences et de la Technologie et
ministre du Commerce extérieur

Statement

Déclaration

91/37

AS DELIVERED

**NOTES FOR AN ADDRESS BY
THE HONOURABLE MICHAEL H. WILSON,
MINISTER OF INDUSTRY, SCIENCE AND TECHNOLOGY
AND MINISTER FOR INTERNATIONAL TRADE,
BEFORE THE MACDONALD-CARTIER CLUB**

**CALGARY, Alberta
August 29, 1991**

I'm honoured by your invitation and delighted, as always, to be in Calgary. I've just come from two days of meetings of the Cabinet Priorities and Planning Committee in Kelowna, where we looked at our agenda for a united Canada and a prosperous Canada. In our time, no less than in Macdonald and Cartier's time, the two issues really come down to the same thing: building a stronger country.

The unity or constitutional issue has to do with how we get along together. The prosperity or competitiveness issue is about how well we do together. Each is meaningless -- even impossible -- without the other. Clearly we can't go forward on one, or the other, without a consensus on the constitutional and competitive challenges facing us.

I want to talk to you today primarily about competitiveness and our agenda for prosperity. I want to make very clear that we're in this for the long game, and we're playing to win. There are no long touchdown passes in this game. The only way to win is to move the yardsticks down the field. And the only way to do that is to have a winning game plan. That's how we see Canada and Canadians, as a nation of winners who welcome the opportunities of the emerging global economy.

Albertans have never been afraid of the competition, particularly in the energy business, and you've always looked for new markets for your products and services. I was recently in Kuwait, with a Canadian trade delegation that included Lee Richardson, your MP from Calgary South. Out of the tragedy of the Iraqi invasion, real opportunities are emerging for Canadian expertise in the economic and environmental reconstruction of that country. We met Mike Miller of Safety Boss of Calgary, who by then had capped fires in dozens of wells. Another Calgary firm of oil fire specialists, Red Flame, has just received a \$25-million contract from Kuwait. Canadian firms are right in there competing with the best in the global services market.

Albertans are no strangers to trade, either. Without the support of Alberta, there would have been no ratification of the Canada-U.S. Free Trade Agreement (FTA) in the 1988 election. For years, Albertans have asked for the unfettered market opportunities offered under the Free Trade Agreement: in energy; in agriculture; and in the high-technology products and professional services of the diversified Alberta economy. The importance of energy, and the importance of trade in energy, cannot be overstated. Fully 20 per cent of the Alberta economy is in oil and gas. Over 50 per cent of Alberta's exports are in oil and gas. And nearly three-quarters of all Alberta's exports to the United States are in energy. But energy doesn't stand to be the only winner under free trade. Chemicals, food processing, manufacturing and services all stand to do well.

I like the confidence expressed by the Alberta business community. Bud McCaig, President of Trimac Trucking of Calgary,

has said his "feeling is that cross-border chemical bulk trade volumes are up and free trade has been positive." Vic Rempel of Sun Ice Clothing has said, "we are repatriating our U.S. production to Canada and as a result, our Calgary factory will be busy." Mogens Smed of Smed Office Equipment Manufacturing has said, "Free trade is forcing us to become more efficient. Ultimately free trade will be a really good thing. Firms that are claiming free trade has been their downfall are simply using it as an excuse for their own inefficient and sloppy business practices."

The fact is that the Free Trade Agreement will help Canadian business sharpen its competitive skills. As for the prophets of doom and gloom who point to the effects of the recent recession and blame them on free trade, they have no facts to support their arguments. If Canada is losing under free trade, if we're being swamped by the Americans, as critics of free trade charge, then someone will have to explain to me why we had an \$18-billion trade surplus with the Americans last year, an increase of nearly \$5 billion from 1989. Since 1988, the value of all Canadian merchandise exports to the United States has increased by almost \$8 billion, or nearly 8 per cent.

The FTA has also increased investment in Canada. In 1988, the last year before FTA implementation, Canada had a net direct investment deficit of \$2.4 billion. Last year, Canada had a record net surplus of \$5.1 billion -- the first time in more than 15 years there was a positive inflow of net direct investment. And the Royal Bank, the country's largest financial institution, concludes this turnaround suggests "that overseas investors see Canada as an increasingly attractive base for their North American operations since the implementation of the Free Trade Agreement."

Yet the same doomsayers are making dire predictions for Canada if we and the United States conclude a North American Free Trade Agreement with Mexico. They ignore the fact that fully 80 per cent of Canada's imports from Mexico are already duty-free. These same doomsayers claim we will be overwhelmed with cheap Mexican goods which will cost us jobs. I'm not very impressed by this argument. If cheap labour is a determining factor in building factories, why is it that 87 per cent of goods imported to Canada come from the U.S., Europe or Japan, rather than from low-wage countries?

In today's marketplace, labour costs are only one component of comparative advantage. There are many others, including quality, delivery, the availability and cost of materials, and the mobility and motivation of the work force. Again, the Alberta economy is more than prepared for any challenge that might come from Mexico. What's opening up is a market of 85 million people, in addition to 240 million in the United States. The "new

competitive space," as the Conference Board has called it, is 360-million people strong. The North American market alone is bigger than the New Europe of 12 nations. And Mexico also presents a great opportunity for Albertans on the services side of the petroleum industry.

I believe that Canadians are supportive of our economic policies, provided they see positive results. And on all the evidence, we are delivering results: on deficit reduction; on investment; on privatization; on fiscal reforms; on trade. No single policy can be viewed in isolation. Each is part of a coherent and comprehensive economic plan. Nor is any single policy going to assure our long-term prosperity. It is a question of getting all the fundamentals right, something we've been working at since we took office seven years ago. We have undertaken a fundamental restructuring and updating of the Canadian economy, to transform the sluggish economy we inherited in the 1980s to a dynamic market economy for the 1990s.

Somebody has said that Canada lived for the first 100 years off its resources, and for the next 20 years off its credit, and that from now on we'll have to live on our brains, our initiative, our entrepreneurship -- and our markets. The simple fact is that we're a trading nation. This country was carved out of the wilderness by traders, and our economy, from the days of the timber and fur trade, has been built on foreign markets. We export over 25 per cent of our output. That's about twice as much, on a percentage basis, as Japan, and about two-and-a-half times as much as the United States, and they are the world's two leading industrial powers. In the G-7, the most developed nations of the world, only Germany is more reliant on trade for its standard of living than Canada.

Alberta is a mirror of the Canadian economy in that about 25 per cent of the provincial gross domestic product (GDP) is exported, and about 75 per cent of those exports go to the U.S. Our standard of living depends on our markets. Our markets depend on our competitiveness. Our competitiveness depends largely on our productivity, increasing our use of export opportunities, increasing the quality of our goods, and doing so at a competitive price. And let's be clear: being competitive doesn't only mean working hard -- Canadians already do that -- it also means working smarter. It works the other way, too. When we lose our competitive edge, we lose markets, which results in a lower standard of living.

Our prosperity depends in large measure on the reputation of the Canadian trademark: "Made in Canada." The competition is tough, and getting tougher all the time. Canada does well on a world-competitive scale, but if we are to thrive, as well as survive, we have to do better.

For example, Canada has ranked fifth for the last two years running in the World Economic Forum's survey of competitiveness of the 23 Organization for Economic Co-operation and Development (OECD) nations. That's up from 11th place five years ago, before our program was fully in place. But it's slipped from fourth place two years ago. We are rated near the top for our natural endowments, our human resources, our transportation and health services infrastructures, our market orientation and the dynamism of our economy. The Alberta oil and gas industries, the quality of the Alberta work force, and the strong, market-driven regional economy, are all good examples of Canadian competitive advantage.

But there are also strong warning signals on the horizon. Canada spends more per capita on higher education than any country in the world except Sweden, and we have the second highest post-secondary enrolment after the United States. Yet in terms of the responsiveness of our school system to meet the demands of a competitive economy, we ranked 11th, in the middle of the pack. At the same time, we face a critical shortage of scientists and engineers.

Equally troubling is the fact that we ranked 20th -- at the back of the pack -- in terms of effectiveness of company training programs. In terms of international orientation -- our adaptiveness to technology and innovation -- we rank 16th. In terms of science and technology, we rank 17th.

We are not sufficiently outward-looking, forward-looking, risk- and investment-oriented. There are some 400 000 manufacturing firms in Canada, but fully two-thirds of them don't export at all, not even to the United States, our closest market and best customer, with which we conduct a \$200-billion a year two-way trade relationship, secured by the Free Trade Agreement. And we have relied too much, for too long, on our resources to guarantee our standard of living. The growth areas of the economy in the 1990s are in the knowledge-based industries. But in the resource and manufacturing sectors, still vital to our prosperity, we need productivity improvements, better quality products, and a more highly skilled work force.

We need to develop a pervasive learning culture in Canada. Education is a provincial jurisdiction, and we will respect that fully in developing Canadian learning goals. But education is a key to our standing in the world economy and is very much a matter of concern to all Canadians. It concerns their performance. It concerns their pride. It concerns their prosperity. Education and investment, largely through research and development (R&D), hold the key to productivity improvements and ultimately, our competitiveness.

Our R&D picture is a decidedly mixed one. On the bright side, Canada's R&D spending runs ahead of OECD averages in such

high-tech sectors as electronics, aerospace and computers. And private sector R&D in Canada has grown by 6.5 per cent a year, in spite of the recession. But we still have a long way to go. Canada ranks with Italy as the G-7 country that spends the lowest percentage of output on R&D. Germany, Japan and the U.S. all spend at least twice as much as we do on R&D.

In business terms, R&D is nothing less than an investment in the future, and in those terms, as Canadian Pacific Chairman Bill Stinson said just last week here at Calgary Chamber of Commerce, investment is nothing more than "putting today's profits into tomorrow's products."

Canadians have nothing to fear, and everything to gain, from enhancing our competitiveness. Competitiveness isn't a dirty word. It isn't about losing jobs, it's about securing jobs. As Bank of Nova Scotia Chairman Ced Ritchie has said, "competitiveness is really about the chance for every Canadian to have a decent paying job." In this emerging world economy, our only guarantee is our performance.

Well, what are we doing about it, as a government, and as a country? The awareness of the importance of this issue is building. Canadians increasingly realize the importance of competitiveness, and they realize that we are all in this together. In a discussion paper we'll be releasing on competitiveness, we've identified five building blocks to Canada's prosperity.

First, a learning culture. We're not going to compete with a 30 per cent high-school dropout rate, compared with 2 per cent in Japan; not when Japan is producing nearly nine times as many engineers per capita as we are. Not when Mexico is graduating four times as many engineers as we are.

Second, science and technology. The government has made significant investments in R&D. We have established 14 university centres of excellence with nearly \$250 million of funding. We have created an R&D-friendly tax regime recognized worldwide as one of the most attractive to companies. However, Canadian business is lagging behind its competitors. We rely on the private sector to create jobs, it should also take the lead in making critical R&D investments. However, in the late 1980s Canadian industries' investments declined as a percentage of GDP. As a result, Canada has the lowest level of R&D investment of any of the G-7 nations. We need greater business investment in R&D. We need more pure research, more applied research, and we desperately need more scientists and engineers.

Third, financing investment, putting money back into the product. Working capital drives growth. We need to invest in physical capital. And in infrastructure. Both are essential to make

productivity gains. We need to encourage business to go for these productivity investments.

Fourth, a competitive domestic market. We all know about inefficiencies and barriers to trade within the Canadian common market. The Canadian Manufacturers' Association has identified 500 such barriers which cost Canadians over \$6 billion a year, or \$1 000 for a family of four.

And fifth, trade, the end result of the other four. No G-7 nation, excepting only Germany, is more reliant on trade than we are, and like them we need to expand our pursuit of every available trade opportunity.

As we seek to build a competitive consensus in the weeks and months to come, we hope to develop with all stakeholders a strategy for Canada, one to take us through this decade and into the next century. And who are those stakeholders? Quite simply, all of us, all Canadians in all regions of Canada.

We began in this country with many competitive advantages. We have been blessed with strategic geography and unparalleled natural resources, some of them in the oil and gas fields that have contributed so much to the growth of this city. Our natural markets, the United States, the Pacific Rim and Europe, are the biggest and richest in the world.

The United Nations survey on human development ranks Canada as the second best country in the world in which to live. But I suspect that most of us, deep in our hearts, think of Canada as second to none. That's exactly what we mean by the competitive challenge of the 1990s.

Thank you very much.