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

CANADA

# Statement Déclaration

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**NOTES FOR AN ADDRESS BY**

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**AND MINISTER FOR INTERNATIONAL TRADE**

**TO THE WALTER E. HELLER LECTURE**

**IN INTERNATIONAL BUSINESS**

**ROOSEVELT UNIVERSITY**

**"CANADA IN A YEAR OF TRANSITION"**

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The French poet Paul Valéry wrote that the trouble with our times is that the future is not what it used to be – which seems to contradict the Book of Ecclesiastes – which says that there's nothing new under the sun.

Looking at the world in 1993, you could make a strong case either way. The challenges of the current world situation contain elements of the old and the new – of continuity and change.

The category of the old includes the survival in our time of ethnic tensions that have been smouldering for hundreds of years – and the continuity of poverty and famine in many parts of the world.

And change is strongly represented too. We confront it today in the form of new technologies, new competitive challenges and the need to adjust to a restructuring of economies on a global scale.

Along with other countries, we in Canada have had to confront these challenges, specific to our own situation. And we have done so with an approach to public policy that is, itself, a blend of continuity and change.

We have based our broad macroeconomic policies on a few basic principles that are hardly revolutionary. They were, in fact, the conventional wisdom of 1867, when the Canadian Confederation came into being. With minor variations, it is the approach taken by every successful industrialized nation.

Countries that have employed the right mix of the traditional and the innovative have prospered.

Countries that got it backward – that were too prone to abandon the basics and too firmly locked into traditional ways of applying them – have fallen behind. And it is because of this universal relevance that I want to talk today about change and continuity in the Canadian context. I will point to some examples of these elements in our current national agenda and in the way we are tackling it. Let me first sketch in the background.

The government of which I'm a member came into office in the Canadian general election of 1984. And as anyone who knows Canada can testify, there has been a dramatic change in the economic environment since then. In fact, some observers – including a few at home – have characterized the policies that produced that change as radical. Yet, if you take that word back to its literal meaning – growing out of the roots – it was exactly the opposite.

At the macroeconomic level, it would be more accurate to characterize the approach of the government since 1984 as back-to-basics – a return to principles that have served our country well since the founding of the Canadian Confederation.

Those principles, briefly summarized, are a commitment to stable prices, balanced public finances and liberalized trade. They also include a conviction that prosperity is not a gift that is within the power of governments to give. Prosperity is what happens when a business sector operates in a climate that rewards effort, enterprise and innovation – one built on co-operation.

These were the principles by which Canada's economic policy has been guided throughout most of its history. And, because they grew out of the realities of our situation, they have been accepted and acted on by successive federal governments – Conservative as well as Liberal.

These steering points have never been explicitly abandoned. But when the Mulroney government came to office, federal policy had strayed a good deal from the basics and had created a costly legacy with which we are living today.

Consequently, the national agenda required a course correction to get the ship of state back on course to prosperity by way of international competitiveness. This required corrective action at many levels, most of them related to the role of the public sector. For example, over the years, a degree at a time, the climate for foreign investment had been allowed to cool to a less-than-comfortable level.

We took various steps to turn up the thermostat. I won't go into all the details, but one good way to sum up the altered atmosphere was the replacement of a government office called the Federal Investment Review Agency by an agency called Investment Canada. The change in name fit the new mission, which changed from warning off investors to welcoming them.

We also retired a national energy policy that was not only a deterrent to investment, but was also a serious irritant in relations with our oil-producing provinces.

We deregulated the financial services and transportation sectors.

We got rid of a hidden 13.5 percent tax on manufacturers' inputs that was a competitive handicap. We replaced it with a visible 7 percent national value-added sales tax on goods and services.

We also began to get government out of business. Over the years – often for reasons that made good nation-building sense at the time – the Government of Canada had collected a costly cupboard full of what we call Crown Corporations.

There were 61 of these in 1984, with assets of more than $50 billion and 207,000 employees. We went through the cupboard selectively to distinguish between those that still served a national interest and others that did not.
On this basis, we privatized 23 Crown Corporations, including a very large airline, two aircraft manufacturing companies, and a communications and data-processing company.

We also negotiated the Canada-U.S. Free Trade Agreement (FTA) and the North American Free Trade Agreement (NAFTA), topics I will get back to in a moment.

And, to get to the toughest task of all, we launched an all-out drive to bring down a very large federal deficit.

I want to pause at this point to explain something about ultimate goals. It's worth doing because there are certain differences of vision and vocabulary between our two countries.

Terms like "conservative" and "liberal" or "right" and "left" cannot be transferred across the Canada-U.S. border without interpretation. Take, for example, the very name of my own political party, 'Progressive Conservative'. While the idea of a party being both progressive and conservative is quite foreign to your political traditions, in Canada, these ideals have lived comfortably in one party for over half a century.

Canadians have always looked at their native land as a frontier of opportunity. For over two hundred years, two linguistic cultures have shared a country full of promise, but one with a hostile climate and a vast, empty landscape. So the history of our development was more one of rugged co-operation, than of rugged individualism.

The ability to fulfil individual ambitions has always been one of the Canadian specifications for what Lyndon Johnson might have called the "Great Society" in the days when Walter Heller was giving him advice. The Garden of Eden, as visualized by Canadians, is neither completely the domain of Adam Smith nor of the social democratic tradition. It was a Progressive Conservative government, for example, that first established a national hospital insurance regime in Canada.

One reason for concern about the status quo of 1984 was a desire to keep the frontiers of individual opportunity open. But there were others.

Projected into the future, neglect of the fundamentals would undermine the ability to provide the safety nets and social services that Canadians see as essential ingredients of a well-ordered society.

These changes in course were absolutely necessary to avoid a shipwreck later on. They would not have been easy to make in the best of times. It was the luck of the economic cycle that some of them were coming into effect during times that were far from that. They have required adjustments and sacrifices that have been painful in the extreme for many Canadians.

On the other hand, we have been fortunate in other ways. Integrity and courage in political terms means a readiness to do the unpopular thing, when the national interest requires it.

Over the past eight and a half years, Canada has had in Prime Minister Mulroney, a leader with the political guts and tenacity to see a difficult task through. Mr. Mulroney made tough choices and, in doing so, expended some of his personal political capital. But not unwisely, nor unavailingly.

Inflation in Canada today stands at 1.8[1] percent, its lowest level in 30 years. Interest rates have followed inflation down. Our prime rate is at its lowest in 21 years.

The battle against the budget deficit has been waged unremittingly even in the teeth of a tough recession. It remains a major national challenge.

Central to our policy have been efforts to cut the government's program spending – all expenditures except those intended to service the debt. And we have made progress. Between 1984 and 1990, Canadian federal program spending grew in real terms significantly less than such expenditures by any other G-7 (leading industrial) nation – just 0.1 percent annually. This allowed us to turn a substantial operating deficit into an operating surplus – which means we are paying for all our current programs, but still operate in the red because of debt servicing.

This has required tough, sometimes unpopular decisions, which often caused great controversy. This restraint has helped to bring our deficit down as a share of Canada's economy. On an accounting basis comparable to that used in the United States, the Canadian federal deficit declined from 6.7 percent of GDP (Gross Domestic Product) in fiscal 1984-1985 to just 4.4 percent this year – despite pressures on revenues and spending as a result of the recession – an overall decline over the period of 2 percent. In the same period, the U.S. federal deficit fell a total of 0.4 percent but now stands at 5.4 percent of GDP, on the same basis.

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1 Statistics Canada (April 1993 figure)

The debt and deficit questions are difficult legacies from the past. As for the future, the Organization for Economic Co-operation and Development (OECD) has picked Canada to lead the G-7 countries in growth in 1993. The indications are that we will do that – with annualized growth of nearly 4 percent in the first quarter and a sharply rising leading economic indicator.

So we are back on course and back to the basics. And because we are, we have been able to move on to new and adaptive microeconomic measures – with the private sector leading the way.

I won't get into this part of our domestic agenda in any detail, except to say that it calls for new thinking and new approaches across the board in everything from training, education and technology, to co-operative arrangements between business and labour.

At this point, I would like to return to an element of our national policy and personality that has been constant throughout our history.

Canada ranks 31st in the world in population. But Canada has the eighth largest economy in the world and the ninth highest per capita GNP (Gross National Product). How did so few of us do so much? Certainly not by pulling up the drawbridge and selling to only each other.

Trade is the breath of economic life to Canada. Exports are responsible for one job in three and for more than one quarter of our GDP.

Our market is the world. And it is a visceral awareness of this fact that has consistently put the dismantling of trade fences at the top of our foreign-policy priorities.

Canada has played an active role in the clearing away of market barriers that have compartmentalized the world. We were one of the founding nations of the General Agreement on Tariffs and Trade (GATT). Since the start of the Uruguay Round of multilateral trade negotiations, Canada has made a successful conclusion to the talks her number one trade-policy priority. And there is widespread national consensus on that issue, which unites all regions of the country, cuts across party lines and will survive both leadership changes and general elections.

The global economy is recovering from a significant downturn, which still affects many countries. The economy needs a boost – a new direction – to lift it out of its current doldrums.

According to the OECD, implementation of former GATT Director-General Arthur Dunkel's proposals would add $200 billion to $300 billion to the world's economy by the end of this decade. A successful conclusion to the GATT Round would send a message of confidence, communicating our strength of purpose to bring the benefits of freer trade to all the world's peoples. But if you look at the other side of the coin, failure would, at a minimum, leave the world trading system deadlocked over some vital issues. At worst, it would foster a new stream of protectionism and reverse the global momentum toward economic liberalization.

Coming back to this continent, it was Canada that made the first move in getting the negotiations started that led eventually to the Free Trade Agreement with the United States.

We did so for two main reasons. We were acutely conscious that we were the only major industrialized power without secure access to a market of at least 100 million people.

We were also highly aware of the unique importance of the Canada/U.S. trade relationship. Understandably, I suppose, the significance of that connection — and in particular, its asymmetry — is more widely understood in Canada than it is here.

Ask any Canadian to name our largest trading partner, and they'll get it right the first time. But how many Americans realize that their largest trading partner does not live across the Pacific or the Atlantic, but on the other shore of the Great Lakes. Or that their second largest partner is not Japan or Germany, but one Canadian province: Ontario.

We wanted to make Canada/U.S. trade a smoother and more predictable relationship, less subject to disruption by disputes, confrontation and protectionism. That was in our interest — it was in the interest of the United States.

And, at the end of the day, that is why the two partners were able to agree — because Free Trade was a win-win proposition, north and south.

There were many Canadians who did not see it that way. But confidence prevailed, and a general election was fought and won on that issue in 1988.

The Agreement came into force during an economic slowdown. Some wrenching adjustments have occurred, as Canadian industries restructured to become more competitive during a global recession. But now, four years into the Agreement, it is justifying the confidence of its architects.

In 1988, the value of Canada's exports to the United States was C$102.6 billion. In 1992, it was C$122.3 billion. Over the same period, the level of United States exports to Canada has risen from $88.8 billion to $104.6 billion.

A recent study by the Government of Canada on trade patterns in the past 30 years shows that merchandise trade between the United States and Canada has grown faster than either country's gross domestic product.

Significantly, over the past 10 years, both countries have increased their share in each other's markets. U.S.-based, non-transportation manufacturers saw their share of the Canadian market grow from 18 percent in 1986 to a record 21 percent in 1991. Canadian manufacturers, too, have reached an all-time record share in your markets. It is worth pointing out that these records have been reached since the Canada-U.S. Free Trade Agreement has been in effect. Simply put, free trade expands trade.

Clearly, the FTA has been a win-win situation for both countries.

During a difficult economic period, total two-way trade in goods and services between our two countries increased by 16 percent under the FTA. Trade between Canada and the United States reached $227 billion in 1992 – the largest two-way trading relationship in the world. Many Americans – and Canadians alike – are still surprised by the magnitude of this relationship.

Moreover, it is a relationship that is balanced. Canada enjoys a merchandise trade surplus with the United States. But the United States has a positive current account balance with Canada, thanks largely to Canada's trade deficits in tourism, business services and foreign-debt payments.

The Free Trade Agreement has not made the Canada-U.S. trade story an entirely harmonious one. There continue to be frictions, as you might expect in the world's largest trade relationship. We have serious problems now in steel, beer and softwood lumber. But over 95 percent of our trade continues without any problem. And, thanks to the FTA, we are in the enviable position of being able to address our differences through what has proven to be a transparent, fair and equitable dispute-settlement mechanism. And this mechanism has been strengthened in the North American Free Trade Agreement.

Canada is committed to the NAFTA. Our Parliament has nearly completed its consideration of legislation to implement the Agreement. The passage of the legislation will culminate shortly in Royal Assent conveyed by Canada's Governor General. Then we must wait for the corresponding implementing legislation to be passed in Washington and Mexico City.

In fact, Clause 242 of our legislation requires that the two other signatory countries pass their implementing legislation before the Canadian act can be proclaimed into law.

We have before us the prospect of concluding side agreements, which would result in unprecedented co-operation in the fields of labour and environment.

These agreements would be beneficial for each country and would be good for North America generally. We do not want to lose this opportunity.

The negotiations on side agreements are a chance to make real gains for the environment and for our workers. But the agreements have to work. We have to get them right. That is why Canada firmly believes that these negotiations ought not to jeopardize, in any way, the benefits to be gained from creating an integrated market of 360 million consumers in North America.

The NAFTA brings down trade barriers among our three countries. Now we must be careful not to erect any new barriers to trade in these side agreements. Otherwise, we will be allowing a pall of protectionism to overshadow the benefits of this accord.

The Government of the United States has proposed the imposition of new tariffs in the event of violations of labour and environmental laws in any of the NAFTA signatory countries. Canada is fundamentally opposed to this use of trade sanctions. We believe that other, effective compliance tools are available, and we do not want to erect new trade barrriers after having torn them down in the NAFTA.

The threat that protectionists in all three countries could hijack the process and harass their competitors with trumped-up charges would inject uncertainty into the NAFTA trade area, eroding the very confidence and predictability that the NAFTA was designed to create.

All three countries agreed that the NAFTA would be implemented on January 1st, next year. And Prime Minister Mulroney, President Salinas and President Clinton are all on record as not wishing to reopen the NAFTA itself. On the matter of the side agreements, while there are many areas of agreement among the NAFTA partners, there remain these differences. We are confident, nonetheless, that outstanding differences respecting these side agreements can be resolved in the coming weeks.

With respect to the NAFTA itself, you in the United States are experiencing for the first time the kind of debate that engaged Canadians four years ago, when we implemented the FTA.

In Canada, the critics predicted nothing short of economic calamity, replete with downward pressure on Canadian wage and benefits packages, the demise of Canadian culture, loss of sovereignty over water resources, unavoidable lowering of our environmental standards, destruction of our social services, including Canadian medicare, and the elimination of entire sectors of Canadian industry.

And what does the record show?

Four years later, Canada's merchandise exports to the United States are up 19 percent, and U.S. merchandise exports to Canada are up 18 percent. Our social services remain intact. Your government is studying our medicare system. Canadian culture is alive and well. Environmental standards have improved. And I have not seen one American claim FTA rights to import a Canadian lake or river – although Canadian entrepreneurs have captured significant markets for high-quality Canadian bottled water in the United States.

The lesson is obvious. The NAFTA opponents, like the FTA critics before them, argue from a false premise. They think removing walls that protect and segregate markets will force unacceptable harm upon workers, whereas by leaving walls up, harm will be minimized. They are wrong.

The reality is that unavoidable competition is already hard upon us in North America. The NAFTA merely creates a framework of fair rules for competition. In other words, the NAFTA promises a more gradual adjustment and greater stability than would otherwise confront employers and workers in the long run.

The real question, then, for all three countries, is: Would we be better off without such a mutually agreed rule book for the years ahead? The answer is no – without the NAFTA, we will all be worse off.

The Government of Canada is, more than ever, convinced that the decision we made to enter into the FTA in 1989 was the right one. The NAFTA will build on the solid achievements seen by Canadians and Americans alike under the FTA.

I urge you to maintain the momentum for free trade and support quick passage of the NAFTA legislation in the U.S. Congress.

I want to turn now to change and continuity on the Canadian political scene.

In a good hockey town like Chicago, (no offence to the Bulls and the Bears) I don't have to explain line changes and what they do for the momentum of the game.

This is a year of change in Canada. At the federal level, a major line change is under way, as the leaders who entered politics in the 1970s turn over the levers of power to a generation who became active in the 1980s.

Counting all parties, one third of the members of the current Parliament are retiring from politics – and that includes about half of the present cabinet. This unusually high proportion is indicative of a generational change, which is under way in the political leadership of Canada.

Prime Minister Mulroney, too, is retiring from federal politics. Since Sunday, when the Progressive Conservative Party voted at its ninth leadership convention, we have had a new party leader – Ms. Kim Campbell. She is both the first woman and the first person from Canada's West Coast to lead our party. And Ms. Campbell will become Canada's 19th Prime Minister – and first woman Prime Minister – when she and her new Cabinet are sworn in next week.

The mandate of our present Parliament expires in December of this year. Before that time, Ms. Campbell will face the people as Prime Minister in a federal general election. What does this portend for our economic policy in the future? The answer, I believe, is renewal of purpose and vision on a scale unprecedented in Canadian politics for several generations.

I'm confident that the Progressive Conservative Party of Canada will prevail in the general election. Moreover, during her candidacy for party leadership, Ms. Kim Campbell has been firm in her determination to hold steady on the course that has brought us this far. Although I can't speak for her, I believe that Canadian economic policy will continue to be a pragmatic blend of continuity and change.

More important: This kind of approach appears to have the support of a much larger share of the population than in the past. In this respect, too, we are part of a wider global change in attitudes. Over the past decade, the collapse of centrally commanded economies contrasted with the performance of the free-market model has produced a return to realism. There are signs that matters like deficits, productivity and competitiveness are no longer seen to be abstract academic issues, but down-home, pocketbook concerns. In fact, Canadians are deeply concerned abcut the debt and deficit problems facing all levels of government. Moreover, they have expressed a widespread consensus that the key to solving these problems is also the key to solving our high unemployment problem – a growing, competitive economy – an economy that includes more of those who have been marginalized by the recession and restructuring, making them taxpayers instead of tax spenders.

I think these are challenges that all of us in North America share. In Canada, we are beginning to tackle many of our obstacles to competitiveness – in some areas, through increasing collaboration among governments, and between the public and private sectors – in other ways, by getting out of the way of private initiative.

Canada will continue on the path of restructuring in both sectors. We have little choice if we are to keep up with the best in the world. And they aren't just in Japan, Europe, or the Asia-Pacific Region. Frequently, the best in the world are found right here in North America.

For us, remaining competitive in a global marketplace is not simply a fond wish; it is a requirement for survival, and most Canadians recognize this. And that is why I am confident that Canada will continue to work for increasingly open-market access in all markets of the world. That is why we will make the investments that we need to keep our skills up to date. That is why we will make sure that Canadian firms have the technology and the know-how to keep up with the United States' best and the best from the rest of the world.

Thank you.