

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

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**NOTES FOR AN ADDRESS BY
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MINISTER OF INDUSTRY, SCIENCE AND TECHNOLOGY
AND MINISTER FOR INTERNATIONAL TRADE,
TO THE UNIVERSITY OF OTTAWA
ECONOMICS STUDENTS ASSOCIATION, AND THE
INTERNATIONAL ASSOCIATION OF STUDENTS IN
ECONOMICS AND COMMERCE**

**OTTAWA, Ontario
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I'm always glad to speak to university students, and in particular to students of economics, trade and commerce. About a third of a century ago I was one of you, studying commerce at the University of Toronto. So I think I know where you are coming from.

You have learned the elements of what makes or breaks an enterprise. You know the factors of production; what constitutes good management; the need for innovation and risk-taking; the value of careful preparation, execution and follow-through. And you know, too, that the success or failure of a business also depends to a greater or lesser extent on the kind of economic environment that governments create. While times change, those basic elements don't.

By far the biggest difference between business today and business as it was in 1959, when I graduated, is the phenomenon of globalization. It has created both vast opportunities and tough challenges.

It has forced every government and every business in the world to address the question of how to fully participate in today's international, interdependent economy -- how to get ahead of the wave of trade and investment that is sweeping over the earth.

Today I want to discuss how the federal government, over the past eight years, has tried to create an economic environment that will help this country respond to the global trade and investment challenge.

Of course, there are those who feel we don't need to respond to that challenge. They argue that by exposing ourselves to the winds of global competition we are really playing into the hands of nefarious "multinationals." They would like to leave Canada as it was, in some idealized past.

It is a debate that I relish because the facts and figures speak for themselves. For example, it is a fact that when I finished university in 1959, Canada's per-capita gross domestic product (GDP) was a little over \$8,000 per year. Today the figure, adjusted for inflation, is roughly two and a half times greater -- over \$20,000 a year.

Over that same period, a little over three decades, Canada's exports and imports as a percentage of our GDP, again adjusted for inflation, also rose by about two and a half times.

Also over those three decades, the composition of our exports changed. From 1960 to 1990, manufactured exports grew from under 10 per cent to more than 40 per cent of total exports.

In other words, the more we have traded, and the higher the value of the products we have had to offer, the wealthier we have

become as a nation. It is a wealth that has allowed us to develop one of the world's highest standards of living.

Indeed, according to the United Nations, Canada is number one in the world in terms of economic, social and environmental conditions.

In Canada, our dependence on trade -- which now generates one job in three and more than one quarter of our GDP -- has prompted us continually to get to access to markets and fair rules of trade. It was that imperative that made us a leader in the creation of the General Agreement on Tariffs and Trade (GATT) and the series of multilateral trade negotiations that has taken place since 1947.

Over those 45 years, the GATT has succeeded in cutting world tariffs from an average of around 40 per cent to about five per cent today. And in turn, that has helped spur a 12-fold increase in the volume of world trade in goods. Merchandise trade worldwide now amounts to about \$3.5 trillion, and services trade is worth more than \$850 billion a year.

The power of trade -- exports and imports -- has affected virtually every aspect of our lives, here in Canada and around the world. As Arthur Dunkel, Director General of the GATT, recently wrote:

Economic reform, development, enterprise, job creation, investment, control of inflation, consumer choice, a better environment, innovation -- these are today's watchwords. And they have one thing in common: to a greater or lesser extent, all are dependent on international trade. It is as true in the most economically powerful countries as it is in the least developed countries.

So trade, which must always be viewed as a two-way street, is central to our standard of living and the quality of life.

How can governments facilitate the flow of trade? One of the most obvious ways is by negotiating trade agreements. By improving access to markets and developing rules to govern that trade, we open doors for competitive products, services and investments.

The federal government's approach to trade agreements has always been two-pronged. We've sought maximum possible access to world markets through the GATT. And we've done the same thing on a regional basis through the Canada-U.S. Free Trade Agreement (FTA), and now through the North American Free Trade Agreement (NAFTA).

Of course, some critics have argued that the FTA, and now the proposed NAFTA, mean that we are turning our back on the GATT and the multilateral trading system.

This simply is not the case. And, in fact, the best rebuttal of that charge was offered by the Director General of the GATT, himself. In a speech in Rio de Janeiro last August, he said:

Multilateralism and regionalism can co-exist; better, they actually reinforce one another.... The founders of GATT never thought to place global and regional approaches to trade liberalization in opposition but considered them to be two sides of the same coin.

On the multilateral side, we, of course, are disappointed that the Uruguay Round of negotiations has drawn on for so long. We won't meet the March 1 deadline that we had been aiming for. However, I am certain that all the parties involved in the negotiations are acutely aware of the positive impact on the world economy that a successful conclusion of the Round will have. We need that impetus now, and we need it for the future.

At the same time, I believe we in Canada should be glad that we have preferred access to our by-far-biggest market, the United States, and coupled with that access, a dispute-settlement process that has well and truly proven its value.

Less than halfway through its implementation period, the FTA has already increased Canada's trade potential, created a positive climate for our exporters and established enormous opportunities for foreign investors in Canada.

When world economic growth slowed to only one per cent in 1992 -- the lowest rate since 1982 -- Canada's third quarter 1992 exports were up by more than six per cent from a year earlier.

Obviously, the FTA had a big role to play in that success.

On January 15, we got the preliminary trade figures for November 1, 1992 and they show that our winning trend is continuing. Here are the facts:

Merchandise exports to the U.S. continued to drive the growth in total exports. Exports to the U.S. increased by \$65 million in November to \$10 billion, a record level of exports to Canada's largest trading partner.

Exports to the U.S. for the first 11 months of 1992 increased by 11.9 per cent to \$110.3 billion, while imports grew by 10 per cent to \$94.9 billion. The cumulative 11-month trade surplus with the U.S. was \$15.4 billion, which was \$3 billion or 24.1 per cent above 1991 levels.

With those November numbers now in, we know that in 8 of the first 11 months of 1992, our exports to the U.S. hit new monthly records. We are not talking about a one-shot surge, but a winning trend.

The advantage that the FTA gave us compared to other countries exporting to the U.S. is also a matter of fact. While Canadian exports to the U.S. grew by nearly 30 per cent, cumulatively, since the FTA was signed, Japan's exports to the U.S. grew by only 13 per cent; Germany's by 7.3 per cent, and the U.K.'s by 16.4 per cent.

According to Statistics Canada, 16 of 22 Canadian manufacturing industries have gained market share in the U.S., while 18 of 22 U.S. manufacturing industries have lost market share in Canada.

Our high technology exports to the U.S. grew by 63 per cent between 1988 and 1991, while our high-tech imports from the U.S. increased by only 12 per cent.

Figures such as those should prove that the FTA has helped us export to the U.S. and that we can compete there -- and win!

Blaming the FTA for "every sparrow that falls" has become a cottage industry for some people in this country, but the arguments don't stand up. Listen to what the C.D. Howe Institute concluded in its October 1992 study:

It seems clear that the recession has not been due to factors directly related to the FTA. Indeed, the facts so far are more consistent with the optimistic scenario of free trade supporters than with the views of detractors.... Free trade with the U.S. has helped the development of the higher value-added industries that are crucial to Canada's economic growth.... In particular, many of Canada's manufacturing sectors seem to have performed remarkably well in the U.S. market under the FTA.

But the critics' arguments go beyond economics and into dark regions of conspiracy and loss of sovereignty.

In light of the recent 11 per cent drop in the value of the Canadian dollar, I ask you, what happened to the critics' claims that a "secret protocol" existed to prop it up?

In light of U.S. calls to adopt Canadian-style medicare, what of the critics' claims that the FTA would lead to it being dismantled?

Where are the large-scale water exports that the critics predicted? And how is it that Canadian cultural industries are thriving, when the FTA was supposed to be our cultural nemesis?

Clearly, the critics were wrong, both in their economic fears and their cultural fears.

The fact is, the FTA has made Canada stronger -- more able to compete and prosper and more able to hang on to the social safety nets that we all consider to be one of the finest aspects of Canadian life.

In the past few weeks, two U.S. trade actions have prompted a reprise of the critics' chorus of complaints against the FTA.

Now trade disputes are never pleasant, but at least with the FTA we have a mechanism for resolving them expeditiously and fairly.

Instead of having to rely completely on the politically vulnerable, unilateral process of pre-FTA, we will have a rule-based bilateral system that offers some predictability and stability.

Our critics and we complained quite rightly about last week's extraordinary challenge on live swine; our critics, however, conveniently forget to mention the millions of dollars that were returned to Canadian pork producers when a similar dispute was resolved in our favour under the FTA two years ago. Nor should we forget that, as costly and annoying as these disputes can be, over 95 per cent of our trade with the United States is carried on dispute-free.

The dispute resolution process has indeed served Canada well, and it is a process that will be maintained and strengthened under the proposed NAFTA.

More broadly, under NAFTA we will:

- gain better access to the Mexican market of 85 million people;
- preserve and improve the original Free Trade Agreement with the United States; and
- ensure that Canada remains an attractive location for investment in North America.

When the NAFTA goes into effect on January 1, 1994, we will be part of the largest and richest free trade area in the world: 360 million people with a combined wealth of \$7 trillion.

Let me expand on some of the key elements that make the NAFTA a good deal for Canada:

- Most of Mexico's tariffs and non-tariff barriers will be eliminated within 10 years. Not bad, when you remember the Mexico of 10 years ago; it had one of the most restrictive

trade regimes in the world. Their high tariffs, import licences and auto decrees blocked most Canadian exports to Mexico, while 80 per cent of Mexico's exports had duty-free access to Canada. The NAFTA will balance the scales.

- A set of clearer and more predictable rules of origin has been established. Among other things, this will help avoid the kinds of disputes we have had with the U.S. over Hondas.
- We got expanded access to the U.S. markets for textiles and apparel that don't meet the rules of origin. Among other things, this will allow for substantial increases in exports of Canadian wools suits and other wool apparel.
- With the exception of bilateral air services and basic telecommunications, all services are covered in the agreement. The services elements of the package will allow easier movement for business service personnel among the three NAFTA countries for marketing, technical support, and after-sales services.
- New provisions are in the agreement that cover the environment. Given the growing interest in environmental matters around the world, these NAFTA provisions are both innovative and might well serve as building blocks for future trade agreements.
- A large, government procurement package covering not only goods, but services -- including construction services -- has been agreed to.
- There is a stronger dispute-settlement system. Canadian companies as well as foreign investors will be reassured that their interests will be effectively defended in a strong, predictable and enforceable dispute-settlement system.
- Canada will continue to maintain its high standards for health, safety and the environment. The agreement also establishes rules to prohibit standards, regulations and procedures that are unnecessary obstacles to trade.
- At the same time, we maintained our protection for cultural industries, social services and health services, and marketing boards are not affected by the agreement at all.
- Finally, there is an accession clause providing for other countries or groups of countries to join the NAFTA. In this way, the NAFTA creates an important precedent for trade and economic co-operation between industrialized countries and developing countries. It is therefore not only good trade policy, it is also good foreign and development policy. It

answers the long-standing request from developing countries for "trade not aid."

What I am presenting here are facts -- you can read them in the agreement. And they add up to real benefits for Canada. But for many Canadians, the only fact that seems to matter is the difference in wages. In fact, average hourly wages for manufacturing workers in Canada are around seven and a half times the amount made by factory workers in Mexico. So the fear sets in that we can't compete.

As students of economics and commerce, I am sure you understand why that argument is simplistic and misleading in the extreme. The fact is that wages only constitute one of the factors in determining competitiveness. On average, they account for less than one fifth of manufacturing costs. If it was just a question of wages, why wouldn't every company set up shop in Haiti? Or, to be a little less stark, why haven't all the factories in Europe moved to Greece or Portugal?

A better indicator of competitiveness than wages is productivity. According to a Department of Finance study, a Canadian worker's productivity is about six and a half times higher than a Mexican worker's.

Look, also, at the cost of capital. Again the Finance Department study points out that the cost of investment capital here is about half of what it costs in Mexico. And once those investment dollars are put to work in new plant or equipment, they could produce returns 10 per cent higher than the same dollars invested in Mexico.

Quality of life is also an important competitive factor. The best workers are attracted to environments where they can live healthy, interesting lives. They want places where their children can attend good schools, which in turn will produce capable workers with diverse skills. And more than anything else in today's modern business environment, it is the knowledge and skills of people that most determine an economy's competitiveness.

The NAFTA, by expanding the scope of opportunity for Mexicans, will help raise their standard of living, their environment and their competitiveness. And it will do the same for us -- providing we have the self-confidence to meet the challenges that it presents.

Trade agreements like the NAFTA and GATT only provide a framework. They do not create trade in and of themselves. It is up to Canadians to take the initiative and seek out ways to make new sales of goods and services and make new investments.

What this means, in short, for Canada is that while trade-liberalizing policies ensure that Canadians have the means to become part of the global economy, it is up to individuals to go through the doors that these agreements open. Our traditional markets are no longer a sure thing.

The competition is no longer the company across the street or across town. The competition could be any single company around the world. If you are not competitive, you stand to lose your traditional customers to a competitor in Germany or Mexico.

All this is to say that businesspeople, and indeed all Canadians, must work within the new realities of the global marketplace --- an outward-looking culture that transcends national boundaries. We must begin to understand how the world has changed and use those changes to our advantage.

Keeping Canada in the vanguard of international competitiveness will require partnerships. These will include every segment of our society, including better and more linkages between the business community and universities. None is more valuable to Canada's future than this pairing of the world of ideas and the world of making ideas a reality. Partnership and co-operation between our universities and businesses can help businesses compete and prosper.

Whether you are students setting out on a career in business and commerce or whether you are an established businessperson, many of you here today will be among those who make trade liberalization work for Canada and all Canadians.

Thank you.