

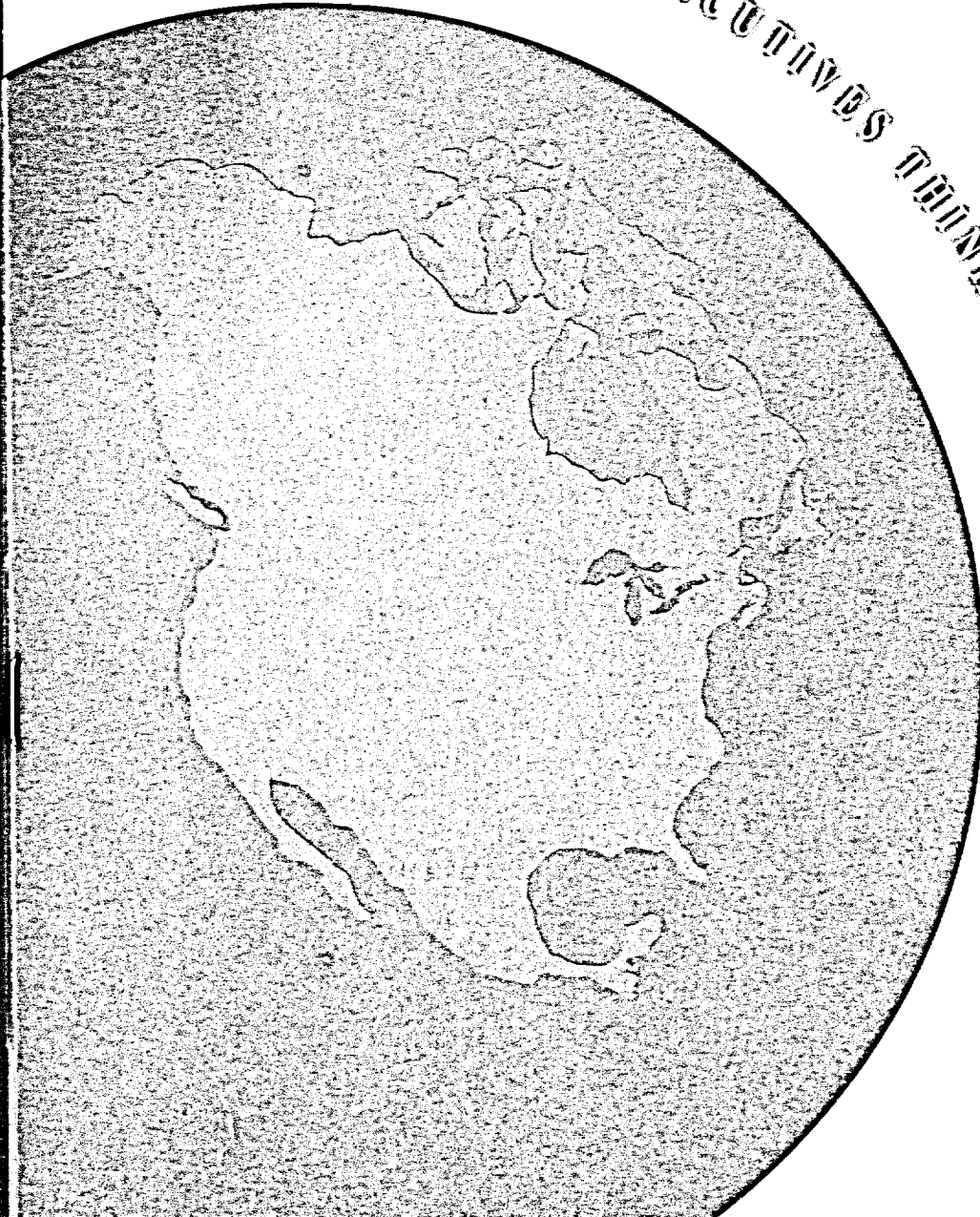


Peat Marwick Thorne



Peat Marwick Stevenson & Kellogg

WHAT DO BUSINESS EXECUTIVES THINK?



1993

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# NAFTA

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**W**HILE TRADE HAS ALWAYS BEEN IMPORTANT IN MODERN SOCIETIES, INTERNATIONAL TRADE IS A NECESSITY TODAY. BUSINESS OPPORTUNITIES EXTEND FAR BEYOND BORDERS. DECLINING TRADE BARRIERS, COUPLED WITH VASTLY IMPROVED COMMUNICATIONS AND TRANSPORTATION SYSTEMS, ARE CREATING A TRULY GLOBAL MARKETPLACE. REGIONAL ECONOMIC GROUPINGS ARE BEING DEVELOPED AS VEHICLES TO LIBERALIZE TRADE AND ARE INCREASINGLY SEEN AS OPPORTUNITIES, RATHER THAN PROBLEMS.

International trade is an important part of the Canadian economy. In 1991, Canada's total merchandise trade (imports and exports) reached \$300 billion, or approximately 39 per cent of our 1992 estimated Gross Domestic Product (GDP). Our future economic well-being will increasingly depend on our ability to export goods and services.

On December 17, 1992, Canada, the United States, and Mexico signed the North American Free Trade Agreement. If NAFTA is ratified, the North American free trade area will comprise a population of 363 million with a combined GNP of \$8.38

trillion (Cdn). It will be the world's largest trading bloc, followed by the European Community.

For the second year in a row, KPMG Peat Marwick Thorne and KPMG Peat Marwick Stevenson & Kellogg surveyed senior business executives on the new North American Free Trade Agreement. We are pleased to present the summarized findings of our survey, and hope this information will serve as a point of reference for organizations charting their course in today's changing global environment.

KPMG's 1992 NAFTA survey was targeted at the largest and the fastest-growing companies in Canada. A

questionnaire was mailed in the last week of September 1992 to the 1,000 largest (by sector) and 100 of the fastest-growing (by revenue) public and private businesses in Canada.

The response rate from the *Top 1,000* group of companies was 28 per cent, 2 percentage points greater than KPMG's 1991 survey. The response rate from the *Fastest 100* group was 33 per cent. It appears that businesses, regardless of their size and whether or not they have business dealings with Mexico, are keen to express their opinions on NAFTA.

While the sample size for the *Fastest 100* is limited, we believe that the data it provides is interesting.

## EXECUTIVE SUMMARY

**Business shows strong support for NAFTA:** The survey clearly shows strong support for the North American Free Trade Agreement. Ninety per cent of executives from major corporations supported the agreement, a slight increase from last year. Opposition

remained insignificant at 2 per cent. Of the remaining 8 per cent, 6 per cent were undecided and 2 per cent did not respond.

Among the fastest-growing companies, 70 per cent of respondents

supported NAFTA and 24 per cent were undecided. The higher undecided rate may be due to respondents' general unfamiliarity with the Agreement. Three per cent were opposed and another 3 per cent did not respond.

**Large organizations see NAFTA's overall effect as positive:** A majority of respondents from major corporations believed that NAFTA will have a positive impact on their businesses. Fifty-five per cent anticipated a positive impact, while 36 per cent indicated that NAFTA will have a neutral effect on their organizations. This is a reversal from last year, when 35 per cent of respondents expected a positive impact on their business, and 56 per cent expected no impact. The remaining 9 per cent indicated that their business may suffer under NAFTA.

Among companies in the fastest-growing category, 64 per cent of respondents expected a positive impact on their business, while 24 per cent expected no impact. Nine per cent indicated that NAFTA will affect their business negatively and 3 per cent did not respond.

**Mexico has significant market potential:** Generally, respondents from major corporations saw opportunities for their companies. Fifty-three per cent indicated that companies in their industry have significant market potential in Mexico, while 36 per cent felt the Mexican market is not significant.

Respondents from the fastest-growing category reported similar views. Forty-five per cent indicated that they saw significant opportunity in Mexico

for their industry, while 42 per cent reported that the Mexican market is not significant.

**Canadian companies are competitive:** A majority of respondents from the *Top 1,000* suggested that Canadian companies in their industry sector are more competitive in comparison to companies in Mexico. Fifty-four per cent said that Canadian companies are more competitive; 10 per cent believed Canadian companies are less competitive. The remainder were undecided or felt that Mexican competition is not applicable to their industry.

Respondents from the fastest-growing category were less bullish on this issue. Thirty per cent said that Canadian companies in their industry sector are more competitive, 27 per cent indicated that Canadian companies are less competitive. The remainder were undecided or felt that Mexican competition is not applicable.

**Certain external factors influence competitiveness:** When respondents were asked to rate factors that affect their ability to compete with similar organizations based in Mexico, three items were selected most often:

- (a) levels of government taxation
- (b) availability of skilled employees
- (c) value of the Canadian dollar

**NAFTA will improve Canadian business competitiveness:** Eighty-

nine per cent of respondents from the *Top 1,000* and 76 per cent from the *Fastest 100* agreed that NAFTA will, in the long term, improve Canadian business competitiveness in world markets.

**Canada will be more attractive for investment:** Fifty per cent of respondents from major corporations believed that NAFTA will make Canada a more attractive place for investment; 32 per cent indicated that NAFTA will have no effect on investment attractiveness.

Thirty-three per cent of respondents from the fastest-growing category believed NAFTA will make Canada more attractive for investors; 30 per cent indicated that NAFTA will not affect investment attractiveness. A sizable percentage (25 per cent versus 6 per cent in the *Top 1,000*) were unsure as to how NAFTA will affect investment.

Twelve per cent in both categories believed NAFTA will make Canada less attractive for investors.

**NAFTA improves/safeguards the FTA:** A majority of respondents believed that NAFTA has improved or safeguarded the 1989 Canada-U.S. Free Trade Agreement. Fifty-three per cent from major corporations and 36 per cent from the fastest-growing category believed that NAFTA improved/safeguarded the FTA.

Sixteen per cent of respondents from major corporations and 9 per cent in the fastest-growing category saw NAFTA having no effect on the FTA.

Five per cent of respondents from major corporations and 15 per cent from the fastest-growing category suggested that NAFTA will undermine the FTA. Almost 40 per cent of respondents from the *Fastest 100* and 26 per cent in the *Top 1,000* did not know how NAFTA might affect the Canada-U.S. FTA.

OTHER IMPORTANT FINDINGS

■ General knowledge of NAFTA is higher among major corporations. Seventy-eight per cent of respondents from major corporations indicated

they had high to moderate knowledge of NAFTA. A lower percentage (57 per cent) in the fastest-growing category indicated the same level of knowledge. Forty-three per cent of respondents in the *Fastest 100* and 22 per cent in the *Top 1,000* had little or no knowledge of NAFTA.

■ Current opposition to the Canada-U.S. FTA among the *Top 1,000* was 4 per cent, mostly from firms in manufacturing and agricultural sectors. Six per cent in the *Fastest 100* opposed the FTA.

■ A majority of executives from large corporations believed that the FTA benefitted their businesses. Fifty-one per cent (versus 58 per cent

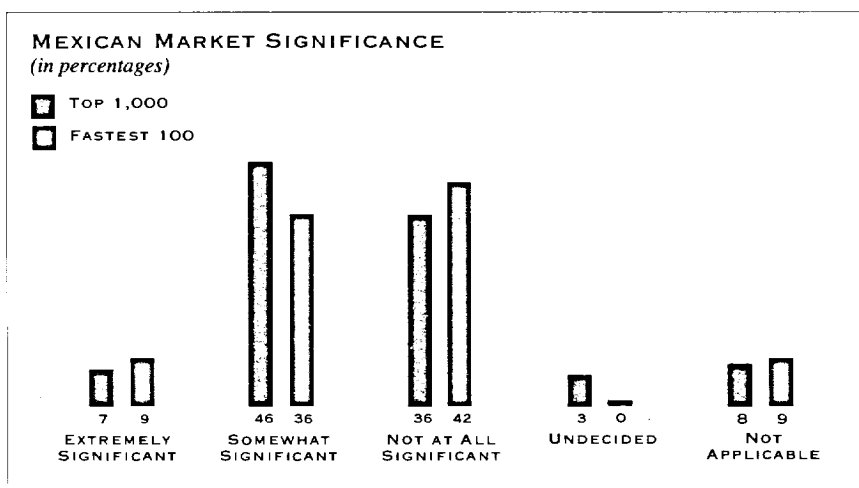
in the fastest-growing category) indicated that the FTA has had a positive impact on their business. Thirty-four per cent (27 per cent in the fastest-growing category) said the FTA had no effect. The remaining 15 per cent in both categories believed the FTA has had a negative impact on their firms.

■ A majority of respondents in both categories expressed little concern about lower Mexican wages or the possible loss of Canadian market share to Mexican imports. However, they were somewhat concerned about increased competition in U.S. markets and expressed some reservations about Mexican environmental, occupational, health, and safety standards.

OPPORTUNITIES IN MEXICO

OVERALL

Slightly over half (53 per cent) of respondents from major corporations believed their industry has significant market potential in Mexico. Forty-five per cent in the fastest-growing category expressed the same view. Thirty-six per cent from the *Top 1,000* and 42 per cent from the *Fastest 100* did not consider Mexico an important market for their industry. The remaining respondents in both categories were undecided, did not



respond, or felt that Mexican market potential was not applicable to their industry.

BY INDUSTRY

Among respondents from the *Top 1,000* group of companies, the following industry sectors are seen to have significant market potential in

Mexico:

- Agriculture, forestry, and fishing
- Banking and financial services
- Chemicals and plastics
- Construction and engineering
- High-technology and electronics
- Insurance

Other sectors with market potential in

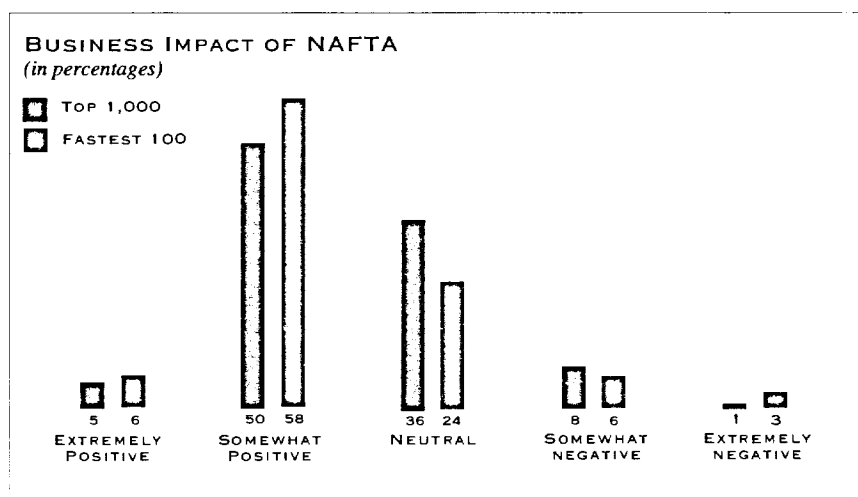
Mexico include:

- Automotive products
- Metals and metal products
- Mining
- Utilities

BUSINESS IMPACT

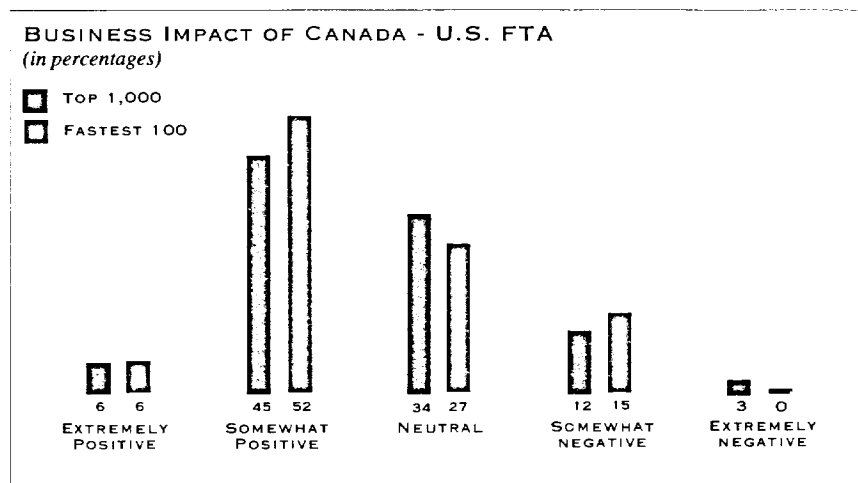
NAFTA

Executives from both *Top 1,000* and *Fastest 100* companies generally believed their organizations will benefit from NAFTA. Fifty-five per cent of respondents from major corporations and 64 per cent from fastest-growing companies expected a positive impact on their businesses. Executives from the *Top 1,000* were more optimistic, compared to a year ago, when only 35 per cent expected a positive impact from NAFTA.



CANADA-U.S. FTA

What executives expected from NAFTA paralleled their views of the Canada-U.S. FTA. Fifty-one per cent of respondents from major corporations and 58 per cent from the fastest-growing companies suggested that the FTA has had a positive impact on their businesses. Fifteen per cent in both categories indicated they have suffered because of the FTA. The balance indicated that the FTA has had no impact on their organizations.



## COMPETITIVE FACTORS

When executives were asked to rate the importance of several factors that would help their organizations compete in world markets, their responses were as follows:

EXTERNAL COMPETITIVE FACTORS  
(in percentages)

	EXTREMELY/ VERY IMPORTANT		MODERATELY/ SOMEWHAT IMPORTANT		NOT IMPORTANT		UNDECIDED	
	TOP 1,000	FASTEST 100	TOP 1,000	FASTEST 100	TOP 1,000	FASTEST 100	TOP 1,000	FASTEST 100
LEVELS OF GOVERNMENT TAXATION	55	51	22	33	10	6	13	10
AVAILABILITY OF SKILLED EMPLOYEES	44	57	27	21	18	9	11	13
VALUE OF THE CANADIAN \$	43	54	31	33	15	6	11	7
COMMUNICATION FACILITIES	39	42	34	45	16	6	11	7
TRANSPORTATION FACILITIES	32	30	34	39	22	21	12	10
MARKET PROXIMITY	32	33	36	51	18	9	14	7
INTEREST RATES	30	30	33	30	22	33	15	7
PROXIMITY OF HIGH-QUALITY EDUCATIONAL INSTITUTIONS	30	21	36	45	21	18	13	16
LABOUR COSTS/WAGES	28	51	42	27	16	15	14	7
EXPORT FINANCING	16	21	31	45	37	18	16	16
COST OF COMMERCIAL/ INDUSTRIAL REAL ESTATE	14	21	39	39	32	33	15	7
TRADE DEVELOPMENT PROGRAMS	14	21	36	33	32	30	18	16
TRADE COMMISSIONER SERVICE	11	15	35	39	34	27	20	19
CLIMATIC FACTORS	8	9	34	33	43	45	15	13

## IMPACT ON CANADA

## ECONOMY

A majority of executives believed that NAFTA will very likely increase Canadian exports to Mexico. Major corporations suggested that Canada will experience growth in GDP. Respondents from both categories agreed that NAFTA will lead to increased competition in Canadian and U.S. markets. Executives also suggest that plant closures or plant relocations

might occur in some sectors of the economy. This view was stronger among smaller businesses.

A significant majority from the *Top 1,000* (84 per cent) suggested that NAFTA is mostly good for Canada. This percentage decreased to 64 per cent for respondents in the *Fastest 100*.

## COMPETITIVENESS

Both groups agreed that NAFTA will

improve Canadian business competitiveness in the long term. Eighty-nine per cent from the *Top 1,000* and 76 per cent from the *Fastest 100* believed NAFTA will increase Canadian competitiveness in world markets.

## INVESTMENT

With respect to investment, 50 per cent of respondents from the *Top 1,000* and 33 per cent from the *Fastest 100*

believed NAFTA will make Canada more attractive for investment. Approximately 30 per cent of respondents in both categories believed NAFTA will not change the investment attractiveness of Canada. Twelve per cent in both categories suggested

NAFTA will make Canada less attractive for investors. The remaining respondents were undecided.

**NAFTA ISSUES**

A majority of respondents from major corporations felt that issues involving dispute settlement procedures, tariff

elimination, rules of origin, auto content rules, and the protection of Canadian cultural industries were positively handled. A majority in the *Fastest 100* were undecided on all issues, possibly reflecting some unfamiliarity with the Agreement.

**ABOUT OUR RESEARCH**

The survey targeted two categories of businesses in Canada:

1. 1,000 largest (by sector) public and private companies
2. 100 of the fastest-growing (by revenue) companies

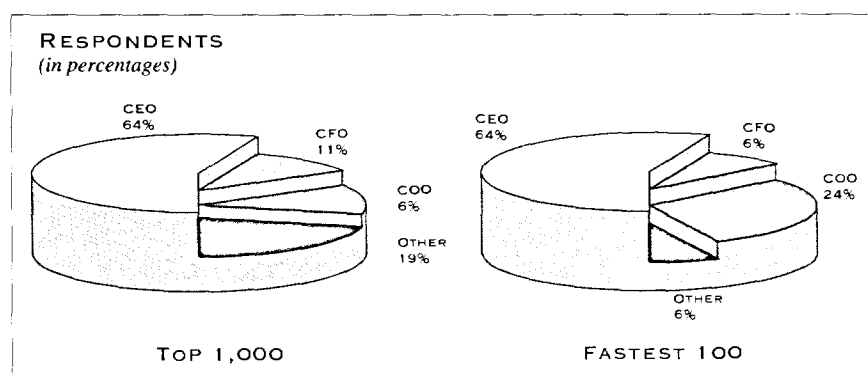
Of the 1,000 surveys mailed in by the *Top 1,000* category, 280 useable surveys were returned. Of the surveys mailed in our *Fastest 100* category, 33 useable surveys were returned by the deadline.

**A. A majority of respondents were Chief Executive Officers, followed by Chief Financial Officers.**

Sixty-four per cent in both respondent categories were Chief Executive Officers. Chief Financial Officers and Chief Operating Officers were the next largest responding groups.

**B. A majority of respondents had revenues of less than \$500 million.**

Seventy per cent of respondents in the *Top 1,000* had 1991 sales of less than \$500 million, 13 per cent had sales between \$500 and \$1 billion, and 17 per cent exceeded \$1 billion. In the *Fastest 100*, 53 per cent of respondents



had 1991 sales under \$5 million and 47 per cent had sales over \$5 million.

**C. Most organizations responding were from Ontario, followed by the Western provinces and Québec.**

In the *Top 1,000*, 56 per cent of respondents were from Ontario, followed by the Western provinces at 23 per cent, Québec at 18 per cent, and the Atlantic provinces at 3 per cent. In the *Fastest 100*, 52 per cent of respondents were from Ontario, followed by the West at 36 per cent, and Québec and the Atlantic provinces at 6 per cent each.

**D. Respondents represented a wide cross-section of industry.**

A majority of those who responded were from the following 10 industrial sectors:

1. Agriculture, forestry, and fishing
2. Banking and financial services
3. Chemicals and plastics
4. Construction and engineering
5. Consumer products
6. Energy
7. High technology and electronics
8. Insurance
9. Retail trade
10. Transportation

**FOR MORE INFORMATION**

If you are interested in more details about the findings summarized in this report or any other aspect of the North American Free Trade Agreement, please contact Sal Badali, Partner-In-Charge of International Business Services, at 416-777-8551, or call any of our offices listed on the back cover.

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