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## INTERNATIONAL DEVELOPMENT:

### A NEW DIMENSION FOR CANADIAN BUSINESS

An address by the Honourable Robert H. Winters, Minister of Trade and Commerce, at the Seminar on International Development, York University, Toronto, November 6, 1967.

...I understand the general theme of this seminar is intended to bear upon the problems of the developing countries of the world and Canada's relations to them. This is a matter of great concern to the Canadian Government, and a matter in which I take a particular interest. We have come to recognize that aid, pure and simple, of money or of food, is only one part of the answer to this problem. Trade investment and the transfer of technology - these are the true mainsprings of development.

If you were not keenly aware of the magnitude and the urgency of the problems I have mentioned, you would not be here today. By attending, you have shown the concern you have for our responsibilities as citizens of the world community.

We are the fortunate inhabitants of an oasis of plenty in the world of want. Here in Canada we share with United States, New Zealand and Australia, and a handful of nations in Northern and Central Europe, a level of prosperity the like of which the world has never seen before. But, for the rest of the world, the great majority of members of the global community, the picture is very different. Throughout Asia and Africa, Central and South America, the common state of man is one of continuing poverty and deprivation.

One simple fact starkly illuminates the gulf that separates the "have" nations from the "have-not". Here in Canada, 20 million people annually produce and consume almost exactly the total national output of India, a country of 25 times our population. Thus, per person, we have roughly 25 times as much to go around.

If inequality is one dominant feature of the world landscape, another is continuing dramatic change. We in Canada have been the beneficiaries of a rate of economic growth few other nations can come close to matching. But the equation that measures the well-being of other nations of the world reveals a very different story. Not only economic growth but population growth tells the tale. Even when, as in the past decade, the national output of some of the

nations of the disadvantaged "Third World" have grown at a rate comparable to that of the developed countries, the gains of this rapid progress have generally been dissipated through much more rapid population growth. Measured in terms of the population it must support, economic growth in the "Third World" has lagged far behind the human need.

Let us again compare India and Canada in this regard. Over the past decade, India's national output has grown four-fifths as fast as Canada's. But its huge population has grown one-quarter as fast again -- and Canada has one of the fastest-growing populations in the developed world. Thus India's standard of living, only one-twenty-fifth of Canada's to begin with, continues to lag even further behind.

If this trend were allowed to continue, the turn of this century would see a world of even greater disparities than the present. The gap is already large; it is rapidly widening. When all things are relative, it is a little misleading to call those nations "developing" whose development is slower than the so-called "developed" countries.

A third dominant feature of the global landscape is the heightened awareness which characterizes today's "global village". Today, as never before, peoples in different regions of the world share a common knowledge of each other's ways of life. This has two important implications. The first is that the affluent communities of the world can no longer close their eyes to the plight of the disadvantaged. This concern with the problems of development is a new phenomenon; it is only in our generation that these problems have come to be recognized and tackled on an international scale.

But there is the other side of the coin. The citizens of the developing world are equally aware of the contrast between the poverty of their lives and the affluence within the developed nations. This has led to what has been characterized as the revolution of rising expectations. These people have gained an awareness of the prosperity that can be theirs, coupled with a firm determination to move as quickly as possible towards the same standards in their own countries.

This is in itself a powerful potential force for economic progress. But we must try to make certain it does not meet with bitter frustration and despondency. It is in our own best interests to see that disillusionment is given no opportunity to transform rising expectations into raging envies.

The problems are all too apparent. The solutions are somewhat more difficult to find.

We are faced with the need to help feed hungry people. In this regard Canada's record is good. Per person, we Canadians contribute more food aid than any other nation of the world. Last year our contribution amounted to \$100 million --- a substantial increase from the level of \$4.5 million just four years ago. We rank second in contributions to the World Food Programme. This year we shall continue to do our share in this regard.

The unprecedented new food-aid programme initiated in the Kennedy Round is another step forward. Canada actively pushed for the success of this

agreement and will play its full part in this programme that will see producers and importing countries sharing the task of transferring 13.5 million tons of food to the developing countries over a three-year period.

But food aid is only a stop-gap. The longer-term solution must involve a transformation of agriculture in the developing countries to permit them to supply much more of their own food needs. This is a matter of the highest priority and will require considerable inputs of know-how and resources from those countries able to help. And the question of population growth cannot safely be ignored in seeking to overcome the problem of hunger.

But the task is far greater than that of meeting food need. We must assist the developing nations of the "Third World" to establish the foundations for dynamic, diversified economies capable of making an increasingly important contribution to the integrated economy of the world.

This brings me to the area in which the business community can play a particularly valuable role. I believe there are good reasons, compatible with good business practices and consistent with the best interests of shareholders, why companies might very well find it to their advantage to divert a portion of their resources to the developing economies of other nations. There is an opportunity for them to play a major and indispensable role in helping to solve the greatest problem facing the world today.

Let us look at the elements of the process of development throughout the world. We must recognize that we are dealing with one international economy. Domestic economies cannot be considered in isolation, as we Canadians, operating one of the most "open" economies in the world, have good reason to know. The multinational corporation or consortium, taking as its field of operations the world economy, will, I believe, have great competitive advantages in the integrated global economy of the future, and will profoundly influence the development of world trade and production in the years ahead.

What is the basic prerequisite of development? The answer, as we are beginning to understand, is that development is predicated upon the effective application of necessary capital resources -- human and physical. Financial resources and physical plant and machinery play a vital role in the development process; at least equally important are the degree of sophistication and the technical skills possessed by the men and women who must be called upon to operate the machinery of production.

Here in Canada we have been exceptionally fortunate in the abundance of natural resources at our disposal. This has made our development process easier and has substantially contributed to our present high level of prosperity. But even a nation far less bountifully endowed by nature than Canada can achieve a sound and rapidly growing economy provided there is an adequate stock of human and physical resources.

Unfortunately, many of the developing nations are not adequately endowed with all, or even some, of these mainstays of economical growth. Some have the finances but not the skills or the natural resources. Some have the skills

but not the tools of production. The situation differs from country to country, but the obstacles remain equally difficult to overcome. And, unfortunately, a nation that lacks capital resources -- human or physical -- is thereby less able to increase its stock of these resources. It is hard to generate development funds in an economy where there is little margin for saving. It is difficult to draw trained teachers and instructors from an unschooled populace.

Even given the resources, their effective utilization is far from guaranteed. It depends crucially upon the governmental, social and institutional structures that establish the framework within which an economy must operate. It is, for example, no coincidence that nations characterized by political instability generally bring upon themselves economic depression which guarantees further instability.

Beyond this, one cannot place too high a premium upon that intangible and invaluable resource we call managerial ability. This is perhaps the one most important and frustrating shortage with which the developing countries of the world must cope.

I have discussed these points in the belief that they make more clear the necessary steps toward the solution of these pressing problems -- and the contribution Canadian businessmen can make to their solution.

The first priority is, clearly, a transfer of resources -- human and physical -- from the developed to the developing worlds. Talking in dollars-and-cents terms, \$10 billion of resources are currently being transferred in this direction each year. Two-thirds of this takes the form of official grants and loans. The remainder comes from private sources. This is a large amount, but it is still far short of what is needed.

The Canadian Government has actively participated in this transfer. Since it took the initiative with the Colombo Plan, Canada has been committed to the proposition that economic development can be generated in the "Third World"; that we can accelerate this process; that it is our responsibility to take action toward this end, and that it is in our own long-term interest to do so. Through the device of the Colombo Plan, Canada has contributed some \$800 million to the developing nations of South and Southeast Asia since 1950. Of this sum, half a billion has gone to India alone. We have broadened our effort to include the French- and English-speaking nations of Africa, the Commonwealth Caribbean and Latin America. But much more remains to be done, and is being done.

Canada is one of the few developed countries currently undertaking a substantial increase in its aid efforts. During the last fiscal year, more than \$300 million has been made available for development assistance. A comparable sum has been allocated for the current fiscal year. This despite the many other present claims on the federal purse.

Naturally, in making several hundred million dollars a year available for aid, we take Canadian interests into account, consistent with our fundamental objective of maximizing the social and economic development of recipient countries. We have a double stake in encouraging Canadian firms to do their share in putting these aid funds to work. A substantial proportion of aid

expenditure is directly on Canadian goods and services. Canadian businessmen and engineers help to identify projects and needs in recipient countries. And we have been trying to have procurement practices conform as closely as possible to normal commercial practice. We have been extending lines of credit to finance pre-investment surveys and feasibility studies to be carried out by Canadian firms and have made aid funds available to finance contracts awarded to Canadian firms under conditions of international competitive bidding.

Thus, through our direct-aid programmes, Canada plays its part in transferring financial resources to the developing world. Senior Canadian businessmen have a role in assisting the Government in putting these funds to work most effectively. Some Canadian firms will win contracts for capital equipment financed through the Export Credit Insurance Corporation. Others will seize the opportunity of filling the orders Canadian aid funds enable the developing countries to place. Such sales will generally take the form of capital equipment and engineering services, but materials will sometimes also be involved.

Not all Canadian funds are of a bilateral nature. We have always attached great importance to the desirability of co-ordinating our aid programme with that of other donors, directly and through the medium of international institutions. We are major supporters of the UN Development Programme and other agencies of the UN family and of the World Bank Group. We have subscribed to the capital of the Asian Development Bank. Through a special trust-fund arrangement, we provide substantial funds to Latin America through the Inter-American Development Bank. We have recently decided to collaborate in the establishment of a new development bank in the Commonwealth Caribbean.

Canadian firms are naturally eligible to compete for the opportunity to put the funds of these international organizations to work. Resources of about \$2 billion a year are made available to developing countries through these institutions. Against this background of financial facilities, Canadian firms should not be too hasty to assume that an importer in a developing country does not have access to the foreign exchange he needs to support his interest.

Our aid programme is one important means of transferring resources to the "Third World". Perhaps even more important, in the long run, is the willingness of Canadian firms to acquire a stake in the development of these emerging economies. I am talking about direct investment. Here in Canada, we usually think about such investment in terms of outsiders investing in our economy. The obverse is Canadian investment abroad.

At last count, Canadians in 1964 owned foreign assets totalling \$13 billion. Of this, private, direct and portfolio investment came to just under \$5.5 billion -- more than double the figure of a decade earlier. Few Canadians realize that, over the past three decades, Canadian investments abroad have, in fact, grown faster than foreign investments in Canada.

Most of this investment has naturally found an outlet in the United States and the other developed nations. But, by the end of 1964, Canadians had direct investments in the "Third World" totalling better than half a billion dollars. And this figure was growing at the rate of better than \$30 million a year.

Investment by Canadian business in under-developed countries has much to commend it. For one thing, it will do no harm to get in on the ground-floor of what, if development efforts succeed (and they must), could well become the fastest-growing market in the world before the turn of the century. By the year 2,000, better than three out of four people, out of a total world's population of some six billion, will be living in what is now known as the "Third World". Latin America, today about the size of the United States and Canada, by the year 2,000 is expected to have well over 600 million inhabitants -- half as many again as Canada and the United States combined. Developing nations can be expected to provide a major and growing market for goods and services.

Of course, it takes hard cash to translate potential import demand into effective sales orders. Developing nations will have to rely chiefly on their export earnings to obtain the goods and services they need but cannot produce themselves. A substantial and steadily growing volume of foreign exchange will be required. This can only be obtained, over the long haul, through the expansion of the trade and other earnings of the developing nations.

Later this month, I shall be going to Geneva to meet with the representatives of other governments to consider and set the course for future world-trade initiatives. The problem of the "Third World" will rank high on the agenda as an item to which Canada attaches a considerable priority. Action will be necessary on several fronts: price stabilization for the primary exports which form such an important component of the "Third World's" trade; the diversification of exports; improved conditions of access, particularly for manufactured goods, to the markets of the industrial "Third World". These are among the matters of concern to the developing nations which will receive our attention at Geneva, and subsequently at the Second United Nations Conference on Trade and Development, which will take place in New Delhi next February.

Another important consideration is that these developing nations provide an excellent outlet for the energies of a dynamic Canadian firm. I am not here talking just about those Canadians who take great personal pleasure in surmounting difficult challenges -- although this is a point which cannot be minimized, and which has, I suspect, been an important factor in the thinking of many who have taken the "Third World" as their new frontier. The point I wish to emphasize is that direct investment brings with it the need for production equipment and a continuing reliable source of supply to meet future equipment and industrial material and component requirements. It is not unusual for the parent company to fill these orders, and this can mean new, good business for parent companies and other suppliers in Canada when one of our firms decides to make a direct investment in the developing world. And, it is to be hoped, it can be anticipated that such companies will become paying propositions in their own right, making a real contribution to the Canadian parent's operations and profits.

Investment abroad, as I have often emphasized, need not be considered the prerogative of only the large multinational firms. There are opportunities as well for small-to-medium-sized firms, especially in secondary manufacturing, acting either individually or in concert.

In my opinion, much more use can be made of the consortium technique, and we are at present studying areas in which further government action might

facilitate this channel for developing collective strength by a number of smaller companies concerting together for export purposes.

There is one more essential point to consider. As I have said, one of the most urgent unmet needs of the developing nations is managerial personnel and talent. These special abilities cannot be acquired in a vacuum. They must be acquired in the operation of active, expanding companies. Canadian firms, more often than those of most other nations, are compelled by the nature of their economic circumstances to provide the kind of flexible and diversified operations which generate exactly the kind of skills, the kind of men, the developing nations need.

The need is there. And Canadian companies are in a good position to help meet the need with benefit to themselves.

In cases where this sort of investment will bring a clear return to the company and at the same time benefit the nation in which you are operating, there will obviously be little need to call upon the Government for any assistance, except, perhaps, through our diplomatic services and the facilities of our trade commissions. This is the sort of enterprise we are most pleased to see at work in the "Third World".

But first business must make itself aware of its opportunities. That is one objective of this seminar. It is also the guiding purpose of a new initiative I have asked the Department of Trade and Commerce to take. From now on, our officials at home and throughout the world are instructed to assist businessmen in respect of proposed direct investments and, indeed, actively to bring foreign investment opportunities to the attention of Canadian firms, whenever this appears to be in our national interest. Further, we are at present exploring a number of other techniques to encourage Canadian private investment in developing countries, including the possible introduction of a plan to insure Canadian investors against some of the special risks inherent in productive ventures in developing countries.

I have mentioned some of the opportunities that exist for doing a real service to developing countries, while at the same time bringing growth and, I hope, financial benefits to Canadian companies. But this can be done to the best advantage if these companies operate from a sound economic base at home - both corporate-wise and nationally. That is why I and my colleagues in the Government are devoting so much of our time to bringing our expenditures and revenues into better balance and are giving priority to programmes that help to strengthen and make our economy more productive. For too long we Canadians together have been trying to take out of the economy more than we have put into it. Now we must contain the demands and build for the future.

Gentlemen, the challenges of the under-developed countries are great. I believe it is in your best interests, in Canada's and, indeed, the world's, to seize them. If the end result of this seminar is to lead you to review possibilities for your companies' active participation in this field, it will have been well worthwhile. If the challenges are not met, we in Canada and the whole world will be losers. If, as I trust, the challenge is met, let it be said that Canada played its full part.