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NOTES FOR AN ADDRESS BY

THE HONOURABLE ROY MACLAREN,

MINISTER FOR INTERNATIONAL TRADE,

AT THE DEUTSCHE BANK DINNER

TORONTO, Ontario
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Canada

As International Trade Minister, I am confronted with issues that go beyond international trade in goods. As you are well aware, trade also means services and, increasingly, servicing a foreign market means making an investment.

In the case of Canada and Europe, the flow of investment has become a fundamental characteristic of our bilateral relations.

Tonight, I would like to share with you some thoughts on current investment issues as they relate to Canada-Europe trade relations and to the work being done at the international level to develop a rules-based investment regime. I will also touch on efforts to secure access and protection for Canadian investment abroad and on our approach to creating a competitive investment climate in Canada.

When the basic framework of modern international trade rules was initially negotiated after the Second World War, goods constituted the bulk of trade. We had to wait until the eighties to witness the elaboration of similar rules applying to trade in services, first in regional arrangements, such as the Canada-U.S. Free Trade Agreement and the single market initiative and, subsequently, in the multilateral system.

Efforts to bring investment under the discipline of the international trading system have so far been limited essentially to regional agreements; and only preliminary work has been done to build bridges between these groupings or, more globally, to develop an internationally agreed set of rules governing investment.

Yet, over the last two decades, the globalization of the economy has led to a restructuring of trade and investment patterns. A significant expansion in worldwide direct investment flows has been at the centre of these changes.

National treatment, cultural and market differences, varying standards and business practices, and proximity to clients are but a few of the main factors which have made investment one of the most practical market penetration techniques between regional economic groupings such as North America and Europe.

Recent investment flows between Canada and Europe illustrate this point well. Between 1985 and 1992, European firms doubled their investment in Canada to reach $32 billion. In turn, Canadian firms tripled their investment in the European Union to reach $21 billion by 1992.

By investing abroad, these Canadian and European firms are ensuring their own survival in the global economy. Through a variety of investment arrangements, such as acquisitions, strategic alliances and joint ventures, they can lever their capital. They can obtain access to technology, management skills, research and development, training and local market expertise which they often do not possess or which would be too costly to develop on their own.

The 1300 Canadian-based firms operating affiliates abroad are more competitive. They have better profits, higher productivity, superior sales and asset growth and spend more on research and development.

Since these business trends are part of the new international trade reality, Canada and Europe should do more to facilitate further the flow of quality investment between them. We should go beyond the stage, as we have often done in the recent past, of characterizing ourselves as economic rivals. We must make a successful transition from a relationship dominated by Cold War security concerns to one shaped by our complementary economic interests in the global race for economic prosperity.

For the time being, the newly formed World Trade Organization [WTO] provides a basic framework within which to build a stronger economic relationship with Europe in the years ahead.

In the specific area of investment, a number of bilateral agreements are already in place to facilitate the two-way flow of investment. Further negotiations are underway with the European Union on agreements on standards, science and technology and customs co-operation but more needs to be done if Canadian and European companies are to capitalize fully on the opportunities offered by their respective regional markets.

At the multilateral level, notably within the Organization for Economic Co-operation and Development [OECD] and the GATT/WTO [General Agreement on Tariffs and Trade/World Trade Organization], work is being done to establish principles and issues that would lead to an international investment agreement putting investment under a similar discipline as trade in goods and services.

The need for such discipline stems from the fact that, despite significant progress, many countries have not done enough to liberalize their laws and regulations on inward foreign investment. There has also been a rise in informal investment barriers. At the other extreme, many countries eager to attract foreign investment have engaged in predatory practices such as the use of overly generous incentives.

Although no broad consensus has yet developed on a number of principles that Canada considers key and are included in the NAFTA [North American Free Trade Agreement], we continue to pursue, through the OECD and the GATT/WTO, international discipline on access, protection and competition for investment.

In the absence of an international regime, Canada has succeeded in improving access and protection for Canadian investment abroad through the North American Free Trade Agreement and a number of bilateral foreign investment protection agreements.

Canada is also striving to attract more direct foreign investment. Canadians are well aware of the contributions of foreign investors, particularly American and European, to the development of the industrial and technological base of this country.

To that end, the Canadian government is, first and foremost, committed to creating the conditions that produce strong and sustained economic growth. In addition to our own comparative advantages, Canada's sound and prosperous domestic economy — fully integrated to one of the richest markets in the world — constitutes the most attractive incentive for forward-looking investors.

Our approach is to put in place an economic policy framework that will ensure that investors, be they Canadian or foreign, find in Canada a propitious environment for their businesses to grow and prosper. We want companies to make location decisions not so much on the amount of one-time incentives that might be available, but on the broad and long term economic growth prospects.

In that regard, Canada is currently outpacing most of the developed world in economic growth. Our economic recovery, led first by a record level of exports, is now broadening to include consumer spending. Our annual growth rate based on the six-month period ending March 1994 was four per cent. There is every reason to believe that we will continue to grow at a comparable rate in the foreseeable future.

Employment has risen by 180 000 jobs since January. The majority of these are full-time jobs providing the steady wages that will contribute to even greater consumer spending.

At the same time, costs in the Canadian economy are staying down. Among the G-7 [Group of Seven leading industrialized] countries, we have the lowest inflation rate. In May, consumer prices were actually lower than they were a year ago. The annual inflation rate stood at one per cent, a figure that, a few years ago, would have been considered unimaginable.

Our unit labour costs have been falling in line with those in the United States, due to the combination of low wage increases and significant productivity gains, particularly in the manufacturing sector. This is contributing to the sustained strength of our exports, which are also benefiting from improved terms of trade brought about by our cheaper dollar.

The main challenge facing all governments in Canada is to create a healthy fiscal climate. There is a wide consensus on this issue among the federal government and the provinces. Fiscal restraint is not an end in itself, but by reducing our deficit and lowering our debt burden, we will be able to achieve lower interest rates. This, in turn, will lead to higher consumer and investor confidence and increased economic growth.

Fiscal restraint is a fundamental requirement which will allow other government initiatives to succeed in achieving the overriding goal of job creation.

At the federal level, it is extremely important that we achieve the fiscal targets set out in the last budget, despite the recent run up in interest rates. Both the Prime Minister and the Minister of Finance have stated unequivocally that they will take whatever actions are required to meet our deficit targets — three per cent of GDP [Gross Domestic Product] — a target not reached since 1977. Our ultimate goal, as stated in the Red Book, is to balance the budget.

Just as we are taking practical steps to deal with our fiscal situation, we are also striving to make concrete improvements in the working of the Canadian Federation. The Government is deeply engaged in practical, co-operative efforts with the provinces to make the Canadian Federation work better for all Canadians. The infrastructure program, the reform of the GST [goods and services tax] and of social security programs, the Team Canada approach to international business development are but a few areas where the provinces and the federal government co-operate constructively to build a stronger future for Canadians.

Earlier this week, the Prime Minister and the provincial premiers signed an internal trade agreement to eliminate and reduce interprovincial trade barriers. As well as enhancing the predictability and stability of the Canadian marketplace and adding to the confidence with which businesses can operate in Canada, the agreement is further proof that federalism can and does work.

Thank you.