

Statement

Minister for
International
Trade



Déclaration

Ministre du
Commerce
extérieur

90/56

CHECK AGAINST DELIVERY

EMBARGOED UNTIL 20:00 HOURS

NOTES FOR A SPEECH

BY THE MINISTER FOR INTERNATIONAL TRADE

JOHN C. CROSBIE

AT THE 47TH ANNUAL MEETING OF THE

CANADIAN EXPORTERS' ASSOCIATION

HALIFAX, NOVA SCOTIA

October 1, 1990.

Ladies and Gentlemen - Welcome to Atlantic Canada.

It gives me great pleasure to join you again at your Annual Convention.

When we met at your Annual Dinner last year in Ottawa, your Convention theme was "The 1990's - Meeting the Challenge".

This year's Convention theme stresses the importance of export competitiveness. It is not always easy to agree on exactly what is required to maximize our export competitiveness.

However, one thing I think we can all agree on is that government and business must work together to maximize Canada's export potential.

Government and business must work together, because neither one of us can do it alone. We each have an important role to play.

Your role is to create and market goods and services in an increasingly competitive global market place.

Our role is to create a policy framework and environment that will enable you to compete on an equal footing in open markets around the world. To fulfill our role, the Government of Canada must be active on several fronts.

Tonight I would like to focus my remarks on two policy fronts that are of critical importance to Canadian exporters - trade policy negotiations, and our domestic economic policies.

I will not dwell on our trade development programs this evening, because I understand you discussed them in considerable detail this afternoon. You are therefore already familiar with our Going Global strategy, and our numerous trade development programs targeted to the United States, Europe, Asia, and Latin America.

Trade policy is important to Canada because our prosperity depends on secure access to markets beyond our borders. We all know that one-third of the Canadian Gross National Product depends on exports.

Since 1947, the General Agreement on Tariffs and Trade has been the cornerstone of Canadian trade policy. As we approach the 21st century, the GATT remains a top priority, but we must recognize that it has reached a turning point.

During the next few months, the GATT will pass through one of the most critical phases of its existence. We should therefore pause for a moment and carefully consider what is at stake.

A recent edition of the Economist described the GATT as follows:

For most of its 43 years, the GATT has worked remarkably well. That is surprising because the infant was four-fifths throttled at birth.

The GATT was originally conceived in 1944 at the Bretton Woods conference along with the World Bank and the International Monetary Fund.

However, from the very outset, governments were reluctant to surrender commercial sovereignty to an international trade body.

Unlike the other two Bretton Woods triplets, the charter of the International Trade Organization was never ratified after the war.

Instead, we ended up with the stop-gap interim arrangement called the General Agreement on Tariffs and Trade that is still in place more than four decades later.

Despite its difficult beginnings, the GATT has served the interests of Canadian exporters remarkably well up until now.

The first seven rounds of GATT negotiations reduced the average tariff on manufactured goods from 40% in 1947 to about 5% today.

This gradual tariff liberalization created increased market access for Canadian exporters and paved the way for rapid growth in world trade.

Notwithstanding its progress in lowering tariffs on manufactured goods, the GATT has, so far, been unable to come to grips with several pressing problems such as agricultural trade and trade in services.

And that's why we find ourselves at a crossroads today.

Four years ago, we launched the eighth round of GATT negotiations in Punta del Este, Uruguay. In ten weeks, the Uruguay Round is scheduled to conclude in Brussels.

The Government of Canada has played an active role in the Uruguay Round because we believe the future of the world trading order depends on its outcome. The GATT is important to Canada because the future prosperity of our medium sized economy depends on exports. Canada needs a world trading order that is based on the rule of law rather than pure economic strength.

Our primary objective is to secure access for Canadian goods and services around the world. To secure this access, we must broaden the GATT's scope to include agricultural trade, trade in services, and other modern trade realities. With over 8 billion dollars in agricultural trade, and over 20 billion dollars in services trade, Canada has important interests at stake.

We must also create new rules for trade-related intellectual property and develop tighter disciplines on subsidies and countervailing duties.

There is no point in negotiating a new set of rules that no one abides by. To remain credible, the GATT's rules must be respected.

That's why we have put forward a comprehensive proposal to reform the GATT's institutional structure and create a World Trade Organization with an effective dispute resolution mechanism.

In the coming weeks, I will be doing everything I can to ensure the continued success of the GATT world trading order.

Next week, I will host a quadrilateral trade ministers meeting in St. John's with my counterparts from Japan, the United States and the European Community. The Uruguay Round will be the top item on our agenda.

We will continue to use our membership in the Cairns Group of agricultural exporters to try to bring agricultural trade under GATT disciplines, to increase market access, and to eliminate export subsidies that are shutting Canadian exports out of our traditional markets.

Last month in Vancouver, I hosted a meeting of trade ministers from 12 Asian and Pacific countries to discuss our GATT objectives. We will meet again in Brussels to work towards a successful conclusion of the Uruguay Round.

We believe that the future prosperity of Canadian exporters requires a successful outcome at the Uruguay Round. We have therefore been working hand-in-hand with you and your Association to ensure that Canada's negotiators are fully prepared for the difficult discussions that lie ahead.

Our efforts to consult are unprecedented. Never before have so many business and labour representatives been involved in the formulation of Canadian trade policy.

Many of you play important roles on the International Trade Advisory Committee ("ITAC") and the Sectoral Advisory Groups on International Trade ("SAGITS").

The ITAC and SAGITS are concrete examples of how effectively government and business can work together to enhance Canada's competitiveness in the global economy. To attain our GATT objectives in the coming weeks, we will need your continuing commitment.

In the recent great trade debate surrounding the Canada-United States Free Trade Agreement ("FTA"), some protectionists attempted to drape themselves in the GATT flag of trade liberalization.

As the Uruguay Round concludes in the coming weeks, we will finally have an opportunity to see who truly believes in trade liberalization, and who does not.

To complement and reinforce our GATT trade policy initiatives, we must secure our access with our neighbours in the vital North American market.

We are now heading into the third year of the free trade agreement that we concluded with our largest trading partner, the United States. Although it is still too early to measure all of the benefits, the initial signs indicate that the FTA is working well.

One of our primary objectives in the FTA was to secure access to the large American market so that Canadian exporters could invest with more certainty and develop the economies of scale required to compete in the global arena.

Canadian exporters are rising to the challenge. In 1989, manufacturing investment increased by 15%. Investment in plant and equipment now accounts for more than 16% of the Canadian GNP, which is second only to Japan among the G-7 nations, and is considerably better than the 12.5% figure recorded in the United States.

Before the FTA, many Canadian exporters were reluctant to invest in Canada because there was always the fear that their increased exports might become the target of a highly politicized American trade action.

To create a more business-like investment climate, we realized that trade disputes with our largest trading partner had to be de-politicized. Our government literally fought down to the wire to obtain an effective dispute settlement system in which Canadians are equally represented. We fought hard because we knew it was important to you.

The fight was worth it. The prestigious Journal of Commerce recently reported that the binational panels we created have been "an impressive success".

Canadian exporters are enthusiastically using the binational panels to protect their commercial interests. For example, a recent panel decision ordered the United States International Trade Commission to reconsider its finding against Canadian pork producers.

We will no doubt continue to win some, and lose some. However, the future success of the binational panel system will not be measured by the number of cases Canadian exporters have won or lost. The system's real success will be gauged by the immeasurable number of actions that it prevents.

The government fought hard to get the FTA because we knew it was important to Canadian exporters and that it was the right thing to do.

You will recall that the unelected Senate refused to pass the FTA. So we fought an election to deliver the FTA's benefits. During that historic election, Canadian exporters took a stand and strongly supported the government's free trade initiative.

The business community took a public stand on the FTA because you thought it was vital to our national prosperity. The government won a majority and we delivered the FTA several weeks later.

The free trade debate forced Canadians to confront the issue of global competitiveness. After a vigorous national debate, the Canadian public voted for policies that will enable Canada to adapt to the competitive challenges of the global economy.

Recent events indicate that the Senate's attempt to block the FTA was not an isolated incident. An alarming pattern is emerging which I will discuss in further detail in my concluding remarks.

In addition to our GATT and FTA trade policy initiatives, we have recently announced another major undertaking.

In the August edition of your Association's official publication, there was an article that argued that Canada should participate in the Mexico free trade talks. We agree.

Last week I announced in the House of Commons that Canada will participate in discussions with Mexico and the United States to establish the basis for subsequent negotiations on a North American free trade arrangement.

The next day, your Association announced that it welcomed these discussions and declared:

Canadian exporters always welcome improved access to foreign markets and support positive constructive efforts by the Canadian government to this end.

This is another example of government and business working together to enhance Canadian export competitiveness in the 1990s.

We are pleased that your Association supports the Mexican trade initiative and we look forward to receiving your views in the ITAC, the SAGITS, and elsewhere as we prepare for next year's negotiations.

The principal reasons for joining in these talks are twofold. First, Mexico's recent reforms in its economic, trade and investment policies are creating trade opportunities for Canadian exporters in the growing Mexican market. Looking down the road, we see significant opportunities.

Second, given the vital importance of the North American market to Canada, we must enhance our ability to compete and attract investment in this emerging market of over 350 million.

In recent years, the Mexican Government has greatly modified its import regulations and has significantly reduced tariff and other barriers to trade, particularly since 1986 when Mexico joined the GATT.

With a growing market of over 80 million people and a government committed to economic reform, Mexico will rapidly become an important player in the vital North American market.

Mexico is already Canada's most important trading partner in Latin America. Trade between our two countries exceeded 2 billion dollars last year, a 25% increase over 1988. We expect our two-way trade with Mexico to reach an annual level of 5 billion dollars during the 1990s.

Canadian exporters have been quick to seize the growing opportunities in Mexico. During the first six months of this year, our exports to Mexico increased by over 20%.

To take one example, Canada's Northern Telecom recently won a contract for cellular telephone central switching equipment. As a result, Canada's exports of telephone equipment increased fivefold from 5 million dollars to over 25 million dollars.

By being part of trilateral free trade discussions from the outset, we can ensure that Canadian exporters will prosper on an equal footing in the emerging North American market so that we can continue to maintain high quality jobs here in Canada.

We are participating in these talks to expand the opportunities we created with the FTA.

The FTA is an internally balanced document that has been signed, sealed, and delivered in Canada and the United States. Canada's position is clear. We will not accept any proposal which could diminish our existing FTA benefits. If our negotiators can identify ways to add any new improvements to the FTA, we will consider them.

Following our initial round of consultations, I was impressed by the strong support the Mexican trade initiative received from business representatives, journalists, and distinguished academics. However, it would appear that some of the same protectionist forces that opposed the FTA have already mobilized to oppose the Mexico free trade talks.

Will Mexico's lower wages cause Canadian manufacturers to suddenly relocate in Mexico? Of course they won't, because wages now average less than 20% of a manufacturer's direct costs and are not the decisive factor in locating most types of manufacturing in the 1990s.

Other important factors are labour productivity, the location of suppliers and markets, management and labour skills, and the quality of a country's transportation and communications infrastructure.

With our highly educated and productive work force, location, and state-of-the-art infrastructure, Canada will remain an attractive place to invest and maintain jobs.

We are not alone in recognizing that wages are not the sole deciding factor in investment. Consider the following quotation:

"...if you want to compare our economy to Mexico, what is the attractiveness of the Canadian economy versus Mexico? It will never be wages, and no matter what I do, we could abolish the minimum wage tomorrow and we would never get wages down to the level they are in Mexico. There is no point in trying to play that game. That is a complete dead end for Canada.

Our positive comparisons to Mexico have to do with our skills, our training, our education, our scientific research, the kind of investment that we are prepared to make in people and the kind of investment we are prepared to make in knowledge and in the manufacturing strength that we still have and I don't want to see that manufacturing strength lost."

The author of these views was sworn in today as Premier of Ontario.

These trilateral trade talks complement our many other initiatives designed to position Canada as a competitive force in an increasingly open and interdependent global economy.

You are all aware that one of the key elements of our domestic economic strategy is expenditure reduction. During the past six years, we have made real progress in reducing government expenditures.

Federal program spending as a proportion of the Canadian economy is now at its lowest level in almost 20 years. We have also reversed our annual operating balance (the difference between revenues and program spending) from a 16 billion dollar deficit when we took office, to a 10 billion dollar surplus last year.

Tax reform is also one of the pillars of our government's program to prepare the Canadian economy for the competitive challenges of the 21st century.

We believe it is essential to get the status quo Manufacturers' Sales Tax off the backs of Canadian exporters by replacing it with the Goods and Services Tax this January.

The Canadian Exporters' Association supports the GST because it will enable you to price your exports more competitively.

Under the status quo, exports are not taxed directly, but sales taxes paid earlier in the production chain become an indirect charge on Canadian products abroad. This adds an additional burden of around 10% of the competitive margin of the goods you export.

A few percentage points can make a big difference in the eyes of your foreign customers. This added 10% burden makes it more difficult for you to meet the competition and to invest and grow in Canada. Our GST tax reform measures will eliminate this burden and enable you to meet the competition who have already benefitted from similar tax measures.

On the day we announced the last election, the government staked out its position on the GST and tax reform when we declared:

"under tax reform, we would bring Canadian industry onto a level playing field vis-a-vis their competitors, particularly with regard to our capacity to export, thereby creating jobs here at home."

Following the election, a Parliamentary Committee conducted public hearings across the country and heard testimony

from over 300 witnesses and consulted more than 300 organizations and individuals. This detailed study followed two special tax review committees, two major government studies and two Royal Commissions stretching back over a period of 50 years.

Your Association has worked tirelessly to express its support for tax reform by appearing before both the House of Commons and Senate committees, meeting with Department of Finance and Revenue Canada officials, and making presentations to federal and provincial Finance Ministers.

Your advocacy and support for the GST is another good example of how government and business must remain above partisan politics and work closely together to ensure that Canada makes the right moves to enhance our global competitiveness. Your support is welcome and we urge you to continue to make your views known as the GST enters its final approval stage.

It is unfortunate that some members of the unelected Senate do not share your desire for tax reform and are creating an unprecedented constitutional crisis by attempting to block the will of a recently re-elected majority government.

In a democracy, tax reform is rarely a popular topic. But we must do what is right, even if it may be unpopular at times.

I know that many of you are attempting to negotiate contracts that will involve transactions in the coming year. The uncertainty caused by recent actions in the Senate is no doubt making it difficult to price your goods and services competitively.

The uncertainty the Senate is creating in the exporting community is unacceptable and cannot continue. We firmly believe that, to increase our competitiveness abroad, the GST must be in place by January 1st.

We are willing to take the heat and provide the leadership that is required to get the job done. We know where we are going and we intend to proceed.

The partisan politics of an unelected few will not be allowed to dictate the national agenda. Particularly when they offer no alternative proposal to eliminate the costly Manufacturers' Sales Tax.

The GST debate is similar in many ways to the FTA debate. The interests of Canadian exporters are once again being threatened by those who refuse to recognize the relationship that exists between global competitiveness and the national interest.

Another major economic initiative to enhance Canada's competitiveness is our Labour Force Strategy. This strategy recognizes that our competitors are actively training their workers and improving their skills. To compete, we must constantly upgrade the work skills of our labour force.

The programs required to implement our strategy are contained in Bill C-21, an Act to Amend the Unemployment Insurance Act.

This Act provides for adjustment programs for communities across Canada. It also will reduce the qualifying period from 14 weeks to 10 weeks in harder hit areas of Atlantic Canada.

Unfortunately, the UIC legislation has met the same fate as the FTA and the GST. Over 350 million dollars set aside for retraining 60,000 workers is being blocked in the Senate. Our 100 million dollar entry-level training program is also being obstructed by a few unelected voices from the past.

The Senate's obstruction of the GST and UIC will increase the federal deficit and will aggravate interest rate and currency concerns in the business community.

The issues at stake strike at the heart of our national interest. If you share our view that the Senate's actions will adversely affect Canada's exporting interests we urge you to express your concerns loud and clear.

In closing, I am extremely pleased to see that External Affairs and International Trade Canada is so well represented here today. I am also delighted to see that, once again, the Export Development Corporation and the Canadian Commercial Corporation are making a major contribution to your Annual Convention.

I congratulate your Chairman, Paul Koenderman, and your President, Jim Taylor, for organizing such a successful event.

And now I would like to turn to this year's Export Awards. Later this evening, we will be honouring companies that are competing effectively in Europe, Asia, the United States and around the world.

Their competitiveness in global markets is, after all, what International Trade Month is all about. I salute their efforts.

Thank you.