Minister of Industry, Science and Technology and Minister for International Trade

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Ministre de l'Industrie, des Sciences et de la Technologie et ministre du Commerce extérieur

Statement Déclaration

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CHECK AGAINST DELIVERY

NOTES FOR A SPEECH BY

THE HONOURABLE MICHAEL H. WILSON,

MINISTER OF INDUSTRY, SCIENCE AND TECHNOLOGY AND

MINISTER FOR INTERNATIONAL TRADE,

TO THE CHICAGO COUNCIL

ON FOREIGN RELATIONS

CHICAGO, Illinois
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It is a great pleasure, Mr. Chairman, to be back in Chicago again, and to meet with such a distinguished group as yours. (I know a room full of Blue Jay fans when I see one.)

I had rather hoped, in a perverse sort of way, that I might be competing this fall afternoon with a barn burner of a ball game back in the Toronto Skydome. But instead, my consolation will, I hope, be your undivided attention for a few serious thoughts that I would like to share with you on a subject that is near to my heart, and I suspect not very far from yours: the Canadian economy, where it has come from, and where it is going.

The Chicago Council on Foreign Relations has a major role to play in fostering understanding of international issues in this vital city and this great state. And there is no state better placed in all the U.S. to appreciate the importance of the Canadian economy to the past and future prosperity of the U.S. in general, and the mid-west in particular.

Two-way trade between Canada and Illinois, worth $9.7 billion in 1990, makes Illinois alone Canada's third-largest trading partner in the world, after the U.S. and Japan. Conversely, Canada is Illinois' number one trading partner, as it is for both Wisconsin and Missouri as well, incidentally.

In terms of sheer verve and determination, it would be hard to top what an Illinois-Canada partnership accomplished in taking the Big Mac to Moscow. As close partners, we have many other bread and butter topics to deal with, and understanding is the key ingredient.

As regards the Canada-U.S. Free Trade Agreement, the FTA, our Consul General, Doug Valentine, tells me that you have been "FTA-ed out," and that, in any case, I would merely be preaching to the converted if I were to dwell on the FTA. You will appreciate that this is not always the case at home, and I hope you will indulge me if I occasionally digress into some of the not so widely appreciated reasons why the FTA is working well for Canada. I know you are looking for some comments from me on the new, North American trilateral talks, but I'd like first to say a word or two, Mr. Chairman, about the broader policy context in which Canada is approaching these important negotiations.

Some six years ago, in December of 1985, here in your great city, at the University of Chicago, Prime Minister Mulroney spoke at some length about his new young government's plans for Canada's "economic renewal." He spoke about creating the essential conditions for renewed growth, the importance of deficit control, the role of investment and the significance of trade.

Our government had recently been elected on a policy platform committed to dealing with the new challenges facing Canada -- challenges of job creation, of improving our competitiveness and of achieving sustainable economic growth. In November of 1984, we had released a comprehensive strategy to help Canadians meet the challenge of the new global economy.

To our critics, it was an ideological plan based on blind faith in market forces and a deep-seated suspicion of government. In fact, as in many other countries, it was a pragmatic response to the two fundamental realities of our times. The first reality is that governments can no more roll back the waves of change than reverse the tides in the Atlantic Ocean. The second is that much had to change in Canada. Only by adapting to inexorable change could we maintain our standard of living and quality of life.

Our policy agenda recognized the practical need to devolve power from the state to the private sector and individual citizens. Decisions should be taken on the basis of real needs as indicated by market pressures rather than government edict.

We recognized that the very basis of economic growth was changing. Technological innovation and knowledge continued to replace natural resources as the key source of wealth creation. And we understood that, in this global marketplace, success required being internationally competitive. Countries must meet international standards of quality and price.

To meet Canada's economic and industrial challenges, we embarked on a wide-ranging agenda of reforms.

We downsized our bureaucracy and privatized many state enterprises.
We deregulated our transportation and energy sectors to restore the roles of cost and price in our economy. We reformed the income tax system to reduce rates and lessen its role in determining investment decisions. We sought and secured a bilateral free trade agreement (the FTA) with the United States, that gives us more secure access to our largest export market. We implemented aggressive trade development strategies outside North America, but with special emphasis on Europe and the Pacific Rim. We have encouraged direct investment from abroad. We recognize that new investment brings with it new technologies and know-how.

We have been reforming our educational and training programs to improve the knowledge and skills of Canadians. And we have been reforming our social policies in order to direct assistance to those Canadians most in need. We have replaced an outdated, discriminatory wholesale tax with a fairer, export-friendly value-added tax.

As a result of our fiscal restraint, Canada's deficit has been reduced farther and faster than yours. And throughout our mandate, the long-term anchor of our monetary policy has been, and remains, price stability.

These policies, conceived and implemented as part of a comprehensive, long-term plan, have, in the intervening years, taken effect. Prior to the recession now ending, from 1985 to 1989, Canada's economy grew (not counting inflation) at an average annual rate of 4.3 per cent, better than all the leading industrial countries except Japan.

Canada's record in creating jobs during this period led all industrial nations. Not only have our policies taken positive effect, but those effects have not gone unnoticed, by the Organization for Economic Co-operation and Development (OECD), the International Monetary Fund and other impartial observers of the global economic scene.

Every year the Geneva-based World Economic Forum issues its report on the relative competitiveness of nations. It compares the 23 nations of the OECD in eight different categories.

Back in 1986, the report ranked Canada in eleventh place. That was before our Agenda for Economic Renewal had had a chance to kick in. By 1987, Canada had advanced to sixth place. In 1989, we moved up to fourth, then slipped back to fifth last year, behind Japan, the United States, Germany and Switzerland.

If, as Canadians and as a government, we take some satisfaction at this vindication of our policy direction, we have never made the mistake of thinking that the job was all done. There was, is, and always will be, a great deal more to do.

The 1991 World Economic Report was released in June of this year and predictably there was good news and bad news for Canada. Once again, we ranked in fifth place, behind Switzerland and ahead of Austria.

Once again, we earned high marks for such features as our natural resources, our cheap energy, our highways and airports, and our health care system -- which was rated the best in the world.

That is the good news. But the warning signals become apparent when we take a look at some of those features that will be vital to a national economy in a dynamic global marketplace in the 1990s and beyond. Indeed, the report contains warning signals that call into question our very ability to continue to provide for those very highways, airports, and health care services we prize so highly.

In terms of the effectiveness of our school system to meet the demands of a competitive economy, we ranked 11th. The effectiveness of our company training programs ranked 20th -- near the end of the pack.

In the international orientation of our economy, we ranked 16th out of the 23. In terms of science and technology, we ranked 17th.

The picture that this paints is of a nation that has grown rich on its natural resources. It has used that wealth to create a high level of social services.

But it has not always reinvested its wealth to ensure that the prosperity will continue. Prosperity that will depend upon the skills of our people. Prosperity that will depend on high levels of productivity. Prosperity that will depend on our ability to apply innovative technologies to our industries.

The government takes these warning signals very seriously, and is preparing, at home and abroad, to address them head on. Where we have done well in the past -- as in trade, for example -- we will continue to work to build on our strengths. Where there is need for improvement, we will find the solutions.

Let me talk first about trade. Trade built Canada -- whether the export was fish or furs, timber or wheat, autos or engineering services and telecommunications. Trade has kept food on our tables, clothes on our backs for over 300 years. Trade has helped build the high standard of living and the enviable social safety net we enjoy today.

Canada earns more than 25 per cent of its income from exports. This is two-thirds more than in the case of Japan, and more than double the comparable U.S. figure. Trade is our blood.

Today, the whole world is trading. Competition is tough. We did not make it that way and we cannot wish it away. A failure to trade is a failure to compete. And the inability to compete would mean failure in trade. That is a circle that cannot be broken. It is a reality we cannot ignore.

Speaking here in Chicago, at the Walter E. Heller College of Business Administration of Roosevelt University, in November 1986, I said the following:

"Improving and securing access to export markets is another key thrust in our strategy. Because of Canada's relatively small domestic market, competing in the world trading market is a crucial challenge if our economy is to expand and prosper. We are confident that our trade negotiations with the U.S. will produce an arrangement that is mutually beneficial. At the same time, we are working to improve our multilateral trade opportunities."

I meant it in 1986, and if you update it by adding Mexico, I'll say the same again today. Let me quote myself briefly once more:

"There's no turning back from the new reality of global competition. Governments that adopt the view that they should discourage competition are doing a disservice to their people as well as the world. A nation can't progress economically, socially or culturally if it insists on viewing competition as a dirty word. In the new era in which we live, it is by stimulating initiative and the will to succeed, not by stifling it, that modern nations can achieve higher standards of living, greater security and improved conditions for their people."

With this thought in mind, the Mulroney government set out in 1985 to do what it could to expand Canada's export horizons, and from the start, it was always a two-track affair.

From the beginning, we have regarded bilateral and multilateral trade agreements as complementary initiatives, not mutually exclusive alternatives. Indeed, those who have studied the terms of the Canada-U.S. Free Trade Agreement know it is not a rejection of multilateral trade liberalization. Rather, it is a stepping-stone toward our ultimate goal of freer multilateral trade. In fact, by encompassing trade in services, we believe the Canada-U.S. FTA serves as a promising model for future multilateral and bilateral progress.

The ultimate goal of the trilateral North American Free Trade Agreement (NAFTA) negotiations is to create a North American market free of tariffs and non-tariff barriers that would permit the free flow of goods, services and investment among the three countries. The negotiation of such a North American agreement is a continuation and extension of the Canadian government's approach to international trade aimed at increasing Canadian competitiveness in an increasingly globalized trading world that is characterized by tough competition.

This drive for competitiveness has been coupled with the government's firm commitment to the progressive reduction of tariffs and other trade impediments as evidenced by signing the historic and precedent-setting Canada-U.S. FTA, two years ago, and by Canada's efforts to secure a successful conclusion to the General Agreement on Tariffs and Trade (GATT) Uruguay Round.

Indeed, Canada's number one trade priority is a successful conclusion of the Uruguay Round of Multilateral Trade Negotiations (MTN). These negotiations constitute, in themselves, Canada's most significant commitment to trade liberalization. Depending on how they progress, they many also have a secondary effect on the North American trilateral talks. Success of the MTN could make it easier to achieve a stronger NAFTA. Failure at the MTN could result in a smaller, less robust North American deal. In the face of the difficulties encountered at the MTN, we are happy still to be able to add to Canada's competitiveness through the NAFTA. Clearly, it's just common sense to work on several trade fronts at once. So we seek to make improvements where we can. But the NAFTA will be a poorer deal if MTN negotiators fail to make the needed breakthrough in the next four or five months.

This deserves a few words of explanation. Many of the issues under negotiation in the NAFTA are the same as those being negotiated in the MTN. Subsidies: What kind of government financial aid distorts trade and what kind is acceptable for domestic reasons? Trade remedies: When are anti-dumping and countervail actions warranted and when should they be banned? Government procurement: How much access to government supply and services contracts should be granted to foreign companies? These issues -- and more -- are currently being negotiated at the MTN. And there is an understandable reluctance among all three countries in the North American free trade negotiations to commit themselves in some of these areas until there is a clear understanding of what will emerge at the MTN. Obviously a comprehensive and ambitious agreement among the more than 100 members of the General Agreement on Tariffs and Trade will offer a tremendous base for a NAFTA to build on. Without it, the three partners will have to be more careful where they break new ground.

There are good reasons to be optimistic about the outcome of the MTN, despite the disappointing stalemate reached at the conference in Brussels last December. A lot of water has passed under the bridge since then and the outlook for a successful completion of the Uruguay Round now appears much more promising. Having peered over the brink, at a potential international trading regime that would be increasingly subject to capricious and arbitrary actions aimed at protecting narrow self-interests, and realizing that such a world would only lead, not to a strengthening, but to a shrivelling up of the world economy, GATT members have decided that they must try again to save the Uruguay Round, and none too soon.

The negotiations towards a North American Free Trade Agreement between Canada, the United States and Mexico are on their own track and proceeding smoothly. As you know, at the inaugural ministerial meeting held in Toronto last June, the trade ministers from the three countries declared their intention to achieve a comprehensive agreement, broad in scope, that would confer real benefits on its participants.

General principles agreed to at the outset in Toronto included a maximum possible free exchange of goods, services and investment. Under such a free trade system, goods and services would move completely duty free among the three countries. There are sensitivities of some sectors with respect to the elimination of all duties. But we are confident that we can resolve these, on the basis of extensive and open consultations leading to a timely passing out of tariff cuts, as was successfully achieved under the FTA.

The ministers also agreed to a single set of rules of origin, kept as simple as possible, that would ensure that the three participating countries are indeed the ones benefiting from this agreement.

To achieve these objectives, the ministers agreed to maintain close and effective political management over the negotiations. A further meeting was held in Seattle, in August, and the next one comes up later this month in Zacatecas, Mexico. In the meantime, Chief Negotiators have also held three meetings -- in Washington, in July; in Mexico City, in August; and last week, in Ottawa.

The negotiations are taking place in six major negotiating groups: market access, trade rules, services, investment, intellectual property and dispute settlement. In addition, more detailed negotiations are being held in some 20 subgroups to give each country the opportunity to examine individual issues in depth. To date, most negotiating groups have met five times, their meetings rotating among the three countries.

The detailed negotiations have made important progress during the summer. The work on tariffs and non-tariff barriers, the traditional core of any trade agreement, is well advanced. On September 18, as agreed previously, the three countries exchanged initial tariff removal proposals. This in itself is indicative of how well the talks are progressing. It is also, from the perspective of the businesses in the three countries who were consulted on these proposals, a positive sign that the negotiations are taking into account their specific interests. The gradual tariff phase-out gives them time for positive strategic planning.

Negotiators have also initiated a chapter-by-chapter review of the rules of origin in the Canada-U.S. FTA to determine if changes are required to meet the specific conditions of a trilateral agreement. Effective rules of origin are central to ensuring that the benefits of the FTA flow primarily to the NAFTA partners.

The next stage of the negotiations will see the development of texts which may be exchanged by the end of this month. These would be very preliminary documents, but they should help to focus and co-ordinate the discussions in the more specific negotiating groups.

Now let me outline Canada's main objectives in the NAFTA negotiations.

High on the list is barrier-free access to Mexico for Canadian goods and services, while developing tariff phase-out provisions and safeguard mechanisms which reflect Canadian import sensitivities.

Mexico's trade barriers have hampered Canadian exporters' efforts to compete for a slice of the Mexican market of 85 million people. In announcing our intention to join the talks in February, Canada wanted to ensure that our exporters enjoy the same access to the Mexican market as do United States exporters. If we had not moved to join the talks, a bilateral United States-Mexico trade deal would have created preferential access for the United States and stacked the deck against Canadian business and our economy.

While Mexico has already reduced many tariffs as part of its decision to join the GATT in 1986, I remind you that its GATT-bound rate, the maximum levy it is allowed under the GATT, is 50 per cent for most products. The average rate of tariff protection is currently much lower than that. But Mexico holds in reserve the ability to resume a high-tariff policy. Today there is no treaty preventing the Mexican government from unilaterally raising its tariff above current rates, as it did in 1990 when the duty on numerous paper products went from 10 to 15 per cent. The ability to take such actions does not contribute to a stable trading environment. The phased elimination of duties through a new treaty will go a long way to creating confidence for Canadian exporters in the Mexican market.

Tariff barriers aren't the only obstacle that concerns us in these negotiations. There are non-tariff barriers as well. In the early 1980s almost all exports to Mexico required an import licence, one of the most common and effective forms of non-tariff barriers. Their discretionary nature makes them particularly damaging to a predictable trade environment. While that situation has changed for the better, with the requirement for licensing declining substantially, this barrier still affects approximately 20 per cent by value of Mexican imports. The licenses apply to agricultural and some forest products, motor vehicles and selected chemicals and petrochemicals. These are all important export goods for Canada. The removal of these barriers would be a major element of a successful agreement.

Mexico's investment climate has undergone significant liberalization over the last few years, particularly since new regulations were approved in May of 1989. But much work remains to be done. The investment climate in Mexico is still much less open and free than that found in Canada or the United States. Potential investors still must meet several criteria, even in the many areas now open for majority foreign ownership. A number of important sectors are still reserved exclusively for Mexican control, including 100 per cent state ownership in areas such as oil refining and basic petrochemicals. Investment performance requirements are also in place in several other sectors, including importantly the automobile sector, where investors must submit to trade-distorting export and domestic sourcing requirements. For a North American Free Trade Agreement to achieve its potential for stimulating economic growth, Mexico must open its doors wider for foreign investors, creating more opportunities for everyone.

Another item on Canada's agenda is improved access to the United States market in such areas as financial services and government procurement. We hope to build on the important gains made under the FTA to cover even more government agencies and departments. Great strides were made in this regard under the FTA. Canadian firms can now bid on a limited number of contracts in excess of $25,000, down from the previous ceiling of $171,000. But that's not enough. "Buy-America" restrictions and numerous so-called set-aside exemptions keep many doors closed to Canadian exports.

Canadian companies will have an opportunity to bid on many billions of dollars of government contracts now closed to them, if we can win removal of these discriminatory barriers.

A NAFTA would ensure that Canada remains an attractive site for foreign and domestic investment seeking to locate in North America. NAFTA will guarantee that no matter where a company chooses to build its plants, it will have uninhibited access to all three countries. Artificial trade barriers won't be a determining factor when companies, wanting to serve a North American market of 360 million people, decide where to invest. Their decision will be based instead on the inherent capacities of each economy to provide what they need. We think that in Canada they will find a highly skilled, highly educated work force and a solid infrastructure of public and private services that will often tip their decisions our way. A North American Free Trade Agreement will increasingly encourage investors to make their decisions on economic merit, not on artificial barriers.

Mexico is already Canada's best trading partner in Latin America, albeit two-way trade only accounted for some $2.4 billion last year. But, according to estimates, this figure is expected to double by 1995. There are good reasons. Mexico is undergoing sweeping economic reforms. Mexico's effort in correcting its fiscal imbalance over the last eight years is unparalleled in the Western world. As a result, the Mexican public sector primary balance has now been recording a surplus for the last eight years. Over the same period, public expenditures have been reduced while public revenues rose substantially.

Privatization has also been a key element in Mexico's economic reform program. Whereas in 1982 there were 1,155 estate-owned companies, to date 770 have been privatized, merged or liquidated, with another 165 in process. That leaves only 120 state-owned firms in Mexico. More importantly, this has helped improve the Mexican economy's overall productivity and the public finances. In the financial sector, the most important step undertaken by Mexico has been the reprivatization of the commercial banks.

Now, I referred earlier to what I called a number of warning signals for Canadian competitiveness that have been showing up lately on our radar screen, and I said that our government is working to meet them head on.

I and a number of other Ministers are currently in the process of elaborating a policy and public consultation strategy designed to address in a comprehensive way such basic underpinnings of Canadian competitiveness as skills training, science and technology, capital and investment, and an issue that I'd like to say a short word about now, and that is the nature of the internal Canadian economic union, the internal Canadian market, and the role these issues play in the current national debate on constitutional reform.

According to the Canadian Manufacturers' Association, some 500 internal barriers to interprovincial trade within Canada are costing Canadians $6 billion a year. They are hurting our internal and external competitiveness. Canada needs a true common market, and a stronger economic union, for the prosperity of all Canadians.

As part of the Constitutional Proposals Prime Minister Mulroney presented three weeks ago, we have included fundamental reforms to the Canadian economic union.

Canadians are modernizing a Constitution which was written with the economic realities of the mid-19th century in mind. It could not have anticipated the rapid changes brought on by the creation of a global marketplace.

The government is proposing a series of amendments -- for public discussion -- which will enhance the mobility of people, goods, services and capital within Canada with a view to strengthening our economic union.

In an era of growing international business linkages, Canada simply has too many barriers to trade within the country. Our ability to compete in global markets is hindered by antiquated restrictions to the free functioning of our internal market. So, we propose that by 1995, the Constitution be modernized to enhance the mobility of persons, capital, services and goods within Canada.

This modernization is part of a range of proposals to strengthen the economic union by giving Parliament "a new power to make laws for the efficient functioning of the economic union," and by harmonizing the fiscal policies of all Canadian governments, along with the nation's monetary policy.

The federal proposals suggest enhanced federal-provincial co-operation in managing the economic union through a newly constituted Council of the Federation. We are also suggesting that the Bank of Canada have a specific, clarified mandate to fight inflation, and we want to develop guidelines with the provinces to harmonize federal and provincial fiscal and spending policies.

These proposals for a fuller economic union are, as I mentioned, part of a larger package of Constitutional Proposals that the government has put out for the consideration of Canadians.

As Americans, you are to be forgiven for perhaps thinking that remaking the Constitution has replaced hockey as Canada's national sport. Our federal system, like yours, is asked to provide certain checks and balances, and as our nation has evolved, the system has achieved that in constantly evolving ways that have, at the end of the day, kept us together and kept us prosperous. I am confident that this will continue to be the case.

The government's Constitutional Proposals are, in the Canadian tradition, evolutionary, not revolutionary. What is revolutionary is the change in attitude required to build a more productive and prosperous Canada.

Competitiveness doesn't just happen. It is the result of a larger political and economic structure that encourages competition. The federal government is creating that kind of political and economic structure. Driving this surge to competitiveness, forcing this thinking in new terms, is a strong nation we have built over 124 years.

Canada is a wealthy nation. We are 32nd in the world in population, but the seventh-ranked economy. A United Nations study says we have the second-highest standard of living.

Those glowing statistics mean there are few people in poverty. They mean opportunities -- real opportunities -- opportunities for meaningful, satisfying jobs with companies making a contribution to the world's economy, not jobs as drones with companies forever on the fringe of bankruptcy.

Our standard of living means a strong base for social programs, so that no man, no woman, no child goes without adequate medical care, or decent shelter, or proper food. Our standard of living means money for the things that nourish our souls -- music and art and literature.

When we cut through all the talk about competitiveness, about global markets, about innovation-driven developments, we are talking about a very simple concept: the ability to compete in those global markets which provide the basis of a better life for all Canadians.

Canada is thinking in new terms about the age-old concept of creating a better life today and tomorrow. By improving our own competitiveness, by strengthening our economic union, by solving our constitutional challenges, Canada is getting ready for the 21st century. We are going to meet these challenges and will be a stronger trading partner than ever before!

Thank you.