

Final

“Assuring Canada’s Place in the Transforming Global Economy”

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Good afternoon, and thank you, Canadian Club and Empire Club, for inviting me to share some thoughts with you.

Looking at past addresses to your two groups, you both have a laudable record of confronting the pressing issues of the day. One that comes up again and again, regardless of the era, is how Canada can make its mark economically and bring prosperity to her people.

Consider this story from the *Globe & Mail*. It concerns a rising industry that has increased sales to the U.S. and Britain. The Ontario Government, reports the story, is exploring ways to make these Canadian exports even more marketable. The goal is improved production, and an enhanced reputation for Canada's ingenuity and quality.

The date of the article – October 23, 1906, exactly 100 years ago today. The export in question – horses. And the article was certain about one thing.

“No matter what mechanical devices may be offered as substitutes,” the *Globe* wrote, “the people of Canada, urban and rural, will continue to take an intelligent interest in the horse.”

The horse may no longer be a pillar of Canada's export strategy. But that 100-year-old article is still instructive. It tells us that while the particulars may change over time, the overall challenges remain the same. It also tells us that Canada has adapted to changing markets before – and can do so again.

How do we define our relevance in today's dynamic global marketplace?
How can we improve our competitiveness within the transforming world economy we now see?

Those questions were valid a hundred years ago...and they are just as valid today.

A few weeks ago, I attended a meeting of GE leaders from throughout Europe, Russia, the Middle East and Africa. We were discussing trade flows and foreign direct investment in relation to market opportunity. In one presentation on emerging nations, we saw a chart of the leading GDP nations today, and a projection out 30 years. A colleague from Western Europe turned to me and said, “Look – our countries have disappeared.”

But of course, Canada didn’t disappear. The assumption is that we held our current course during that period. But, so did the emerging nations – and as a result we were overtaken.

How is Canada positioned today? By many key measures, we’ve had a strong run:

- From 1997 to 2005, Canada led the G7 in real GDP growth per capita, as well as employment growth.
- Unemployment is at its lowest levels since the 1970s.
- We had eight consecutive federal budget surpluses through 2004-2005.
- Our government debt as a percentage of GDP is the lowest of the G7.
- Earlier this year, KPMG named Canada as the lowest-cost G7 country in which to do business – for the sixth year in a row.

The news is good, right? Anne Golden, head of the Conference Board of Canada, has said that if Canada were a child, it would be in the gifted class: abundant natural resources, skilled human capital, political and economic freedom, and a free trade relationship with the world's most dynamic economy.

Yet there are warning signs. In the latest Conference Board study, Canada actually lost ground in four of the six categories. The decline in "economy" is especially troubling, from 3rd in 2003, to 12th this year.

In many measures, we've done spectacularly well when we compare the Canada of 2006 to the Canada of years past. But quite simply, other countries are catching up to and in some cases surpassing Canada. We're losing ground in areas that are critical to our ability to compete globally.

As Anne says, "We're still in the gifted class – but we're being moved to the back of the room."

A recent report from PricewaterhouseCoopers, called *The World in 2050*, suggests just how big the emerging market economies will get. By the year 2050, the "E7" emerging economies – China, India, Brazil, Russia, Indonesia, Mexico and Turkey – will have easily outstripped the current G7 of U.S., Japan, Germany, U.K., France, Italy and Canada.

In fact, the E7 will be 25% bigger when comparing GDP using market exchange rates, and around 75% bigger when using purchasing power parity exchange rates.

There is no shortage of reports highlighting the dramatic economic and political changes that are taking place around the world today as China and India rise to dominance with other emerging countries a step behind.

These shifts present huge challenges to Canada...and most countries in the developed world. But also tremendous opportunity.

I suggest, the key to Canada addressing this new world order is nothing new. You can find it in one of the most astute observations ever made about economic success. It was made almost 150 years ago, not by a corporate titan or business guru, but by a man of science – Charles Darwin.

In 1859, Darwin published his famous theory, that the survival or extinction of each organism is determined by its ability to adapt to its environment.

Simply put, any entity that endures, whether in the animal world or the corporate jungle, must have the ability to adapt. In times of rapid change, those who adapt the quickest will survive. And it's equally true for living things, companies, and countries.

I am fortunate to be part of a company that took Darwin's lesson to heart. Nineteen years after his thesis, Thomas Edison founded the Edison Electric Light Company, which merged with another firm in 1892 to create General

Electric. Four years later, we were on the Dow Jones Index – and GE is the only company on the Dow Jones today that was on the original index.

The secret to such longevity? Flexibility and adaptability. Today, our products and services range from aircraft engines to medical imaging, water processing to financing, and media content to power generation. An incredible variety, which we sum up in three words: “Imagination at Work”.

At GE, we’re guided by the desire to constantly embrace change, the opportunities around us, and the innovation within us. That’s what it will take, too, for Canada and Canadian businesses to survive in this economy.

The message I want to leave you with today is that emerging markets are dramatically changing the economic and competitive landscape. To be successful, as a business and as a country, we have to be highly flexible and adaptable. In particular, there are four critical areas where this overriding principle must guide our actions in business and public policy.

- *The first is our people – the skills and education of our human resources.*
- *The second involves our natural resources sector, and its ability to grow and be a global player.*
- *The third is the business climate we create – the ability for companies to be agile.*
- *And the fourth is the attractiveness of our country – ensuring that people and companies want to come here, stay here, and grow here.*

Let me elaborate>

First, our people. What kind of workforce does Canada need to make our mark in the global economy?

The competition for skilled labour is intense, and becoming more so. The whole world is graduating smarter people. We need a population that's well-educated, with the skills and knowledge to compete with any other workforce in the world.

It's not just specific skill sets that we need to succeed, but the willingness to learn. Our people must be able to think critically and think creatively, bringing value to whatever job or enterprise they are involved in.

In such a dynamic world economy, we will invariably experience both an inflow and outflow of jobs. We need people who are multi-skilled, and who can readily go from job to job, and opportunity to opportunity. We need young people who enter the workforce with those aptitudes, and we need the right re-training for older workers. In a word, we need people who are adaptable.

Where do we stand? Canada has an excellent record of participation at the post-secondary level. Still, too many of our children fail to complete high school. Too many are lured into the workforce before achieving the level of education needed for a stable, satisfying and productive career. Too few

pursue apprenticeships in the skilled trades, and in the fields that will produce innovation.

China and India graduate over half a million engineers and scientists a year and the number is increasing. Meanwhile, in Canada and North America, the percentage of graduates in both fields is falling. That's just not acceptable.

Without young scientists, engineers and researchers, how can we make the discoveries, create the products, and develop the production processes that will keep our manufacturing ahead of the curve? How can we expect to compete successfully in tough global markets?

We need a breadth of post-secondary options, so that our young people can pursue paths that will be most rewarding to them, and that will also enhance our productivity.

We must focus on strengthening the full range of educational opportunities – elementary and secondary, literacy, post-secondary, adult education, job training, and every facet of lifelong learning.

Consider Darwin again. It's not the biggest animals who survive, or the fastest, or the tallest. It's the *smartest*, the ones who are curious, who learn from experience, and who adapt to and master their environment.

Canada's own environment has been blessed with a natural endowment – our resources. This is the **second** area where we need to adapt to ensure our continued competitiveness.

Think of the huge potential represented by the untapped hydro resources of Quebec and Manitoba, our expertise in nuclear power, and Alberta's oil sands. Our natural resources are in great demand. With the growth rates we're seeing in emerging economies, many expect that will remain true for years to come. In fact, emerging economies now consume half of the world's energy, and account for 80% of the oil demand growth.

We must adapt to these realities by encouraging the types of policies and investments in Canada that will help our natural resource sector to grow, to attract investment and to be a strong global player. We need a sector that is well-connected to the customers – in Canada, the U.S., and across the globe – both fiscally and from a relationship standpoint.

Let's make sure, too, that Canada continues to be known not just for our natural resource outputs, but even more importantly, for the associated technical knowledge and engineering skills that are our added value inputs.

We need to capitalize on these special Canadian endowments – our resources , our people, our know-how.

Just as our people and industries must be flexible in order to seize opportunities in a transforming economy, so must our structures and rules. That's the **third** area in which we have to be more adaptable.

Companies need to be agile, they need to make fast decisions, and they need to be able to move quickly on opportunities. If government policies aren't going to help, they at least shouldn't be a hindrance.

Think of the often burdensome regulatory process. In some cases, the time and headache of dealing with over-regulation means that products and technology simply don't get introduced here in a timely manner – or at all. It means that companies will look at other places to set up shop and invest, places in which it is easier to operate and where policies are seen as friendlier.

It's not just regulations themselves, but the differences in regulations. In the case of Canada and the U.S., that includes thousands upon thousands of small differences, which cause added costs, wasteful duplication, delays, and a high degree of frustration for businesses and consumers on both sides of the border.

Creating a more harmonized regulatory framework is essential – especially as Canadian businesses seek to expand their supply chain and participate in the supply chain of growing markets.

A move towards regulatory convergence is a clear sign of our willingness to be flexible, and adapt to today's economic imperatives. We must keep evolving, as Darwin might say.

Fourth, as a business environment and as a society as a whole, we have to make sure that we remain a magnet to companies and their people.

Both are all more mobile than ever. Companies and people will go to places where they see opportunities and can prosper. What will keep them in or draw them to Canada?

I don't have all the answers. But I do know that we have to be known as a place where entrepreneurs can start-up and grow. Where we are open to foreign direct investment. Where R&D flourishes and products can be commercialized. And where we can add value to global operations.

We are competing not just for companies but for people. We often look to immigration as a solution for our population and labour force needs. But many countries are looking at the same solution.

Immigration can bring people who have the skills, experience and attitude that can add immeasurably to our competitiveness and national fabric. But who says that Canada will remain as attractive a destination as it has been in the past? Especially as emerging economies continue to grow like gangbusters, many people who, in the past, might have emigrated may see just as good or better opportunities at home. In fact a Globe and Mail article just last week highlighted the significant decline in the number of applications for Chinese to emigrate to Canada.

This gets into larger questions of quality of life in Canada. Companies prosper when they can locate in places where people want to live and

work. Will people find what they want in Canada, not just tomorrow, but a few generations from now?

The Canadian landscape is riddled with ghost towns. Successful towns that died when they couldn't adapt to changes in their situation. Societies evolve and become more and less livable too.

For many years, we took pride, and rightly so, in Canada's performance on the U.N. Human Development Index. The HDI compares countries on a whole range of interrelated factors – education, literacy, poverty, GDP, and so on.

In the 1990s, Canada was number one on several occasions. There were prominent ads touting this fact. We don't hear as much about the HDI anymore. Maybe because we keep slipping on the list, to fourth in 2004, and fifth in 2005.

Which countries that will be most livable 5, 10 and 20 years down the road? Where will Canada be on the list? How prosperous will our companies and citizens be?

To ensure our prosperity, we must innovate and adapt.

Yes, the world is changing. China is moving up behind us fast on the way to becoming America's top commercial partner. We face low-cost manufacturing from abroad. Jobs are being outsourced. Distances are shrinking. Borders are disappearing. New economies are emerging.

But this isn't an economic death knell, it's an incredible opportunity.

Economic growth creates competition. But it also creates consumers, and it creates demand for goods and services from industrialized countries.

Will Canada be relevant in the fast-evolving world economy?

- We will if we embrace the opportunities instead of fearing the competition.
- We will if we look for ways to make our own businesses more competitive.
- We will if we tap into our intellectual potential.
- And we will if we welcome the challenge of becoming more innovative and productive

That's a challenge that GE faces every day in Canada. Take our plant in Bromont, Quebec, which makes blades and veins for aircraft engines. It's one of the most productive plants in the GE aviation world, for one simple reason – the team's culture of adaptability and innovation.

They constantly compare themselves against – and compete for resources with - all of our aviation plants worldwide. As a result, they're forced to constantly adapt, to be flexible and to improve. And they do it.

That is the kind of spirit that makes me bullish on Canada. Being good enough *isn't* good enough. Succeeding in your local market or province

often isn't good enough. Even making it in the U.S. market may not be good enough.

It's the nature of my own business to think globally, and consider how we in Canada fit into the global supply chain and marketplace. We have to benchmark against the best, and literally broaden our horizons to take advantage of the changing world economy.

So let's not be complacent about our success. Let's install the structures and policies, and instill the attitudes, needed to compete for people, ideas, and investment. Let's build on our natural strengths. Let's live up to our potential, and remove the obstacles to our increased prosperity.

So, what will it take for things to change? After all, business associations and interest groups have been talking about these things for ages.

A former political leader once told me that the government's priorities are defined by what people talk about in the church basements, and the temple, mosque and synagogue basements too.

Business groups and companies don't vote. People vote. And politicians listen to what's on the agenda of their constituents.

As business and community leaders, we need to ensure that our employees and fellow citizens are well-educated, well-trained, and well-equipped to meet the ever-changing demands of today's workplace.

We need to help them understand the challenges and opportunities before us, as organizations and as a country. That includes seeing the world beyond our borders, and our relative position in it.

And we have to encourage frank talk about the kind of country that we want.

Issues like health care waiting lists and our aging hips may affect us with more immediacy, but people have to think about our grandchildren's Canada.

I would love for all of us to make crystal clear the link between our productivity and competitiveness, our health and happiness, and the quality of life that we all want to enjoy. A strong business and commercial sector is a critical underpinning.

Yes, emerging markets are dramatically altering our economic and competitive landscape. But I am confident in the ability of our people, our key sectors, our business environment, and our country to adapt.

The challenges are enormous – but exciting. After reading Darwin, British economist Herbert Spencer coined the phrase, “survival of the fittest”. That is what it will take to address the challenges we face today and in the decades ahead.

By being flexible and fit, and embracing the opportunities before us, I am confident that Canada will do more than just survive in the global economy – we will thrive.

Thank you.

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