



Scramble for World Markets: Will Canada Hold its Own?

**An address by
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It is a well-recognized honour to be invited to address the Canadian Club of Toronto. One of the prime objectives of the founders of the Canadian Club movement, and I quote, was "to deepen and widen the regard of Canadians for the land of their birth or adoption, and to increase their interest in matters affecting the welfare of their country." Your club here in Toronto has a national reputation for doing just that.

Canada today, as rarely before, needs people who are interested in and committed to the welfare of this great country. We Canadians have tended to take our prosperity for granted. In the past, especially in the post-war years, we could realistically expect that material progress was inevitable, and that, whatever we might do, tomorrow would bring greater rewards. That time is past. Today, it is becoming increasingly clear that tomorrow may not be better; that our children may not be better off, materially, than we are; and, indeed, they may not even be as well off.

Material wealth, of course, is not everything. But it has enabled this country to provide Canadians with services -- health, educational, social security and others -- at a level that surely we want to maintain. What's at stake is our standard of living.

You have only to travel abroad and return to Canada to realize what a great thing we have going for us. It's an old cliché but this is a land of opportunity. Let's not drop the ball. I hope that you, a Toronto audience, will not take that football expression too personally.

One problem is that Canadians have failed to recognize and to adjust to the new realities of international competition. Therefore in the scramble for world markets, Canadians are being left behind. In my view, the problem is serious enough to justify a full-scale national campaign to promote exports, and that's what I want to talk about today.

What are the new realities of international competition? In brief, it is the fierceness of the struggle for new markets and supplies. The international marketplace of the 1980s will be characterized by the survival of the fittest, and Canadians are not always the most fit.

Here is what we face: First, tariff barriers are falling, which means more competition abroad and here at home. Second, trading blocs are increasing -- Canada is one of few industrialized nations without access to a market of 100 million people or more. Third, we have new competitors: newly industrialized countries with low wage costs are offering stiffer competition both in the resource sector, our traditional strength, and in manufactured goods. Fourth, our long-time competitors, experiencing slow growth in their own economies, are moving aggressively to expand in old markets and capture new ones.

Fifth, and in particular, international trade is no longer played by the well-understood protocols of the 1950s and '60s. There is a bitter struggle shaping up in world markets, and there is heavy government involvement. The competition today is not so much one firm against another as it is one country against another. Let's make no mistake about that.

How is Canada faring in this competitive environment? Our share of world markets is shrinking. A classic example is in manufactured goods, where our deficit last year was \$17 billion, nearly six times what it was in 1970. Even in our own domestic market, our foreign competitors are increasingly pushing Canadians aside.

Here's another sign of how Canada is faring. In terms of GNP per capita, Canada was in 1968 the third richest country in the world. In 1978, the latest year for which statistics are available, we were 11th. We dropped from third place to eleventh in one decade. This may not be a precise measurement of competitive ability, but it is a clear indication that we have problems.

If you insert provinces into this list, incidentally, Ontario in 1968 was second -- right next in line to the United States. In 1978, Ontario was tenth -- surpassed by Switzerland, Denmark, Germany, Sweden, Norway and Belgium, not to mention Alberta and British Columbia.

Why should we be concerned? It's simple. Exports equal jobs equal prosperity. This equation should be etched in our national consciousness. And what is true of Canada as a whole is even more to the point here in Ontario. If Canada's wealth depends heavily on exports -- and it does, Ontario's prosperity is even more tied to export trade. Merchandise exports account for 25% of Canada's GNP; they account for 30% of Ontario's GPP. Manufactured goods make up 30% of Canada's exports; they make up 65% of the exports from this province. One out of every four jobs in this country is related to export trade. In short, jobs are at stake.

That's reason enough but there's still another reason for concern. Our balance of payments deficit is beginning to limit the freedom of our policymakers. Financing the international deficit locks us tightly into non-Canadian capital markets. This, in turn, must inevitably influence government policies on interest rates. Our external deficit also affects government spending priorities. Interest payments on public debt -- external and domestic -- account for 16.4% of federal government spending. The comparable U.S. figure is 11%. Or to give another perspective: in Canada, while 16.4% is for interest payments, 12.4% goes to old age pensions; 8.6% to national defence.

Our challenge is urgent. A national effort, and a united effort -- on a scale never before seen in this country -- will be required to meet it. A campaign to increase exports is not just a job for governments. Governments can and must create a climate favourable to business investment, and provide support services for exporters. But the responsibility to help keep Canada prosperous lies with all Canadians.

Educators can help -- by ensuring that Canada's schools and colleges train men and women in skills and disciplines that business and industry need. Labour and management can help -- by keeping wages and salaries at a competitive level and by keeping work stoppages to a minimum. The media can help -- by stirring interest in our export needs and creating widespread understanding of what is at stake. All sectors of society have a job to do. By far the greatest responsibility, however, falls on the business community. Let's be perfectly clear about this. It is business that produces the goods and services that we must export. It is business that must take advantage of the marketing opportunities. It is business that must take the risks.

The brighter side is that there is so much room for improvement. In many areas of activity affecting exports, Canadians have nowhere to go but up. I am not forgetting that Canada has some first-class exporters who can match any competition, from any source. Our exporters of pulp and

paper, aircraft, nuclear reactors, telecommunications products, engineering services are among them. But as a whole, as the federal review committee on export trade pointed out recently in the Hatch report, Canada has too few exporters and we are not very experienced in the business.

Canada must sharpen its ability to compete. GATT negotiations on tariffs mean that within a few years trade between the United States and Canada will be free, or at very low rates of duty. The fittest will survive. We almost had free trade with the United States once before. Kevin Doyle, writing in the magazine Confederation Report, reveals that Mackenzie King negotiated -- in secret -- a free trade deal in 1948. The plan would have gone through, Doyle reports, except that at the last minute King received a message from the spirit world and so vetoed it. Those days are past -- to the best of my knowledge. We still need divine help, but I think today Canadians should be prepared to make it on their own ... just in case.

Let us look at some of the factors that determine competitiveness and see how Canada fares.

The first is innovation and technological capability. The facts speak for themselves. Canada imports more manufactured goods per capita than any industrialized country, in many instances because we lack the technology to manufacture these goods here in Canada. We lag behind other industrial nations not only in product innovation but also in new production methods.

Studies in both the U.S. and Canada have shown that industries with a high level of investment in R & D are more successful than others. Productivity is higher, employment growth is greater, output is higher, and price inflation is lower. These are the critical ingredients of prosperity. Yet spending on R & D in Canada as a percentage of GNP has declined steadily for more than a decade. Research and development requires heavy investment; it is a long-term investment; and there is a high element of risk. Do we in Canada have policies that encourage large long-term, risky investments? Equally important, are Canadian business people aware of the value of R & D, and are they willing to take the long-term risks involved? Some Canadian companies have executives who insist that their annual budget allocate funds to R & D. Those companies are noted for their success. But there are not enough of them.

A second factor determining our ability to compete is marketing. Unlike the Japanese, who had no choice but to develop marketing to a fine art, Canadians for the most part have been able to sit back and wait for buyers to come knocking on our door. Those days are gone, even for our primary producers. Take nickel, for example. I remember at school our geography book told us that Canada produced 95% of the world's supply of nickel. Today, we account for about 45% of the non-Communist world production. We no longer dominate the market. Today, in nickel, as in so many other areas, we have to get out and hustle with the rest.

The Royal Bank recently asked some Canadian exporters the elements in their success. A prime one was investment in research and development. Most of the others were marketing skills. Successful exporters invest in market research, and identify a need. They are patient; it takes time to learn how to conduct business in foreign markets. They travel to their markets; as one of them put it, you can't do it by mail. I recently asked some businessmen in Argentina what they thought of Canadians. "Canadians?" they said. "We rarely ever see any." Successful exporters also learn the customs in foreign countries; they have good local distribution and strong dealership network. They know the resources available to exporters -- from their provincial governments, federal governments, trade commissioners, international banks -- and they use them. And finally, they follow through on their contacts abroad... and follow through ... and follow through... Canadians often don't, and it drives some of our trade commissioners wild.

A third factor determining competitive ability is financing. In multi-million -- or even billion -- dollar deals, financing can be as important as price. This is certainly so in major capital projects such as complete forestry complexes, hydro-thermal and nuclear power stations, railways and mining processing plants -- the very

areas where Canadians have a well-established ability to compete. However, we jeopardize our position with our poor credit terms. The Export-Import Bank of the U.S. recently studied the relative competitiveness of the major trading nations in export financing. The least competitive were Canada and the U.S.

In the race to capture export business, other countries are engaged in what amounts to an export credit war. Developing countries have export subsidies; so do European countries, which are particularly clever at devising new support schemes. Now the United States has decided to strengthen its financing programs. Canada must become more competitive in this area. This will mean that both the chartered banks and the Export Development Corporation must reexamine their policies and practices. New approaches and new institutions may well be required. For our part, we in the Royal Bank intend to improve our own performance, while continuing to press governments for innovation and a competitive response in the whole area of export financing.

A fourth factor in competitive ability is productive capacity. Many Canadian industries are now operating at or close to capacity. In manufacturing export-based industries, unfilled orders were up sharply in 1978 and again last year. If Canada is to increase exports substantially, we need more investment for productive purposes.

However, inadequate investment in plant modernization and expansion affects not only our export capacity; it is a prime reason that Canadian productivity is low and falling. We suffer today from the low level of business investment we had throughout most of the 1970s. If we want to increase exports and create more jobs for Canadians in the 1980s, we must have government policies that encourage investment, and business executives who will take advantage of their opportunities.

Another obvious factor in foreign competition is price. Two major determinants of price are wage costs and energy costs. In energy costs, Canada has had an advantage for some time -- but it may soon disappear. In wage costs, we are not competitive with newly industrialized countries, but we have been reasonably competitive with other industrialized nations. In recent months, however, wage settlements have begun to rise faster than in the United States. To allow this to continue would be absolutely suicidal. Increased production costs will further erode our ability to compete, and in the end will put Canadians out of work. Will we ever learn?

I've talked today about five of the elements that determine our ability to compete. Look at each of them. If our national goal was to give up on international competition, to run up \$17 billion deficit on manufactured

goods and to have high unemployment, I don't see how we could go about it in a more comprehensive fashion: spend little on R & D; neglect marketing; charge high rates in export financing; invest too little in new productive capacity; and let costs rise at a faster rate than our competitors. This is a first-class formula for failure in today's world marketplace, and we Canadians are kidding ourselves if we think we can proceed along this course and maintain our present standard of living.

There are, of course, other important questions relating to exports. The outstanding one concerns energy; specifically, our policy on the export of oil and gas, and the domestic price of oil. I believe Canada, in our own self-interest, if not for nobler reasons, should export energy that is surplus to our needs. Not only will this help our balance of payments position, and thus take a biting edge off one of our most pressing economic problems; another effect would be to encourage the investment of capital for further exploration and development of energy resources.

On the question of domestic oil price, Canada has no rational choice but to approach world price as quickly as possible. Canada's internal and external deficits will grow at alarming rates until we act. To continue to subsidize a diminishing resource is sheer madness.

All this demands of business, labour and government a cooperative effort of a kind and of a degree unknown in this land. But we must approach this challenge not as representatives of labour, government or business. We must approach our challenge, and tackle it, as Canadians.

Canada's material success in the 1980s calls for unprecedented business leadership. The British philosopher, Alfred North Whitehead, put it in a nutshell. "A great society," he said, "is a society in which men of business think greatly of their functions." The functions of Canadian business today are not only to take initiatives to build export trade; but also to help mobilize the national will to tackle our economic problems. We can't leave everything to the politicians.

Canada's material success in the 1980s also calls for wide public support for our exporters. Other countries are bending over backwards to support their exporters. So must we. Let's make heroes out of them. Surely the men and women who create jobs for Canadians deserve national recognition and national praise.

Canada today faces a major economic challenge. Let me remind you, however, that we have met greater ones. In the 1880s, for example, there was a world-wide depression, and Canada was a collection of squabbling regions. The days were dark. But some Canadians looked beyond the shadows. They built for the future. And let us not forget that it was government and business, together, that took the courageous step of building a transcontinental railway in those difficult times. Our forefathers saw what needed to be done, and they applied themselves to the task. Surely, we Canadians, one hundred years later, will do the same.