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The critical issue for discussion tonight came into focus as I read in a recent issue of *Fortune* Magazine an article entitled "Entering A New Age of Boundless Competition." It began with the premise that if, as North Americans, we are just now thinking about competing in the global economy, then we are already too late.

It said: "Today the competition for goods, services and ideas pays no respect to national borders or the old geographical divides that supposedly separate north from south, east from west." Whether we like it or not, we are living today in a one market world.

The biggest and most urgent problem facing us as North Americans right now is competing more successfully in this global market, while at the same time maintaining and improving our standard of living. Our industries must respond quickly and forcefully; minor corrections and dabbling will simply not work anymore. One-fifth of the U.S. economy and one third of the Canadian economy is directly involved in international trade, meaning that most of the products our countries produce have to compete with foreign goods. Furthermore, tough new market competitors have emerged with the capital and technology necessary to compete across the industrial spectrum. Compared with previous years, recent competition is intense and sustained.

This reality is one that many Canadians do not truly understand or believe. This is probably due to the fact that approximately two-thirds of Canadians are employed in the services sector, which is largely domestic. Therefore most Canadians do not have any direct personal contact with the competition from foreign producers of tradable goods.

Another reality is that we are in the middle of a technological revolution that is transforming industrial economies from old material and energy-intensive mechanical processes to new information and knowledge-based technologies. Additionally, we are now faced with a world economy characterized by excess supplies of natural resources. Canada's traditional reliance on its domestic resource-based industries to sustain high levels of income is well known. Increased supplies of raw materials from many new sources have resulted in surpluses and a long-term declining trend in commodity prices. As it has been argued so well, these changes are not cyclical; they are permanent and have profound implications for Canada. The most important of these is that the manu-

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facturing industry must take on a greater role in the total process of wealth and income generation.

What is urgently required in Canada, like that called for by our American counterpart, The National Association of Manufacturers ("NAM"), is a national commitment and strategy for competitiveness. As the NAM points out, there are no single, quick-fix solutions. Instead, there must be a desire by business and government to create new comparative advantages by creative cooperation. At the very least, there must be a more intelligent and supportive government role in areas such as research and development, tax reform, and trade policy.

Critical to the success of a competition strategy is understanding and recognizing the role of manufacturing in the total economy. When manufacturers prosper, they generate wealth and income and stimulate growth in the economy, especially for smaller businesses. When manufacturing declines, it is reflected immediately in the local market. Unfortunately, the linkages between wealth creation and job generation are poorly understood.

There is a popular myth that because of declining employment among large manufacturers in recent years, that sector is becoming less important to the Canadian economy. The fact is, manufacturers have been driving down production costs by automating and by streamlining their organizations through reliance on outside services, services which were previously done by the companies themselves. The result is that employment, formerly reflected in manufacturing, is now being found statistically in the service sector. Another fact is that the percentage contribution by manufacturers to Canadian and U.S. gross national product has remained at a fairly constant level in the last few decades.

It is also instructive to note the findings of a recent Organization for Economic Cooperation and Development study which showed that, contrary to popular perception, as much as two thirds of the employment in most industrial countries is dependent either directly or indirectly on the goods-producing sectors. Given these facts, it is particularly important to assess our ability to compete internationally. In this regard, Canada clearly has some areas of strength, but it is sobering to examine a comprehensive comparison among twelve industrialized countries provided by the Department of Labor.

In the 1960s, Canada improved its productivity at a rate of 4.5%, compared with 3.2% in the United States, but well below the 10.3% in Japan. From 1973-79, Canada's average growth rate fell to only 2.1%, which while still above the U.S. rate was well below most other competitors. In the 1980s, until 1986, the Canadian rate slipped to a worrisome 1.4%, which is at the bottom of the twelve country list, and less than half the U.S. performance. In other words, we have been losing ground throughout this decade!

In terms of unit labor cost indicators in domestic currency, Canadians were star performers in the 1960s. However, in the 1970s the average annual growth rate fell to almost two percentage points above the U.S. rate. So far in this decade, our unit labor costs are growing at 6.5%, more than twice the U.S. rate of 3.0%. Meanwhile, Japan has out-performed everyone, and in the 1980s is the only country to have seen its domestic unit labor costs decline steadily at an average rate of minus 0.8%.

The reason the Canadian trade balance did not deteriorate drastically, particularly against the United States, is that the value of our currency has declined by 25% since 1976 against the U.S. dollar. Of course, the recent shift in the U.S. exchange rate vis-à-vis the Japanese yen and German deutsche mark has improved the economic prospects of the United States and, in turn, Canada.

While these kinds of currency shifts will not provide the strong fundamental basis to improve the competitiveness of manufacturing sectors, they do give a temporary window of opportunity. We can take advantage of this opportunity by strengthening our resolve to keep unit labor costs down and productivity gains up. It is also necessary to encourage governments to provide the environment necessary to allow us to become real winners in today's global economy and to marshal every aspect of government policies which will strengthen our competitive position.

In Canada, one of the keys is our ability to develop and to implement new technology. Even though Canadian companies are buying and importing more technology, the present inadequate industrial commitment to research and development is cause for serious concern. Significant changes in attitude toward research and development by Canadian industry are required, as are changes in government support policies. Canada does less research and development than its major competitors, with only 2% of Canadian companies actually investing in it. Within that 2%, 7% of the companies account for two-thirds of the total industrial research and development. Our balance of trade in high technology products is not only negative, but has been steadily worsening in recent years.

While broad tax, trade, regulatory and spending restraint policies that maintain a stable and healthy economic climate will influence industrial research and development spending, more specific policies are required. Included are effective research and development tax incentives, a procurement policy for contracting out to industry and increased university funding of research and development.

Another key is tax reform. Canada is undergoing a reform of its tax system that is to be done in two stages. The first stage penalizes manufacturers and reduces the international competitiveness of Canadian Industry while stage two, which is supposed to remove this impediment, continues to be delayed. The combination of reduced capital cost allowances, research and development tax credits limits, and other changes have not been sufficiently offset by lower tax rates. As a result, the lower rate of return after taxes will make it more difficult to attract manufacturing investment in Canada. Moreover, the delay in instituting a broadly-based integrated national sales tax perpetuates the serious problems the current federal manufacturers sales tax imposes on industry. The delay also erodes the financial resources needed by manufacturers to make the transition to a new trading environment.

This brings me to the Canada-U.S. Free Trade Agreement, a document which, given the right internal policies, will go a long way to achieving a truly international competitive manufacturing sector in both countries. In terms of size, scope and complexity, there is no other bilateral trading relationship anywhere in the world that can compare. Trade between Canada and the United States surpasses U.S. trade with Japan, West Germany, Britain, France, and Italy, and almost all of the members of the expanded European Community combined. In 1986, Canadians purchased 21% of U.S. exports. Canada absorbs 25% of all U.S. exports of manufactured goods. U.S. merchandise exports to Canada equal in value all U.S. exports to 150 other countries. Moreover, Canadian purchases of U.S. goods continue to grow every year. From 1982-85, U.S. exports to Japan grew by less than 8%, fell by 4.5% to the European Community, and grew by more than 40% to Canada!

The majority of trade between our two countries has occurred with few difficulties. It is remarkable that trade of this magnitude is governed by only the most minimal extra-national legal framework. It is also remarkable that we have waited so long before seeking some kind of arrangement that would subject our trading relationship to agreed-upon rules, and provide some form of guarantee against impairment of access by either side.

Of natural concern is the prospect of highly protectionist legislation by a government which could destroy this agreement, sinking any hope of real competitiveness for both our countries in the global economy. Such legislation would seriously affect Canadian standard of living since 25% of our gross national product is absorbed by the United States. If this concern can be overcome, then our economies can rapidly meet new competitive challenges of the global economy.

We need to treat each other with the consideration that two business people have when they are each other's biggest customer. By and large, Canadian companies are not competing directly with American companies, but are complementary to U.S. manufacturing capabilities, and this interaction produces very significant regional efficiencies throughout North America.

We believe it necessary to treat Canada-U.S. trade with a broader vision of the great economic opportunities for growth that the Agreement would unleash. This would create, as every other trade liberalization effort has in the past, new wealth that would fund the necessary adjustments of transition. You need a prosperous Canada to absorb almost a quarter of your exports, and we need a prosperous United States to absorb ours.

The Agreement will also be an important stimulus and model for the current General Agreemant on Tariffs and Trade negotiations and should go a long way in helping both our countries to achieve greater international trade liberalization. The issues dealt with by the Agreement in a bilateral context are the same as those being pursued multilaterally and, by putting the North American commercial relationship into a treaty, we will both be able to focus our negotiating efforts on trading relations with other countries.

The Agreement provides both our countries with a sound basis upon which to build our future economic relationships, both with each other and with other countries. But, perhaps the most important aspect of the Agreement is the philosophical commitment it makes to a market-based approach to economic policy. So, my closing message to this audience is to urge you to make every effort to ensure the Agreement's implementation. This will be the best investment we can all make to ensure a competitive U.S. and Canadian economy.