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## **INDUSTRY, TRADE AND TECHNOLOGY: THE FRONTIERS FOR ACTION**

**PRESENTED BY THE HONOURABLE JOHN MANLEY  
MINISTER OF INDUSTRY  
October 26, 1994**

**A Lecture at The University of Ottawa  
The Program for Research in International Management and Economy  
Prepared by the Micro-Economic Policy Analysis Branch, Industry Canada**



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## PRIME LECTURE ESSAY

### INDUSTRY, TRADE, AND TECHNOLOGY: THE FRONTIERS FOR ACTION

#### Introduction

The global economy is currently undergoing dramatic change. The determinants of comparative advantage for individuals, firms and nations are shifting rapidly, as are the "rules of the game" for international business. Many claim that the world economy is in the midst of an economic revolution, akin to the industrial revolution of the 1800s. The old economic order of "nature-made" comparative advantage is being pushed aside by a new economic order of "man-made" or "knowledge-based" comparative advantage.

One key characteristic of this transition is "newness", and it is newness that we must face up to in policy choice. My sense is that the long-term economic well-being of a country (i.e., growth in productivity and real per capita income) critically depends on its ability to generate new ideas and knowledge, and use new ideas and knowledge created both nationally and internationally. This is fundamental to improving the efficiency of production processes, improving the quality of products, and increasing the choice and variety of products for consumers and producers, both domestically and internationally. Today, newness in this sense seems to be everywhere.

Today, *man-made* comparative advantage has become a substitute for nature's endowments, and what characterizes man-made comparative advantage is the stock of knowledge. *Nature-made* comparative advantage must reform its partnership with *man-made* comparative advantage in the new economic environment. Science and technology (S&T) are crucial to the growth of Canada's stock of knowledge and thus are integral to man-made comparative advantage. "Newness" or what appears at the margin of the stock of knowledge (through our own effort or those of others) will form the basis of future comparative advantage: new processes, new products, new services, new ideas. S&T are the well-spring

of newness, they are the platform on which new processes, new products, new services and, yes, new ideas rest, for all sectors and industries, from fishing to aerospace, from forestry to computer-aided design.

Another characteristic of this transition to man-made comparative advantage has been intense competition for access to markets, technology, capital and skilled workers. This competition has unleashed dramatic fundamental structural changes related to the way markets, institutions and organizations work and interact with one another. A major consequence of these structural changes has been serious labour-market adjustment problems for many industrialized countries including Canada.

In fact, Canadian openness to foreign markets, foreign direct investment and foreign technology and knowledge, and our heavy reliance on resource and resource-based industries in the past have made adjustment all the more difficult. Canada must adapt quickly to the new economic realities if the current economic recovery is to evolve into a sustained period during which Canadian income growth is the rule rather than the exception.

In what follows, I shall address what must be done to position the Canadian economy for sustained high growth into the 21st century. Concerted action is required on three fronts — industry, trade and technology — by all players — governments at all levels, business and workers — if Canada is to remain competitive in the next century and maintain and improve its current high standard of living. Toward this end, my government has launched **A Jobs and Growth Agenda**. This Agenda has four components: reforming Canada's social policies, putting in place the frameworks to fight the deficit and debt, a Federal Government Program Review and, later this fall, *Building A More Innovative Economy* that I will spearhead. The basis of this new plan will be: a favourable business climate and effective and adequate infrastructure that support industry; a revitalized and efficient approach to science and technology, institutions and organizations; and improved and secured access to international markets, investment, technology, knowledge and ideas.

In developing the *Building A More Innovative Economy*, three key questions were identified which needed thoughtful answers: What are the key characteristics of the new economic environment in which Canada will be operating — that is, what characterizes newness? How well is Canada positioned to meet the hard challenges presented by this environment? What kinds of concerted actions are needed to improve Canada's long-term economic growth prospects?

### **Salient Characteristics of Today's Economic Environment**

#### *Newness: The Leading Edge of the Knowledge Base and Shifting Comparative Advantage*

In a knowledge-based economy, S&T play principal roles in generating economic growth. Some of you might reply that this is not new. S&T have always been important to economic growth. History tells us that S&T are fundamental to economic progress.

My sense is that today we are in one of those extraordinary periods where what I previously referred to as "newness" is playing a fundamental role. My sense is that in the economics of daily life, we are not playing out what a well-established body of knowledge has to offer (as was the case in the 1950s, '60s and '70s). Instead, we are engaged in a fundamental assessment of the dimensions and directions of more recent additions to existing knowledge stocks arising from the information and communication revolution, shorter product-life cycles, and the de-linking of various steps in the production process. The question is, what do these changes have in store for products, processes and the organization of work as we will know them in the 21st century?

It is this leading edge of the knowledge base that characterizes newness. It is this new leading edge that is exploding on the shop floor into new products, new process design, and innovations in delivery and maintenance. The implications of this newness are also falling into the laps of policy makers.

With this sort of change in the knowledge base, comes the need for new tools to understand impacts, assess alternatives and set policy directions. One result of this need has been the development of analytical tools and approaches which allow one to probe in more depth the contribution of S&T to economic growth. The policy implications of this new research suggest a much more pivotal role for S&T and for knowledge in the process of economic growth than has generally been thought, especially during periods of significant change as that of today.

One characteristic of the present environment is the blistering pace of technological change and its pervasive impact on the marketplace. Technology influences not only what goods and services firms supply, but how these outputs are produced and distributed. Exploiting new technology in its various forms by adding value through the application of new knowledge is, I surmise, clearly the kind of economic activity that can raise living standards — and this is my strategic view as to where the focus of public policy is headed now and in the future.

In the past, a combination of an abundant natural resource endowment, state-of-the-art technologies related to the resource business, and well-developed infrastructure played key parts in maintaining Canada's competitive position. This *was* the leading edge of the knowledge base of the day. Together these elements created a cycle of strong and stable economic growth, high and rising real incomes, and low unemployment. But the green revolution, increasing demand for energy-efficient processes, emergence of new materials, more efficient use of old materials, and increased competition from the developing countries have reduced the demand for resources and resource-based products world wide and led to falling real prices. The leading edge of yesterday's knowledge base has become today's standard operating procedure. Developments are now challenging the ability of Canada's traditional sources of comparative advantage to maintain our current high living standards.

*Globalization*

The importance of S&T for economic growth has increased markedly at a time when physical boundaries between countries are fast collapsing. The revolution in sophisticated information technologies now permits instantaneous global communication. For example, by placing these remarks on Internet, I could reach, in the next hour, some five million specialists, and no doubt some would have a view different from my own. An electronic debate might ensue.

The speed at which new ideas and information circulate these days has increased dramatically. In like manner, vastly improved transportation networks have greatly accelerated the worldwide flow of people and products.

These positive developments in infrastructure and communications, in conjunction with reductions in barriers and impediments to trade, capital, and technology flows, have created a cycle of deep global economic integration, which I suspect plays a part in improving the productivity and real income performance of all countries. The result is cheaper sources of high-quality products for consumers, new technology for producers, and a much faster birth/death cycle related to "new" ideas.

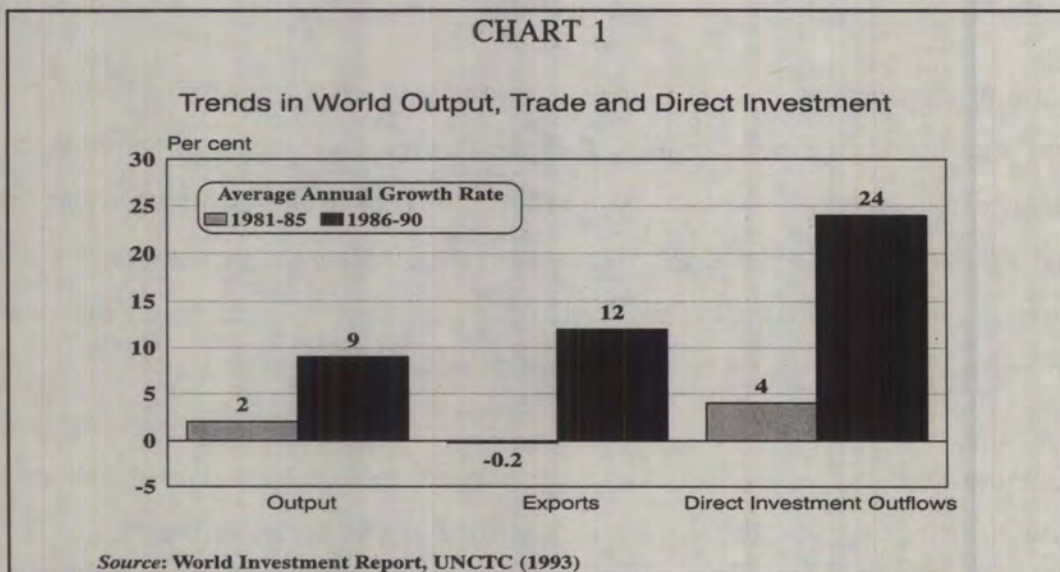
Because of globalization, multinational enterprises (MNEs) are spreading profitable economic activities outside the home country to create synergies and capture capabilities and opportunities available around the world. As a result, global firms are emerging which are footloose and stateless. MNEs play a key role in promoting economic growth world wide, primarily through integrated production and the flows of investment, trade, technology and management practices which take place among units of an MNE.

In response to globalization, industries such as transportation, telecommunications and financial services, which previously were highly regulated and protected from foreign competition, are now being deregulated and privatized, and are increasingly subject to the

rules and disciplines of international trade agreements and domestic competition laws. All industries are now subject to market forces and must be internationally competitive in order to survive in an increasingly fierce global market place.

Globalization is forcing profound change in the rules of the game of international business. More and more firms today see the advantage not only of exporting to foreign countries but also of establishing a direct presence in foreign markets through greenfield investments, joint ventures and strategic alliances. The driving force is the need to add value, not just in product markets, but in markets for "ideas", technology, innovation, and new processes.

International investment has been leading the globalization process. As Chart 1 shows, international investment growth surpassed growth in trade and output in the 1980s. Between 1986 and 1990, for example, world output grew by 9% per year, exports by 12%, and cross border direct investment flows by 24%. Trade, technology, and investment are now complements, not substitutes, in the global strategies of MNEs. Direct investment abroad expands international trade and increases technology transfers, largely through intra-firm trade.





International competition to attract MNEs and their direct investment are intensifying as developing countries and economies in transition increase their productive capabilities. For example, foreign investment flows within the Asia-Pacific Region are a key factor in the increasing economic integration of that region. Investment is leading technology transfers and spillovers, resulting in an explosion of trade within the region. The world is now trading in "ideas and technology", with goods trade following. Adam Smith's pin factory of the 18th century has been replaced by today's "idea" factory: the MNE.

All countries are under pressure to provide a strongly favourable investment climate and a set of marketplace framework laws — such as investment rules, competition, intellectual property — which are attractive to foreign investors and are broadly consistent with international norms. This development has had profound implications, particularly for small open economies like that of Canada.

More and more, micro-economic policies, particularly as they relate to the investment climate, domestic and international rivalry, regulatory and legal frameworks, business assistance (e.g., technology development), infrastructure, and human resources will define the attractiveness of a country as an investment location. Canada's competitiveness will depend increasingly on our ability to create an attractive and sound business environment that entices footloose MNEs to establish operations here, and to promote innovation and high value-added economic activity in our country.

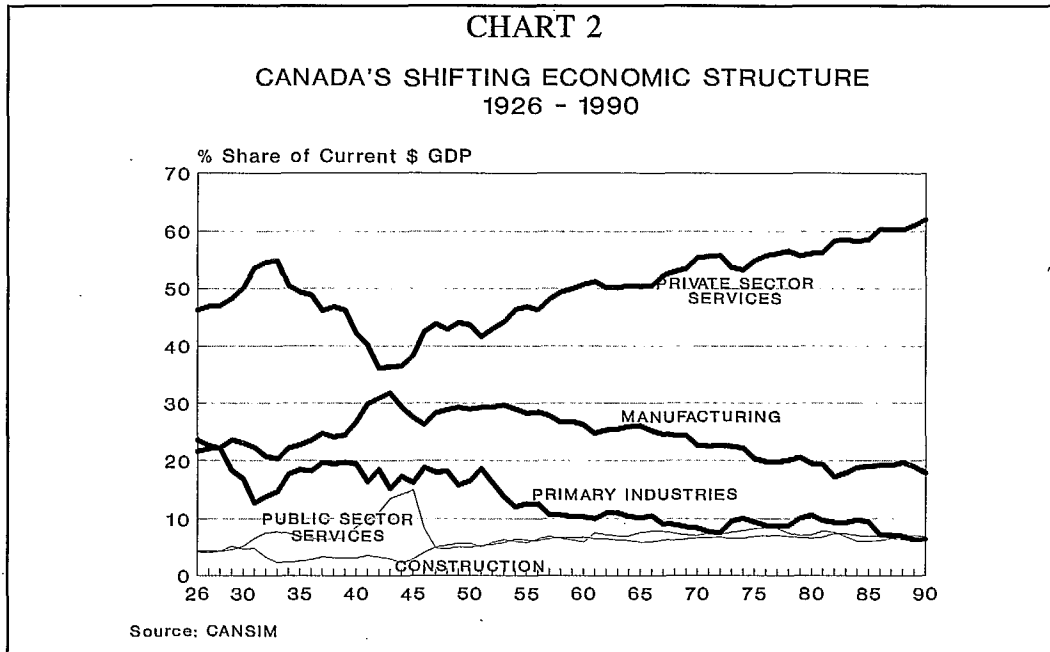
Globalization has also led to stronger competition in home and foreign markets. This means that growth of Canadian firms and, indeed, their economic survival depend on their increased penetration of national and international markets. Firms can benefit from the increased specialization, knowledge, and technology flows that accompany increased participation in international markets through trade and direct investment. The challenge on this front is to involve more Canadian businesses, especially small and medium-sized businesses, in international economic activities through trade partnerships and foreign direct investment.

The bottom line is that significant structural change has been a key factor as we emerge into this world of newness, and this trend will likely continue in the near future. In particular, the structure and composition of Canadian industries, occupational structures and the character of the Canadian workplace have all undergone fundamental change in recent decades.

### *The Changing Structure and Composition of Canadian Industries*

In response to global change, we are witnessing a massive shift from goods to services production accentuated by a geographic shift of manufacturing activity from developed to developing countries. Globalization and advances in technology are changing the nature of markets world wide. In particular, production and distribution systems are increasingly becoming services- and information-intensive. In some cases these systems deal extensively in the very thing that caused the shift in the first place: the focus on information/knowledge/ideas. As a result, global markets for services and knowledge products are growing rapidly, and competition among countries for investment in new knowledge- and skills-intensive products is fierce.

Chart 2 displays the changing nature of Canada's industrial structure. Growth in the share of the service sector in gross domestic product (GDP) has been dramatic over the past fifty years. In particular, the dynamic private sector services industries have grown from approximately 35% of GDP in 1945 to over 60% in 1990. At the same time, however, manufacturing has declined from 27% to less than 17% of GDP. In addition, it must be recognized that services input into manufacturing has also increased. Manufacturing employment, however, is being shed faster than output is falling. Manufacturing accounts for about two-thirds of the jobs lost during the last recession.

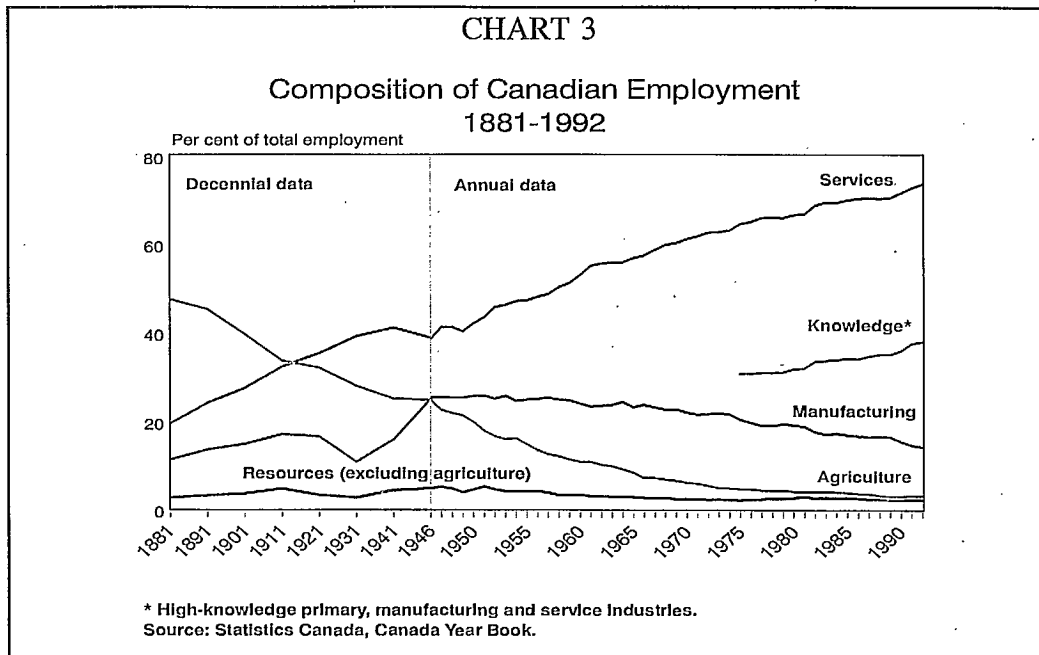


The aggressive growth of the small business sector in Canada also reflects the transition to a knowledge-based economy. The information and technological revolution, combined with flexible management structures, makes it easier for small business to compete with larger firms in the provision of goods and services, to access new markets, and to respond quickly to customer needs. In addition, the use of computers is rapidly reducing the advantages of scale in manufacturing and distribution because factory automation is making it possible to produce goods cheaply in much smaller volumes. These days variety and scope of production are just as important as the scale of production.

Industries today are characterized by many smaller dynamic firms exploiting opportunities introduced by new innovations. As a matter of fact, in many industries, from computers to biotechnology, small- and medium-sized enterprises (SMEs) are proving the most innovative.

### *Changing Occupational Structure and Skill Requirements*

Consistent with the move towards an information- and knowledge-based global economy, the occupational shifts over the past fifteen years have led to an acceleration in the demand for highly skilled workers, managerial, administrative, professional and technical. Chart 3 shows that over the last forty years, the share of agricultural employment has dropped from 16.4% to 3.6%; manufacturing employment is down from 26.4% to 14.5%. On the other hand, service-sector employment share has soared from 46.7% to 73.3%, while since 1975, the share of knowledge-based employment across all sectors has risen from 31.4% to 39.1%.

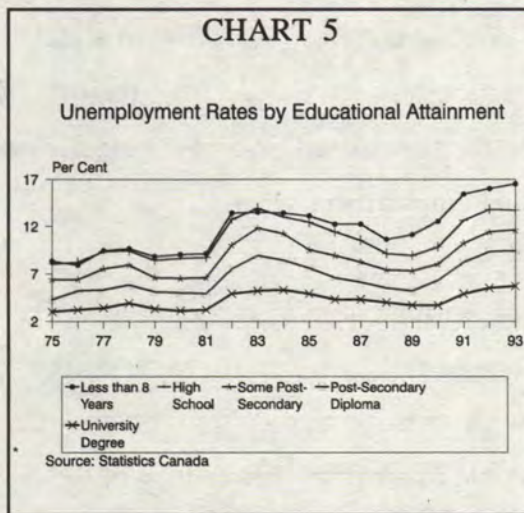
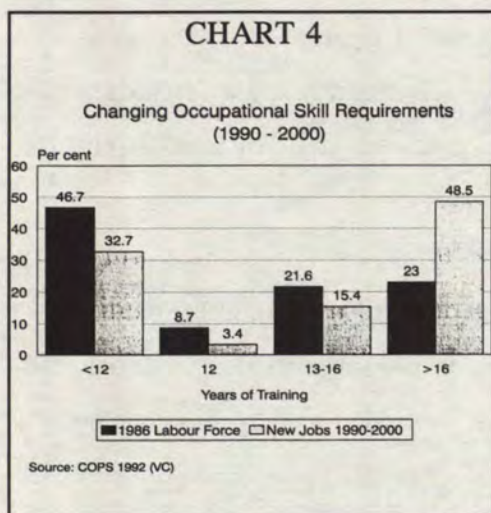


Obtaining, manipulating and organizing information are the key requirements of business in the new economic environment. Robert Reich has dubbed those that are involved in this type of activity - 'symbolic analysts',<sup>1</sup> - a term that seems cold and harsh, but that nevertheless applies increasingly to the skill requirement for obtaining competitive advantage.

<sup>1</sup> Robert Reich, *The Work of Nations: Preparing Ourselves for the 21st Century* (New York: A.A. Knopf, 1991).

The proportion of information workers in the Canadian economy has risen substantially in the last two decades. Between one-half and two-thirds of the workforce are now in "data" occupations.<sup>2</sup> According to one recent estimate, 97% of all the jobs created in Canada in the last 7 years were in knowledge-intensive industries.<sup>3</sup>

Further evidence of the shift in skill requirements can be seen in projections of future job requirements as shown in Chart 4. In Canada, it is expected that 50% of new jobs created between now and the year 2000 will require 17 years or more of education and training compared to 23% of existing jobs. Further, there are increasing wage disparities between skilled and unskilled workers in this country. The new economy is demanding higher skills, and there is also evidence that workers without education and skills are being marginalized. The result, as shown in Chart 5, is that unemployment rates are highest among those Canadians with the least education.



The much stronger growth in services and knowledge-based employment in Canada reflects a host of factors: rising per capita incomes, increased globalization, rapid changes in information and other technologies, and the growing specialization and division of labour in

<sup>2</sup>Gordon Betcherman, project leader, *Employment in the Service Economy: A Research Report Prepared for the Economic Council of Canada* (Ottawa: Minister of Supply and Services Canada, 1991).

<sup>3</sup>Nuala Beck, *Shifting Gears: Thriving in the New Economy* (Toronto: Harper Collins, 1992).

modern economies. Service functions, once conducted in house by manufacturers, are now contracted out. Nevertheless, traditional goods production remains important to Canadian exports and to the health and vitality of Canada's regional economies.

### *The Changing Character of the Canadian Workplace*

Structural changes, induced by the rapid pace of technological change and globalization are also leading to major changes in the firm. The nature of production is changing as is the attention paid to efficiency, price, quality and variety. Furthermore, information, human capital (not just workers), and strategic intelligence are now the key inputs in the production process.

The fundamental way companies organize their workplace is changing to more flexible, specialized approaches. Today's workplace emphasizes teams, participative decision making and a learning culture. Surviving in a globalized world requires that labour-management relationships shift away from their traditional adversarial nature towards mutually reliant relations based on an ongoing dialogue and shared goals of productivity improvement and employment security.

Life-long learning is now important to workers. Increasingly, people do not expect to spend their entire working lives in the same occupation or in the same industry. More and more firms recognize that on-going training and education is needed to help workers become sufficiently flexible to adapt to the realities of the New Economy.

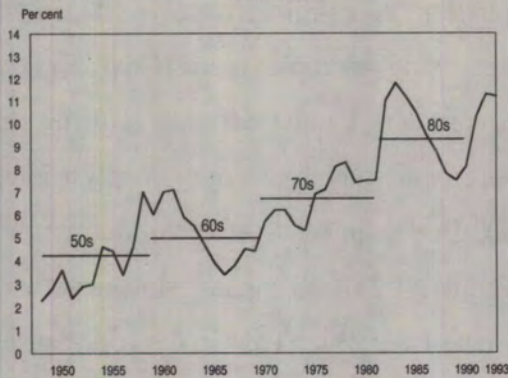
To gain and sustain competitive advantage today, firms must invest in and have command of a number of complementary assets. These assets include access to a reliable distribution network, a well-trained workforce, manufacturing capability, and supporting technology in order to realize the full benefits of technological innovation. Investment in "know-how" must be accompanied by investment in exploiting that know-how if firms are to enjoy success. Workplace innovation is fundamental to the full exploitation of new technology.



**Evidence that Canada Needs to Improve Performance.**

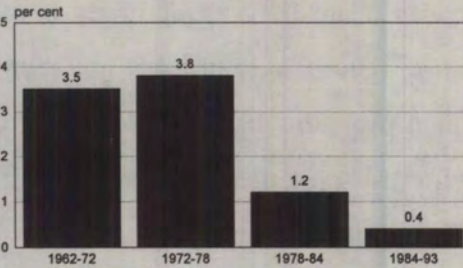
While there is strong evidence to suggest that Canada is well on the road to economic recovery, there remain concerns about Canada's longer-term economic prospects. During the last two decades, Canada has fallen prey to a regime of rising unemployment (Chart 6), real wage stagnation (Chart 7), and large and persistent government budget deficits. During this period, cyclical problems have turned into structural problems which are now deeply rooted. The underlying cause of these problems has been weak growth in total factor productivity (TFP). TFP growth in Canada, which reflects the productivity of all inputs, slowed down in the mid 1970s and has been at a standstill since 1980 (see Chart 8). This is the root cause of stagnation in our living standards. Therefore, co-ordinated and concerted action on the macro- and micro-economic fronts is required to turn our longer-term economic prospects around.

Chart 6

Unemployment Rate  
1948-1993

Source: Statistics Canada.

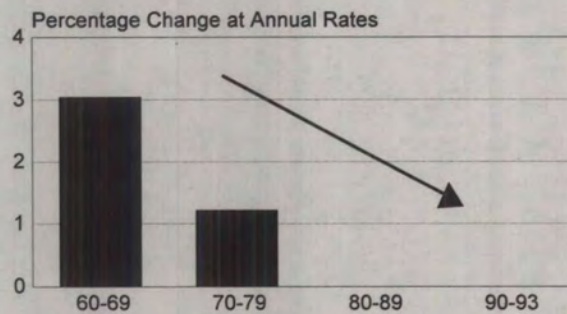
CHART 7

Real Per Capita Income Growth  
(annual Averages)

Source: Statistics Canada.

CHART 8

Total Factor Productivity Growth

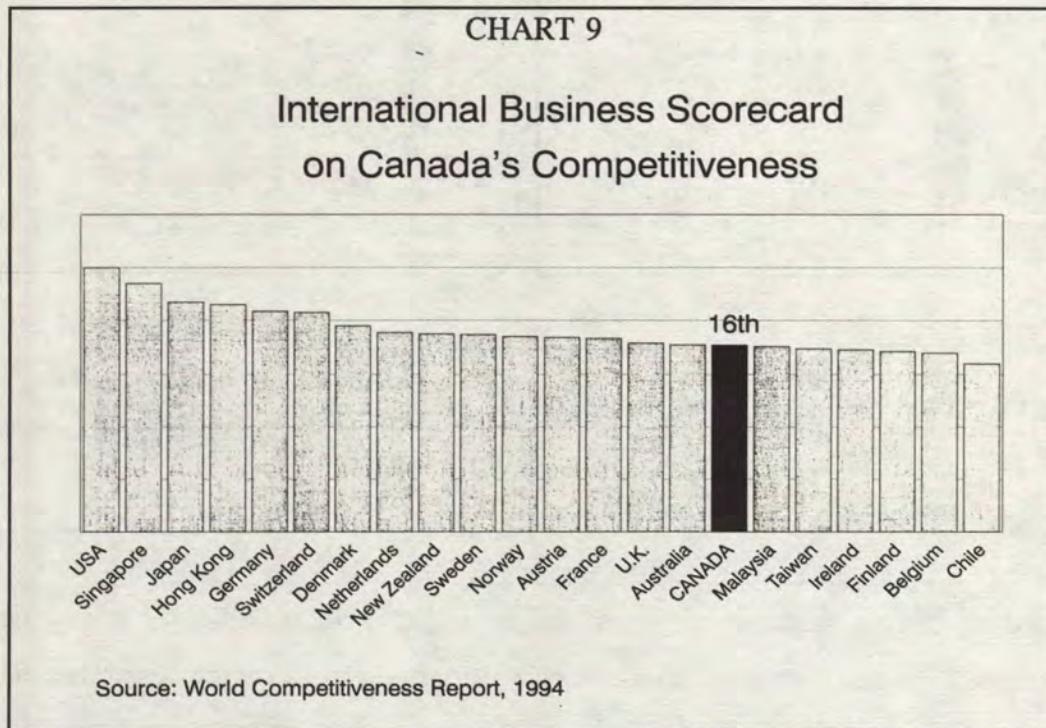


Source: Department of Finance.

One troublesome economic problem created by poor economic performance is related to the speed with which those who lose their jobs find another. If I had to point to one indicator that sums up the Canadian adjustment problem, this would be that indicator. Currently the unemployed are searching longer and longer before they can find a new job.



Let us also look at our international competitiveness ranking. Overall, as shown in Chart 9, Canada is ranked only 16th in the world in terms of competitiveness. The relatively poor perception of Canadian competitiveness reinforces the findings of extensive analytic research within Canada that policy changes on several fronts are necessary.



A significant part of the reason for our poor international ranking is that government deficits have been too high in Canada for too long, and the resulting burden of debt has pushed up taxes and real interest rates. Both of these results place limits on our recovery. Excessive public sector deficits and weak productivity growth, feeding on each other, have exacerbated Canada's economic woes.

A large and growing debt burden at all levels of government (see Chart 10) and the declining competitiveness of Canadian industry have led to a large increase in Canada's foreign debt (see Chart 11). Servicing this foreign debt puts an increasing burden on the domestic economy, putting further limits on our recovery. It constrains our opportunity to get the maximum gains in terms of low interest rates from the low inflation that we now enjoy.



CHART 10

Net public debt as a percentage of GDP: 1992

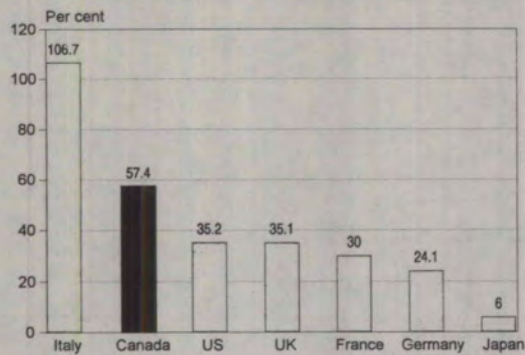
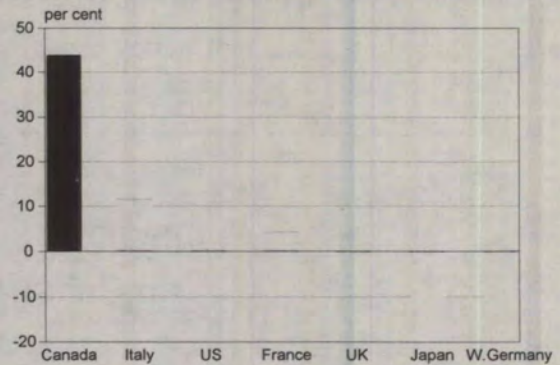


CHART 11

Net foreign debt as a percentage of GDP: 1992



## Meeting Canada's Economic Challenges

### *Science, Technology, and Innovation*

Canada suffers from a major deficiency in productivity growth as compared to its chief trading partners. Contributing to that deficiency is our weakness on the research and development front, and the slowness of the economy to acquire and use new advanced technologies.

CHART 12

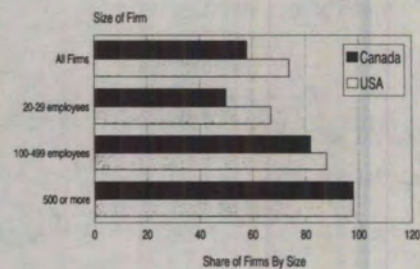
Business Establishments That Perform R&amp;D: 1991



Source: Statistics Canada, "Industrial Research and Development: 1993 Intentions", Catalogue 88-202 and the Business Register Division

CHART 13

Use of At Least One Advanced Technology By Size of Firm



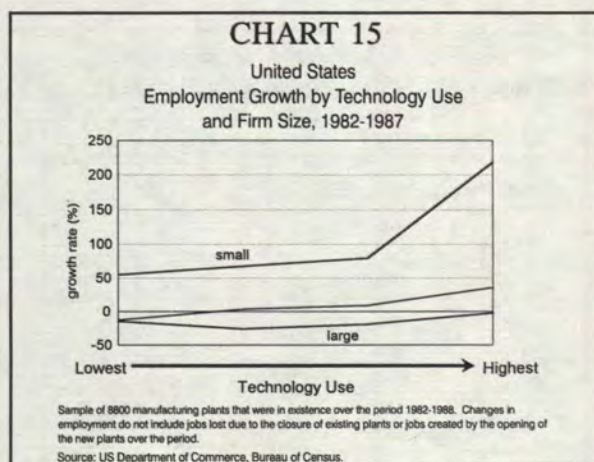
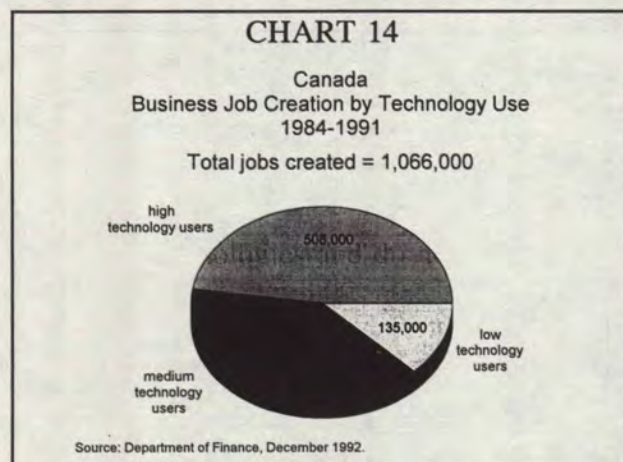
Source: Statistics Canada, "Indicators of Science and Technology: 1989", Catalogue 88-002, Vol. 1, No. 4, Chart 3



The development and use of technology by private companies are the keys to value-added economic activity, increased productivity, and thus the growth of real wages. But Canadian businesses, especially small businesses, have some catching up to do in terms of developing and using technology.

Of some 900,000 Canadian businesses in 1991, only 3,566 engaged in research and development (R&D). In other words, as Chart 12 shows, less than 0.4% of the private sector in Canada does R&D. In addition, unlike their American counterparts, Canadian businesses — particularly small Canadian firms as shown in Chart 13 — are slow to adopt advanced technologies and do not manage them well.

Experience shows that new technology does not eliminate but rather creates jobs. Businesses largely dependent on advanced technology have prospered despite the recession. In Canada, for example, high technology users created over half a million new jobs between 1984 and 1991 (see Chart 14). In the United States, technology-intensive small businesses experienced considerable growth between 1982 and 1987 (see Chart 15). The challenge for Canada is to develop more businesses of this kind.



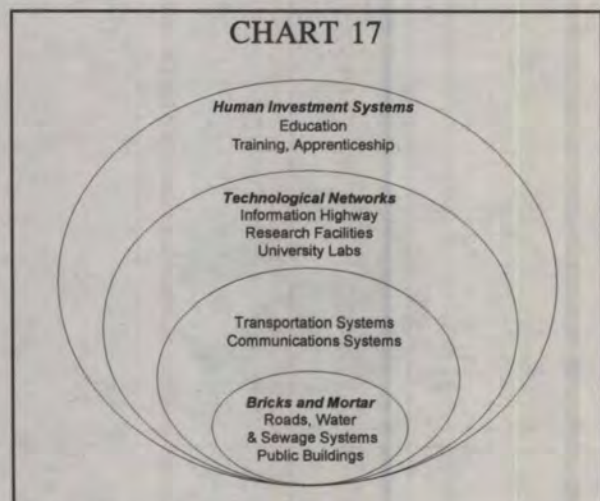
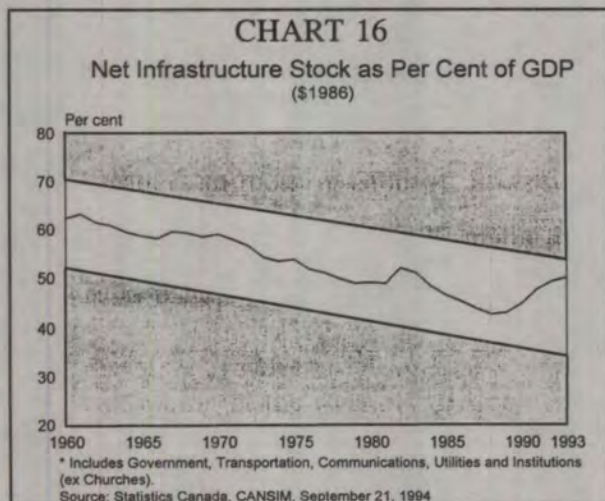


## Infrastructure

Productivity and competitiveness are closely inter-related. These two elements must be improved if Canada is to retain its current high standard of living. Infrastructure plays a crucial role in the productivity performance of the economy.

Canada has invested heavily in infrastructure in the past to support growth. In particular, transportation and education infrastructure was the focus of attention in the 1950s and 1960s, and telecommunications in the 1980s. As a result, Canada ranks among the world leaders in the provision of infrastructure.<sup>4</sup> But being at the head of the pack in the past does not mean that we will remain there in the future. Investment must keep pace with needs and there is evidence that Canadian investment has not done so in recent years.

Looking at the overall net stock of private and public infrastructure in Canada, as shown in Chart 16, we see a declining trend as a proportion of GDP. This decline is not unique to Canada, but it has made a difference in Canada's productivity problems. Recent Canadian studies suggest that 20% to 25% of the slowdown in productivity stems from the relative decline in infrastructure spending.<sup>5</sup>



<sup>4</sup>According to the World Competitiveness Report, 1994, Canada ranks second in the world in terms of the development of its infrastructure.

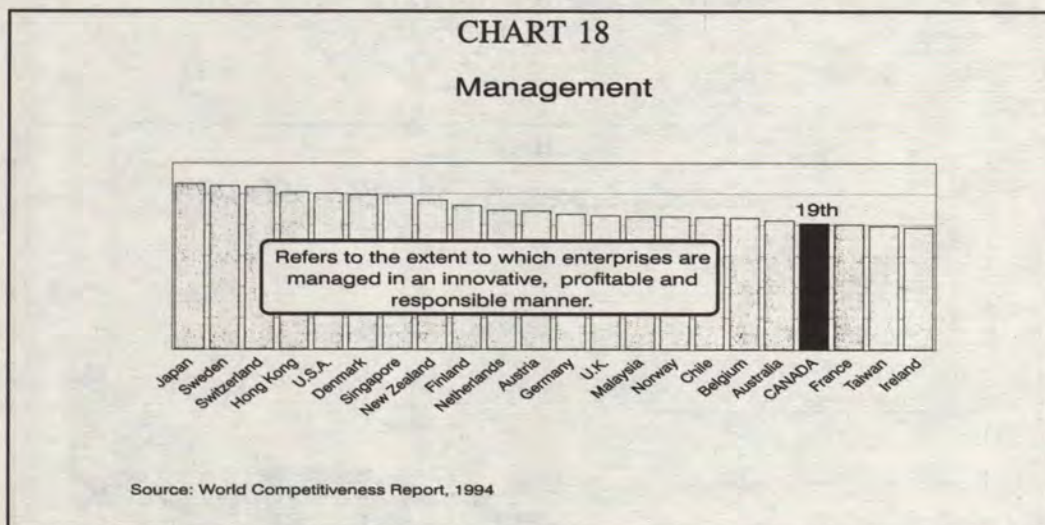
<sup>5</sup>Jack Mintz and Ross S. Preston, eds., *Infrastructure and Competitiveness* (Kingston: John Deutsch Institute for the Study of Economic Policy, 1994).



Further, we must begin to look at infrastructure as more than just bricks and mortar. Chart 17 shows the expanding dimension of infrastructure. A growing economy needs the support of dynamic new transportation and information infrastructures. In addition, we must increasingly view human capital and science and technology as the infrastructure that supports economic activity in the new global environment.

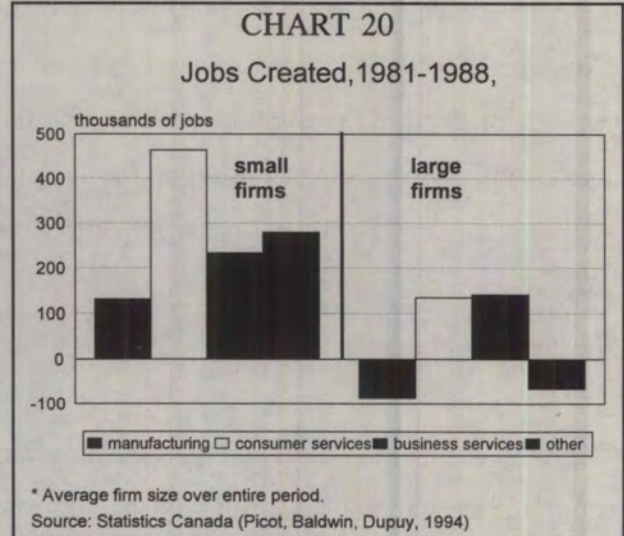
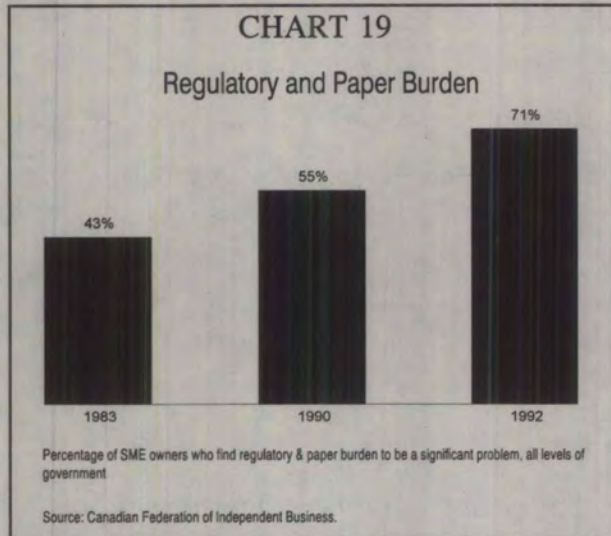
### *Business Climate*

Creating a very attractive entrepreneurial climate in Canada is important to fostering economic growth and creating well-paying jobs in this country. By international standards, however, our climate is not as attractive as such climates elsewhere. For example, the World Economic Forum ranks Canada 19th in the world in terms of innovative management (see Chart 18).



There is also evidence that elements of our business environment are particularly troublesome to small businesses. In 1992, as shown in Chart 19, fully 71% of small-business owners in this country considered that the burden of regulation and paperwork represented a major problem for them; up from 43% in 1983. A favourable business climate for the development of small business, in particular, should be a priority in this country because small businesses are the engines of job creation. Chart 20 demonstrates that small business created many more jobs than large businesses during the 1980s.



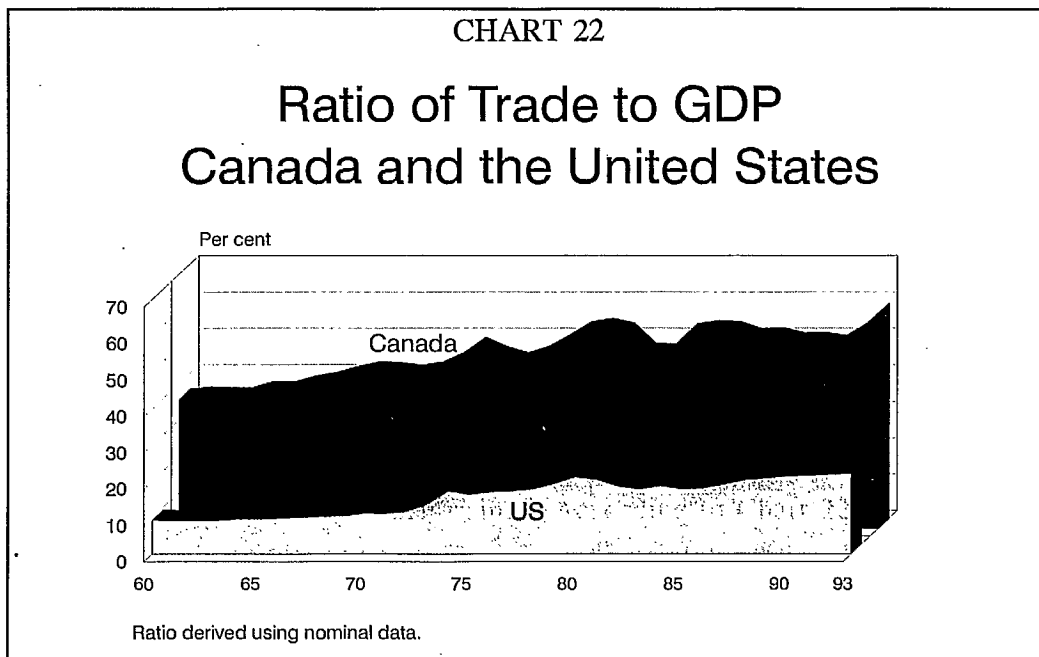


Other elements of our business environment are irritants to firms of all sizes. For example, taxes on employment, such as payroll taxes have increased enormously in Canada in recent years as demonstrated in Chart 21. In 1960 payroll taxes represented 1% of Canada's GDP. By 1992, they had risen to 6% of GDP.



## Trade

International trade has contributed a great deal to the creation of Canada's wealth. The importance of trade to Canada (or the ratio of exports and imports to GDP) is almost triple that of the United States, and it has been rising. According to Chart 22, trade, in 1960, accounted for 35% of Canadian GDP. By 1993, it represented nearly 60%. Hence, trade is crucial to any plan for better-paying jobs for Canadians.



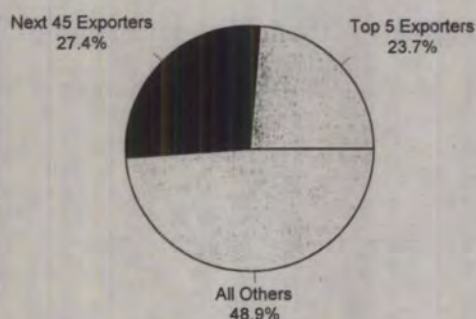
Agriculture and natural resources formed the early basis of our trade, but today we are an enormous exporter of manufactured goods and services.

A large part of our problem on this front is that Canada is not a nation of traders. As shown in Chart 23, five exporters account for about 24% of Canadian exports. (According to the April 1993 *Report on Business*, our five major exporters are GM Canada, Ford Canada, Chrysler Canada, IBM Canada, and Noranda). We rely excessively on a few large exporting companies. Further, we are exporting too few value-added commodities. Our aim should be to broaden Canada's areas of specialization so that we develop areas of comparative advantage in the knowledge-based products of the 21st century.



CHART 23

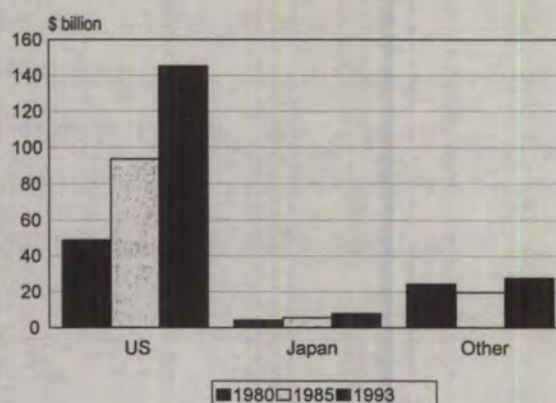
Concentration of Merchandise Exporters by Firm, 1992



Source: Statistics Canada.

CHART 24

Canada's Merchandise Exports



Source: Statistics Canada.

In addition our trade balance, although favourable, depends entirely on the American market (see Chart 24). Canada depends heavily on the United States both for trade and direct investment flows.

Globalization offers many business opportunities, but they must be seized quickly. Trade, technology and investment are complements. Therefore, improvements in trade performance require improved investment linkages with other countries. This implies the need to encourage the removal of as many as possible of the remaining formal and informal barriers to international trade and investment.

As part of our efforts to improve our international trading performance, we have also taken steps to ensure the liberalization of our internal domestic trading environment. Removing barriers and impediments to trade within Canada will help Canadian firms to grow and compete at home and abroad. We simply cannot afford to have our own internal markets closed to our own firms.

While Canada has usually enjoyed a merchandise trade surplus with the rest of the world, this benefit has been swamped by a non-merchandise trade deficit driven by interest payments on our debt and a deficit on our travel account. Unless we improve our trade and tourism performances, Canada's standard of living will continually be compromised.



Although the tourism sector represents nearly one-fourth of our goods and services trade balance deficit, we are confident that this sector can make a major contribution to economic growth and job creation. That is why one of our priorities must be to work with our partners in the provinces and in the private sector to make the tourism sector more competitive.

## Conclusion

The recovery is over, and the expansion phase of the current cycle is now under way. But it was the slowest recovery in recent memory as is the current rate of expansion. An expansion as slow as today's will not solve Canada's serious economic difficulties. The prospect of falling prey to another economic downturn will only worsen Canada's current problems of high unemployment, low productivity growth and large deficits. My government's objective is to create a strong and sustained period of economic growth that lasts into the 21st century. One that will solve the problems of unemployment and stagnant real incomes, and will leave us in a strong position the next time we hit a "soft spot" in the economic growth cycle.

There are many fundamental changes under way in the economy today. I have described such change as a response to the new leading edge of the knowledge base that is now upon us: in a word, it is a response to "newness". Dealing with newness will require action on many fronts. The Government plans to implement both macro- and micro-economic policies tailored to meet tomorrow's needs today so that Canada can improve the living standards of its citizens and retain its current high standing in the world economy as a premiere place to live.

At the macro level, my government's strategy is to maintain stable policies which help ensure Canada's ability to manage the slower periods of economic growth that we know will show up as the expansion proceeds. At the micro level, the strategy will focus on entrepreneurship, innovation, infrastructure, and trade. You will hear from me shortly as to what I plan to do in each of these areas. The action I have in mind will make a difference to Canada's economic growth and to Canadian's jobs in the future.

