



Industry  
Canada

Industrie  
Canada

# Canada's Competitiveness in the Global Economy



**Presentation to the Public Policy Forum**

**Peter Harder  
Deputy Minister  
Industry Canada**

**January 17, 2001**

Industry Canada  
Library - LKC

MAY 12 2015

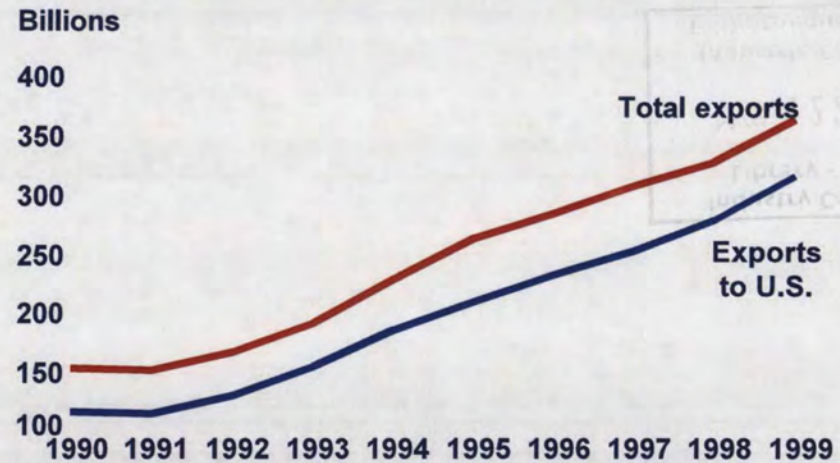
Industrie Canada  
Bibliothèque - BCS



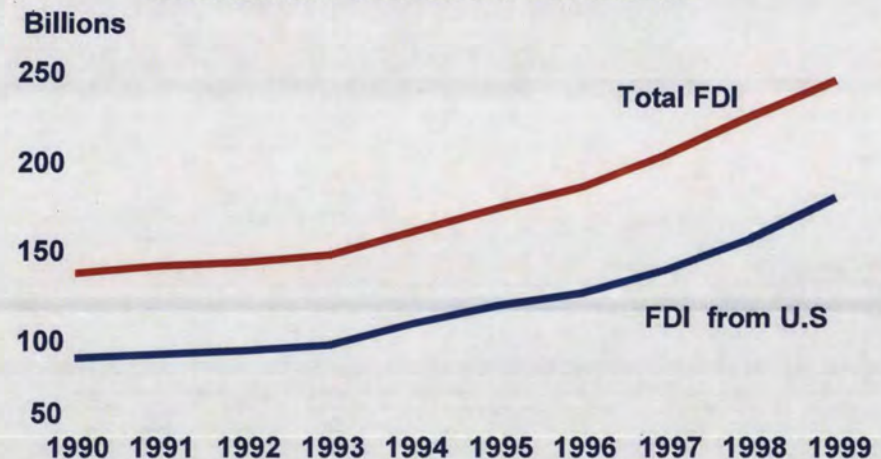
## Canada is an active player in the global economy

- Canada is taking advantage of the increasingly global economy.
- Exports have grown by 145% over the 1990s and inward FDI by 83%.

### Canadian merchandise exports



### Canadian inward FDI stock





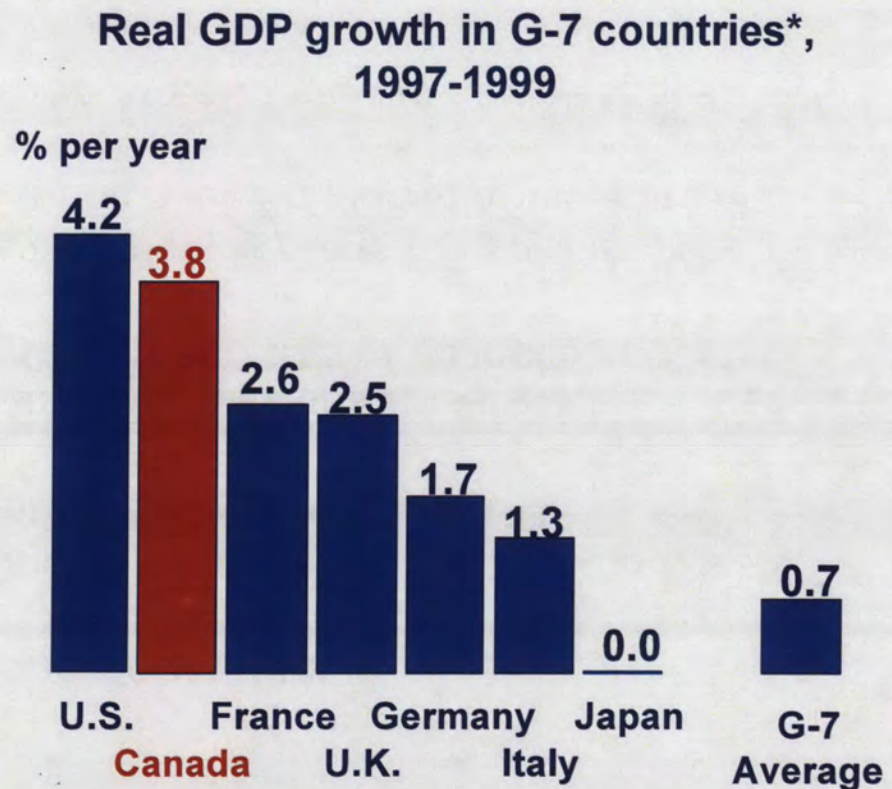
***For Canada, globalization largely means increased linkages with the U.S.***

- **Canada-U.S. links are deep and pervasive:**
  - **TRADE:** over one million dollars a minute, 45% is intra-corporate, exports to U.S. are about 40% of business-sector GDP,
  - **CAPITAL:** about \$300 billion in two-way foreign direct investment, dramatic growth in integration of financial markets,
  - **PEOPLE:** more than 200 million people cross the border every year, telecommunications traffic over 6 billion minutes annually,
  - **OUTSIDE PERCEPTION:** North America viewed as one space.



*This has boosted Canada's economic performance...*

- Between 1997-99, Canada's economy outperformed other G-7 countries.



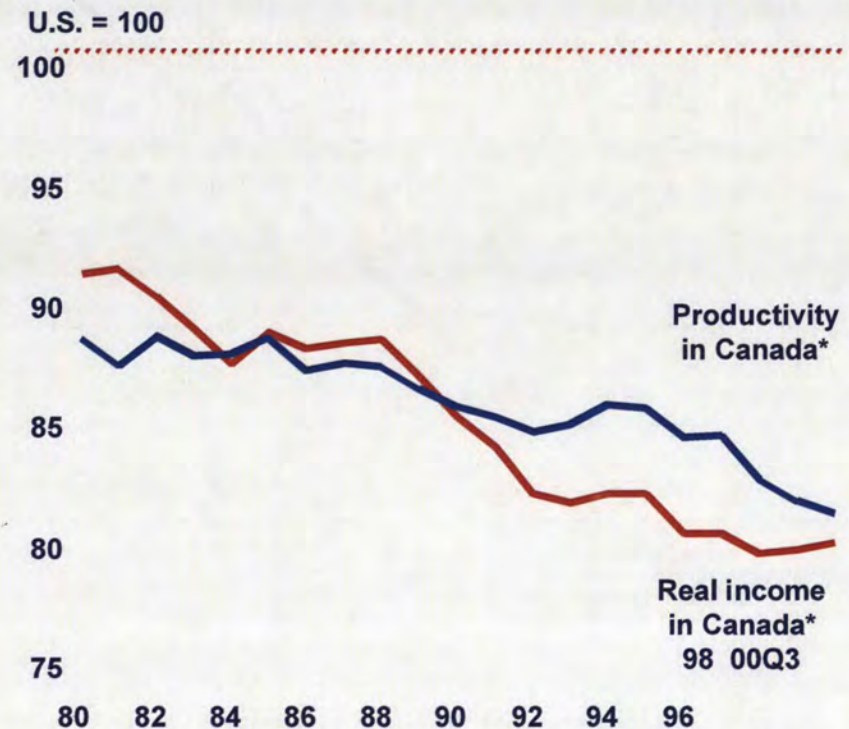
\* Average of year-to-year percentage changes in real GDP  
Source: Main Economic Indicators, OECD, April 2000



## *...but Canada still lags the U.S.*

- Over past two decades, the real income gap between Canada and U.S. has widened:
  - risk that trend continues,
  - largely due to widening productivity gap.
- Need stronger productivity performance to boost Canadian standard of living and broaden societal range of choices.
- Canada's innovation and investment record largely explains the gap in productivity performance between Canada and the U.S.

### Trends in Canada-U.S. productivity and real income



\* Productivity is measured by real GDP per employed civilian; real income is measured by real GDP per capita; Canadian values were converted to 1996 US\$ using 1996 PPPs.

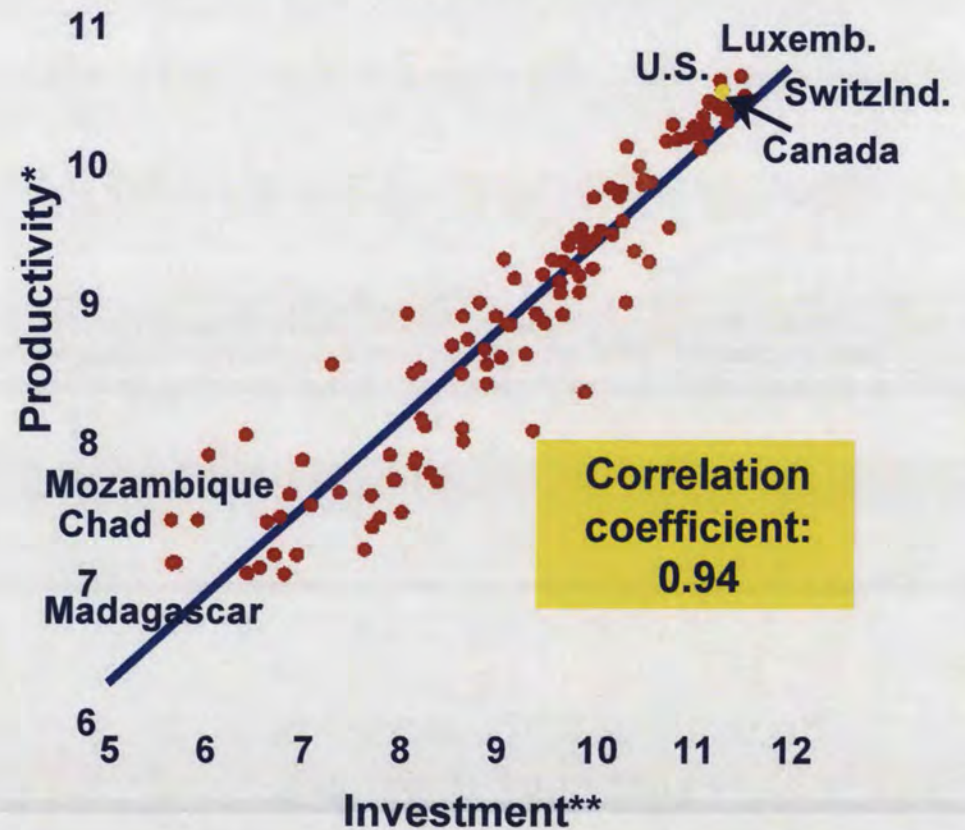
Source: Statistics Canada and U.S. Bureau of Economic Analysis



## Investment is key for improving Canada's performance...

- High levels of investment generally translate into high levels of productivity.
  - International evidence from 114 countries demonstrates that there is a strong positive correlation between investment and labour productivity.
- New technology is largely embodied in new machinery and equipment (M&E).
  - This makes new capital more productive than older capital.
  - Also requires higher skills from employees.

### Investment and productivity international evidence



\* Log of real output per worker, 1990.

\*\* Log of real capital per worker, 1990.

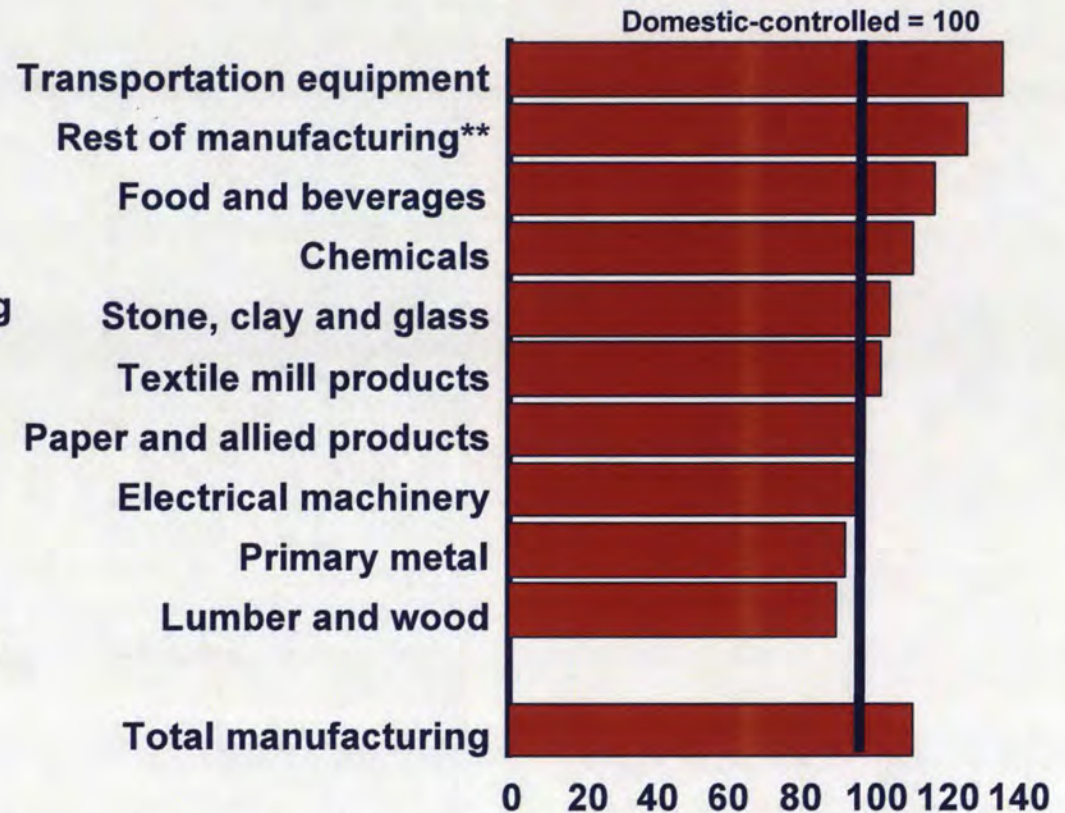
Source: Computed using data from Easterly, W. and Ross Levine, "It's not factor accumulation: stylized facts and growth models", Mimeo, World Bank and University of Minnesota, September 1999.



## ...and FDI makes an important contribution

- In Canada, foreign-controlled firms tend to be more productive than domestic-controlled firms.
- Foreign-controlled manufacturing firms are on average about 13% more productive than Canadian-controlled firms, after adjusting for industry size.
- It is primarily in resource-based industries that Canadian-controlled firms are more productive.
- In the 1990s, FDI has been an important component of business investment in Canada.
- It accounted for over 12% of business investment in the 1990s.

### Productivity\* of foreign-controlled firms by sector, 1993-95



\* Labour productivity

\*\*Includes Tobacco; Furniture & fixtures; Printing & publishing; Leather industries; and Other Manufacturing.

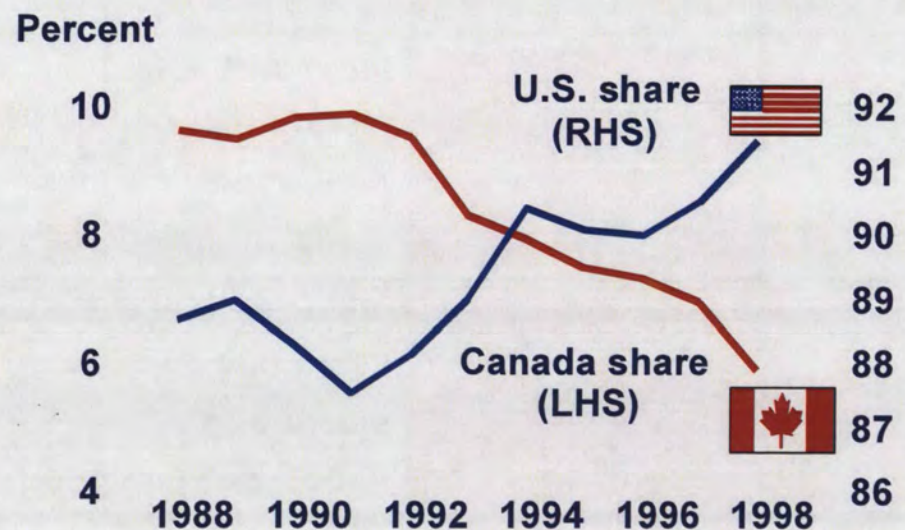
Source: Tang, J. and P.S. Rao, "Are Canadian-controlled Firms Falling Behind Foreign-controlled Firms in the Canadian Manufacturing Sector?", 1999.



## *But, Canada's share of FDI is falling steadily*

- Canada is attracting a smaller share of NAFTA-bound FDI.
- Between 1988 and 1998, Canada's share of North America's inward FDI declined by almost half — from 10% to 6%.

North American inbound FDI stock\*



\* Excludes intra North American FDI.

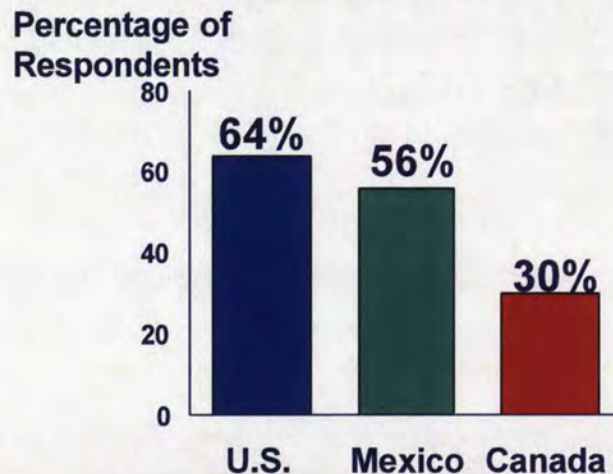
Source: Industry Canada compilations based on data from Statistics Canada, BEA, OECD and U.N., World Investment Report



## The U.S. is the destination of choice for FDI

- CEOs of global firms place most confidence in the United States as a foreign investment destination.
- Mexico ranks 7<sup>th</sup> while Canada is 13<sup>th</sup>.

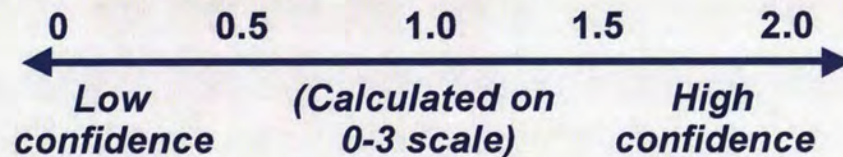
### Investment intentions of major multinational firms



Source: AT Kearney, FDI Confidence 2000 Index.

MEPA - APME

### FDI confidence index\*, January 2000



\* The index was computed as a weighted average of the number of high, medium, low and "no interest" response to a question about the likelihood of direct investment in market over the next 1-3 years.

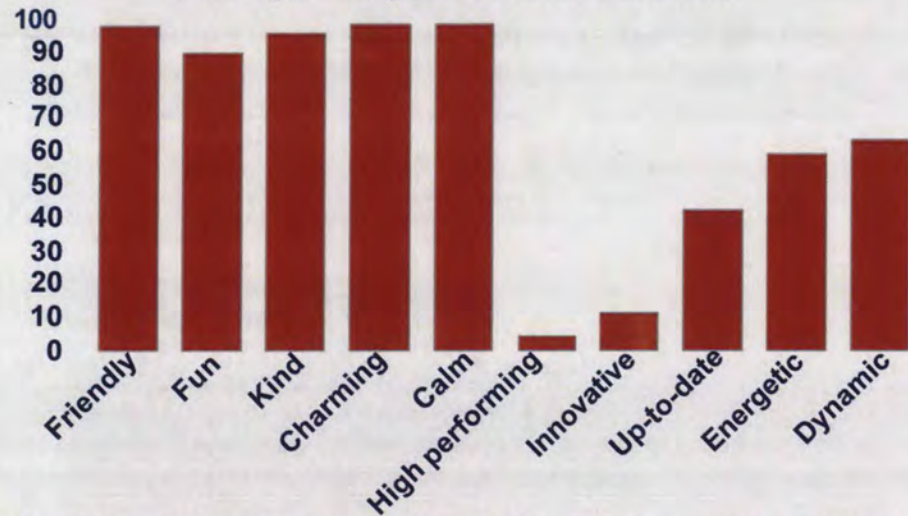
Source: A.T. Kearney, "FDI Confidence Index" January 2000



## Canada's "brand" needs a facelift

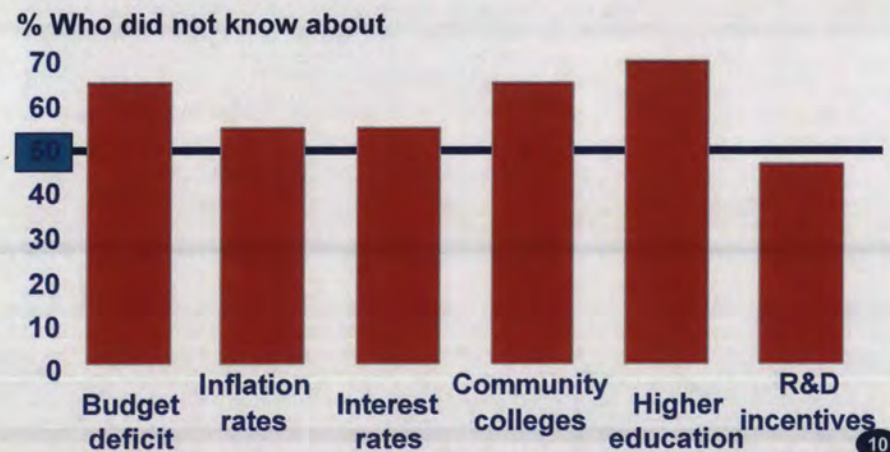
- Canada has awareness, and "brand", challenges abroad:
  - Aspects of Canada's "brand" are positive and well known – but primarily softer values... (fun, kind, charming).
  - But, we rank much lower in attributes valued by investors... (high performing, innovative).
- And, where Canada has real strengths (deficit, inflation, interest rates, education, etc.) there is very low awareness in the U.S.

U.S. perceptions of Canada\*



Source: Young & Rubicon Brand Asset Valuator, 1999 \*Burson Marsteller Study

U.S. site selectors' limited knowledge of Canada





## *To attract and retain FDI, we need to build a more competitive business climate*

### *Major investment drivers...*



#### **Progress to date**

- Sound macroeconomic environment.
- Skilled workforce, at a competitive cost.
- High quality of life.
- Competitive corporate and personal income tax by 2005.
- Innovation performance improving (eg. R&D, advanced technology use).

#### **More to be done**

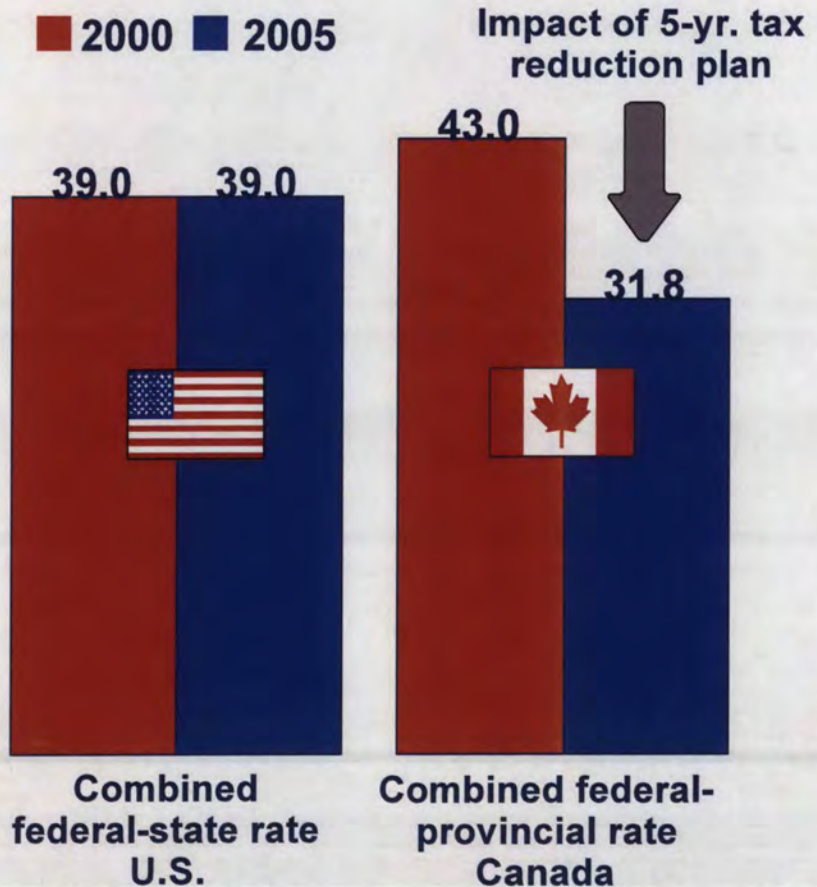
- Secure access to the U.S.
- Build on human capital strength.
- Continued investments in innovation.
- Effective framework policies.



## Canada is moving toward a competitive tax regime...

- The 2000 Federal Budget and Economic Statement will reduce corporate tax rates in Canada between now and 2005, when:
  - Combined federal/provincial average corporate income tax rate in Canada will be below that in the U.S.
- For individuals the treatment of capital gains and stock options has improved compared to the U.S.

Top statutory corporate income tax rates, Canada vs. the U.S. (%)

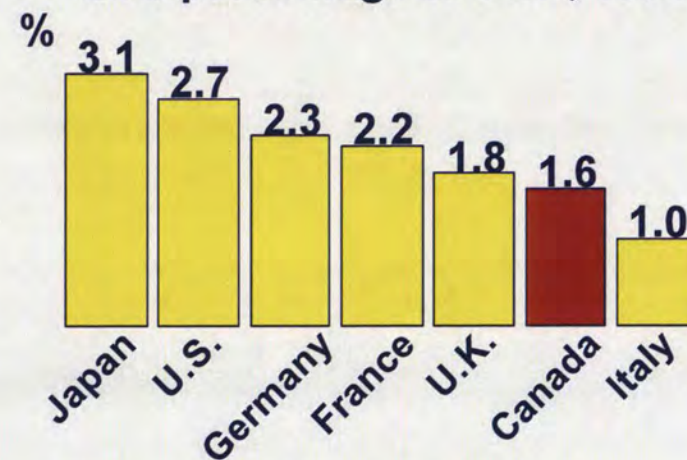




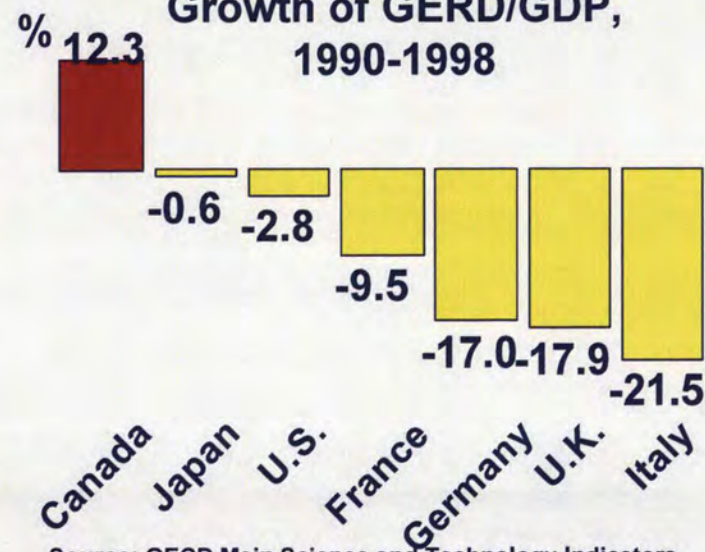
## ...and narrowing the innovation gap

- Canada's R&D intensity is among the lowest in the G7, but it grew fastest in the 1990s.
- Canada has invested heavily in the knowledge infrastructure through:
  - Canada Foundation for Innovation,
  - Canada Research Chairs,
  - Networks of Centres of Excellence,
  - Canadian Institute of Health Research,
  - Granting Councils.
- The private sector is investing more in R&D, but needs to do more.
- The government committed to ensure high speed broadband access available to Canadians by 2004.

Gross expenditure on R&D (GERD)  
as a percentage of GDP, 1998



Growth of GERD/GDP,  
1990-1998





## ***Secure access to the U.S.***

- **Seamless border for trade:**
  - **efficient border processes,**
  - **physical capacity to handle increasing flow of goods.**
- **Facilitate the movement of business personnel and services:**
  - **people are essential elements of knowledge products,**
  - **trainers, after sales service, consultants with market expertise.**

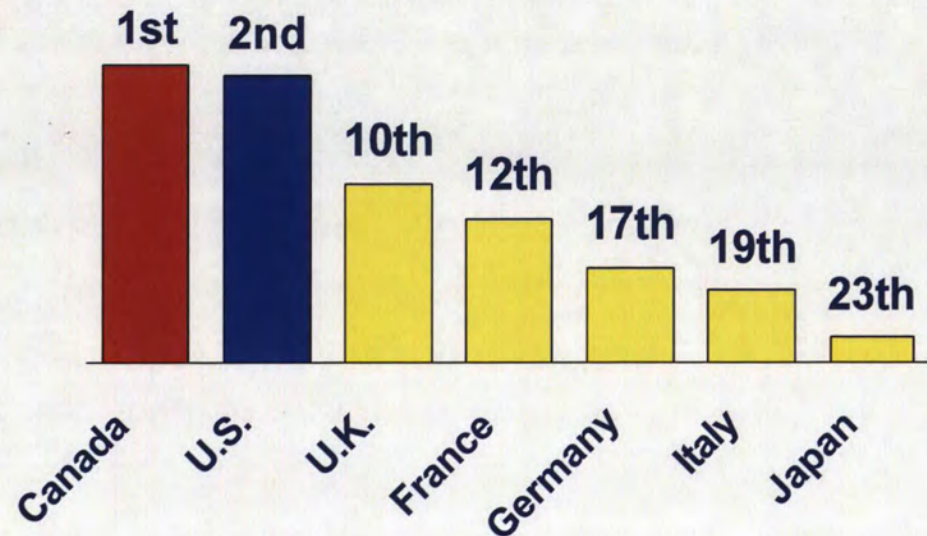


## Enhance our human capital advantage

### Knowledge workers — World rank\*

#### Index

- Canada has a highly skilled workforce.
- However, Canada must be attractive to highly qualified personnel, because of intense global competition for skills.



\*Tertiary education enrollment among 59 countries considered in the Global Competitiveness Report 2000  
Source: Global Competitiveness Report 2000



## Effective framework policies

- **Canada's marketplace frameworks and instruments, including tax policies, strongly influence the business climate. They need to be:**
  - benchmarked against the best in the world; and,
  - at least as effective as, if not better than, those of the United States.
- **In particular, key to ensure e-commerce frameworks facilitate generalized adoption and use.**



## *The way forward: Building on Canada's strengths*

- **Much progress made over the last 10 years.**
- **Must continue to build on Canada's strengths:**
  - Proximity and access to the U.S. market,
  - Human capital,
  - World-class research institutions,
  - Communications infrastructure,
  - Quality of life.



LKC  
HC 115 .H3 2001 c.2  
Harder, Peter  
Canada's competitiveness in the global  
economy presentation to the Public Policy  
Forum

[illegible]