

*FINAL TEXT*

***REACHING FOR THE TOP: STRATEGIC IMPERATIVES FOR  
CANADA IN A TRANSFORMING GLOBAL ECONOMY***

*An Address by  
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*The Simon Reisman  
Honorary Lecture*

*National Gallery of Canada  
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Excellencies, ladies and gentlemen, friends.

Warm thanks to Michael Hart for such a generous introduction and to our host, the Norman Paterson School of International Affairs and its Director, Fen Hampson.

It is a special privilege for me to present *The Simon Reisman Lecture*. Two presenters who preceded me, Michael Hart in 2000 and Derek Burney in 2005, are exceptionally able colleagues and friends with whom I have worked closely over the past twenty years on some of the most challenging public policy issues of our times.

Joe Reisman has offered us a moving tribute to his father Simon, who to my great sadness is not with us today. His widow, Connie, who is with us together with members of the family, assured me that it was Simon's great desire to be here. I have prepared my remarks imagining that he would be sitting here in the front row, listening carefully to every word, prepared to challenge an assumption or two, and looking forward to offering his blunt assessment of what I had to say.

I first met Simon in 1969. I was a young staffer in Prime Minister Trudeau's office and Simon was already a legendary figure in public service circles. In the PMO of the period, time and time again I would hear it said -- "Has this been checked with Simon?" or "What would Simon say?" By the time he ascended to the office of Deputy Minister

of Finance in 1970, he was larger than life with a reputation for uncompromising intellectual rigour and toughness.

By the mid 1980s, our acquaintance evolved into friendship when we began to work together to advance the cause of Canada-United States free trade. And as the years wore on, we shared many good times including the pursuit of the noble wild salmon where his mastery of the piscatorial arts left me in awe. One of the most memorable moments for me was the day he took me to lunch and gave me a collection of his favourite salmon flies.

My wife Susan and I last saw Simon at a luncheon that we hosted five months ago on November 11 following the Remembrance Day Ceremony at the National Cenotaph. Present were two dear friends who, like Simon, were giants of Canada's public service -- Gordon Robertson and Jake Warren. Due to illness, Jake Warren cannot be with us today. Gordon Robertson, on the other hand, is sitting in the front row. A warm welcome to you, Gordon!

On January 2, 1988, Prime Minister Brian Mulroney and President Ronald Reagan signed the most comprehensive free trade agreement that the world had seen. As Canada's Chief Negotiator, Simon Reisman could take great pride in having achieved on Canada's behalf a pact that removed almost all barriers to trade in goods and many obstacles to trade in services, investment and business travel. The Agreement also established understandings between the two governments that would shape the regulation of private firm behaviour and future bilateral economic policies.

The significance of the *Canada-United States Free Trade Agreement* transcended the rules that it ushered into place. Born out of several years of intense national debate and the dramatic, single-issue federal election of 1988, it opened the minds of Canadian workers, business managers and political decision-makers to the challenges and opportunities of a liberalized economy. It was in many respects a herald of a profound transformation sweeping the world -- a transformation accelerated politically by the fall of the Berlin Wall, the collapse of the Soviet Union and the retreat of autocratic regimes together with statist economic policies. The overriding impetus for this worldwide change, as in the case of the evolution of the idea of Canada-United States free trade, was the unstoppable juggernaut of capital, trade, investment, technology and ideas -- a phenomenon described by supporters and detractors alike as "globalization".

If the *Canada-United States Free Trade Agreement* and its successor the *North American Free Trade Agreement* moved Canada inexorably forward economically, one other huge step in Canadian public policy did likewise. The vigorous assault by Prime Minister Jean Chrétien's government on Canada's alarming fiscal position in the 1990s, and Finance Minister Paul Martin's resolution to restore Canada to fiscal health "come hell or high water", helped cement the foundations for future prosperity.

How have we fared as a country in this age of globalization? The facts speak for themselves. Our people are global citizens. Our enterprises are global in their activities and ambitions. We sell more to the world than we buy. We invest more money abroad than we attract from other countries. We earn more from our global investments than we

pay to foreigners. Clearly, the best way to handle the challenges of globalization is to seize its opportunities.

It was this unshakeable conviction that prompted me and my colleague David Stewart-Patterson in 2001 to write the book, *Northern Edge: How Canadians Can Triumph in the Global Economy*. The central thesis of *Northern Edge* is that to excel in a globalized world, Canadians must shake off complacency and strive for excellence in all that we do. We argued that there is no turning back and that developing powers, most notably China and India, would challenge with increasing success the dominance of developed nations in the quest for talent, ideas and innovation.

The more open and confident Canada that we called for, based on sound public policy and strong public and private sector leadership, has produced impressive results. We are enjoying the largest uninterrupted stretch of growth since the Second World War. Unemployment is at thirty-year lows. Our dollar has been hitting fifty-year highs. Wages are rising. Corporate profits and investment are strong. Governments are ploughing record tax revenues into expanded public services even as they run surpluses and cut taxes.

According to some of the high priests of the left who for decades have been operating on the margins of national debate in Canada, this was not to be. In an open economy in which Canada was linked closely to the United States, Canadians were destined to become hewers of wood and drawers of water. Our standard of living was certain to plummet, our much cherished national programs and institutions would be disemboweled, and our values would in time disappear. Today's realities are in such stark contrast with these wild

prognostications that they deserve a place of prominence in the pantheon of the absurd!

Canada has done many things right, but today's success flows from a decade of tough choices made in the course of slashing government deficits, fighting inflation and adapting to free trade. Even as Canadians have prospered from those choices, the rest of the world has continued to evolve. Indeed, the transformation has been stunning. The developing world now is responsible for close to fifty percent of the world's GDP. China and India are transforming patterns of trade and investment worldwide and driving up global demand and prices for energy and natural resources. At the same time, the Canadian dollar has been rising rapidly even as Canada's largest export market, the United States, is plunging into recession. The result is intense new competitive pressures on Canadian companies and workers in every sector. Canada simply cannot rest on the laurels of the 1990s without putting in peril the future quality of life of all Canadians.

While Canada has been a winner overall in a globalized world, can we expect our pace of growth and progress to continue indefinitely with the mix of policies and attitudes that we have in place now? The answer in my view is clearly "no". This also has very much been the position of the Canadian Council of Chief Executives, which over the past decade has argued that Canadians must aggressively pursue a combination of bold new policies and initiatives if we wish to remain in the front ranks of global competitors.

No one measure can magically move Canada to the top of the global heap. Any successful strategy must contain many elements. The

CCCE laid out key elements of such a strategy in its 2006 paper, *From Bronze to Gold: A Blueprint for Canadian Leadership in a Transforming World*. The federal government took a similar approach in the *Advantage Canada* strategy that it adopted more than a year ago. The blunt fact is that most of what Canada needs to do is well understood. There is a broad consensus among business leaders, academics and other thought leaders on these issues, and the same prescriptions have been put forward so many times that it can be tempting to take them for granted.

The policy warriors among you will recognize an all too familiar litany. In the all important domain of *education*, we are falling behind in producing the highest excellence in literacy and numeracy. Our high school dropout rates are too high, and we are paying a price because of the absence of ambitious national norms.

In the realm of *immigration*, flows of people from every corner of the world have been the key to Canada's economic success and the foundation of our vibrant multicultural society. As demographics drive growing labour shortages in Canada and across the industrialized world, and as the competition for talent sharpens, we must move with a much clearer sense of purpose.

We must reduce the enormous backlog of applicants more quickly. We must target key sources of potential immigrants and enable employers to recruit from abroad with a minimum of cost and delay. The talents and skills of many of our immigrants are not being put to use, a situation that cries out for remedy on the part of governments, business, professional organizations, organized labour, academia and community organizations.

The health of our *cities* must be a top ranking priority. Canada is an increasingly urban country, and immigrants continue to flock to our largest metropolitan centres. These centres are critical engines of growth for the country as a whole. Federal and provincial governments must work together to ensure that cities have access to the tax room that they need to shape their future as magnets for the global talent that drives innovation and wealth creation. City administrations in turn must shed the mediocre and the drab in favour of people-friendly spaces and design excellence in buildings and infrastructure.

And what of Canada's so-called "*economic union*"? After years of empty rhetoric, the lingering impediments to the free flow of people, goods and services across the country have become a national and international embarrassment. Alberta and British Columbia have demonstrated that at the very least two provinces can opt for beneficial cooperation. The federal and provincial governments at a minimum should take significant steps in three areas. They should ensure that Canadians will be able to work without restriction anywhere in Canada no later than the stated goal of April 2009. They should move forward quickly toward a single regulator for securities markets. And they should add to the *Agreement on International Trade* an effective and binding dispute-resolution process.

"*Smart Regulation*" must be the hallmark of how governments intervene to protect the public interest. The *External Advisory Committee on Smart Regulation* in 2005 laid out a comprehensive framework for making Canada's regulatory processes faster, cheaper, more transparent, more effective and more predictable, but progress



remains frustratingly slow. The federal government should follow through on its commitment to reduce the administrative burden of its regulations by twenty percent. All levels of government should accelerate efforts to reduce costs and delays and tackle with greater seriousness the problem of overlap and duplication that has afflicted our federation for years.

*Taxation policies* can either be a springboard to the top, as Canadians seek to be among the global leaders in wealth creation and social improvements, or a terrible drag. Our policies put us somewhere in between. Lower income Canadians face some of the highest marginal tax rates. Cutting these rates and reducing the clawback of benefits is vital to encourage Canadians to find work and to invest in the ongoing education and training that will enable them to get ahead.

To compete for global talent, Canada must also reduce its top marginal rate, currently the second highest among the G7 countries. The federal government would do well by enhancing the tax treatment of both capital gains and dividends. More generally, future tax changes should shift the tax burden away from investment, savings and income and toward consumption.

The Harper government has made very important progress in reducing the statutory corporate income tax rate, but should consider reductions beyond the fifteen percent rate now set for 2012. In the short term, it should take targeted measures to encourage innovation and offset the rapid rise in the Canadian dollar. Next month, the federal government's *Advisory Panel on Canada's System of International Taxation* will table its report. I hope that the *Panel* will be bold in its recommendations and will draw attention to the ample evidence

worldwide that low corporate tax rates can have a dramatically positive impact on innovation and creativity.

Provinces too have an important role to play in creating an overall tax environment in Canada that will be globally competitive. Provinces that have not already done so should eliminate their remaining capital taxes as soon as possible. They also should cut their corporate income tax rates to meet the federal challenge of a combined federal-provincial rate of twenty-five percent or less. Most important, in the short term, provinces that still charge retail sales taxes on business inputs should convert to value-added taxes, preferably harmonized with the federal Goods and Services Tax.

No discussion about reaching for the top would be complete without emphasizing the importance of *efficient infrastructure*. The quality of our roads, bridges, rail links, airports, and marine ports facilities are among the most visible measurements of our standing in the global competition for talented people and investment. Here we are falling behind a host of countries, developed and developing alike, where infrastructure investment is targeting the highest global standards both in terms of economic efficiency and aesthetic design.

Of all the areas for opportunity in Canada's reach for the top, perhaps none is more compelling than the *environment*. In 1989, I delivered an address titled *Environment and Economy: Till Death Do Them Part*. I said at that time that no issue was more important to the planet than environmental sustainability. Nothing has changed other than the urgency with which all of humanity must come to terms with population growth, the erosion of the planet's ecosystem and the depletion of finite resources.

As a large, cold, highly developed and energy-intensive country, Canada's stake in the evolution of environmental policy both nationally and globally is huge. And yet over the past decade, our national debate on the environment, particularly as it deals with global climate change, has been riddled with poor quality analysis, inconsistencies, unrealistic goal-setting and some of the most destructive political partisanship that I have witnessed in my four decades of experience with public policy issues. Today, we are still far from a national consensus on how to proceed. The federal government and the provinces are moving in different and in some cases conflicting directions, producers and consumers are eyeing each other warily, and a clear, long-term strategy for turning environmental costs into opportunities is wanting.

In response to this policy conundrum, the Canadian Council of Chief Executives last year launched its *Task Force on Environmental Leadership*. The centerpiece of the Task Force *Policy Declaration* calls for Canada to become an energy and environmental superpower based on five key propositions: an all-Canada plan under which governments, industry and consumers work together towards shared goals; the aggressive embracing of new technologies to achieve higher living standards with lesser environmental impacts; the designation of concrete but realistic targets that keep companies healthy and profitable and that encourage investment in new technologies; the adoption of credible policy instruments to encourage producers and consumers to adopt more environmentally friendly behaviour; and vigorous Canadian leadership in pushing for engagement on the part of all major global emitters. Our *Policy Declaration* drew a surprise endorsement from the Leader of the Green Party and we are pushing ahead with our ambitious ideas. But business leadership, while important, will not

win the day. Canada's First Ministers need to come together, put the national interest first, and build a powerful new consensus that aspires no less than to establish Canada as an energy and environmental superpower.

The last of the public policy priorities that I will raise today in the quest for Canadian excellence is a subject that Simon Reisman championed for many decades -- the need for a *smart strategy for dealing with the United States*. The relationship on the whole is in excellent shape. Our trade and investment flows remain strong and healthy intra-firm cross-border cooperation is higher than ever. Politically, Prime Minister Harper and President Bush get on well together. Our two countries are allies in an effort to defeat the Taliban insurgency in Afghanistan and rebuild the country.

The supreme challenge going forward is to ensure that the Canada-United States relationship progresses in all its dimensions and does not stumble and retreat in the face of two dominant threats: the desire of the United States security establishment to encumber the two-way flow of people and commerce with an ever-broader set of rules; and the wave of protectionist sentiment preoccupying our neighbours.

Two realities are sustaining these forces. One is the ever-present danger of terrorist strikes against United States interests. The other is the perception that American industry and jobs are under assault by low-wage countries. China and Mexico rank high on the list of suspects. The situation in the United States is made worse by the fact that the country is going through a difficult economic period.

Drama recently has been added on the trade protection front by the assertion of Democratic Senators Clinton and Obama that they have reservations about the *North American Free Trade Agreement* and would, if elected President, renegotiate its terms.

In the face of such pressures and with a change of Administration not far away, Canada should respond with a winning strategy. A winning strategy must go beyond the skillful day-to-day management of the relationship. It requires a compelling vision, a big idea that will motivate Americans and Canadians alike to redefine their cooperation with one another in 21<sup>st</sup> century terms.

It was a big idea that in the early 1980s caused Canada's business leaders to abandon more than a century of protectionist policies in favour of a free trade agreement with the United States. It was a big idea that motivated Royal Commission Chairman, Donald Macdonald, to opt for the "leap of faith." It was a big idea that prompted Prime Minister Mulroney to reverse his opposition to Canada-United States free trade and that persuaded predominantly skeptical officials in Ottawa that such a leap forward was possible. And it was a big idea that infused Simon Reisman and his mighty team with the passion that they brought so successfully to the negotiating table, resulting in the historic *Canada-United States Free Trade Agreement*.

The good news is that the next big idea already exists. It began to take shape in the mid-1990s when the level of North American economic integration began to leave behind the governmental agreements and institutions of the day. It took on form and momentum following the 9/11 tragedy when it became starkly apparent how vulnerable the

transborder economy is to terrorist attacks. Numerous studies and conferences added flesh to the bones.

So what is the new big idea? It is of a Canada and a United States that will continue to nurture their independence as countries but that will achieve a level of economic and security cooperation unmatched by any two countries on earth.

With the assistance of the most advanced technology, the existing border will be transformed into an electronic boundary some distance from the physical border, that will welcome the movement of people and goods while at the same time deterring or capturing terrorists and criminals.

The new big idea envisages a degree of regulatory cooperation between the two economies that will complement the unparalleled integration of business activity that connects both countries. This cooperation will lead to greater economic efficiencies while providing citizens in both Canada and the United States with the highest standard of health and environmental protection.

The new big idea imagines Canada and the United States resolving disputes on the widest range of economic issues through joint commissions composed of distinguished jurists. Simon Reisman and many of us fought hard during the free trade negotiations to put in place an advanced system of dispute-resolution that would act as an impetus to commerce while building trust between our respective business communities and workforces. We had to live with a compromise. In the past twenty years, Canada-United States interdependence has deepened, with energy trade assuming ever

greater significance. The time has come to renew Canadian efforts to put in place this long overdue and critical legal infrastructure.

The new big idea envisages the adoption by both countries of a common external tariff that would evolve through the harmonization of external tariffs on a sector-by-sector basis. This would eliminate the need for rules of origin and further facilitate integration and better use of scarce resources.

The new big idea is not about economics alone. It would see our two countries adopt a common security perimeter in which a terrorist trying to penetrate our borders would have an equally hard time doing so, no matter which country he elects to enter first. Logically, these measures could be extended to a joint approach insofar as international negotiations on the global movement of people, cargo and vessels are concerned.

Our military forces, which already work together within the North American Aerospace Defense Command (NORAD), would formally extend their cooperation on a joint command basis to land and naval forces in defending the approaches to North America. Law enforcement cooperation would be expanded from its current levels through the exchange of liaison teams, and better use of automated systems for tracking, storing and disseminating timely intelligence.

Finally, the new big idea would involve some institutional changes. These would not in any way compromise the determination of each country to maintain its independence and systems of government. The new big idea is not in any way a precursor to political union -- a

concept that would find little favour in either country, now or in the foreseeable future.

An annual meeting of the Prime Minister and the President, however, would make a great deal of sense. So would closer relations between Canadian parliamentarians and members of the United States Congress, and between Premiers and Governors.

The elements of the new big idea that I have outlined are by no means exhaustive. More detail can be found in academic works, in the analysis of various think tanks and in recommendations of business organizations including my own which in 2003 launched our *North American Security and Prosperity Initiative*.

Many good ideas have evolved and useful work has been undertaken by the governments of Canada, Mexico and the United States under the umbrella of the *Security and Prosperity Partnership of North America (SPP)* established in 2005.

Regrettably, the *SPP*, and the literally thousands of officials across the continent who have toiled to move the trilateral agenda forward, have received little recognition or credit. In part this is due to the breadth of the *SPP's* mandate and to its incremental progress on a wide variety of mainly technical issues. Lost in the complexity of the *SPP* is the new big idea. It is there but you would have to look hard to find it.

An offshoot of the *SPP* is the *North American Competitiveness Council (NACC)* established by the Prime Minister of Canada and the Presidents of Mexico and the United States in 2006. Composed of chief executives from the three countries, this advisory group has



pushed hard for trilateral action on border, regulatory and energy issues. Its *Report to Leaders* in Montebello last August contained fifty-one recommendations and was well received. It will report again to Leaders when President Bush convenes the *North American Summit* in New Orleans next month.

Having been part of this process, I see considerable potential in it because it embraces in one important respect a new big idea -- the need for North America to intensify cooperation among its partners in order to face the immense economic challenge coming primarily from Asia. Earlier in this lecture, I spoke of the steps that Canada must take to confront the challenge of globalization. Some of the policy actions I proposed have found resonance among the members of the NACC in all three countries.

Having affirmed the existence of the new big idea, the logical question is -- how viable is it? At this point, given the state of North American politics and especially the obsession with security and protectionism in the Great Republic, one could conclude that it isn't going anywhere. I am no such skeptic. In the early 1980s, when some of us were pushing for the big idea called free trade, we were told time and time again that it was a pipe dream. The logic of the big idea, coupled with persistent and powerful advocacy and bold leadership, turned the tide.

Canada's Prime Minister and the new President of the United States, with the help of strong allies in both countries, can win support for the new big idea. Why am I so convinced of this? Because it makes such good sense!

Before concluding my thoughts on the future of Canada-United States relations, let me offer two observations. The first is that my focus has been very much bilateral in nature. Some of you may find this strange in that I have championed the NAFTA and pushed hard for many years for Mexican inclusion and the idea of a North American Community. My reason for focusing on the bilateral is because a significant number of the more far-reaching proposals I have discussed in the context of the new big idea cannot be implemented trilaterally -- at least not in the near term. Mexican concerns about sovereignty would not allow it and in some areas targeted for deepening, the asymmetries among the three countries are simply too vast. The NAFTA, which has delivered so much for all three countries and which merits the strongest defence against its many detractors, is not ideally suited to encompass the new big idea.

All this having been said, Mexico is a critical continental player and over time will profoundly influence the evolution of North American politics, economics and culture. Mexico also is increasingly important to Canada, and the NAFTA relationship apart, we must accelerate the development of comprehensive ties between our two countries. What we must not do, however, is allow the trilateral paradigm with some of its all too apparent constraints to hold back the natural and logical evolution of Canada-United States relations. A sensible way to make bilateralism and trilateralism work in tandem is to apply the principle embraced within the Security and Prosperity Partnership of "*three can talk and two can do.*"

My second observation is addressed in particular to my friends here today, the Ambassadors of various countries other than the United States and Mexico: please forgive the fact that I have not mentioned

Canada's relations with the rest of the world. Those of you who know me well will appreciate that my vision of Canada's future includes a much stronger political and economic engagement by Canadian government and business leaders in various parts of the world -- a rapidly changing world in which opportunities abound, a world destined to shed its unipolar nature and that within two or three decades will look very different than it does today. Ah, but that is the subject of another lecture.

My time is drawing to a close but there can be no final word until I deal with a subject that cries out for comment. As one prepares Canada for this rapidly transforming global economy, what about the responsibilities of business?

Obviously, good governance and wise public policy are of critical importance, but will not in themselves deliver Canada to the front ranks among global economic performers. Reaching the top will also require daring and creative business leadership.

Canada is home to successful enterprises in many sectors of the economy, companies that have seized global opportunities, that have driven the growth of high quality jobs in Canadian communities and have created considerable wealth for Canadian investors, including pension plans that ensure a sound future for millions of working families.

As a group, however, Canadian businesses have been too slow to invest in research and to adopt leading-edge technologies. Too few Canadian companies have taken on the challenge of selling goods and services abroad, or of making investments and building relationships.

Too often, Canadian enterprises have sold promising ventures on the cusp of greatness that Canadian investors have seen as more risky and less valuable than have venture capitalists and corporate buyers from abroad. And too many business leaders -- like too many Canadians in all walks of life -- have been content with bronze rather than gold, with a sense that good is good enough.

Canadian companies need to attract shareholders from around the world. And to prosper as a country, we need to ensure that companies controlled elsewhere see Canada as an ideal location from which to serve customers, not just within our borders but throughout North America and the world.

Foreign investors have seen attractive opportunities in Canada and, in large measure, the infusion of capital has been positive. However, in the span of a few years, a string of Canada's best known companies have been taken over or taken private -- in forestry, energy, mining, steel, aluminum, beer, telecommunications, information technology and retailing -- and most of these are now controlled abroad.

This spate of foreign takeovers in part was the reason for the appointment by the Harper government last year of the *Competition Policy Review Panel*, which will table its views in several months. Much of what I have talked about today will be addressed by the Panel, which is considering a broad range of issues that go to the heart of Canada's competitiveness.

As I have said elsewhere, there may be some important policy changes that will create an environment more favourable to the husbanding of Canadian-owned companies with global headquarters in Canada.

However, at the end of the day, reaching for the top can never be accomplished in the safety of protectionist fortifications. Reaching for the top requires business leaders who embrace the open economy and who are by instinct “hunters” -- bold entrepreneurs and builders who thirst to take their brands and ideas to the markets of the globe. In Canada today, we have some impressive examples of such leaders -- but we need more, many more.

Excellencies, ladies and gentlemen, you have patiently given me your ears. During the past hour, I have talked about Canada’s strengths and weaknesses. I have talked about the challenges facing our country, I have sought to convey the enormity of the global economic transformation that is taking place.

As Canada faces these challenges, I am excited by the huge opportunities and I am confident that with vision, clarity and purpose and daring leadership, we can legitimately aspire to succeed in our reach for the top. In *Northern Edge*, we set an ambitious goal for Canadians. We said that our mission should be *to ensure that Canada is the best country in the world in which to live, to work, to invest and to grow*. It is a mission that Simon Reisman would endorse without reservation. It lays out a goal that is well within our reach. Simon, the “old lion’s” advice to us all would be very much to the point: “Let’s get on with it!”