



**CANADA IN THE 21ST CENTURY  
OPTIMISM AND URGENCY IN AN ERA OF ACCELERATING CHANGE**

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**CANADA IN THE 21st CENTURY  
OPTIMISM AND URGENCY IN  
AN ERA OF ACCELERATING CHANGE  
A PRIVATE SECTOR PERSPECTIVE**



PRESENTATION AT THE  
WORLD ECONOMIC FORUM  
BY THOMAS d'AQUINO  
PRESIDENT AND CHIEF EXECUTIVE  
BUSINESS COUNCIL ON NATIONAL ISSUES  
JANUARY 28, 2000  
DAVOS, SWITZERLAND

- ✦ **Good afternoon, ladies and gentlemen. My name is Tom d'Aquino and I am President and Chief Executive of the Business Council on National Issues. Together with my colleagues from Canada, I am delighted to welcome you to the World Economic Forum's Canada *Luncheon and Briefing* aimed at providing business and government perspectives on Canada's economic prospects as the country enters the 21st century.**
- ✦ **Introductions of: The Honourable John Manley, Minister of Industry, and The Honourable Pierre Pettigrew, Minister for International Trade.**
- ✦ **Introductions of: Provincial Ministers.**
- ✦ **Introductions of Canadian chief executives.**

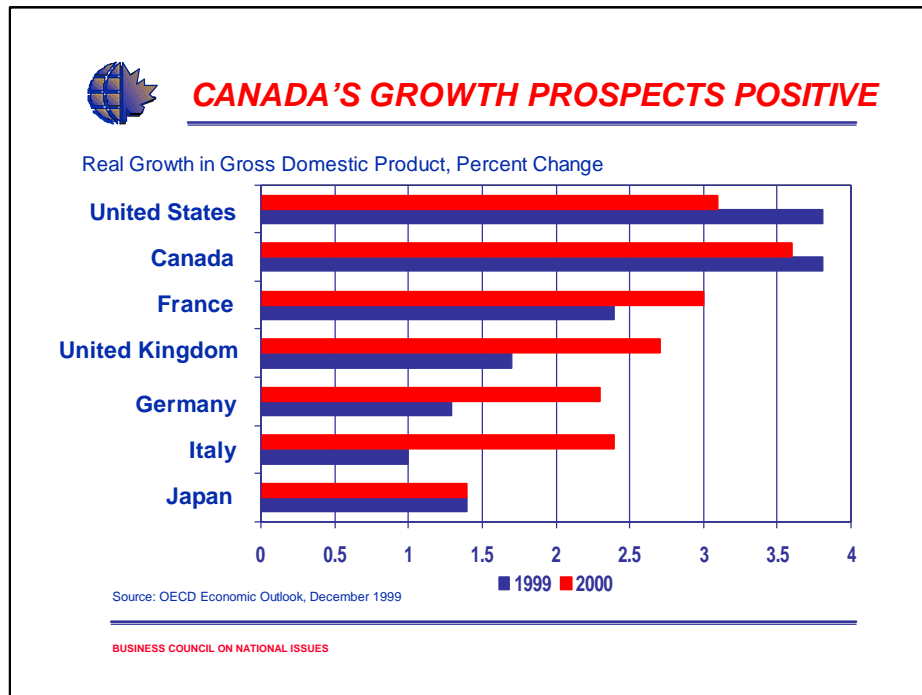


**THE BUSINESS COUNCIL ON NATIONAL ISSUES  
IS CANADA'S SENIOR BUSINESS ORGANIZATION COMPOSED OF  
THE CEOs OF THE 150 LARGEST CANADIAN ENTERPRISES AND  
REPRESENTING ALL KEY SECTORS**

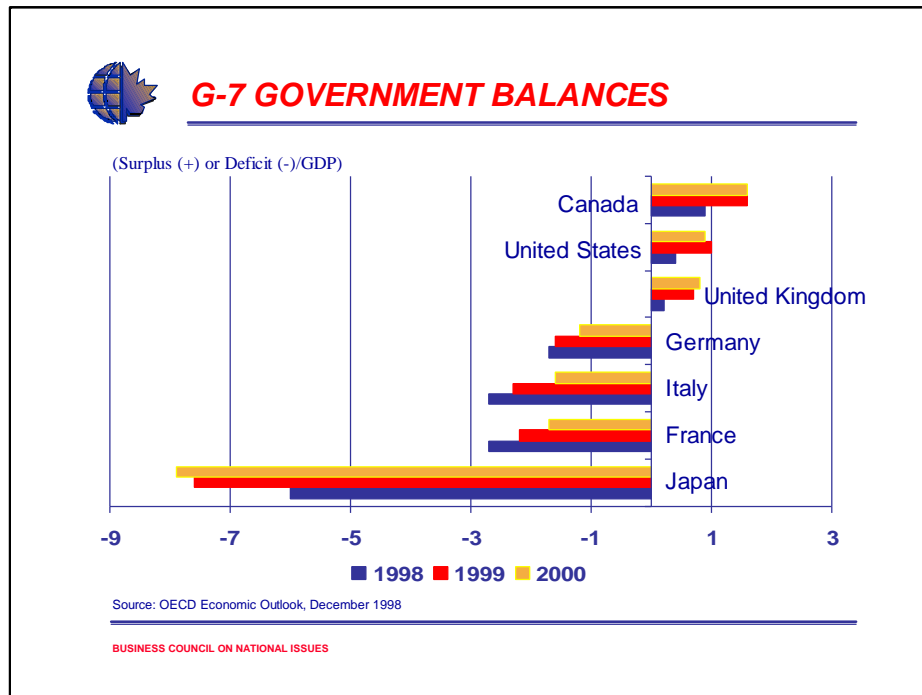
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|---------------------------------------|----------------------------------|----------------------------------|
| <b>Autos &amp; Parts</b>              | <b>Insurance</b>                 | <b>Printing &amp; Publishing</b> |
| <b>Banking</b>                        | <b>Manufacturing</b>             | <b>Retail Trade</b>              |
| <b>Chemicals &amp; Petrochemicals</b> | <b>Metals and Minerals</b>       | <b>Steel</b>                     |
| <b>Engineering</b>                    | <b>Oil, Gas &amp; Energy</b>     | <b>Telecommunications</b>        |
| <b>Elec. &amp; Electronic</b>         | <b>Paper and Forest Products</b> | <b>Textiles</b>                  |
| <b>Food &amp; Beverage</b>            | <b>Pharmaceuticals</b>           | <b>Transportation</b>            |

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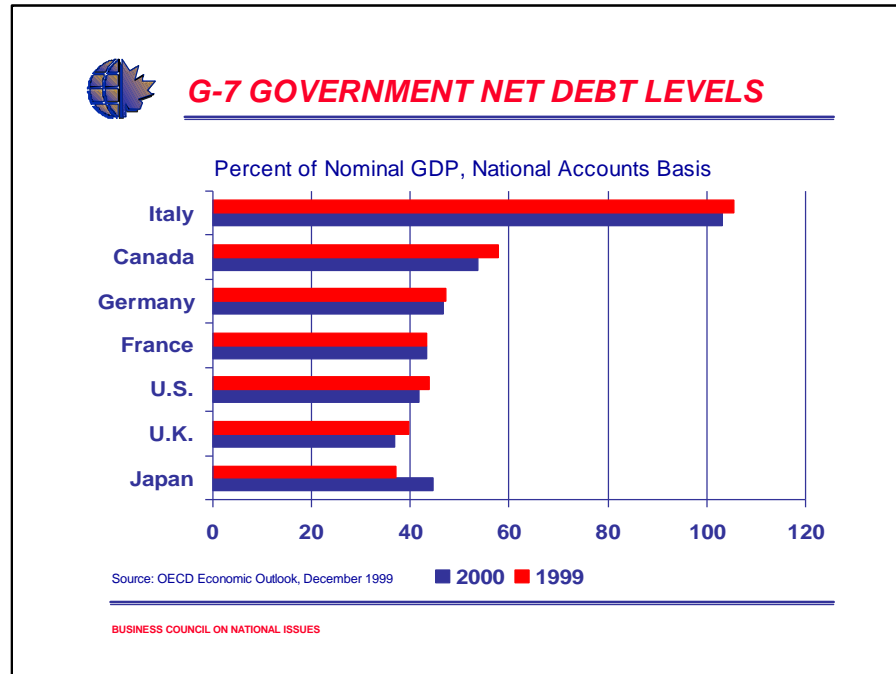
- ✦ **But first, a few words about the Business Council on National Issues – the “BCNI”.**
- ✦ **The Council today consists of 150 chief executives of leading Canadian enterprises.**
- ✦ **The organization concerns itself with strategic issues of national and global relevance to Canadian business leaders.**
- ✦ **Member companies currently administer in excess of CDN \$ 2.1 trillion in assets, have an annual turnover of approximately CDN \$600 billion and are responsible for a significant majority of Canada’s exports, investment and research and development.**



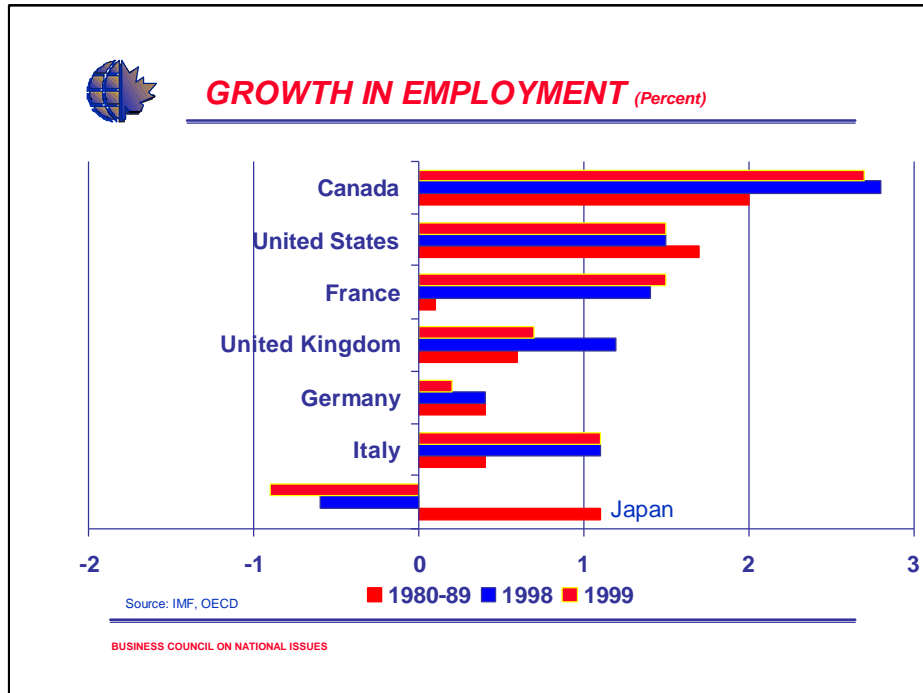
- ✦ **Canada begins the new century with positive economic prospects after a decade of macro- and micro-economic structural reform and global financial market volatility.**
- ✦ **Suffering lacklustre economic growth in the first half of the decade, the Canadian economy has experienced a renaissance -- with economic growth of 4 percent in 1997, 3.1 percent in 1998, and 3.8 percent in 1999. This year, the economy is expected to come close to 4 percent growth.**
- ✦ **With Canada-United States economic integration at unprecedented levels, Canada's performance has benefited greatly from the long and spectacular expansion in the United States.**



- ✦ Canada's overall fiscal position has improved dramatically. The national balance sheet has generated three consecutive years of fiscal surpluses, and a fourth is expected this year.
- ✦ As this chart demonstrates, Canada has the strongest deficit-to-GDP ratio of any G-7 country.
- ✦ With this outstanding performance, and most provinces in or near balance, the federal government is anticipating surpluses in excess of \$90 billion in the next five years.



- ✦ **Canada still remains highly indebted, but progress is being made on this front. Canada's indebtedness has declined in both absolute and relative terms, but is still high when compared to the G-7.**
- ✦ **On a national accounts basis, Canada's net debt to GDP ratio is expected to fall to 54 percent this year, down from 58 percent last year and 69 percent in 1996.**
- ✦ **Since 1996, net public debt levels have declined by more than 15 percent of GDP, outstanding performance by any measure.**
- ✦ **According to the Economist, by the end of this year the Japanese government will have the largest gross debt to GDP ratio ever owed by a developed economy in peacetime -- more than 130 percent.**



- ✦ **Canada leads the G-7 in terms of employment growth. Last year, Canada posted growth of 2.7 percent in employment and is expected to lead the G-7 this year as well.**
- ✦ **For the year 1999, employment increased by 355,000 and the national unemployment rate is at an 18-year low. Almost all of the job gains were in the private sector.**
- ✦ **Canada's output gap has closed to almost zero and unemployment should continue its downward track.**



### **CANADA'S MACRO ENVIRONMENT**

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- Excluding the impact of energy prices, inflation was only 1.6 percent last year.
  - Interest rates remain low but will increase in line with expected interest rate increases in the United States this year.
  - Domestic consumption has surged to more than 3 percent in real terms and will remain robust this year.
  - Capacity utilization has reached 86 percent. This has prompted an expansion of capacity which will have positive implications for productivity growth this year and beyond.
  - Our current account is in surplus and should remain there at least in the short-term.
  - This overall positive performance should lead to further strengthening of the Canadian dollar.
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- ✦ **Canada also has:**
  - **low levels of inflation -- oil prices doubled last year and inflation rose to 2.6 percent -- excluding the impact of energy prices, inflation was only 1.6 percent;**
  - **interest rates that are still near generation lows, despite looming increases on the horizon;**
  - **an optimistic domestic consumer;**
  - **an industrial sector at capacity and beginning to expand;**
  - **a current account surplus, for now;**
  - **an overall positive performance that should lead to a further strengthening of the Canadian dollar.**



**CANADA'S BUSINESS ENVIRONMENT**

- A world-class resource sector; highly productive auto-assembly and parts plants; and a critical mass of key technologies for the New Economy
- The best educated workforce in the world -- highest percentage of university graduates
- Best quality of life in the world according to the United Nations -- six years in a row
- Unparalleled access to the United States market
- Lowest cost of doing business in G-7 according to KPMG and Economist Intelligence Unit
- World class social infrastructure

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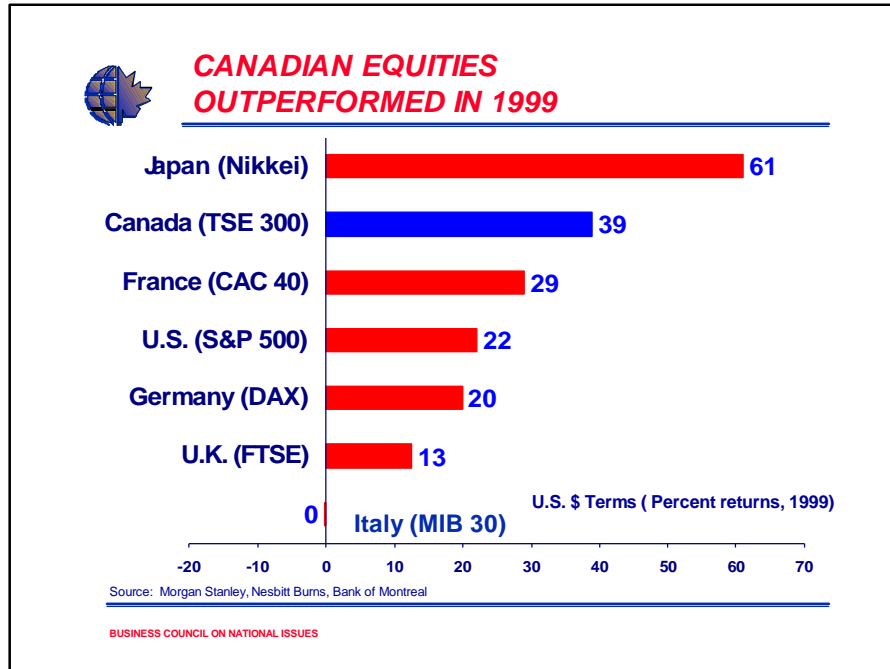
- ✦ **Canada possesses:**
  - **a world-class resource sector; highly productive auto-assembly and parts plants; and a critical mass of key technologies for the New Economy;**
  - **the best educated workforce in the world with highest percentage of university graduates;**
  - **the best quality of life in the world for six years in a row according to the United Nations Human Development Index;**
  - **unparalleled access to the United States market;**
  - **the lowest cost of doing business in G-7 according to KPMG and Economist Intelligence Unit;**
  - **world class social infrastructure.**



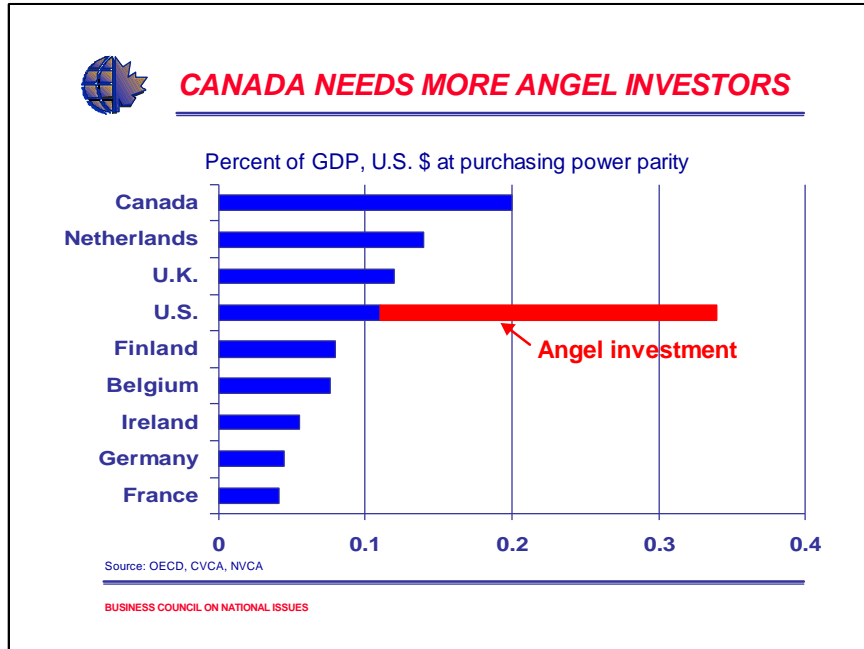


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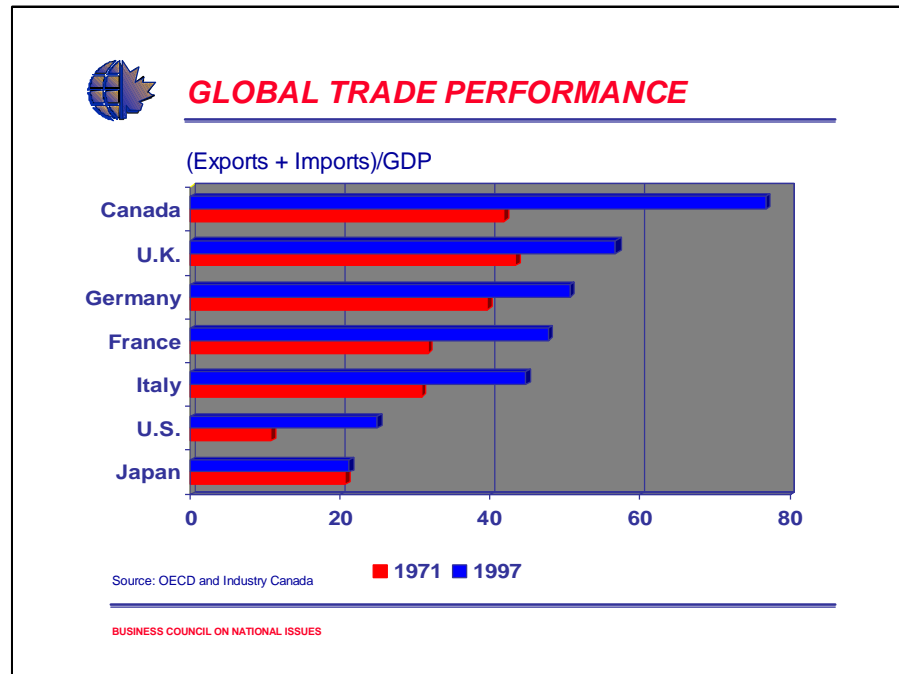
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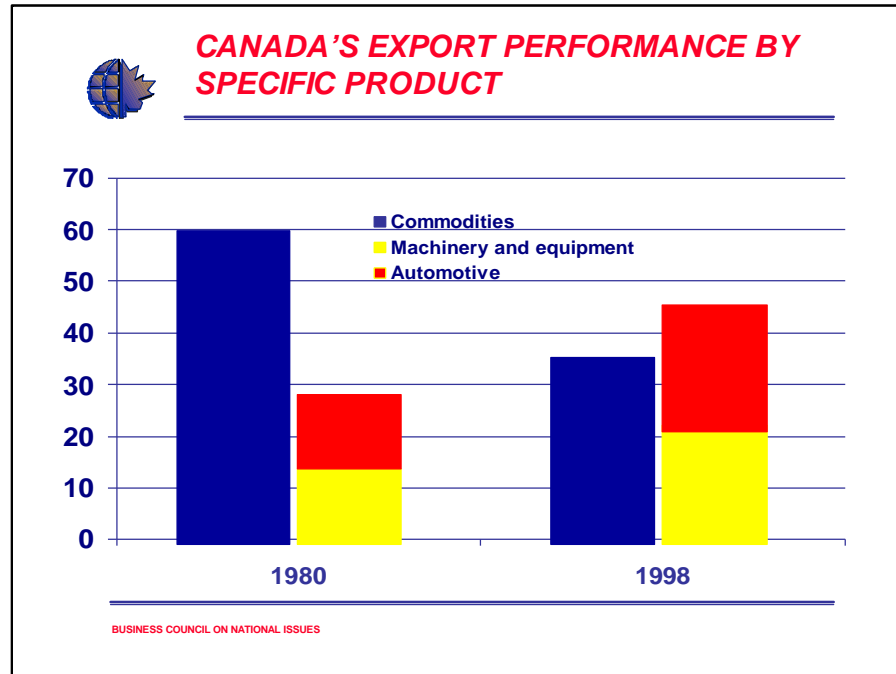
- ✦ **Technology had a profound impact on many stock exchanges in 1999. Canada's Toronto Stock Exchange was no exception as indicated in this graphic.**
- ✦ **For only the second time this decade, the TSE outperformed the S&P 500 and was second only to the Nikkei among the G-7 stock exchanges.**
- ✦ **However, our performance -- as with other exchanges -- paled in the face of the technology-laden Nasdaq, which posted historically high, year-end gains of about 90 percent.**
- ✦ **Technology was the leading sector in the outstanding performance of the Toronto Stock Exchange last year.**



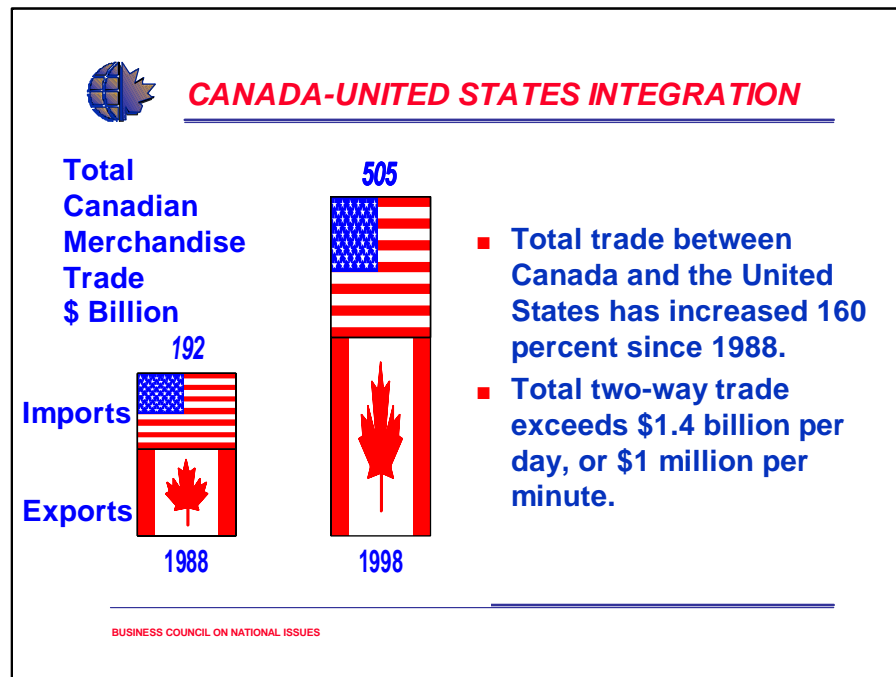
- ✦ This chart, the latest international comparison by the OECD of venture capital (equity investment in new firms), suggests that Canada is doing very well in the area of fostering the growth of small but fast-growing enterprises. But as a comparison snapshot, it does not reflect the incredibly rapid growth of venture capital in the United States -- which recently has been growing at an annual rate of about 70 percent.
- ✦ In the United States, informal capital -- the activity of high net worth individuals, often called "angel investors", noted in the chart in red, supplies twice as much venture capital as institutional sources.
- ✦ Close Canada-United States economic integration is benefitting Canada in terms of spill over in start-ups.



- ✦ **Canada has taken advantage of expanding trade opportunities and falling borders. Trade in goods and services as a percentage of GDP has increased from 42 percent of GDP in 1971, to 77 percent in 1997, and to 82 percent in 1998.**
- ✦ **Today, Canada's total trade is 20 percent of GDP greater than the United Kingdom and more than triple that of the United States.**



- ✦ **Commodities remain important to Canada's economy and to our export performance – but that reliance is in decline.**
- ✦ **Since 1980, our export reliance on commodities has declined from 60 percent to 35 percent. Meanwhile, exports of machinery and equipment and autos increased from 28 to more than 45 percent of total.**
- ✦ **The pace of change in a more integrated global economy will further accelerate the restructuring of Canada's exports.**

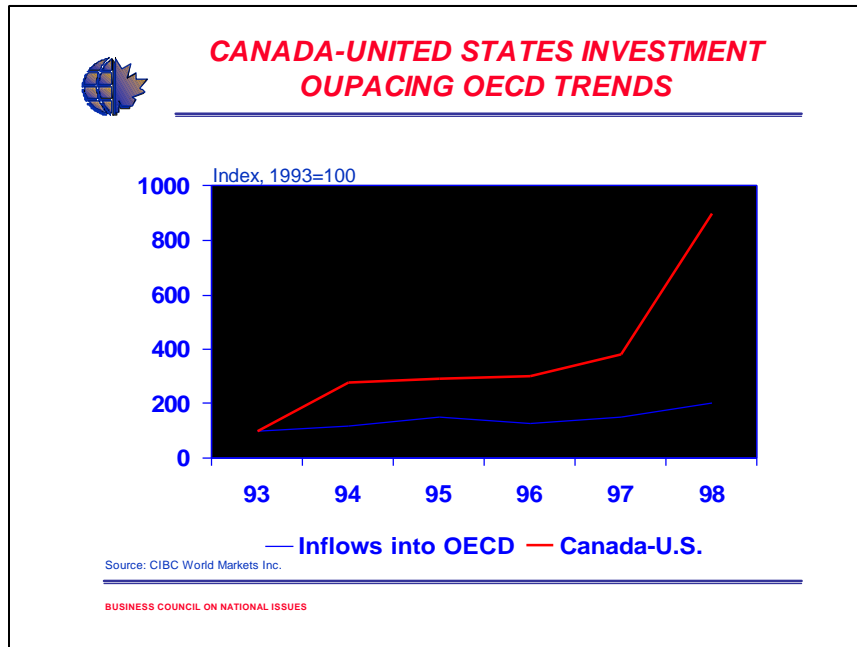


- ✦ **Bilateral trade between Canada and the United States has accelerated significantly since the signing of the Free Trade Agreement ten years ago.**
- ✦ **Over the past decade, total trade between Canada and the United States has increased 160 percent.**
- ✦ **Trade between the two countries now exceeds more than \$1.4 billion per day, or about \$1 million per minute.**
- ✦ **This year, Canada's merchandise trade surplus with the United States is expected to widen to \$40 billion and yield a current account surplus of about \$5 billion.**
- ✦ **Canada's trade with other economies has also increased, but not nearly as much as with the United States. And, American trade with Canada has outstripped U.S. trade with any other major industrialized country.**

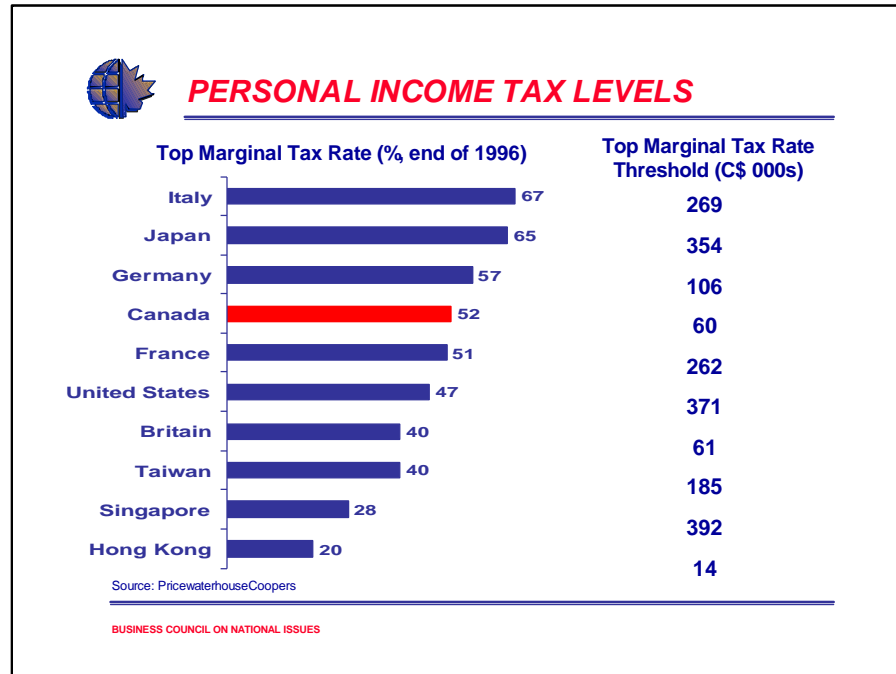


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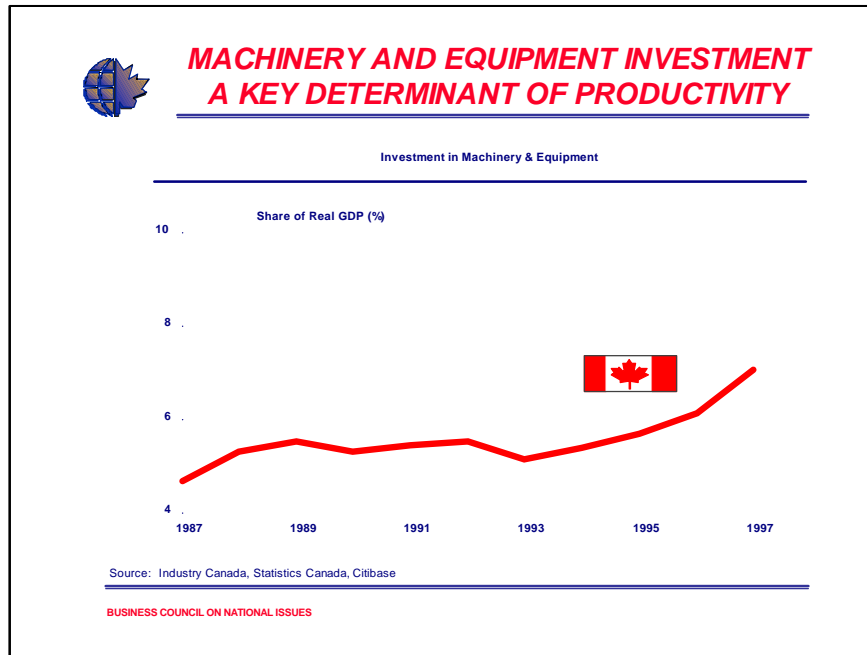
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- ✦ In North America, we are witnessing the greatest merger cycle in history. The mergers are a key reason for the high equity valuations in markets today.
- ✦ Indeed, trade between Canada and the United States may have increased 160 percent, but bilateral flows of direct investment have exploded. The increase in activity reflects rising levels of global investment, particularly among OECD economies.
- ✦ But, as indicated in the graphic, bilateral investment between Canada and the United States has increased faster than direct investment inflows into industrial countries.
- ✦ A key factor explaining the bilateral activity is the record pace of mergers and acquisitions. Over the past three years, Canada has actually been a net acquiror.
- ✦ In the past year, however, a discounted Canadian dollar and undervalued assets have made Canadian companies increasingly attractive to American investors. We have seen a dramatic surge in high-profile acquisitions -- one of the reasons for the outperformance of Canadian equities last year.

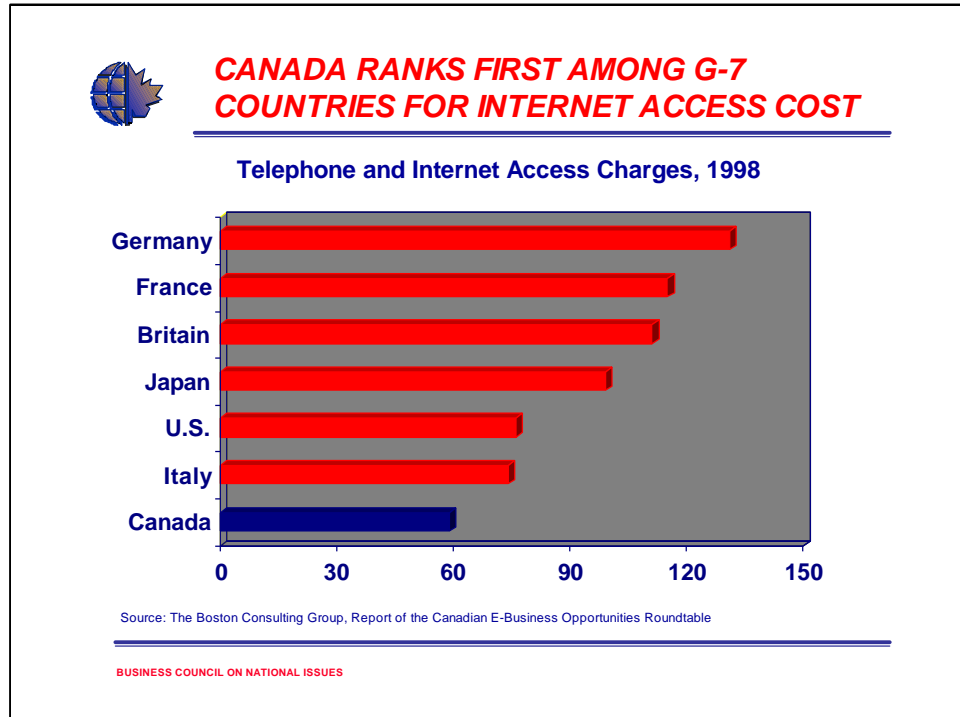


- ✦ A significant weakness in Canada's otherwise impressive economic performance is the punishingly high level of personal income tax.
- ✦ This graphic indicates what many of you already know -- that Canada has among the highest top marginal tax rates on personal income in the industrialized world.
- ✦ The average top marginal tax rate is about 52 percent and is applied at the relatively low threshold of about C\$ 60,000.
- ✦ Recently, governments at the federal and provincial level have begun reducing taxes on personal income. But much more needs to be done. Canada's business community is virtually unanimous in calling for significant and rapid reductions in personal, corporate and capital gains taxes. The federal government has promised accelerated tax relief as a priority in future budgets.

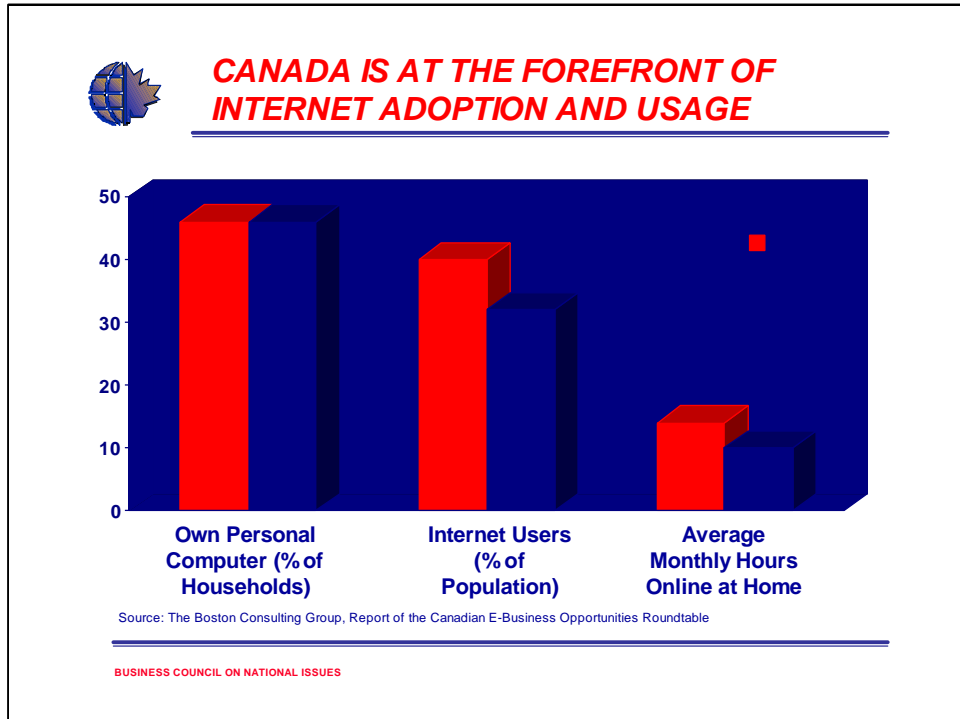


- ✦ **The surge in Canada's economic strength has not only boosted consumer confidence but also very significant business investment.**
- ✦ **Business investment in machinery and equipment increased 14 percent in the first three quarters of 1999, over 1998.**
- ✦ **Machinery and equipment investment reflects both the expansion of productive capacity and the adoption of new technologies in the production process.**
- ✦ **To achieve even higher levels of growth in machinery and equipment investment will require action on corporate taxes, and on further improvements in Canada's business environment.**

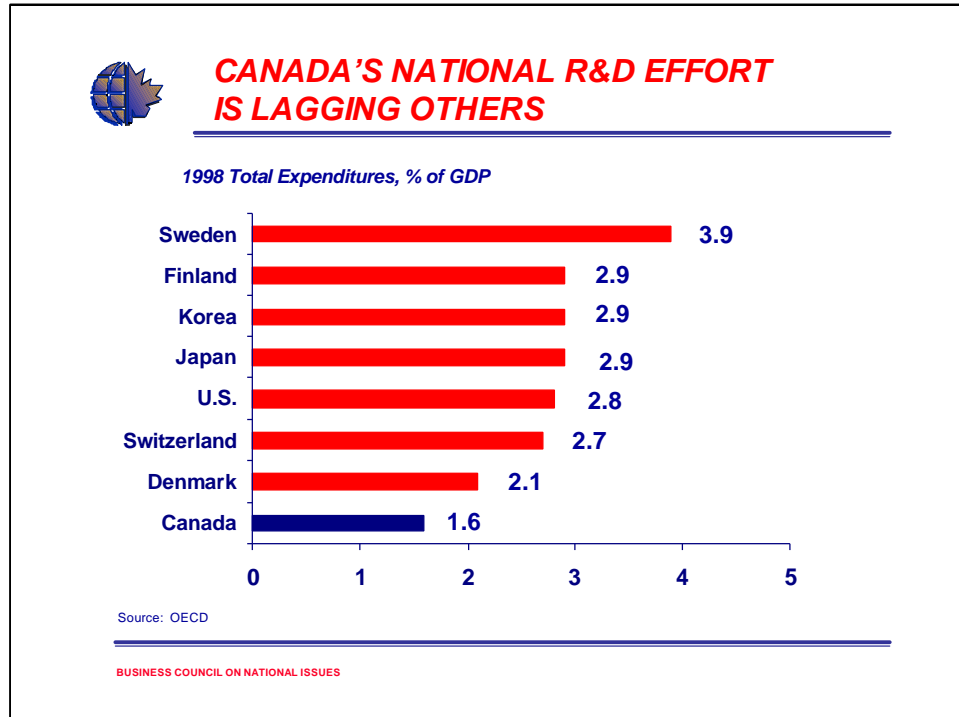




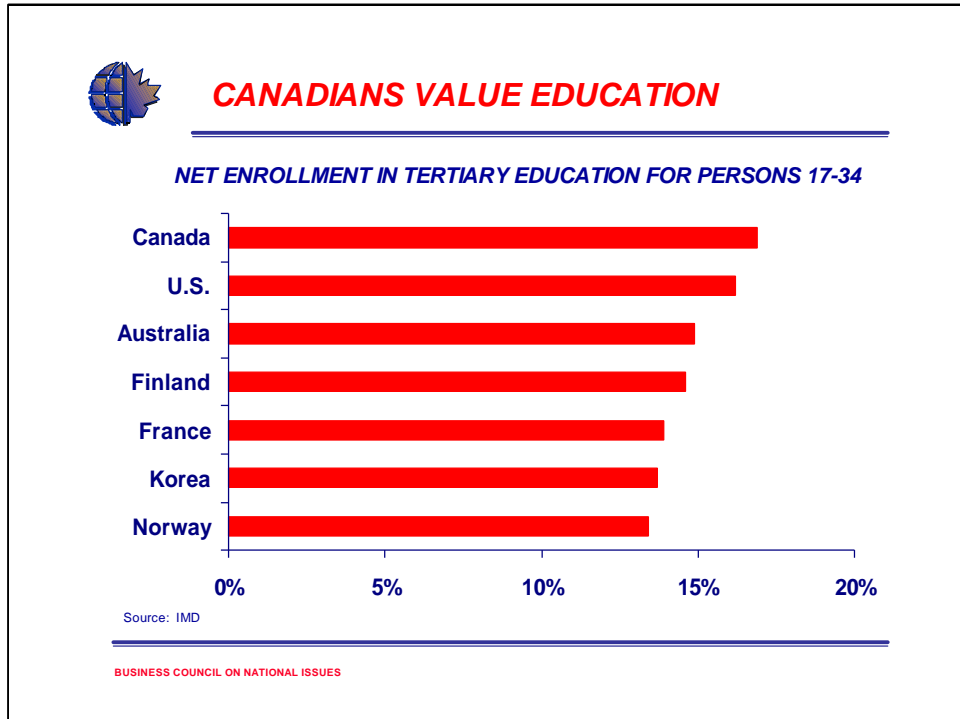
- ✦ **Canada is one of the most wired nations in the world. The World Wide Web is within easy reach of most Canadians.**
- ✦ **Canada has the lowest Internet access costs in the G-7.**
- ✦ **Also, Canada -- with global champions such as Nortel -- is at the forefront in terms of Internet infrastructure.**
- ✦ **Speed, reliability, scalability and security -- all buzzwords that describe the New Economy -- are apparent in Canada's research networks and high performance, high technology highway.**
- ✦ **Broadband access is taking off in Canada -- DSL and cable modem access is widely available.**



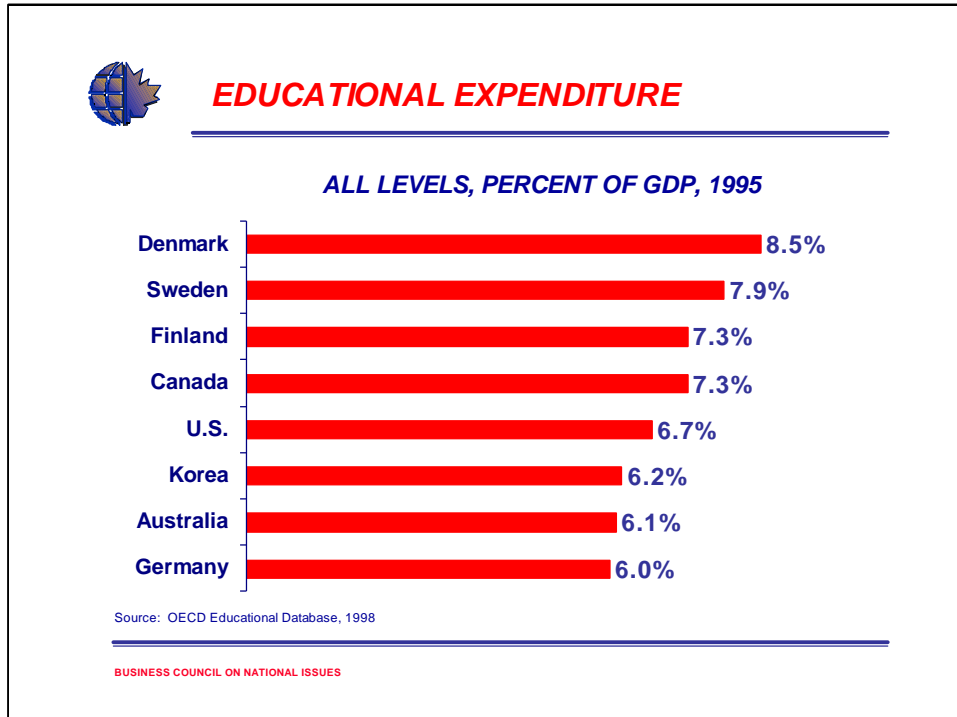
- ✦ **Canadians access the Internet more than Americans do, and they do so for longer periods of time as well.**
- ✦ **According to this graphic, Canadians spend 40 percent more time on the Net at home than do Americans.**



- ✦ Despite the most generous tax treatment of research and development in the OECD, research as a percentage of the economy is second worst in the G-7 and last in this list of trading nations.
- ✦ The research gap can be seen equally in the public and private sectors. However, Canada's open economy, proximity to the United States and extensive cross-border transnational corporate activity has led to R&D spillovers.
- ✦ This does not seem to translate into patent production -- a key indicator of innovation. According to recent research, the quality, industrial distribution and ownership of Canadian patents needs improvement.



- ✦ **Canadians have always valued education highly. A well educated workforce is a major source of competitive advantage -- particularly in the knowledge-based economy.**
- ✦ **Canada ranks at the top among industrialized nations in terms of the percentage of population accessing post-secondary education.**

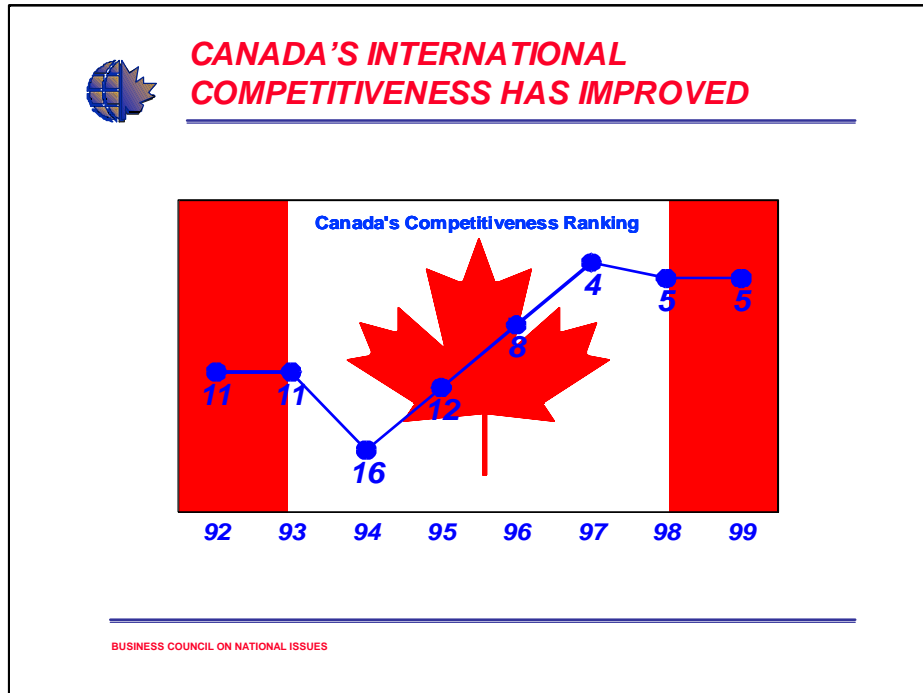


- ✦ **Canada has universal access to basic education through to Grade 12. It also registers among the highest public spending on education in the industrialized world as a percentage of the economy.**
- ✦ **However, this spending has produced only mediocre results, both in terms of student achievement and in terms of Canada's national drop-out rate.**
- ✦ **Clearly, current levels of spending need to deliver better results and throughout Canada there is a strong and growing public support for improved educational performance and accountability.**



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- ✦ Canada has come a long way and has improved its international competitiveness dramatically over the 1990s.
- ✦ According to the World Economic Forum's *Global Competitiveness Report*, Canada has been able to reach and sustain the ranking of fifth over the past two years and the prospects for a strong ranking this year are good.



**21st CENTURY PRIORITIES:  
A BUSINESS PERSPECTIVE**

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- Be a leader in adapting to the new economy and in converging new technologies.
  - Be home to the world's most accessible education system and best trained work force.
  - Be a powerful magnet for direct investment and the creation of a critical mass of knowledge based industries.
  - Build a culture of opportunity based on a deeply-rooted commitment to entrepreneurship and to risk-taking.
  - Create an environment that will encourage Canadian companies to pursue optimal strategies globally while ensuring that Canadian consumers have open access to the best that the world can offer.
  - Improve the quality of Canada's social investment with emphasis on healthcare, education, public infrastructure and governance.
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- ✦ **To sum up, Canada in the 1990s has experienced an economic renaissance and Canadians can take some satisfaction in the improvements.**
- ✦ **But there is no reason for complacency and Canada's business leadership is calling for urgent action to confront remaining shortfalls in economic performance - particularly the need to lower taxes and public debt, to improve innovation and productivity, and to increase the level of after tax incomes.**
- ✦ **Recently, the country's chief executives launched a project entitled the *Canada Global Leadership Initiative* aimed at helping to make Canada the number one country in the world in which to live, work, invest and grow.**
- ✦ **The priorities as we see them are shown in the graphic above.**