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**ECONOMIC RELATIONS
DEPARTMENT**

**FOREIGN AND COMMONWEALTH OFFICE
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PRE-TORONTO SUMMIT CONSULTATIONS

REMARKS

BY

THE RIGHT HONOURABLE BRIAN MULRONEY

PRIME MINISTER OF CANADA

TO

CANADIAN BUSINESS LEADERS

OTTAWA

1. cc ~~to [redacted]~~
No 10

(in case he
hasn't seen)

JUNE 1, 1988

for R. [redacted]

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Introduction

I would like to thank you for taking the time to come to Ottawa for these consultations. They follow on my consultations last week with European leaders and a meeting I had yesterday with labour leaders from all seven Summit countries. Next week, I will be meeting with representatives of the Canadian agricultural sector.

The views of the business community are important to me. It is you who are most immediately affected by the economic decisions of the Summit. The continuing objective of economic Summits is to strengthen market forces and economic growth, not only in our own countries, but on a global basis. We do not expect spectacular results from the Toronto Summit, but rather a continuing commitment to policies favouring sustained non-inflationary growth, while international trade and current account imbalances unwind.

European Consultations

During my meetings last week with five Summit leaders, the changes I suggested in Summit format were enthusiastically endorsed:

- A return to the origins of Summits, with more spontaneity,
- Focus primarily on economic issues, specifically:
- A first Summit session for leaders to set the economic priorities for the Summit.
- A session among leaders alone on the second Summit day to discuss long-term issues.

Our agenda for the meeting has also been endorsed.

We have registered important messages on: the Uruguay Round and its mid-term review in Montreal later this year; agriculture; the FTA; and debt, particularly African debt.

I cannot forecast what will emerge on the issues at the Summit. But I can now assure you that these are likely to be the main themes at Toronto.

Our objective will be to return to fundamentals, conveying signals of confidence to the markets and to restore credibility to the Summit process. During the new session among leaders on long-term issues, I will raise education, in relation to productivity, product training research and development and science and technology. Although the focus of the Summit will be squarely on economic issues, political issues will be discussed: clearly, the overarching theme will be East-West relations.

International Economic Situation

The Canadian economy continues to grow at a strong rate, and prospects are bright. My government has introduced a number of key reforms which will support our dynamic private sector. The Free Trade Agreement with the United States will provide major opportunities for Canadian businesses and investors. And our other policies, such as tax reform, privatization and deregulation, will also help to make the Canadian economy more competitive.

Structural reform is the principal economic policy theme of the Summit. I told European leaders the FTA will be a major catalyst for structural adaptation in Canada. As the second cycle of these Summits comes to a close, the world economy is in its sixth year of growth. The major trade imbalances are starting to be corrected. Inflation remains low. The economic Summits have worked well. They have produced cooperative economic policies supportive of non-inflationary growth.

In Toronto, we will be discussing the international economic situation. I am, on balance, optimistic about the international economic outlook. Certainly, prospects are much better than they appeared six months ago. However, while the short-term outlook looks

quite encouraging, the medium term is more worrying. The large trade and current account imbalances are starting to unwind, but this process will be slow.

In Europe, I stressed the need for the Summit countries to continue to improve economic policy cooperation. Important progress has been made on this front during the past year. We managed the fall-out of the October stock market upheaval through impressive coordination by our G-7 Finance Ministers and central banks, with satisfactory results. Our challenge in Toronto will be to build on that progress to restore market confidence.

At present, it may be difficult Summit-wide to achieve more progress on the fiscal front. The United States government in particular is unlikely to act further in view of the forthcoming election. Thus, as I have mentioned, structural reform will assume an increasingly important role. Canada's record here is very strong, as Mrs. Thatcher has said. But, as I told labour leaders yesterday, we must continue to remove obstacles to market forces and to stimulate the private sector.

Trade and Agriculture

Despite the encouraging global economic situation, protectionist pressures remain strong. Movement on trade matters, especially on agriculture, is critically important, and is a major Canadian priority for the Toronto Summit. Following the OECD Ministerial, we want the Summit to give impetus to a mid-term review conference of the Uruguay Round, to be held in Montreal next December. This will give a signal to governments and to the business community of a real commitment to trade liberalization by Summit leaders.

Agriculture will be a key issue. Urgent action is needed on agricultural trade. We are working together with the Cairns Group of agricultural exporting nations to achieve an agricultural cease-fire and real disarmament in this field. The Summit must provide further impetus to this process. However, my discussions last week with European leaders have shown this will not be easy.

Canada is interested in solutions. In some cases, the European attitudes are less committed to reform. In the MTN, we also need to make progress on enhancing market access, strengthening the GATT and on trade in services, a new and very important component of this round. I would be interested in your views on this.

The International Debt Situation

We hope to make progress on the international debt situation. A lot has been done because of the Venice Summit for the poorest, especially in Africa. More is needed. We thus support concessional interest rates in the Paris Club for rescheduled official export credits. Unfortunately, for the moment, there is a deadlock on this question. However, we have proposed a compromise solution and I am hopeful of progress soon.

The debt issue is one on which I placed emphasis in Europe. It is also a priority for several other Summit leaders, such as Mrs. Thatcher and Mr. Mitterrand. Mr. De Mita is highly sympathetic too. We are also encouraging our Summit partners to improve their aid performance in these countries. For the middle-income debtors, we'll be looking to strengthen the implementation of our current case-by-case strategy. Support for the U.S. Administration's effort to get the World Bank general capital increase through Congress will be important. We will also encourage indebted countries to persevere in their economic reform programs. And we will pledge our support to the growing list of financial options available to banks in the "menu" we endorsed at Venice.

Considerable effort is going into seeking new approaches to the debt problem. While we understand the phenomenon of "debt fatigue" on the part of debtor countries and creditor banks, we do not see any viable alternative for the major debtor countries and commercial banks to an incremental approach which builds on the existing case-by-case strategy through the addition of market-based solutions.

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NOTES FOR AN ADDRESS

BY

THE RIGHT HONOURABLE BRIAN MULRONEY

PRIME MINISTER OF CANADA

BEFORE THE CANADIAN MANUFACTURERS ASSOCIATION

QUEBEC, QUEBEC

JUNE 2, 1988

Check Against Delivery

I was delighted to accept your gracious invitation to participate in the 117th annual meeting of the Canadian Manufacturers Association. The CMA is nearly as old as Confederation itself, and it has grown with the country. Your 3,000 members represent some 75% of the manufacturing output in Canada, and provide jobs for nearly two million Canadians.

Manufacturing is now, and has always been, the motor of our economic growth. Canada's manufacturing sector accounts for fully one-fifth of our national output, some \$100 billion a year. Manufacturing is far and away the largest sector in the country, and its importance has increased, rather than diminished, over the years.

And so I am honoured to be with you today, though I am not the first Prime Minister who has met with the CMA. More than a century ago, as Michael Bliss tells it in northern enterprise, his epic history of Canadian business: "Sir John A. used to meet with members of the Canadian Manufacturers Association in the billiard room of the Queen's hotel in Toronto to exchange mutual promises of support." I have not been in a pool room since my youth in Baie Comeau, and then only for educational purposes. But I did receive a warm invitation from your Chairman, reminding me that "the CMA has consistently supported your position, because we believe that your basic policy agenda is right." So while the surroundings and the issues may have changed, the Prime Minister still enjoys the support of the CMA, and I must say that Sir John A. would have approved.

I wanted to talk to you today about the performance of the Canadian economy, the record of the present government, the prospects for future prosperity under the Free Trade Agreement, and the agenda for this month's Economic Summit in Toronto.

It is not before this audience that I need to dwell on the difficult financial situation we inherited from our predecessors. Our challenge was to get the nation's finances under control, and get the country moving in the

right economic direction. By any objective measure, we are doing that. We have reduced the deficit from more than \$38 billion when we took office, to less than \$29 billion today. As a consequence, interest rates have fallen. Lower interest rates are one of the reasons Canada's consumer spending is up sharply -- up 36% since the election. With lower interest rates and a hospitable investment regime, we've attracted \$21 billion in new investment to Canada. Unemployment was 11.7% when we formed a government and today it stands at 7.7%, its lowest level in seven years.

Since we came to office, Canadians such as yourselves have created nearly a million and a quarter new jobs, the strongest employment growth rate in the western world. In the manufacturing sector the performance has been equally remarkable:

- output in manufacturing is up 13 per cent in past 3½ years.
- employment in manufacturing is up by over 150,000 (nearly 8 per cent) over the same period.
- capacity utilization in manufacturing stood at an estimated 81.7 per cent in the 4th quarter of 1987 -- the highest level of capacity utilization since 1979.
- the rate of return on equity in the fourth quarter of 1987 was 12.7 per cent, the highest rate of return since 1981.
- 1988 intended capital expenditures in manufacturing is estimated at \$18.4 billion - up 23 per cent from 1987, more than double 1984 capital spending in manufacturing.

Canadian manufacturing has come back from the 1981-82 downturn and it has learned something from the experience, that is not enough to have protected markets at home, we need to be competitive in world markets. One third of Canadian manufactured goods are exported, and fully 80% of our manufactured exports go to the United States. So the timing of the Canada U.S.-Free Trade Agreement could not have been more propitious for Canadian manufacturing. And

clearly the manufacturing sector had been thinking about its possibilities and implications from the time we launched the initiative in September of 1985.

I am gratified by the support of the CMA for the Free Trade Agreement. It is an expression of confidence not just in the manner the government concluded the negotiations, but in the future of the manufacturing sector, and in the future of the country itself. As Mr. Thibault wrote to me on November 11: "We believe the improved and secure access to the U.S. market is a critical, necessary building block to achieve our long term objective of becoming internationally competitive." There will be the challenges of adjustment in some sectors, to be sure, but there will also be the opportunities of new markets. The Canadian economy, and the manufacturing sector stand to be major winners in free trade.

The Economic Council of Canada, the nation's leading independent body of economic experts, recently published an impact study on the Agreement. The Council forecasts that 250,000 additional jobs will be created during the first 10 years of the Agreement. It also forecasts additional economic growth of 2.5%, over and above the growth expected in the economy, or \$11 billion of additional economic growth. That means new jobs for Canadians, and new prosperity for Canadian industry. And it means that Canadian manufacturing is going to be a winner.

In the manufacturing sector, Judith Maxwell and her colleagues forecast 1% additional output growth, or about \$1 billion of growth in the manufacturing sector over and above growth in the current economic framework. And the Council forecasts additional employment growth of about 1%, or about 20,000 additional jobs in the manufacturing sector. The Council believes there are significant new opportunities for printing and publishing, for primary metals such as steel and aluminium, for the wood industries, and for the food and beverage industry.

I note that in your endorsement of the Agreement, you stated that your members were "overwhelmingly in favor of the Agreement", and that this was particularly true of manufacturers in Ontario. I am delighted to hear it, but not surprised.

It is appropriate that Canada should be hosting the Economic Summit in Toronto this month. Toronto is a showcase of our economy. It is a full employment city -- unemployment in Toronto stands at 3.2%, the lowest in nearly 14 years. I believe a good and appropriate signal this year from Summit leaders will be that they are committed -- committed to the task of managing the international economy. Canada will speak with a strong voice and with conviction in Toronto. Our voice will be heard on the issues that affect us as a trading nation, but also the ones that touch our conscience. Allow me to expand for a few moments on each.

Compared to the situation we faced only three years ago, Summit countries have made good progress in coming to grips with the large external imbalances that have developed. The U.S., Japan and West Germany have, with some success, taken important policy steps to address those imbalances. Our government gained admission for Canada to the G-7, and the group of Seven Ministers have been doing important work. Fiscal and monetary policies of the leading industrial nations are more compatible than they have been for some time.

One of the important areas for particular attention this year is the pursuit of structural reform. In this regard Canada's record is strong. Tax reform, privatization, deregulation, and free trade are examples of initiatives that provide Canadian business with a better framework to compete, at home but in tough world markets as well.

Summits play a vital role in leading the international fight against protectionism. The Uruguay Round, launched following the Tokyo Summit of 1986, is the most ambitious since the GATT was formed. The task for the Summit this year is to move the Uruguay Round ahead, and specifically to give momentum to the mid-term review conference which we will host in Montreal next December.

One of the most important items on the MTN agenda is agricultural trade. In recent years, we have made agricultural reform a top priority in summits, in the OECD

and elsewhere. I first introduced the subject in the Summit forum at Tokyo in 1986, and I raised it last week in pre-Summit consultations with my European colleagues.

The debt burden of many developing countries, now totalling more than \$1 trillion, greatly preoccupies Canada. Most debtors and creditors, including Canada, continue to work within the framework of a cooperative, multilateral strategy which has evolved since the onset of these problems in 1982. Utilizing a case by case approach to each country's situation, the strategy combines economic reforms by indebted countries with financial support from external creditors and donors. If the strategy is to work, however, attention must be focussed on further improving its implementation. Commercial banks need more encouragement - and confidence - to continue providing financing to debtor countries which implement appropriate adjustment programs.

The Venice Summit last year called for the expansion of the structural adjustment facility of the IMF to provide concessional financing. Since last year's Summit, the World Bank has been able to marshall commitments of U.S. \$6.7 billion for co-financing of adjustment programs in the poorest countries of Sub-Saharan Africa. Adding to this momentum, Canada announced at the Francophone and Commonwealth Summits last fall that it would forgive debts associated with development assistance loans for 13 countries in Sub-Saharan Africa. If the other Summit countries took similar measures, the ODA debt of the poorest of the poor African nations would be reduced by 15%. We will strive for more in Toronto and I am encouraged by the response I received last week from my European colleagues on this topic.

I want, finally, to say a word about environment and education, two international issues of great moment which will tell us a lot about the kind of world we're going to have, and Canada's place in it in a new decade and a new century. We can no more examine these issues in isolation

than we can our economic concerns; indeed our approach to both issues is crucial to our economic development. Acid rain is a transboundary problem in Europe, just as it is in North America. The deterioration of the ozone layer is an issue for the entire world. Environmental protection and economic development are mutually reinforcing, not mutually exclusive.

In this regard, I count on the manufacturing sector to be increasingly conscientious users of our environment. The environment, and environmental research, are also growth sectors of our economy, in consulting, design and manufacturing. It's a well kept secret, but there are over 100,000 jobs and at least \$7 billion of economic activity, in the environmental sector of our economy. That's not a bad thought for Environment Week -- the environment is not only good for you, it is a growth area of our economy.

As for the imperatives of education, they are compelling and clear, and will raise the issue of education with my colleagues at the Toronto Summit. A nation's productivity may end on the assembly line, but it begins in the classroom. If we are to remain competitive, if we are to meet the Pacific challenge and that of the European Community, we will need higher math scores, greater language proficiency, and higher reading and reasoning skills. And we must urgently address the issue of literacy, if we are to meet the international competitive challenge. Adult illiteracy is one of the silent tragedies of our age. One in four Canadian adults is functionally illiterate. It means millions of Canadians have difficulty in reading to their children, and difficulty in reading training manuals.

Consider the sadness of that in human terms, and the loss of productivity. The sadness is immeasurable, the productivity loss is measured in the billions of dollars. A study by the Business Task Force on literacy published in February of this year concluded that illiteracy has direct and indirect business costs estimated at \$4.5 billion. It further concluded that illiteracy leads to increased accidents, lost productivity, increased unemployment and more extensive training costing Canada \$10 billion a year.

You know the problems, you see them in your workplaces every day. In the federal government, we have funded a literacy secretariat, and we will be doing more. That is part of our goal of building a Canada that is prepared to meet the competitive challenges of a new decade and a new century. That's the essence of the free trade debate. I urge you all to get involved. Help us win a more prosperous future for our youth. Help us create employment opportunities for our people. Help us achieve equality and dignity for working women. Help us obtain justice for Canadian consumers. Help us win markets for Canadian producers. Help us build a Canada celebrated for its competitive excellence.

Help us build a Canada that is open to the world. Help us, in every corner of the land, to take this cause to the Canadian people.

I ask for your help, I need your help, and the help of Canadians everywhere, as we turn another page in our history, and move on to a new decade and a new century.