"Canadian manufacturing: finding success in challenging times"
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Check against Delivery

It's a pleasure to be with you this afternoon, and to have the opportunity to discuss a topic of real importance to the people of Ontario and our country as whole: the future of manufacturing in Canada.

I want to begin by stating that my remarks today are informed by the work of the Lawrence National Centre for Policy and Management at Western University's Ivey Business School. The centre is in the midst of a major project to study the practices of leading Canadian manufacturing firms. The goal is to find similarities in the strategies they employ, and to identify the policies, programs and other factors that have contributed to their success.

I serve as chair of the Lawrence Advisory Council, and in that capacity I have been able to help guide this undertaking from its inception. The findings and recommendations from the first phase of the project were made public last week, and I'm happy to be able to share them with you today.

But let's first take a step back and look at our manufacturing sector and where it stands. Certainly, few would disagree that the overall picture as it pertains to manufacturing in Canada has been gloomy for some time now. The rising dollar and the deep recession in the United States hit hard. A weak recovery has persisted now for years. Over the past decade, even as our economy was growing by 21 per cent, real manufacturing output declined by 11 per cent. The number of manufacturing jobs fell by 23 per cent. The human and economic costs of these declines were felt most acutely here in Ontario. Families, industries and whole communities have felt the brunt.

The United States experienced similar declines. But of late there has been evidence of the beginnings of a renaissance in U.S. manufacturing, and a reshoring of industrial investment and employment.

Aided by a shrinking labour-cost divide and by a boom in natural gas production, which translates into cheaper energy costs, American manufacturing has been adding jobs. A survey of big manufacturers in the U.S. found that more than half were now considering insourcing jobs from overseas. Rarely a week goes by without another story pointing to resurgence. Earlier this month, Chrysler announced that it would be hiring 1,000 more people to work at its Jeep plant in Ohio. You may remember that plant from the closing stages of the 2012 U.S. presidential campaign. It's the one that Mitt Romney claimed was about to be shut down, and production shipped off to China.

In the U.S., manufacturing activity has advanced by almost 20 per cent since 2009. In Canada, that figure is only 10 per cent. So we're heading in the right direction, but not as quickly as the Americans. In fact, current production levels in Canada are still close to 8 per cent below their pre-recession reading. There's a lot of work left to do if we are to usher in a renaissance of our own.

That said, there are also success stories. In the face of growing international competition, some leading firms here in Canada have continued to expand – to win new customers in new markets. What can we learn from these companies? What strategies underlie their success as manufacturers? What government policies and programs would best support the emergence of strong and innovative manufacturers?

These are the questions that were asked by the Lawrence Centre researchers. And it is this specific, strategic approach that set their project apart. This is not a traditional manufacturing study that analyzes large swaths of data. Instead, the focus is on learning from the experiences of nine leading firms in three sectors: agri-food, auto parts and diversified manufacturing.

These companies differed widely in terms of products, customers and markets. But they also shared important characteristics.

The firms were all exposed to international competition. Staying at home, safe from foreign rivals, is rarely a road to success in the 21st century. The executives interviewed for the project argued that international exposure had a positive impact on their firms, pushing them both to contain costs and to improve the quality of their products.

The firms shared a strong focus on customer needs. In essence, the executives believe that lower costs are no substitute for higher quality, flexibility and quick response.

The firms embraced innovation as a critical element of their competitive strategy. Some focused on product innovation, striving to improve quality; others focused on process innovation, working to reduce costs. Some pursued both.

Finally, many of the firms studied by the Lawrence Centre shared a belief in the importance of keeping their workers motivated and engaged by rewarding them financially when the firm is successful. Most also rely on a decentralized management structure that helps foster an entrepreneurial culture at all levels.

These are all important elements of a successful manufacturing concern. But they represent only one piece of the puzzle. There is also a role for governments to play through public policy decisions and the setting of domestic priorities. Even the most innovative and far-reaching company will struggle if external conditions undermine its ability to operate and to thrive.

With that in mind, I will now turn to the project's recommendations for what we can do as a country to help lay the groundwork for a stronger manufacturing sector here at home. The researchers point to four imperatives.

First, governments must move with purpose to increase Canada's portfolio of trade agreements. This is something I've been speaking about for some time now – the need to give Canadian companies every opportunity to access and win in new markets.

We can't afford to lose sight of what's at stake. Canada is the world's eighth largest exporter and seventh largest importer. We're a trading nation, and always have been. Trade accounts for almost two thirds of our total economy and exports account more than 30 per cent of our GDP. For the purposes of comparison, that number for the U.S. is just 13 per cent.

Canadians know first hand, and from long experience, the importance of engaging in the world. Or at least we should. But frankly, we have not been sufficiently attentive to our future interests.

Today, Canada is only a minor player in the emerging markets of Asia. Less than 10% of our exports and less than 4% of outward investments go to these countries. Asia is where we need to be. The Harper government's trade deal with South Korea is an important beachhead, but the hard truth is that we have been outpaced by others. Australia has doubled its share of world trade over the past 10 years. In contrast, according to the Bank of Canada, Canada's share of the world export market fell from 4.5% to 2.5% and our manufactured-goods export market share has been cut in half.

At the risk of stating the obvious, it's a fiercely competitive world out there. Trade agreements matter – and they matter more today than ever before. I know this from the time I've spent in Colombia. Our two countries share a free-trade agreement that has, in a short period of time, translated into an extraordinary commercial opportunity for Canadian oil and energy infrastructure companies. Canada is, in fact, one of the largest foreign investors in Colombia today. Direct Canadian investment in the country more than doubled between 2009 and 2012.

Trade agreements provide the foundation for long-term relationships. Trade missions – whether by government and industry – also matter because they help to deepen those relationships. In places like Beijing, Kuala Lumpur, Singapore, Bangkok and Tokyo, the efforts and visibility of government and industry matter. And 'government-to-government' dialogue and commitments – even symbolic commitments – matter as well. This is especially so with the governments of emerging market economies that are more collectivist than our own.

Around the world, other nations are attending to their trading relationships and interests in Asia. Canada needs to keep pace.

The critical role for government at this moment is to secure Canadian market access in more countries. If we do that, I have every confidence that the business genius that has made Canada one of the world's great free traders will flourish.

The second imperative for governments is to further improve border efficiency and work together to find solutions to persistent transportation bottlenecks, especially here in the Greater Toronto and Hamilton Area.

In a previous life, I was for a period of time Canada's Industry Minister. In that role I came to understand the strength and capacity of Ontario's manufacturing and industrial base – along with the challenges that confront it.

Those of you with long memories may recall that I once disguised myself as an "auto part" and traveled across the Canada-U.S. border in a linear tractor-trailer unit: illustrating that we need a new bridge crossing at Detroit.

Trade agreements are the stuff of headlines. They're important. But so too are the practical realities of the environment in which companies must operate on a day-to-day basis.

Efficient, reliable and predictable transportation routes are essential. But there's not much that a company can do on its own to reduce traffic or improve efficiency at the border. These are issues that must be confronted by all levels of government in Canada, and by national governments of Canada and the U.S.

The third imperative for governments is to place a greater focus on training and skills development. Firms involved in the Lawrence Centre study expressed concern about the future supply of skilled labour. They argued that more needs to be done to attract young people to manufacturing careers and to equip them with the technical and business skills needed to succeed.

In particular, Germany was identified as having an education system that is effective in developing skilled workers. Exposing students to manufacturing, training and apprenticeship programs contributes to Germany's well-deserved reputation as a manufacturing powerhouse.

In the past few weeks we've seen progress by governments in reaching consensus on a program designed to help Canadian workers get the skills they need to secure long-term employment. We need to build on this success and engrain this type of training in our national culture. The ability of our manufacturing firms to compete and win hinges on their ability to find workers with advanced skills and the right training.

The final imperative for governments is to better collaborate to attract investment from abroad. Although Canada can claim some success in this regard, our record is uneven and falls short of the successes in jurisdictions such as Mexico and the United States.

In one sense, we've come a long way as a country. Thirty years ago, such was the insular nature of our commerce that Brian Mulroney had to formally declare that Canada was open for business. Over the ensuing years, we've become far more welcoming of foreign investment and far more understanding of the nuances and demands of life in the global marketplace.

But we still have a ways to go. We need to develop well-coordinated and complementary efforts that put the best case forward to win global manufacturing mandates. We need to take a page from the Americans, who can be bold to the point of shamelessness in touting the virtues of their states and regions to potential investors. We need to take a page from the Mexicans, who devote greater effort to helping foreign businesses get up and running once they chosen to invest.

As one of the participants in the project put it: "There is room for all levels of government to tell a more powerful story around what Canada has to offer."

It's worth noting today that the next stage of the Lawrence Centre research will focus in greater detail on the issue of global mandates, and how best to keep and to win the kinds of large-scale businesses that help form the core of a successful manufacturing sector. This is certainly a pressing topic today here in Ontario.

As Minister of Industry some years ago, I oversaw the creation of the Automotive Innovation Fund to help this critical industry – not with subsidies, but with research and development into new technologies, new efficiencies and better environment outcomes. I would certainly welcome some analysis of the extent to which the projects supported by that fund helped automakers to innovate and compete – and helped the government to meet its public policy objectives, such as further strengthening our advantage in science and research.

It was my belief then – and remains so today – that while Canada should avoid direct subsidies to automakers or any other manufacturers, there can be a role for government to play. In a competitive world in which few countries are Boy Scouts and many will resort to aggressive incentives, we can't simply not show up at the table. Instead, we can as an example use smart, targeted investments in our academic institutions – investments that support our research sector and translate into the creation of high-quality, value-added Canadian jobs.

By way of conclusion today, I would make the point that the responsibility for succeeding in the face of tough international competition will always lie principally with Canadian manufacturers themselves. This isn't about governments picking winners. It's certainly not about governments taking manufacturers by the hand and leading them along the path to success. But it is critical that we acknowledge and accept that there is a role for governments in creating the conditions under which Canadian companies have the best possible opportunity to compete and prosper.

There is a lot that Canada already does well. In the Lawrence Centre project, executives praised our country's competitive fiscal environment: its low corporate tax rates, research and development tax credits, accelerated capital cost allowance and duty-free imports of capital equipment.

But we must understand the competitive nature of the world we live in.

The Americans are eager to encourage their manufacturing renaissance. In fact, President Obama devoted a significant portion of his State of the Union speech in January to a comprehensive strategy to lower tax rates, invest in infrastructure and take other measures to make U.S. a more attractive location for manufacturers.

He also announced an aggressive expansion of a program that connects businesses to research universities to create hubs for high-tech manufacturing. His goal is, and I quote, "to beat other countries in the race for the next wave of high-tech manufacturing jobs."

The Americans aren't standing still. Our other rivals in commerce aren't standing still. We need to move forward with pace if our goal is to get ahead.

If there's one theme that stood out from the research, it's that Canadian manufacturers aren't looking for grand strategies. They're looking for practical action. More trade agreements to enable market access. Reduced traffic congestion. A more efficient border. More workers with relevant, in-demands skills. And a greater push to draw the investment dollars of global manufacturers here to Canada.

As a country, we want more success stories in manufacturing – not simply for bragging rights, but because of a simple truth: the larger our number of successful firms, the greater the benefits for Canada and for Canadian workers.

Those benefits are there for the taking if we help put our manufacturers in a position to succeed.

Thank you.