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Embassy, July 18th, 2007
OPED

Canadians Can be World-Beaters, If Only We Were Not So Sheltered

By Roger Martin and James Milway

Last week, Industry Minister Maxime Bernier and Finance Minister Jim Flaherty announced the creation of the Competition Review Panel chaired by Lynton Wilson, former senior public servant and business leader. According to a press release, the four person panel "will review key elements of Canada's competition and investment policies to ensure that they are working effectively, allowing us to encourage even greater foreign investment and create more and better jobs for Canadians."

When the panel was first announced in the March budget, we welcomed its creation. It has the potential to effect improvements in Canada's competitive environment and ultimately Canadians' prosperity.

In our recent report, Agenda for Canada's Prosperity, the Institute for Competitiveness and Prosperity urged Canadians to take up the challenge of realizing our prosperity potential. We estimate our economic under achievement is costing the average Canadian household \$11,900 in after-tax income and our governments \$108 billion in revenues—per year. This would fund all the major initiatives that have been proposed recently: Kyoto, early childhood education, infrastructure, and increases in health care spending as well as a massive tax cut for Canadians.

Worse, this prosperity gap is growing.

An important part of an agenda for achieving our prosperity potential is greater intensity of competitive pressure on our companies and their leaders. Businesses need a supporting environment of publicly funded infrastructure and research, educated workers, and other programs. Complementing this support is the need for pressure from highly sophisticated customers and capable rivals.

Competitive pressure spurs innovation, risk taking, and expansive strategies—the best defence is a good offence.

Too many of our businesses are not experiencing this competitive pressure from domestic and foreign rivals. In industries like communications, transportation, and financial services, public policy has created a sheltered environment in which many are content to develop comfortable strategies that establish strong positions in the Canadian market—not stretching to be global leaders. We know Canadian firms can be world-beaters—Research in Motion's Jim Balsillie and Mike Lazaridis and Barrick Gold's Peter Munk, for example.

As the current spate of foreign takeovers is proving, firms not developing world-beating strategies get swallowed up by others who are. This is not a story of small helpless Canadians being at the mercy of large well-established global giants. In the case of Falconbridge, Xstrata was a tiny Swiss miner a fraction the size of the Canadian giant less than a decade ago. Arcelor Mittal, the world's largest steel producer, rose out of a small Indian company whose many acquisitions include Dofasco.

Many are concerned that foreign takeovers are hollowing out Canada's businesses. But a quick review of press clippings shows that this concern is felt in many developed economies. In fact, we are in a great global transformation like the Industrial Revolution of the 18th century. England and the United States embraced the new possibilities of the shift from agriculture to manufacturing and emerged as economic superpowers.

Historians will look back on the years 1980-2003 as a similar transformative period—what countries did or did not do then defined their place in the world for the next century. The world is not getting flatter, but "spikier"—leadership of many industries is concentrating in fewer locations, as economic development professor Richard Florida observed, paralleling international competitiveness expert Michael Porter's cluster research. Porter concluded that local markets can create a cluster of competitive companies that pressure each other to innovate and upgrade, teach local customers to be ever-more demanding, attract and develop fabulous human

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resources, as well as helpful related and supporting industries. The cluster gets ever stronger and, on the basis of that beneficial local competition, its members succeed internationally against competitors without the benefit of these conditions. Florida and Porter point to a world in which a very few regions attract talented people to work for innovative organizations that dominate their industries.

The Competition Review Panel can make an important contribution in this high stakes challenge by developing recommendations to create the conditions for more Canadian firms to become world leaders. Our competition and foreign investment acts need to ensure we have vigorous rivalry in the Canadian market and we are not precluding foreign firms from participating here for our benefit. To be sure, policies have to consider national security issues and whether or not foreign state-owned enterprises should be allowed to take over Canadian firms. We need to assess how we achieve reciprocity of foreign investment rules with other countries so Canadian firms are on a level international playing field.

If Canada is to achieve its full prosperity potential, we need to embrace the current changes in the global environment—moving from policies aimed at maintaining the comfortable status quo towards encouraging innovation and risk taking. We should strive for an environment that is conducive to creating more Canadian global leaders. We have many now, in addition to RIM and Barrick, but we need more.

Roger Martin is the dean of the Joseph Rotman School of Management at the University of Toronto and chair of the Institute for Competitiveness and Prosperity. James Milway is the institute's executive director.

editor@embassymag.ca

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