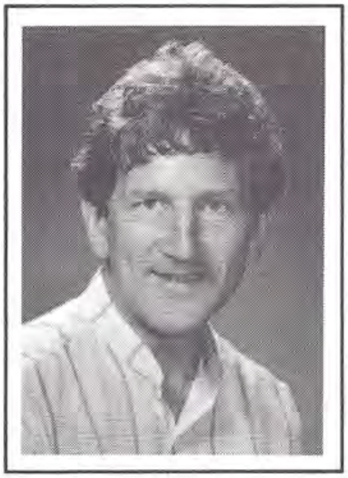
Keeping Our Eyes Open



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Professor David Walker has been closely involved with Canada's industrial development for over 20 years. He was Director of the Economic Development Program of the University of Waterloo from its inception for many years and has a close connection to the new, upcoming M.A.E.S. in industrial development there. Holder of a B.Sc. (Economics) from the London School of Economics and M.A. and Ph.D. from the University of Toronto, David has this year seen two books published - "Industrial Location" (Blackwell's) and an edited volume, "Manufacturing in Kitchener - Waterloo: A Longterm Perspective", (University of Waterloo, Department of Geography).

By now economic developers are all aware that there is a lot of competition out there in the world at large. We know that the Japanese are cutting into many markets, that Hyundai cars come from Korea, that our footwear industry is close to being wiped out and that many clothes in our department stores are from south-east Asia. But have we really woken up to the way of the world? Our big comparisons are almost always made with the United States, but its heyday is behind us now. Not only cheap products made by routine methods come from other parts of the world, but an increasing number of technology-based items and, increasingly, state-of-the-art research-based products. Moreover, we are at the stage where not only Japan but even places like Hong Kong are themselves having problems with cheaper products from lower cost wage areas. In other words, it's not the end but only the beginning of more competitive times.

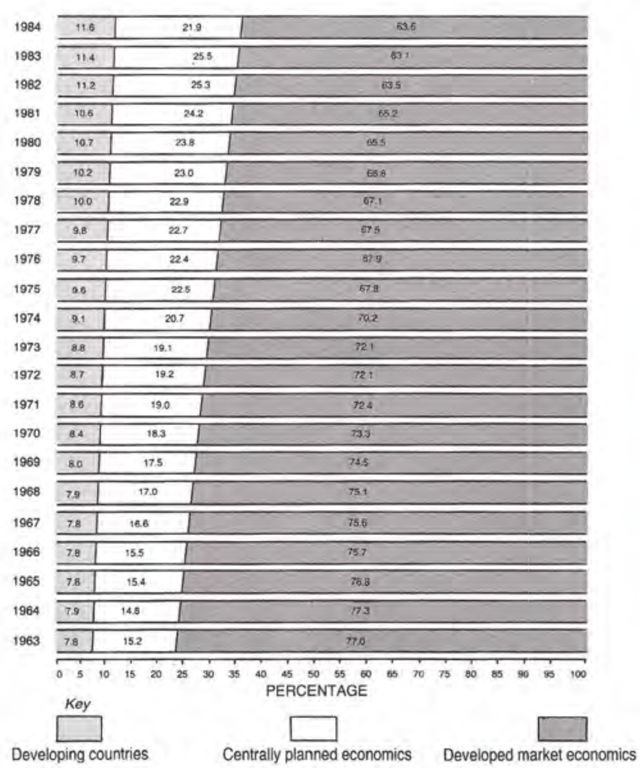

Figure 1: Share of economic groupings in world MVA. at constant (1975) prices, 1963-1984.

Figure 1 illustrates long-term trends of manufacturing production in terms of three groupings of countries:

- Developed market economies - the western industrial countries, Australia, New Zealand, Israel, South Africa and Japan
- Centrally planned economies - USSR and Eastern Europe.
- Developing countries - all others, except that China, Albania, North Korea, Mongolia and Vietnam are excluded.

Perhaps most striking is a steady decline of the share which our group of countries provides. Bear in mind that this group includes Japan, so North America certainly does not look as good by itself. Shocking, however, may be the fact that the fastest expansion has not been in the developing countries, which seem to cause so much havoc for our industries, but the centrally planned economies.

Trade in manufactured goods, however, has been changing quite differently. As Table 1 shows, the centrally planned economies have to some extent opted out of world trade despite their manufacturing expansion. Meanwhile the share of developed countries in this trade has held up well in comparison with production totals. Here the developing countries have made slightly more progress than in production. Again, however, we must face the fact that they have not moved far in comparison with their potential.

Table 1: World exports of manufacturers and the shares of the major economic groupings.

Year	Total (billions of dollars)[a]	Increase over preceding year (percentage)	Developing countries (percentage)	Centrally planned economies (percentage)	Developed market economics (percentage)
1969	165.0	17.4	4.6	10.4	85.0
1970	189.9	15.2	5.0	10.0	85.0
1971	216.0	13.7	5.2	9.6	85.2
1972	258.9	19.9	5.7	9.9	84.4
1973	346.9	34.0	6.7	9.4	83.9
1974	458.4	32.2	6.8	8.5	84.7
1975	500.1	9.1	6.3	9.3	84.4
1976	564.4	12.8	7.5	8.9	83.6
1977	647.3	14.7	7.8	8.9	83.3
1978	784.0	21.1	8.1	8.7	83.2
1979	921.0	20.0	8.7	8.4	82.9
1980	1 090.2	15.9	9.1	8.1	82.8
1981	1 087.0	-0.3	10.5	8.0	81.5
1982	1 042.1	-4.1	10.7	8.7	80.6
1983[b]	1 051.0	0.9	10.9	8.8	80.3

[a] At current prices.
[b] Estimate.

All that has happened so far is that Japan has become increasingly competitive since the Second World War. It has set standards of excellence rarely seen before, and has begun to make breakthroughs on the technological front after a long period of essentially perfecting the ideas of others. In the period 1960- 81, its annual growth rate of Gross National Product per capita was 6.3%, compared with a Canadian figure of 3.3% and one for the United States of 2.3% (World Bank, 1983). Although Japan still lags behind the actual per capita dollar figure for North America, it is rapidly catching up. As Peter Newman (1987) recently pointed out, with its annual $130 billion surplus cash, Japan could buy up General Motors and IBM this year, following it with Ford, IT & T and Chrysler next year. It also has nine of the ten largest banks of the world already.

The economic transition in which the world finds itself is certainly not at an end. From Figure 1 and Table 1 it is clear that the developing countries have hardly begun to make an impact yet. We should think of our current situation as one stage in a series. In the early 19th century, Britain dominated the world economy, but by about 1870 had been challenged by growth in other countries, which lowered its competitiveness and the prices it could command for manufactured goods. Lower returns reduced the capital invested in Britain and encouraged investment elsewhere (Beenstock, 1983, 161-175). Beenstock sees the situation in the world today, beginning in the 1960's, as a similar challenge to the dominant economies of the 20th century. Essentially, transition "implies that the world economy is moving from one equilibrium to another over time, according to an economic realignment between developed and developing countries" (page 59). The point is, however, that we can expect other countries to industrialize setting a series of new transitions in motion over time, and repeating the sequence (page 226).

To date, remarkably few of the developing countries have made an impact on world markets. The most successful are shown on Table 2.

Table 2: Exports by manufacturers by selected developing countries and areas 1970-1982.

	Average annual growth rate[b] %		Share in total %			
Country or area[a]	1970-1980	1980-1982	1970	1980	1981	1982
Republic of Korea	37.8	22.1[c]	6.0	14.4	15.2	....
Hong Kong	21.0	0.3	18.5	12.0	11.0	10.6
Singapore	35.7	5.6	4.0	8.3	8.0	8.1
Brazil	35.4	1.5	3.4	6.9	7.3	6.2
India	15.5	....	9.8	4.0	....	....
Malaysia	36.2	6.4	1.0	2.2	1.8	2.2
Kuwait	37.2	15.5	0.9	2.0	2.0	....
Argentinia	22.4	-0.3	2.3	1.7	1.4	1.5
Mexico	16.1	-5.7	3.7	1.6	1.3	....
Thailand	47.8	5.6	0.3	1.5	1.4	1.4
Pakistan	12.1	4.4	3.8	1.1	1.1	1.1
Philippines	31.4	-1.9	0.7	1.1	1.1	0.9
Other countries	25.6	....	45.6	43.2	....	....
All developing countries	26.3	6.8	100.0	100.0	100.0	100.0

a Ranked by value of exports in 1980.
b Compound growth rates
c Annual growth rate in 1981 over 1980.

The first three, which have done remarkably well, are all very small and only a few of the remainder are large. What may happen when China comes into the picture, India strengthens, or African countries industrialize? Admittedly, at the moment, some of the countries which have expanded fastest are into major debt problems. This is causing severe difficulties, but if they collapse they will draw the developed countries with them. Hence the banking community, having in some cases unwisely invested, is doing its best to carry the debtors through. It is in everybody's interest that they do.

In the long run, the best thing for the world economy is a continuing growth of trade, but it will only work if it is reasonably free. This, of course, means that every country will tend to specialize in those things most suited to it. It is not free trade to trade only with one's neighbour, as Canada is proposing at the moment. Free trade will imply imports of almost everything we can now produce in Canada, and in many cases we won't be competitive. So what will happen? Quite possibly we'll keep protectionism, or at least protect North America - in which case everything will cost more than it need. We could specialize in areas where we are good and export a lot more. And we could put on our thinking caps and be at the forefront of new ideas. Maybe, we will concentrate more on services, but that will be a competitive market too.

In order to get very far we will need to exploit international markets to a much greater degree. Table 3 shows how developed countries in general tend to export to other developed countries.

Table 3: World trade in manufacturers by origin, destination and economic grouping at current prices, selected years.

		Exports to developing countries		*Exports to centrally planned economics* ª		*Exports to developed market economics*	
Origin of exports	*Year*	*Value (millions of dollars)*	*Share (percentage)*	*Value (millions of dollars)*	*Share (percentage)*	*Value (millions of dollars)*	*Share (percentage)*
Developing countries	1963	1 404	41.2	102	3.0	1 902	55.8
	1970	3 231	33.7	559	5.8	5 808	60.5
	1975	11 935	37.9	1 172	3.7	18 352	58.3
	1980	37 560	38.1	3 222	3.3	57 764	58.6
	1982	41 520	37.6	3 760	3.4	65 046	59.0
Centrally planned economies	1963	1 635	15.1	8 043	74.3	1 147	10.6
	1970	2 899	15.2	13 381	70.2	2 804	14.7
	1975	6 790	14.6	31 385	68.6	7 756	16.7
	1980	15 784	18.0	54 692	62.3	17 268	19.7
	1982	19 807	21.9	53 651	59.3	17 062	18.8
Developed market economies	1963	16 950	25.7	2 168	3.3	46 470	71.0
	1970	32 462	20.2	6 634	4.1	121 256	75.6
	1975	111 298	26.5	26 518	6.3	282 155	67.2
	1980	233 721	26.0	42 430	4.7	622 646	69.3
	1982	234 088	28.1	36 346	4.4	563 642	67.6

a Excluding trade among the centrally planned economies of Asia.

The share has been going down as developing country markets have built up a little since the 1960's. Canada, however in 1981 still had 84% of its merchandise sales in the developed world and only 12% in developing countries. In contrast the United States' percentages are 55 and 39 and Japan's 46 and 44. This suggests a really blinkered approach to the international market and a contrast to small European countries such as Austria or Switzerland.

In order to have any hope of a comfortable future, structural change in the economy is needed. So far this has been quite small. For example, in 1980, Canada had just under 27% of manufacturing workers in chemical, plastics, rubber, machinery and scientific equipment industries, an increase from 24% in 1973. The percentage for major industrial powers, however, was over 40 (West Germany 43.2%; U.S.A. 41.5%; Japan 40.4%), and even a country like Austria was at 35% (UNIDO, 1985). This weakness is reflected in trade figures. Only 65% of Canada's merchandise figures consist of manufactured products. Admittedly Canada has a strong resource base which gives it good export possibilities, but nevertheless this is a strong contrast to Japan's 97.9% and West Germany's 94.2%. For a fairer comparison we should perhaps consider the United States at 81.9%. The message, however, is clear. Canada's economic structure is relatively weak.

With our strong resource base, one might anticipate that our comparative advantage will be stronger in manufacturing than in service activities. We have very strong international banking and our real estate businesses are doing very well in the United States, but in the long run every small country with limited resources will be competing in these areas. Witness, the successes of the City of London in the realm! Canada, however, could move in highly skill-intensive manufacturing, where both skills and resources are required. There will be no guarantees, but we are likely to be more successful, especially in sectors where our market is also large such as communication, machinery for the resources sector, transport, or products for northern climates. We need also to look more carefully at products which rely on skill and design, many of which could be in sectors already strong here. What we cannot afford to do is rely on textiles, clothing, footwear, automobiles, etc. to carry us richly into the 21st century. It is in our interest to allow developing countries to move into these areas and buy cheaply from them. Their increased income will build up markets, providing an opportunity to supply them with new products. But, the new products must come regularly off the research production line. Continuous adaptation is vital.

If the economic development profession is not alert to our situation, who will be? One cannot turn down opportunities because they occur in the wrong sector, but it is possible to encourage creative trends. Some suggestions for a strategy in that direction would be:

- Talking about the need for change to local businessmen, politicians and the press.
- Encouraging firms and entrepreneurs who are trying new products.
- Supporting inventors and innovation.
- Publishing new ideas, joint venture opportunities, etc.
- Encouraging discussions and mini-conferences on trends in the world economy, and the challenge it brings.

I believe this is an area which is very important. The real danger for developed countries is that they rely on old sectors and old ways for so long that it is too late to change by the time they have woken up to the fact that here is a problem. This is particularly true when the old approach has been prosperous, but we must anticipate the future. Prophecy is another little job for the economic development specialist!

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