Why the manufacturing sector should embrace trade with Europe

JASON LANGRISH
Contributed to The Globe and Mail
Published Wednesday, Jan. 15 2014, 9:31 AM EST

It is received wisdom in some quarters that the loss of jobs, notably in manufacturing, is a direct result of free trade.

NDP leader Thomas Mulcair will be tested by this premise in 2014. His party, backed by organized labour and social justice activists opposed to free trade, must find a way to support the Canada EU Comprehensive Economic and Trade Agreement (CETA) or forfeit credibility that it can be trusted to manage the economy.

Mr. Mulcair famously claimed Canada suffered from the Dutch Disease because of a focus on resource exports, which pushed up the value of the Canadian dollar and undermined manufacturing by making exports more expensive. That was part of a strategy to win "working peoples" votes in the manufacturing heartland of central Canada.

The decline in semi-skilled, high paying jobs in Canada has occurred for a number of reasons: High relative labour costs; a mismatch of skills to available jobs; poor relations between labour and management; a short-term focus on share price maximization and correspondingly, weak business investment; poor public infrastructure; and a fragmented national marketplace that often protects legacy industries at the expense of innovative upstarts.

The varied causes of job losses, notably in the manufacturing sector, represent a fundamental long-term adjustment that all advanced economies are experiencing. The real question is how are they reacting to this challenge?

The United States is allegedly undergoing a manufacturing renaissance that many are attributing to lower wages, a low dollar and cheap energy inputs. Yet despite a more favourable positioning for manufacturing in the U.S., its share of global exports in this area has actually decreased and currently stands at 12 per cent of GDP – lower

than it was before the Great Recession. In terms of real value added, the U.S. manufacturing sector has been stable for decades, accounting for 11.8 per cent in 1987 and 12.4 per cent in 2012.

In Germany, manufacturing represents a quarter of the economy and the country has quietly become the world's second-largest exporter after China. Germany's exports have contributed two-thirds of the country's economic growth over the past decade and have driven its GDP per capita to increase faster than that of any other major industrialized country.

A similar reality exists in other European countries such as Switzerland and Denmark, and they attribute their success in large part to free trade, not in spite of it. They remain competitive in the value-added manufacturing space, despite strong currencies, as a result of progressive domestic policies.

Many German companies are also privately held, freeing them of pressure from shareholders to maximize short terms gains that often come at the expense of long-term investment.

Labour costs have been contained in Germany and unemployment levels are low. In contrast, Canada's real unit labour costs are now amongst the highest in the world and second to Italy among G7 countries.

Germany has adopted a co-operative framework between labour and management whereby union representatives sit on the advisory boards of companies and participate in the long-term decisions and development of the company. Germany has focused heavily on skills – trades in particular and have active apprenticeship programs within industry. By contrast, innovation potential in Canada remains unfulfilled and commitment to excellence often suffers as a result.

Europeans have expanded their internal market via the barrier free EU and their companies have worked diligently to penetrate foreign markets, notably in Asia, for their value added goods and services.

Canadian firms, in contrast, have been slower to penetrate global markets, having for years relied on the U.S. as a destination for exports and source of capital and investment. Canada has also made

little progress in eliminating interprovincial barriers, dramatically shrinking the effective size of the market and preventing firms from achieving a critical mass.

Recently published papers by Statistics Canada make clear that small companies account for a substantially larger proportion of the economy in Canada than they do in the U.S., where their labour productivity rate is 27 per cent higher. Small firms produce less than half from their labour than what larger enterprises do, unable to exploit the scale economies associated with size, and therefore possessing a productivity disadvantage relative to their larger counterparts. The fragmented Canadian marketplace is not doing the country's businesses any favour in this regard.

Free trade, complimented by progressive domestic policies and strategies, provides a vital framework for Canadian firms to pursue opportunities both at home and abroad. It is a strategic public policy that Canada must pursue if it is to remain competitive in the global marketplace.

Jason Langrish is the executive director of the Canada Europe Roundtable for Business