

Building National Prosperity through a New Industrial and Advanced Manufacturing Strategy

DESCRIPTION

The emergence of the Covid-19 pandemic has brought to light the erosion of the industrial and advanced manufacturing capability of Canada. Over the past decades, the growing reliance on imports of goods and the decline of domestically produced goods has exposed the vulnerability of our economic underbelly. The absence of a long-term national strategy to advance our manufacturing capabilities and competitiveness has amplified Canada's decline in the ability to produce high skilled, high earning jobs and the economic benefits that come from a strong and growing manufacturing sector.

BACKGROUND

The decline in manufacturing has been a key contributor to the stagnation of wages in Canada and Canada's increasing reliance on the extraction and export of unprocessed natural resources. Canada needs to emphasize merits of generating wage gains through greater value-added roles and productivity improvements without loss to our competitiveness to reverse wage stagnation and deterioration.

In 1980, almost 20% of all jobs (8.5% of the population) in Canada were in the manufacturing sector – that dropped to 9% by 2019. Source: Stats Can, Turner Investments

Manufacturing was hard hit by the deep and prolonged recession that followed the global financial crisis of 2008-09. Manufacturing GDP declined by almost 11 percent over the period from 2000 to 2014, while the rest of the economy grew by 41 percent. Since 2000, manufacturing employment has declined by over 500,000 workers. Growth in total employment over the period was about 3 million.

The decline in manufacturing exports has led to an overall decrease in exports by Canada. Over the period 2000-2014, overall exports declined by 6.4 percent, while manufacturing exports declined by 26 percent.

One of the by-products of the COVID-19 pandemic is that all of a sudden people are paying attention to where things are actually manufactured. On Monday morning April 13, the lead headline on the CBC website was "Canada building its own PPE supply chain...in China." As the Toronto Star noted in its April 7 editorial – "Canada Needs a New Industrial Policy," when Canada is left scrambling for medical equipment, relying on goods that are manufactured halfway around the world "doesn't seem like such a good idea anymore."

While countries in the world, including Canada, shut down large parts of their economies to contain the COVID-19 virus, and while economic activity stopped, most manufacturers continued to operate. In some cases many manufacturers ramped up or shifted production in response to the crisis to make more food, personal protective equipment, and other health care products.

But because firms have also had to contend with implementing physical distancing measures and weaker than normal demand, the industry's overall production has still declined sharply. SSMCOC DATA POINTS: Manufacturing Sales – April 2020 (Source: Statistics Canada)

The lack of an industrial and advanced manufacturing strategy for Canada has further exacerbated policy formulation and decisions that support a strong and renewed recovery in this section. It is long past time that Canada should address this problem. By focusing on an industrial growth strategy, governments can help to ensure that the economic recovery that follows the pandemic will be more durable, will create better jobs and, if we do it right, will help us meet our climate change targets.

As the Canadian Government looks to stimulate economic recovery, that stimulus should come with conditions – immediate job creation, economic productivity and medium- and long-term investment. Canadian needs a long-term industrial strategy.

As part of that new industrial and advanced manufacturing strategy the Canadian Government needs to use the power of infrastructure spending and procurement to support Canadian industry and maximize job creation in Canada. It does not help that trade agreements, notably the CETA with the EU, restrict Canada's ability to insist on domestic procurement that creates jobs in Canada and you can be sure that in the U.S., aggressive "Buy America" programs will surely be the order of the day for the large U.S. procurement market, and under the recently concluded CUSMA, Canada has no preferential access to U.S. procurement.

Because we have neglected our manufacturing base for decades, Canada is more reliant than ever on resource extraction – and fossil fuel extraction makes up over two-thirds of our current resource sector. It is also the case that we have a lot of manufacturing jobs tied to the fossil fuel sector. But as we face low fossil fuel prices, it is clear that manufacturing is going to be critical if we are going to meet our climate change objectives. Mining and manufacturing supply chains are critical for the production of the goods we need for a low-carbon economy, whether that is transit, wind turbines or electric vehicles. But none of these goods will be made in Canada unless we have a strategy to make it happen.

More generally, for decades Canadian governments have relied on increasing global trade and free markets to create jobs in Canada. This has not only left us without the ability to manufacture critical medical supplies during this pandemic, and it has left us with a weakened domestic manufacturing base that has not received enough support from governments. We need to put a long-term industrial job creation strategy back on the domestic agenda.

Despite the declines, manufacturing continues to make a critical contribution to the Canadian economy, particularly to the Canadian trade balance, where it still has a disproportionate role relative to that of other industries. In 2014, they accounted for 61 percent of exports. In addition, in 2014, it represented 10.6 percent of total economic output and directly employed 9.6 percent of the Canadian labour force. Due to its rich linkages with other activities, such as R&D, logistics, engineering, sales and marketing, the manufacturing sector has a substantial multiplier effect on

the national economy. Thus, if Canada is to prosper in the future, the decline of manufacturing will have to be reversed and vitality returned to this critical sector.

The current shift in political and public sentiment toward increasing domestic production, strengthening domestic supply chains, and making and buying local is welcome news for manufacturers and fits well with Canada's trade and industrial (and manufacturing) realities. But this shift should not mean that Canada attempts to isolate itself, shut down global supply chains, and reverse decades of trade-driven prosperity for Canada. Instead, Canada should attempt to capitalize on these shifting sentiments by refocusing attention on the need to boost export growth by supporting the production of value-added goods and by strengthening regional supply chains.

Manufacturing is a cornerstone of our modern Canadian economy. Accounting for approximately \$174 billion of our GDP, manufacturing represents more than 10% of Canada's total GDP. What is more, manufacturers export more than \$354 billion each year, representing 68% of all of Canada's merchandise exports.

All of this adds up to 1.7 million quality full-time, well-paying jobs—all across the country. As the sector has modernized, manufacturers have become innovative and high-tech, relying on a highly skilled and knowledgeable workforce that includes designers, researchers, programmers, engineers, technicians and tradespeople.

Canada's manufacturing industry has huge potential for Canada's economic future. The world is changing, and new technologies are not just opening new markets for Canadian goods, they are changing the ways these goods are produced. For manufacturing in Canada to remain a vibrant, innovative and competitive contributor to our economy, business and Government will need to work together. A vibrant manufacturing community encourages industrial clusters that develop skills, knowledge and technology. Success breeds success: when Canada's manufacturers grow and compete, they act as magnets for new investment and for new young people wanting to be part of this great industry, making the products of tomorrow.

RECOMMENDATIONS

That the Government of Canada:

1. In collaboration with stakeholders develop and implement a long term modern industrial and advanced manufacturing strategy, founded on the principles of continuous improvement, that focuses on increasing investment through reducing production costs, supports innovation and technology adoption with the goal of increasing value-added exports. Emphasize competitive strengths, particularly natural resources, energy, food and technology.
2. As part of the long-term strategy, ensure that in partnership with the provinces, stakeholders and academic institutions, both public and private, develop advance and industrial manufacturing curriculum to address the skills shortages.
3. Introduce a trade strategy that targets reshoring of manufacturing capacity to Canada and strengthens North American competitiveness. Include also efforts to modernize, strengthen, enhance capacity and financially support the trade remedy system and the verification of import data.
4. Build the “Canadian Made” brand by modernizing the legislated and voluntary expansion of government and public-private partnership procurement tools to evaluate and consider preferential selection of local suppliers after fairly evaluating:
 - a. Global environmental impact and cost assessment versus the imported alternative; (i.e.: greenhouse gas (GHG) emissions during production and transportation),
 - b. Presence of comparable health and safety regulations during production and manufacturing;
 - c. Whether the exporting country allows for reciprocal access to their market for the same product.
5. Implement a rapid arbitration process for companies who were/are denied access to emergency relief programs.
6. Introduce programs to offset the costs associated with crisis response and training on protocols such as tax credits and training subsidies, such as those through existing job grant programs.
7. Prioritize investment in trade and industrial infrastructure, including transportation networks, industrial parks, and broadband internet.
8. Drive Canada's business investment and competitiveness by lowering the cost of doing business through tax and regulatory reform.