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Press Release

Institute releases Working Paper on trade, innovation, and prosperity

New research by the Institute for Competitiveness & Prosperity shows how international trade can raise Ontario's and Canada's innovation capabilities to strengthen their competitiveness and future prosperity

Toronto – Ontario and Canada should continue expanding international trade as part of their efforts to enhance our innovation performance, which will lead to higher prosperity. This applies to trade with advanced economies like the European Union and developing economies like China and the other BRICs. People may be concerned that exposing Canada to greater imports from low-wage countries opens our economy to serious challenges, but the evidence indicates that our industries operating on the basis of high value products and services and creativity will compete effectively.

These are some of the key conclusions of the Working Paper, *Trade, innovation, and prosperity*, released today by the Institute for Competitiveness & Prosperity. Previous research by the Institute has focused on the innovation and prosperity gaps in Ontario and Canada – the failure to achieve our full economic potential. In the research released today, the Institute draws the connection between innovation and prosperity and international trade.

“We are all familiar with the traditional arguments for international trade – it opens markets to our businesses and enables them to achieve scale and specialization; it offers our consumers more variety and lower prices,” said Roger Martin, Dean of the University of Toronto’s Joseph L. Rotman School of Management and Chairman of the Institute. “But we conclude that trade also stimulates our innovation, economic success, and prosperity. Innovation is driven by a combination of *support* and *pressure*, and international trade contributes to both.”

According to the Institute, *support* refers to the conditions that assist all firms and individuals as they develop and compete. Trade leads to larger market opportunities and access to better supplies of materials, people, and capital – critical supporting conditions for innovation.

Pressure comes from aggressive and capable competitors, who are a threat to complacent businesses, and from sophisticated customers, who demand innovative goods and services at low prices. International trade exposes our businesses and managers to these beneficial pressures that create the imperative for innovation.

“In summary,” said Martin, “more trade has to be a key element of our innovation agenda – and our Agenda for Prosperity.”

The current global economic environment presents challenges for trade expansion. But we have opportunities to increase trade with China and other emerging economies, we are negotiating growing trade with the European Union, and we have a solid base of trade with our US neighbours.

Said Martin, “there’s no doubt that more trade, especially with China and the emerging economies, often leads to fears of losing our manufacturing base because of low-cost imports. But we found that much of our current manufacturing weakness is the result of our strengthened dollar, not trade with China.” The Institute found that the low Canadian dollar supported our manufacturing through the 1990s. In the current decade, the stronger dollar made our manufacturing exports less competitive – especially in low value added industries. The Working Paper also discusses the impact of the BRICs, deficits, and the Chinese Yuan on our trade scene.

The real challenge from trade is the pressure it puts on our businesses to become more innovative. Imports from China and other emerging economies are still relatively unsophisticated; but many of these economies will reach an “innovation tipping point” when they begin to compete on new ideas, design, and value added. To ensure our future prosperity in Canada, we need to engage with these emerging economies and step up our own innovation capabilities. Expanded trade with European Union countries will expose us even more to savvy trade partners and, through pressure and support, will help boost our capabilities.

The Institute recommends that Canadian governments and businesses should step up their efforts to encourage new and deeper trade relations on several fronts. We need to drive for more innovative businesses in our economy and more demanding consumers – with ongoing investments in education as a prime driver. Our businesses have an opportunity to draw on our recent immigrants’ experience and familiarity with some of our emerging trade partners to develop export strategies.

“But,” said Martin, “we recognize that more low-priced imports create employment challenges for our workers in vulnerable industries. We need creative solutions to help laid-off workers, and particularly older workers, make the transition to other jobs, because many of the current approaches are not working.”

About the Institute

The Institute for Competitiveness & Prosperity is an independent not-for-profit organization established in 2001 to serve as the research arm of Ontario’s Task Force on Competitiveness, Productivity and Economic Progress. The Institute is supported by the Ontario Ministry of Economic Development and Trade. Working Papers published by the Institute are primarily intended to inform the work of the Task Force. In addition, they are designed to raise public awareness and stimulate debate on a range of issues related to competitiveness and prosperity.

The complete report can be downloaded directly from:

http://www.competeprosper.ca/images/uploads/ICAP_WP14_FINAL.pdf

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