

**CANADA'S GLOBAL AND BUSINESS
COMPETITIVENESS:
COMPETITION POLICY REFORM IN A CHANGING
WORLD**

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CANADA'S GLOBAL AND BUSINESS COMPETITIVENESS: COMPETITION POLICY REFORM IN A CHANGING WORLD

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On July 12, 2007 the Federal Ministers of Industry and Finance announced the creation of the Competition Policy Review Panel with the mandate to review key elements of Canada's competition and investment policies and to make recommendations to the government for enhancing the country's productivity and competitiveness in the context of a rapidly changing global economy, climate change and global society. At the end of October 2007, the Panel published a consultation paper outlining the changing international economic context, presenting its views of the issues it believes most central to enhancing Canada's continuing success and prosperity, and inviting from the public written submissions on the policy issues and questions they raised.¹ This paper is a response to the Panel's call for public input focusing on a close examination of Canada's current and recent comparative performance in the areas of global and business competitiveness and drawing out evidence-based policy implications for public and private sector key actors.

This paper compares Canada's competitiveness with two of its traditional economic partners and international allies, the USA and the United Kingdom, and two emerging economies, China and India. These four countries were selected because the first two represent Canada's important trade and investment historical relationships, and the last two represent the new champions with whom Canada must compete and establish new alliances and partnerships. In future, Canada's competitiveness policies must strengthen the economic relationships with the traditional allies and at the same time develop sustaining and competitive economic relationships with emerging economies such as China and India.² This paper draws on data from the annual competitiveness reports of the World Economic Forum, which provide rankings and ratings of most of the world's economies on various measures of global and business competitiveness.³ Drawing on the results of the comparisons between Canada and the other four countries, the paper attempts to spell out priority areas for policies and strategies for enhancing Canada's global and business competitiveness by governments and other sectors of the economy and society.

¹ See *Sharpening Canada's Competitive Edge*. Competition Policy Review Panel, Public Works and Government Services Canada, Government of Canada, October 30, 2007; www.competitionreview.ca.

² China and India are used as examples only. Other noteworthy emerging economies include Brazil, Russia (BRIC), Indonesia, Chile, Argentina, South Africa, Algeria, Nigeria, Egypt, (SANE) as well as some of the smaller but globally competitive economies (e.g. Singapore).

³ See various annual reports of the *Global Competitiveness Report*, www.weforum.org. We note in passing that although the data from these reports have not been subjected to independent psychometric assessment, other competitiveness Canadian studies have used them. See *Fading Productivity: Making Sense of Canada's Productivity Challenge*. Certified General Accountants Association of Canada (undated) and *How Canada Performs: A Report Card on Canada*; The Conference Board of Canada, June 2007.

The Growth Competitiveness Index

The World Economic Forum uses the Growth Competitiveness Index (GCI) to measure and compare on an annual basis global competitiveness among the world's trading economies. The GCI summarizes a country's set of institutions, policies and structures, which drive its growth over the medium and long-term. In the most recent formulation, it is made up of nine pillars and three factors. The pillars are: institutions (both public and private), infrastructure, the macro economy, health and basic education, higher education and skills training, market efficiency, technical readiness, business sophistication, and innovation (see Table 2). Table 1 compares Canada's GCI performance over the 2002-07 six year period with the two traditional allies (USA & UK) and two emerging economies, China and India. Over the years, Canada has been losing ground in terms of rankings from single digit to the mid-teens, while the USA, our most important trading and investment partner has one of the best records, and the UK is marginally better than Canada. If present trends continue, by 2020, Canada could rank in the 20s. The two emerging economies in terms of GCI are still way behind.⁴

Table 1:
Measures of Global Competitiveness over a Six- Year (2002- 2007) Period

Year/Top Rank	Canada		USA		UK		China		India	
	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score
2002 (USA) N = 80	8	5.27	1	5.93	11	5.17	33	4.37	48	4.03
2003 (Finland) N = 102	16	5.21	2	5.81	15	5.23	44	4.19	56	3.90
2004 (Finland) N = 104	15	5.23	1	5.95	11	5.30	46	4.29	55	4.07
2005 (Finland) N = 117	14	5.10	2	5.81	13	5.11	49	4.07	50	4.04
2006 (Switzerland) N = 125	16	5.37	6	5.61	10	5.54	54	4.24	43	4.44
2007 (U.S.A) N = 131	13	5.34	1	5.67	9	5.41	34	4.57	48	4.33

Source: Global Competitiveness Reports: 2002 -03 to 2007 – 08, the World Economic Forum.

⁴ For details of the conceptualization, measurement and global ratings of the Global Competitiveness Index (GCI), see "The Global Competitiveness Index: Identifying the Key Elements of Sustainable Growth". Augusto Lopez-Claros, et al. In *The Global Competitiveness Report 2006-2007: Creating an Improved Business Environment*. Pp 3-50. World Economic Forum & Palgrave Macmillan, 2006.

Recent studies of Canada's competitiveness (e.g. The Conference Board of Canada; CGA) support the finding that over the years, the country's global competitiveness is fading, losing out to others. The policy implication is quite clear. In order to protect and enhance the country's standard of living, the country's declining competitiveness trend must be reversed by working through each of the nine pillars, especially those related to innovation factors, which are the key determinants of competitiveness for advanced economies like Canada (see below).

The Nine Pillars of Competitiveness

The World Economic Forum's global competitiveness framework identifies nine pillars of competitiveness grouped into three factors. Table 2 provides data on the ranks and scores for these pillars and factors for Canada, the USA, the UK, China and India for the years 2005 and 2006. Compared with the traditional allies, the USA and the UK, Canada seems to do better for the Basic Requirements (institutions, infrastructure, macroeconomic management, and health and basic education), ranking 11th and 13th respectively as compared to the USA ranking at 18th and 27th, the UK at 17th and 14th in 2005 and 2006. Canada performs particularly well on Health and Basic Education, ranking 2nd overall in the world. On Basic Requirements, the emerging economies of China and India are far behind, ranking at 45th and 44th for China and 65th and 60th for India. On the other hand, Canada's traditional allies do much better on Efficiency Enhancers (higher education & training, market efficiency, and technical readiness) as well as Innovation Factors (see Table 2). The USA is particularly very competitive in the areas of Market Efficiency, Business Sophistication and Innovation, ranking in the top five worldwide. Again the emerging economies are quite far behind the traditional allies.

Table 2: The Nine Pillars of Global Competitiveness

Pillar	Canada		USA		UK		China		India											
	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006										
1 Basic Requirements	Rank 11	Score 5.73	Rank 13	Score 5.68	Rank 18	Score 5.61	Rank 27	Score 5.41	Rank 17	Score 5.63	Rank 14	Score 5.67	Rank 45	Score 4.79	Rank 44	Score 4.80	Rank 65	Score 4.47	Rank 60	Score 4.51
1.1 Institutions	21	4.96	21	5.01	16	5.21	27	4.84	10	5.35	15	5.38	60	3.72	80	3.51	41	4.25	34	4.55
1.2 Infrastructure	11	5.91	13	5.81	8	6.06	12	5.82	17	5.52	14	4.74	65	3.44	60	3.54	69	3.21	62	3.50
1.3 Macro-economy	25	5.10	32	4.96	62	4.39	69	4.37	42	4.72	48	4.67	13	5.33	6	5.72	88	4.06	88	4.12
1.4 Health & Basic Educ	8	6.96	2	6.95	47	6.77	40	6.60	15	6.94	14	6.89	61	6.65	55	6.44	87	6.33	93	5.90
2. Efficiency Enhancers	Rank 11	Score 5.32	Rank 15	Score 5.35	Rank 1	Score 5.85	Rank 1	Score 5.66	Rank 4	Score 5.56	Rank 7	Score 5.59	Rank 62	Score 3.70	Rank 71	Score 3.66	Rank 46	Score 4.09	Rank 41	Score 4.32
2.1 Higher Educ & training	11	5.65	17	5.51	2	6.04	5	5.82	12	5.63	11	5.57	69	3.76	77	3.68	46	4.28	49	4.35
2.2 Market Efficiency	6	5.27	7	5.26	1	5.91	2	5.67	2	5.64	3	5.63	47	4.26	56	4.22	27	4.77	21	5.07
2.3 Technology readiness	22	5.03	17	5.28	5	5.61	8	5.46	9	5.42	6	5.56	65	3.08	75	3.07	57	3.22	55	3.52
3. Innovation Factors	Rank 16	Score 5.14	Rank 16	Score 5.08	Rank 1	Score 6.07	Rank 4	Score 5.75	Rank 11	Score 5.33	Rank 10	Score 5.36	Rank 48	Score 3.83	Rank 57	Score 3.75	Rank 26	Score 4.48	Rank 26	Score 4.60
3.1 Business Sophistication	17	5.35	18	5.33	3	6.17	8	5.78	8	5.77	6	5.82	58	4.11	65	4.05	27	5.02	25	5.06
3.2 Innovation	12	4.92	13	4.82	1	5.98	2	5.72	13	4.88	12	4.89	35	3.56	46	3.44	27	3.94	26	4.14

Source: Global Competitiveness Report, 2006 – 2007; Tables 5, 6 pp 16 -23; 2005 2006, Tables 9, 10 pp 28 -35, the World Economic Forum.

At least two policy implications follow from the data in Table 2. First, Canada's competition policy must preserve and enhance its high quality of the key elements of the Basic Requirements: the governance of public and private sector institutions, basic infrastructure, macroeconomic management, and the provision of basic social services of health and education. As some European countries have shown (e.g. Sweden, Finland, Denmark), enhancing a country's global and business competitiveness does not necessitate giving up gains already achieved in the areas of progressive social policy. National competitiveness and progressive social protection are not mutually exclusive.

In the post 9/11 environment, a key element of Canadian infrastructure for competitiveness is border security, especially the timely flow of goods (just-in-time), services and people between Canada and the USA. This requires Canada Border Services to become an active and effective partner in advancing Canada's global competitiveness. It is also the case that Canadian public institutions and the Canadian public have been slow to appreciate the depth and pervasiveness of the effects of 9/11 on the American public and public institutions. This disconnect between the America (excessive) need for national security and Canadian insistence on special treatment may well be an impediment in the search for optimal and mutually acceptable balance between legitimate national security and cross border competitive trade, investment and productivity (sustaining just-in-time, not just in case cross-border business logistics). It is important for Canadians to understand that 9/11 profoundly affected American pride and psychic so much so that it is easy for them to trump trade and investment flows for (perceived) national security. Prudent Canadian competition policy relating to Canada-US border security must accept that reality as a starting point.⁵

Second, and most challenging, the country's competition policy must directly confront the impediments to enhancing competitiveness among the Efficiency Enhancers as well as Innovation Factors. Specifically, policies are needed to bring about significant improvements in the country's readiness for utilizing new technology, higher education and skills development, private sector business sophistication, and the capacity for innovation. According to the World Economic Forum, Basic Requirements are necessary but not sufficient for enhancing the global competitiveness of advanced economies like Canada. Weaknesses in Efficiency Enhancers and Innovation factors are particularly detrimental for an advanced economy like Canada.

Third, since innovation in an open capitalistic economy is largely driven by the private sector, any changes in public policy designed to bring about improvements in these factors must focus on significant changes by the country's business sector. Government alone cannot bring about the required improvements in the country's global and business competitiveness. Therefore in order to fulfil its mandate, the Competition Policy Review Panel must include in its recommended policy framework practical policies and strategies for Canada's private sector, both big and small, becoming more active and aggressively engaged in enhancing the country's national competitiveness.

⁵ For recent discussions of the Government of Canada's expenditures and program activities relating to border services and a strong mutually beneficial North American partnership, see CBSA's Departmental Performance Reports 2006-07, and Canada's Performance Report 2006-07, www.tbs-sct.ca/reports

The Efficiency of Markets

In an open trading and globally competitive economy, market efficiency plays an important role in determining its overall competitiveness and the ease with which it adapts to economic and social changes. In the World Economic Forum, markets are divided into three components of goods, financial and labour. Table 3 provides data on Canada's performance (rank and scores) on market efficiency for goods, financial services and labour for 2004-2005, and the overall market efficiency for 2006-2007, in comparison with the other four countries. Once again, Canada is performing worse than its traditional allies, especially the USA. While Canada ranks in the 10s for each of the three market components, the USA is in the top three and the UK in the top five (except for labour markets). While both India and China are far behind, they seem to be making impressive improvements in their market efficiency ranks and scores.

Table 3: Components of Market Efficiency

Market Component	Canada		USA		UK		China		India	
	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score
1. Goods Market Efficiency	13	4.32	3	4.59	4	4.53	43	3.58	38	3.67
2. Financial Market Efficiency	13	5.61	3	5.93	1	6.27	82	3.77	32	4.85
3. Labour Market Efficiency	13	4.48	3	5.05	8	4.67	40	3.98	60	3.78
Overall Markets Efficiency (2006)	7	5.26	2	5.67	3	5.63	56	4.22	21	5.07

Source: Global Competitiveness Report, 2004 – 2005, Table 5, pp 68 -9. Data for the Overall market efficiency is from the 2006 – 2007 GCR.

The Policy implications from the results of Table 3 are more specific: the Competition Policy Review Panel must come up with very specific recommendations for addressing institutional causes of market imperfections in goods, financial services and labour markets so as to make our markets globally competitive in line with those of the allies. These policies must involve provinces and other levels of government with jurisdiction over these markets. In order to enhance market efficiency in Canada, we make the following observations. First, for markets to work efficiently, appropriate (accurate, timely, useable, etc) information must be available. Second, markets work more efficiently when they operate under clear, transparent and reasonable rules and principles that are enforced, and seen to be enforced in a transparent manner. Yet, in Canada, the diversity of regulations and regulatory agencies at different levels of government makes it hard to maximize market efficiency. Third, competition leads to innovation. Therefore competition policies must provide incentives for market innovation and efficiencies.

Finally, these observations point to the need to rethink and reform existing market institutions (values, principles and rules of the game), and the enactment of new ones.

BUSINESS COMPETITIVENESS

Here we discuss the evidence relating to Canada’s business competitiveness and related competition policy implications. We focus on the country’s microeconomic foundations of wealth creation, prosperity and sustaining high standards of living. While governments provide the legal framework, infrastructure and governance institutions for macroeconomic management, it is the private sector firms, both big and small, that actually create wealth, employment, and prosperity through innovation and value creation. For advanced countries like Canada, which have largely gotten their macroeconomic policies and institutions in place, it is innovations and reforms at the business (microeconomic) enterprise level that largely determines their sustaining global and business competitiveness. It is micro reforms at enterprise levels that hold the key to wealth creation, reversing unemployment problems, growing exports, and translating economic growth into sustaining rising standards of living for all citizens. Table 4 reports on the results of the World Forum’s Executive Opinion Survey, asking business leaders to identify the most problematic factors for doing business in their country. During the five year period from 2002 to 2007, Canadian executives were consistent in identifying *tax rates* as the most problematic factor for doing business in Canada. The second and third (not shown in the Table) were tax regulations and restrictive labour regulations. Their American counterparts and UK executives (for 2007) also identify tax rates and tax regulations as the most problematic factors for doing business in their respective countries. It is not surprising that the current federal government, and to a lesser degree the provincial governments, have adopted policies aimed at reducing both personal and corporate taxes. Indeed, Canada is currently on the way to reaching among the lowest corporate tax rates among the G7 countries. Yet, the efficacy of tax cuts as an effective competition policy for microeconomic competitiveness is not entirely established. Some tax experts believe that Canada’s overall tax burden is about right but what needs to change is the structure of taxation: What is taxed and the relationships with the country’s medium and long-term strategic needs and priorities.

Table 4: Most Problematic Factors for Doing Business

Year	Canada	USA	UK	China	India
2007	Tax Rates	Tax Rates	Tax Rates	Access to Financing	Inadequate Supply of Infrastructure
2006	Tax Rates	Tax Rates	Inadequate Educated Workforce	Inefficient Government Bureaucracy	Inadequate Supply of Infrastructure
2005	Tax Rates	Tax Regulations	Inadequate Educated Workforce	Corruption	Inadequate Supply of Infrastructure
2004	Tax Rates	Tax Regulations	Inadequate Infrastructure	Corruption	Inadequate Infrastructure
2003	Tax Rates	Tax Regulations	Inadequate Infrastructure	Access to Financing	Inadequate Infrastructure

Source: Global Competitiveness Reports: 2003 – 2007. www.weforum.org

Table 4 also provides some interesting data relating to the two emerging countries. In general, the reported most problematic factors for doing business in China and India relate to macroeconomic management issues of governance (e.g. corruption, inefficient government bureaucracy) and infrastructure. Since Canada is fairly advanced both in public and private sector governance policies and institutions as well as in infrastructure development and maintenance, emerging economies appear to provide Canadian businesses and institutions with market opportunities relating to these persistent impediments to doing business (competitiveness) in these countries.

Table 4 also reveals a common mindset among executives across the five countries. In all cases, the executives point to external factors beyond their enterprises' control as the most problematic factors for doing business in their respective countries. The business executives seem to look outside their enterprises for the most problematic factors for doing business. Indeed the majority of the factors listed in Table 4 point to problems relating to the performance or lack thereof of government and public institutions (e.g. inadequate infrastructure, inefficient government bureaucracy, inadequate educated workforce, etc). While these are indeed legitimate concerns, there are factors *inside* the business enterprises under the control of the executives which should also be identified. For example, as the Competition Policy Review Panel points out, the private sector has contributed to Canada's poor productivity growth because of underinvestment in machinery, and low levels of innovation. As well, Canadian businesses seem to lag behind in workplace reorganization and advanced worker training and skills development. They are also slow to leverage and take full advantage of the skills, knowledge and global competencies new immigrants bring to this country. Accordingly, new competition policies must address corporate impediments to competitiveness *beyond taxation, within the control* of corporate executives. Competition policies should aim at reorienting corporate executives to look inside their enterprises' management, investment, organization, and technology and innovation strategies for enhancing Canada's *corporate competitiveness*.

Business Competitiveness Index

The Business Competitiveness Index (BCI) was developed by Porter and his associates to capture the microeconomic (enterprise level) productivity and growth resulting from the management and performance of firms. BCI is based on two interrelated areas of (1) the sophistication with which domestic firms and foreign subsidiaries operating in a country compete, and (2) the quality of the microeconomic business environment in which they operate. This formulation is based on the understanding that the productivity of a country is ultimately set by the productivity of its firms. An economy cannot be competitive unless companies operating there are competitive, whether they are locally owned or subsidiaries of foreign multinational corporations. It is also the case that the two factors of BCI, the sophistication of company operations and strategy (COS) and the quality of the national business environment (QNBE), are inextricably intertwined. It would be prudent for the Competition Policy Review Panel to accept the long established position that in a capitalist economy like Canada, competitiveness analysis and competition policy

should be concerned with how firms survive the incursions of new technologies and markets in the global economy rather than with the static considerations of the effects of price and tax rates.

Table 5 provides longitudinal rankings of Business Competitiveness Index (BCI) and its components: the sophistication of company operations and strategy (COS) and the quality of the national business environment (QNBE) for Canada and the other four countries for a ten year period from 1998 to 2007. The data show a steady and significant deterioration of Canada's BCI rankings and its two components. In 1998, Canada ranked 6th on BCI among 52 countries, and by 2007, it ranked 14th among 131 countries. On the other hand, over the same period, the USA has maintained first or second place on BCI and its components. As well, for the most part, the UK has remained in single digit rankings, while for the most part, Canada is stuck in the mid to the late teens. Clearly, for the last ten years, Canada's business competitiveness has not kept pace with global competitiveness, especially among its allies. To be able to compete with the best in the world in the emerging global economy, Canadian companies, big and small, have to learn to build new and different resources and capabilities, develop and execute multiple and concurrent strategies, partner with multiple constituencies often with conflicting objectives, operate effectively in high-risk governance environments, and communicate effectively across linguistic, ethnic, religious, ideological and cultural divides in an increasingly uncertain world.

Table 5: A Longitudinal Examinations of Business Competitiveness for Canada and Competitors: 1998 – 2007.

Year	Canada			USA			UK			China			India		
	BCI	COS	QNBE	BCI	COS	QNBE	BCI	COS	QNBE	BCI	COS	QNBE	BCI	COS	QNBE
1998	6	15	3	1	2	1	5	9	5	42	35	44	44	50	42
1999	8	12	4	1	1	1	10	13	8	49	31	50	42	48	43
2000	11	16	8	2	2	2	8	11	9	44	38	45	37	40	37
2001	11	11	14	2	2	1	9	10	8	49	49	46	38	36	41
2002	12	11	18	1	1	1	3	3	3	39	40	37	37	36	38
2003	12	11	14	2	2	1	7	9	6	46	45	43	37	38	37
2004	15	15	16	1	2	2	6	5	7	48	48	39	31	31	29
2005	14	14	17	1	1	1	5	6	4	54	54	53	31	32	28
2006	15	16	18	1	1	1	8	7	9	64	65	69	27	27	25
2007	14	17	14	1	1	1	11	11	11	57	54	57	31	27	33

Source: 1998 – 2001 data from the Global Competitiveness Report 2002 – 2003, Table 1, p.31 (Microeconomic Competitiveness Index); 2002 – 2006 data from the Global Competitiveness Report, 2006 – 2007, Table 1, P. 60 (Business Competitiveness Index).
Sample size: 2002 = 80; 2001 = 75; 2000 – 1999 =58; 1998 = 52.

Looking closely at the rankings for Canada’s business sophistication of operations and strategy (COS), the rankings are decidedly below those of the USA and the UK. These results show that for the period under review, the management operations and strategies used in Canadian business enterprises have not been competitive compared to those of the USA and the UK. Canadian business executives are responsible for these results, and any new competition policies must address the root causes of the lack of sophistication of the operations and strategies of Canadian firms, both domestic and subsidiaries of foreign firms. While public policy can create an enabling environment, the heavy lifting must be the responsibility of the country’s corporate executives. Once again, the rankings of the two emerging countries are significantly far behind those of the three allied countries, with India showing better rankings than China. As well, India shows remarkable progress in the improvements of the rankings of its business sophistication of operations and strategy from a high (low) of 50th in 1998 to 27th in 2007. India’s Quality of National Business Environment (QNBE) rankings have also improved from 42nd in 1998 to 33rd in 2007. Surprisingly, rankings for China seem to be deteriorating over the same period, from 35th in 1998 for COS to 54th in 2007.

Table 6 provides more detailed comparative analysis of the sources of business competitiveness at the enterprise level for Canada and the other four countries. The 12 items were selected from a total of 24 because previous empirical studies showed them to be statistically related to a country’s GDP per capita (PPP adjusted)⁶. For Canada, the scores and rankings range from a high of 5.9 (out of a total of 7) for Extent of Marketing to a low of 4.0 for Value Chain Presence. Compared to the USA and the UK, Canadian firms show weaknesses in several areas of corporate operations and strategy (see Box 1).

Table 6: Zooming in at the Microeconomic Enterprise Sources of Business Competitiveness: 2006

Corporate Sources of Competitiveness	Canada		USA		UK		China		India	
	Mean	SD	Mean	SD	Mean	SD	Mean	SD	Mean	SD
1. Production process sophistication	5.3 (20)	1.0	5.7 (13)	1.2	5.6 (15)	0.8	3 (89)	1.2	4.4 (33)	1.2
2. Extend of marketing	5.9 (8)	0.9	6.3 (2)	1.1	6.6 (1)	0.6	3.7 (82)	1.3	5.4 (29)	1.3
3. Breadth of international marketing	5.1 (24)	1.6	6.1 (8)	1.2	6.2 (5)	1.1	4.1 (42)	1.4	4.7 (33)	1.3
4. Value of chain presence	4.0 (46)	1.7	5.7 (15)	1.2	6.2 (5)	0.9	3.7 (56)	1.5	5.1 (22)	1.2
5. Extent of incentive compensation	5.6 (9)	1.1	6.0 (2)	1.2	6.0 (1)	6.9	4.1 (62)	1.5	4.9 (26)	1.3
6. Capacity for innovation	4.8 (19)	1.1	5.5 (9)	1.2	5.4 (12)	1.0	3.6 (43)	1.3	4.3 (28)	1.3
7. Willingness to delegate authority	5.2 (13)	1.0	5.5 (8)	1.3	5.3 (12)	1.3	3.4 (71)	1.5	4.3 (30)	1.4
8. Extent of staff training	5.0 (24)	1.2	5.6 (9)	1.2	5.3 (16)	1.2	3.4 (76)	1.3	4.8 (28)	1.3

⁶ See Michael Porter, “Building the Microeconomic Foundations of Prosperity: Findings from the Business Competitiveness Index” Appendix B, page 76 in *The Global Competitiveness Report 2005-2006, Policies Underpinning Rising Prosperity*, The World Economic Forum. And Palgrave Macmillan, 2005.

Corporate Sources of Competitiveness	Canada		USA		UK		China		India	
	Mean	SD	Mean	SD	Mean	SD	Mean	SD	Mean	SD
9. Degree of customer orientation	5.8 (13)	0.9	5.8 (11)	1.2	5.6 (17)	1.3	4.2 (78)	1.4	5.1 (31)	1.0
10. Reliance of professional management	5.9 (13)	0.9	5.9 (12)	1.2	6.3 (3)	.8	4.1 (79)	1.5	5.4 (24)	1.1
11. Firm- level technology absorption	5.5 (22)	1.0	6.0 (9)	1.1	5.5 (23)	1.0	5.1 (41)	1.3	5.8 (13)	1.1
12. Company spending on R & D	4.4 (22)	1.2	5.8 (3)	1.2	4.7 (16)	1.2	3.6 (39)	1.2	4.2 (25)	1.1

Source: Global Competitiveness Report, 2006 – 2007. Note: (21) Rank, Total sample 125. Maximum score=7.

Box 1

Selected Items of Canada's Corporate Sources of Competitive Weaknesses

Source of Competitive Weaknesses	Item Meaning and Measurement
1. Value Chain Presence (4.0)	Exporting companies in Canada are: 1= primarily involved in resource extraction or production, 7= not only produce but also perform product design, marketing, sales, logistics, and after-sales services
2. Company Spending on R&D (4.4)	Companies in Canada , 1= do not spend money on research and development, 7= spend heavily on research and development relative to international peers
3. Capacity for Innovation (4.8)	Companies in Canada obtain technology, 1= exclusively from licensing foreign firms, 7= by conducting formal research and pioneering their own new products and processes
4. Extent of Staff Training (5.0)	The general approach of companies in Canada to human resources is, 1= to invest little in training and employee development, 7= to invest heavily to attract, train, and retain employees
5. Breadth of International Marketing (5.1)	Exporting companies in Canada sell, 1= primarily in a small number of foreign markets, 7= in virtually all international markets
6. Willingness to Delegate Authority (5.2)	In Canada, willingness to delegate authority to subordinates is, 1= low---top management controls all important decisions, 7=high--- authority is mostly delegated to business unit heads and other lower-level managers
7. Production Process Sophistication (5.3)	Production processes in Canada use, 1= labour-intensive methods or previous generations of process technology, 7= the world's best and most efficient process technology

Source: Data Tables of *The Global Competitiveness Report 2006-2007: Creating an Improved Business Environment*. World Economic Forum and Palgrave Macmillan, 2006: 395-563).

The summary results of both Table 6 and Box 1 point to the need for the Competition Policy Review Panel to propose policies that address the specific areas of Canada's *corporate sources of competitive weaknesses*. Specifically, new policies are needed to significantly increase corporate investments and innovations in new technology, processes, logistics, research and development, international marketing, organizational restructuring, and staff training and skills development. Critics of Canada's industrial organization may well argue that lack of such investments may well be the consequences of a "plant branch" economy, with corporate global or regional headquarters located elsewhere. The Competition Policy Review Panel should investigate this possible link and suggest effective competitive policy responses. Canadian nationalists and left-leaning politicians would support a competition policy framework that protects "strategic corporate assets" from foreign ownership.

Domestic Competition and Cluster Development

The development and effective functioning of industrial clusters is important for fostering domestic as well as global competitiveness both for select sectors and the national economy.⁷ Table 7 provides data on the ranks, means and standard deviations of ten cluster development variables for Canada and the other four countries, with the best ranked country for each variable provided in brackets. In general the data show that Canada's performance in the areas of cluster development is less competitive than that of the USA and the UK. Canada's scores range from a high of 6.0 (out of a maximum of 7.0) for Quality of Management Schools to a low of 4.1 for Local availability of Process Machinery, for which Canada scores about the same as India (4.0) and less than China (4.5). The USA, Canada's most important trading and investment partner is ranked first on five out of the ten cluster development variables, and among the top five for the rest, except Effectiveness of Antitrust Policy, for which the USA ranks 6th and Canada 12th. The UK scores better than Canada on all variables except for: Local Supplier Quality, and ranks among the top ten on all variables except Local Supplier Quality (15th) and Local Availability of Process Machinery (13th). India and China score better than Canada on: (i) Intensity of Local Competition and (ii) Local Supplier Quality. India also does very well on the Quality of Management Schools. China does well on Local Availability of Process Machinery (7th) because of its extensive manufacturing sector as the "world's factory".

These results suggest that the Competition Policy Review Panel needs to come up with a competition policy framework that adequately addresses Canada's apparent weaknesses in the various areas of domestic competition and cluster development. Specifically, competition policies must address areas such as local availability of process machinery; presence /absence of demanding regulatory standards, intensity of local competition,

⁷ For a discussion of how clusters affect competitiveness, see Porter, M. E. et al "The Microeconomic Foundations of Prosperity: findings from the Business Competitiveness Index" p. 53, *The Global Competitiveness Report 2006-2007: Creating an Improved Business Environment*. World Economic Forum & Palgrave Macmillan, 2006, and John J Wild, K.L. Wild and J.C.Y. Han, *International Business: The Challenges of Globalization*. NJ, Prentice Hall, 2008:169.

local supplier quality, and effectiveness of antitrust policies (see Table 7). Some of these (e.g. regulatory standards, intensity of local competition) fall beyond Canadian federal government jurisdiction, and their effective implementation would require cooperation between the private sector and the three levels of government. Besides the federal government, it is recommended that as a matter of public interest, the Council of the Federation should take on matters of national (domestic and international) competitiveness.

Table 7: Domestic Competition and Cluster Development

Cluster Development Variable	Canada			USA			UK			China			India		
	Rank	Mean	SD	Rank	Mean	SD	Rank	Mean	SD	Rank	Mean	SD	Rank	Mean	SD
1.Intensity of local competition (USA)	14	5.7	1.0	1	6.3	.8	3	6.1	1.0	31	5.3	1.1	11	5.8	.9
2. Effectiveness of antitrust policy (Germany)	12	5.6	1.1	6	5.9	1.1	3	6.0	1.0	55	3.8	1.3	33	4.6	1.4
3. Extent of market dominance (USA)	11	5.5	1.3	1	6.3	1	3	6.0	1.3	44	4.1	1.4	17	5.2	1.5
4. Buyer sophistication (USA)	11	5.8	1.0	1	6.2	1.0	8	5.8	1.0	44	4.4	1.4	25	5.2	1.3
5. Local supplier Quantity (Japan)	13	5.8	1.2	3	6.4	.8	7	5.9	1.0	37	5.1	1.1	5	6.0	.9
6. Local supplier quality (Japan)	11	5.8	.9	3	6.3	.9	15	5.8	.9	68	4.1	1.1	27	5.3	1.1
7. Presence of demanding regulatory standards (Germany)	15	5.8	.8	5	6.1	.9	4	6.1	.9	76	3.7	1.3	44	4.6	1.2
8. Local availability of process machinery (Japan)	19	4.1	1.5	3	5.3	1.3	13	4.3	1.4	7	4.5	1.3	22	4.0	1.4
9. Local availability of specialized research & training services (USA)	9	5.7	.9	1	6.4	.8	2	6.1	.8	36	4.4	1.2	29	4.7	1.3
10. Quality of management schools (U.S)	4	6.0	.7	1	6.6	.7	5	5.9	.8	73	3.5	1.3	6	5.9	.9

Source: Constructed from “Domestic competition and cluster development”, *Global Competitiveness Report 2005 -2006: Policies Underpinning Rising Prosperity*. Pp 577 -586, World Economic Forum, 2005 & 2006. Top ranked country (e.g. USA) in brackets.

Global Growth Companies: The New Champions of Global Competitiveness

It would be wrong to assume that because of the relatively poor showing of China and India on measures of GCI and BCI, emerging economies do not pose serious competition for Canada. In September, 2007, the World Economic Forum organized the Inaugural Annual Meeting of the New Champions in Dalian (Liaoning Province), China. The meeting attracted more than 1700 participants from 90 countries mostly from emerging economies and 125 global growth companies (GGCs). The purpose of the meeting was to recognize, celebrate and provide support to the new breed of *high growth global companies* (GGCs), springing up in different parts of the world with the vision of competing in the global economy and global society, becoming tomorrow's industry global leaders, and reshaping the nature of global competition and global society. These companies are referred to as "new" in relation to the established drivers of economic globalization in international business such as the multinational firms (foreign & domestic), state-owned firms (SOEs), commonly used in emerging economies like China and Russia, foreign invested firms, and international joint ventures. They are new and relatively small to medium sized enterprises (SMEs) that demonstrate a clear potential to become leaders in the global economy based on a combination of their business model, growth record, leadership, innovation, and the markets they serve.

According to the organizers of the Dalian meeting, global growth companies are a very special group of companies representing a truly global community, but which have not been fully understood. Armed with young visionary leaders, new business models, and low cost operating bases, these companies have rushed headlong into the world markets, set up offices, hired non citizens, formed strategic alliances and business networks, bought companies abroad, and are positioned to compete directly with the big established global corporations within the next five to ten years (for details visit the World Economic Forum Website; www.weforum.org).

The fact that the first meeting of its kind was held in China is quite significant. Attention to China and India as representatives of emerging economies is justified because they seem to be leading the drive for globalization by way of corporate growth and innovation (see *The Economist*, October 13-19, 2007, Innovation, Revving Up, pp 6.). Local Chinese and Indian firms are organizing themselves into new dynamic entrepreneurial networks (e.g. designers, suppliers, manufacturers), developing new business models such as "localized modularisation", and effectively threatening and competing with established global giants. Most of these Chinese and Indian innovating firms are relatively unknown but this is expected to change within the next ten years. China is believed to be rapidly emerging as the global centre of management innovation, pioneering management techniques that most US companies are struggling to understand. For example there are more than 400 firms designing chips in China, which will quickly become world-class innovators. If we can identify the key success factors for these firms in China and India, it may be possible to develop a competition policy framework and practical strategies that allow for the emergence of competitive high global growth companies in Canada. This is because Canada's ability to compete in the emerging global economy and global society may well depend on the extent to which it develops and nurtures these new corporate

champions, different from the country's current corporate dominant players⁸. In order to be able to compete with the best global growth companies from the emerging economies, Canadian firms must be prepared to radically change their approaches and fundamentally rethink every step in their production and supply chains so as to come up with novel and more agile business models. Likewise, Canadians should embrace globalization: Take full advantage of its many opportunities, confront its challenges, and protect themselves against its unintended consequences.⁹

Box 2 **Global Growth Companies: Key Success Factors**

1. Company has a **global strategy**, outstanding **visionary and innovative executive leadership** with the management and organizational **capacity to plan and execute** on a **global scale**.
2. Business is **expanding outside the company's traditional boundaries** by products/services, geography, clients, etc.
3. Company consistently records **strong annual growth rates of 15-25 percent**.
4. Company has **demonstrated leadership in a particular industry** by, for example innovation (product, process, business model, etc).
5. The company has a **strong foundation or foothold in its home market or markets** and operates efficiently on the basis of low cost and high quality.
6. Management is characterized by **decentralized decision making, excellent customer and stakeholder relationships management, global cross-cultural competences, and value adding business partnerships, alliances and networks**.
7. The company has the **right corporate governance system** characterized by effectiveness, responsiveness, transparency, and accountability.
8. The Company has the **right organization design** for balancing the pressures for regional or headquarters control and global coordination across multiple foci (e.g. a double matrix design).
9. Company has the **capacity to compete for, develop and manage its human capital** including effective competition for **global talent**.
10. Company demonstrates **global corporate citizenship beyond the bottom line**.

Source: Based of information provided by the World Economic Forum, www.weforum.org

Box 2 summarizes the key success factors for high growth global growth companies. For these companies, success does not happen by accident. Rather drawing on their strengths, resources and uniqueness, they develop carefully developed global strategies, with excellent and visionary executive leadership that can plan and execute competitively (low cost, high value) on a global scale. Yet, the ability to execute consistently on a global scale is particularly difficult for the new champions because most of them are small, lacking scale and scope, and with limited human and organizational resources. Yet, global growth companies' global competitiveness is predicated on the premise that human ingenuity the world over is bottomless. Therefore, innovation strategies that tap into hitherto neglected intellectual capital and connect it better with financial capital can help both rich and poor countries to prosper. Canada needs a new national business

⁸ For recent discussions of China and India's global competitiveness using different business models, see John A. Mathews, *Dragon Multinationals: A New Model of Global Growth*. Oxford University Press, 2002; Robyn Meredith, *The Elephant and the Dragon: The Rise of India and China and What It Means for All of Us*. W.W. Norton, NY, 2007, and Kamal Nath, *India's Century: The Age of Entrepreneurship in the World's Biggest Democracy*. McGraw Hill, N.Y. 2008.

⁹ See Moses N. Kiggundu, *Managing Globalization in Developing Countries and Transition Economies: Building Capacities for a Changing World*. Greenwood Publishers, 2002.

environment that allows global growth companies to emerge thrive and compete with the best in the world, and the Competition Policy Review Panel must provide the appropriate framework and incentives for the enactment of such an enabling environment.

Innovation is another common key success factor among global growth companies. There are several aspects associated with the consistent drive for innovation. First, the company's leadership must have the drive for and capacity to manage change and the need to destroy the old and create new visions, images, products/services, processes or business models in the Schumpeterian entrepreneurial traditions (Schumpeter, 1942). The data presented above suggests that Canadian businesses perform poorly in the areas of innovation, and this may limit the country's ability to create competitive global growth companies. Key to building and sustaining a culture of innovation is the development of a *strong global mindset* and *global competencies* not only at the top but at all company levels and locations. CEOs of global growth companies are known to have a strong global mindset. For example in a recent joint survey by the World Economic Forum and Harvard Business Review, it was reported that two-thirds of the CEOs who responded said that they would focus more attention on overseas than on their domestic markets for over the next 12 months. This is because these CEOs recognize that they are operating in a global environment and that success requires the capacity and competency to look beyond conventional wisdom to run a modern growing company. In this regard, global growth companies are helped by expatriate nationals who combine *both* global business experience and deep national roots. In a rapidly globalizing world, it is no longer enough to innovate. Global competition requires global insights and these "global citizens" provide the necessary leadership for their companies' global insights. In practical terms, this mean that the leadership of global growth companies in Canada have to learn to *overcome Eurocentric concepts of innovation* and style, and draw more on indigenous notions and images of culture, values, beliefs, history, geography, politics, ecology, and economy in the running of global growth companies and the design, making, marketing, and servicing of their products, and managing overseas clients relationships. Global competitiveness requires excellent local indigenous knowledge.

Like global growth companies, Canadian enterprises are small by global standards. Therefore, in order to compete in the global economy, they must find creative and innovative ways of competing against the much bigger and well established firms with global reach and global resources. The global growth companies employ several innovative ways to overcome disadvantages of small size. For example entrepreneurs in resource poor environments are able to render unique services by recombining elements at hand for new purposes that challenge established institutional definitions of limits. Small firms, drawing on Levi-Strauss's concept of *bricolage*---making do with what is at hand---are able to create something from nothing by exploiting physical, social, or institutional inputs that other (bigger) firms have traditionally rejected or ignored. Global growth companies engaging in *bricolage* refuse to enact the limitations imposed by dominant definitions of resource environments. Entrepreneurs who develop excellent stakeholder relationships are more successful in acquiring and mobilizing resources.

The challenge facing the Competition Policy Review Panel is to come up with a national strategy that creates a generation of Canadian innovators, entrepreneurs and executives with a global mindset and astute at building (SME) businesses that can compete with the best in the world, especially in emerging and developing economies where most future business growth opportunities are likely to come from but where current Canadian business models and practices may not apply. This goes beyond narrow traditional approaches to competition policy and necessitates rethinking several national long-term strategies including how we educate Canadians for future global business and leadership, how we attract, select, resettle and utilize new immigrants from different parts of the world, how we restructure and provide incentives for new business development, how we develop and deliver support programs for industrial and institutional innovations, how we encourage the three levels of government to create an enabling high quality national business environment for domestic and international competitiveness, and how we see Canada's role in the emerging and dynamic world of rapidly changing dangers, challenges and opportunities. The Competition Policy Review Panel must address the question of how do we ensure that Canada's youths, including First Nations youths, public officials, entrepreneurs, business managers and executives, trade union and institutional leaders, farmers, and the general Canadian labour force acquire the necessary global competencies to function and compete effectively in the 21st century. While the federal government must take the lead, effective responses to overcoming the country's fundamental causes and threats to our national competitiveness or lack thereof require active and collaborative participation and engagement of all levels of governments, the private and third sectors, and all Canadians. In this country, the non-profit sector has traditionally not involved itself with issues of national competitiveness. They should because national competitiveness is everybody's business.

OTHER MATTERS RELATED TO CANADIAN COMPETITIVENESS

National competitiveness is a complex and dynamic concept that transcends macro and microeconomic foundation of value creation and prosperity. It is not only about economics, law and business, but also draws on a country's wider social, political, cultural, geographical and historical institutional arrangements, resources, values and practices. There is no single silver bullet for sustaining national competitiveness. Therefore the challenge for the Competition Policy Review Panel is not to come up with a single all-powerful competition policy for the federal government but to craft a set of mutually reinforcing and synergistic competition policies which draw on the country's natural areas of competitive advantages or potentials thereof. In conclusion, the paper offers the following thoughts for the Panel's consideration and further deliberations:

1. Strengthen the National Alliance for Competitiveness

As pointed out above, an effective competition policy framework requires collaborative engagement and participation by all levels of government, the private and non-profit sectors. Specifically, Canada needs very practical and sustaining institutional arrangements that bring together governments, business and labour, and training and education institutions with *a single minded focus on enhancing national*

competitiveness. Here we draw attention to the need for the Panel to pay attention to the need to rethink the traditional foundations of Canadian competitiveness in agriculture and agro-food and the policies and strategies needed to ensure that farmers will continue to remain competitive in a rapidly changing world (e.g. WTO and the Doha Development Agenda). By governments we include the three levels of governments, the big cities, the small and medium cities and towns, as well as the rural and remote areas, including the country's vast north. By business and labour, we include not only the corporate sector and organized labour, but also private professional and industry associations and regulatory agencies, especially those that regulate the training, certification and conduct of various trades and professions.

2. Raise the Profile of Competition Policy as a National Issue

Canadians in general do not consider national competitiveness or lack thereof as a priority public policy issue. Federal and provincial general elections are won or lost on issues other than competition policy. Yet, popular issues such as health care, climate change, education, law and order, or child care can only be effectively addressed if the economy is strong and globally competitive. In an era of minority governments, it is imperative that the country *develops a widely shared consensus on the essence of Canadian national competitiveness*. As part of its mandate, the Panel may wish to provide some practical strategies for raising the profile of competition policy issues among the voting public as well as across the country's organized political spectrum.

3. Climate Change As An Opportunity for Enhancing National Competitiveness

For a variety of reasons (e.g. geography, socio-political, global), Canadians have come to recognize the importance of climate change and its potential impact on our lives. Indeed, climate change is poised to become one of the most important policy issues with deep and wide ranging socio-economic and technological implications for Canada and the world. Unlike Y2K at the beginning of the 21st century, climate change has no terminal date and no final solution. Therefore, chances are it is here to stay. This poses both challenges and opportunities for the Canadian economy and Canadian national competitiveness. The country needs public policies which not only seriously address international climate change obligations, but also draw on Canada's natural competitive advantages to enhance the country's global and business competitiveness. Strengthening industry-university R&D relationships must be part of the new strategy. In its deliberations and recommendations, the Panel may wish to take this opportunity to make *direct links between climate change and national competitiveness* and to draw out opportunities Canadians can easily relate to.¹⁰

¹⁰ For discussions of the relationships between climate change and competitiveness, see "Climate Change and Competitiveness: A Survey of the Issues". International Institute for Sustainable Development (<http://iisd.org>), March 30, 2005, and "Climate Change Plan for Canada: Achieving Our Commitments Together". Government of Canada (http://lakehuron.on.ca/resources/Climate_Change_plan_for_Canada.pdf)

4. Link International Business with International Development

Canadian NGOs are actively engaged in various international relief and development initiatives practically in all countries of the world. Canada has a global reputation as a caring society. Canadian business should be encouraged to emulate the NGO sector and take on an equally global approach but look at the developing countries not only in philanthropic terms but also as business opportunities at the “middle and bottom of the income pyramid”. This will require them to develop business models that draw on social entrepreneurship, and allow them to see the poor as (potential) customers, not merely as recipients of charity. Canadian firms should mobilize and utilize resources and capabilities which allow them to serve populations at different levels of income, resource endowment, governance, and sophistication as buyers, sellers, partners, or competitors.¹¹ Canadians must be persuaded to believe that good development is good business and that good business is good development in the fight against global poverty, inequality and injustice.

5. Recommend a Clear, Actionable Competitive Policy Framework

The task for the Competition Policy Review Panel is as important as it is challenging. The country’s future prosperity may well depend on the quality and overall impact of its recommendations and the effectiveness with which they are communicated, internalized and implemented by all Canadians. The challenge for the Panel is to propose a clear, actionable, policy framework free from ambiguities, contradictions or obfuscation. It must include a plan of action outlining responsibilities, targets, incentives, and timelines. Above all it must grab and dare all Canadians. When strategy (policy) is clear and compelling, execution becomes strategy.

¹¹ See, for example, Hart, S.L. and Sharma S. “Engaging Fringe Stakeholders for Competitive Imagination”. *Academy of Management Executive*, 2004, 18, (1): 7-18.