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Mr. Leon Benoit

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● (1110)

[*English*]

The Chair (Mr. Leon Benoit (Vegreville—Wainwright, CPC)): Good morning, everyone.

The Standing Committee on International Trade of the House of Commons has invited the Conference Board of Canada to present its final report of its three-year research project, *Mission Possible: Sustainable Prosperity for Canada*.

The presentation of this report has been touted as a landmark study and provides a blueprint for building a new era of Canadian prosperity. It's timely, given that the committee is studying opportunities and challenges that Canadian business faces in today's global market.

I would like to thank Mr. Glen Hodgson, senior vice-president and chief economist for the Conference Board of Canada, and Mr. Gilles Rhéaume, vice-president, public policy, Conference Board of Canada.

We'll start today with their presentation. It's a short presentation on their report, and then of course we'll go to the usual round of questioning.

I'd like to start by thanking you very much, gentlemen. We're looking forward tremendously to this presentation and to these next two meetings to deal with this really important issue.

Go ahead, please.

Mr. Glen Hodgson (Senior Vice-President and Chief Economist, Conference Board of Canada): Mr. Chairman, thank you very much.

[*Translation*]

Thank you, committee members.

[*English*]

I had a chance to be here last October when we had a round table on international trade, and I alluded at that time to the fact that we were publishing a fairly substantive report. We're now two-thirds of the way through the final publication. I thought I would start by talking a bit about the context and volume one. My colleague Gilles Rhéaume will speak to the second volume, dealing with resources.

The report is called *Mission Possible: Sustainable Prosperity for Canada*, a huge topic. We've found that the only way we could deal with it would be to divide it into three clusters: one dealing with Canada's place in globalization; one dealing with the resource boom and how we can capitalize on the spectacular rise in resource prices that we're experiencing right now; and the third on cities. Our president, Anne Golden, will be presenting that next week. In fact, she'll be giving a speech at the Toronto Board of Trade releasing the third volume.

The first volume is called *Mission Possible: Stellar Canadian Performance in the Global Economy*. It really addresses the question of national drift, setting the facts out, and then setting out elements of a strategy to create sustainable prosperity for Canada. I'll just spend a couple of minutes on the core hypothesis.

The evidence is very clear. Economists are almost unanimous, effectively unanimous, that Canada right now is a nation that's drifting. It's very hard to see. It's almost imperceptible. But the evidence is clear, and I'll give you a couple of examples.

On per capita income, we've slid from fifth to tenth place in the OECD over the last 15 years. That's a very slow slide, but you can see it. In terms of productivity performance, over the last five, ten, twenty years, we've slid slowly towards the back of the class.

We're now in the bottom third of OECD countries, the rich industrial countries, in terms of annual productivity growth rates. When we compare ourselves to the United States, we now find ourselves at about 83% of U.S. levels of productivity. Of course, that translates into having a smaller automobile in your driveway. The analogy I use is you have a Corolla rather than a Lexus in your driveway.

Where it really matters of course is because we won't have the capacity.... And that's not a free ad for Toyota, by the way. It really translates into whether we can pay for the social goods, the health care system we want, the education system we want, and the retirements we all want as we get older. What's driving that? We see two major forces. One is a combination of global demographics, aging populations in the industrial world, in Canada, and countries like Japan and Italy, combined with young populations and changed economic policies in the emerging world.

All of a sudden, countries like China, India, and Brazil have become competitors and much stronger forces within the global economy. I think in *Maclean's* magazine, I was quoted as calling it “a shift in the tectonic plates” of the global economy. That's a good analogy, because you can see the major structural forces that are creating friction but are also creating a new world where Asia, in particular, will be a pole of economic growth for the world economy.

The other major force we see is the changing alignment of how international trade occurs today. I've given it an expression, “integrative trade”,

[*Translation*]

integrative trade.

[*English*]

Trade today is driven by investment. More and more, it's business using foreign direct investment to reposition parts of their supply chain around the world. As we've dropped trade barriers over the last 25 years, businesses are now able to reposition elements of their production anywhere in the world where it makes the most sense, and they use foreign investment to do that. Canadian companies have done that to a certain degree, but it really is a question of whether we're keeping pace with the global dynamics.

Our report then goes into a number of near-term factors we're going to have to face. We talk about sustainability. In fact, sustainability, the balancing of the environment and the economy, is a theme that passes through all three volumes. I know that Gilles has spent quite some time looking at sustainable practices in the resource industry.

We talk about global imbalances. The United States, in particular, has a massive external deficit equal to about $850 billion annually, which means that it needs to attract equally massive savings from the rest of the world to keep itself aligned. Will there be a shock at some point where the United States is brought back into line?

We talk about the Doha Round, which is stalled right now, and whether we can find the political means to get Doha moving again before the U.S. President's negotiating mandate expires in July of this year. If we don't, we are on the front line of a new Congress in the United States that we fear will be protectionist. Because Canada has a trade surplus, we could well be on the front lines of an adjustment in American attitudes.

Lastly, we talk about emerging markets, and the competition they're presenting. China is now, in some months, a bigger exporter to the United States than Canada is; there's been one month so far. But two or three years down the road that will become a standard centred pattern where we're slowly being displaced by countries like China in the U.S. market.

But the flip side is there's tremendous opportunity in those markets. For the first time there's a middle class of hundreds of millions of people who have purchasing power and the ability to buy things that we produce and we manufacture.

So how do we actually take advantage of the structural changes going on in China, India, Brazil, and 150 other countries? The balance of the volume then sets out five strategies that we think are critical to creating sustainable wealth within Canada. I'll go through those very quickly.

First is the need to embrace productivity and competitiveness as a national priority, because that's where wealth creation should come from. This is the smartest form of growth: to boost productivity, output per worker. It's not about working harder; it's all about working smarter, finding better ways to combine innovation, technology, creativity, to boost wealth within Canada.

We then drill into that framework and address a second theme, which I think is arguably the most powerful in the volume, and the theme we've selected is to create a single Canadian market. Our research, through the many studies we did under the Canada Project, identified barriers to commerce at the provincial boundaries, misalignment of regulation between the federal and provincial governments, misalignment even within levels of government, barriers to competition, lack of innovation in our industry and in government policy, barriers to tax, and infrastructure. So there's a whole array of things that we've done to ourselves to render ourselves less competitive in the world. And you cannot be competitive in a modern global economy unless your firms are able to compete effectively at home, by reaching a national market. So that's a powerful message. I'd be happy to talk about it at length.

The third theme for us is to address the aging labour force: find ways to encourage more immigrants and integrate them faster into our workforce, and incent older workers to stay longer. Our whole pension system and employment system was designed for a time of surplus labour, but the rules have completely changed. We're now at a point of labour shortage, and if you live in western Canada, represent constituencies out there, you know exactly what I mean. But that's even emerging in central Canada and Atlantic Canada. There are now skill shortages across our economy. So how will we find ways to address that? We think it's through smarter immigration policy, smarter investment in education, focusing on post-secondary and skill development, and finding ways to keep older workers attached longer.

The fourth strategy for us comes directly to the issue of this committee, which is international trade and investment, and the need to have a comprehensive, well-articulated, international trade and investment strategy going forward. We'll be quite happy to talk about that in some detail. We've looked at things like reducing barriers to foreign investment, strengthening the border to make it more seamless, so that foreign investors don't see the border as a barrier to functioning within North America, issues such as growing the services exports within our economy. The balkanization of our national economy makes it very hard for services exporters to actually get out there and compete, because they don't have to compete hard enough at home to really be at a competitive level internationally.

Ultimately, it comes back to making trade and investment a centrepiece of our national productivity strategy, having a well-articulated plan, which means Canada assuming a leading role, again, within the WTO negotiations. We've allowed ourselves to be pushed, really, to the side. We've become policy-takers rather than policy-makers, we believe, at the WTO. We have to reposition ourselves again.

But even as that is occurring, we know there's a risk that Doha will not proceed for two or three or five years, and we can't sit idle in the interim period. So we have to think about deepening our relationship with the United States within NAFTA, both broadening it to expand its coverage and dealing with very difficult things like non-tariff barriers, the north-south alignment between Canada and the United States, and then pursuing other regional and bilateral deals where there's really great potential, and thinking about engaging countries like China and India much more deeply on trade.

The last of the five strategies in volume one is around foreign policy. We argue that we really need to think about foreign policy as yet another part of a national productivity strategy that reinforces our trade investment and all the other elements. Our view is that our foreign policy really needs to proceed along two main tracks. Track number one is, obviously, with the United States, our most important relationship by far, something we have to think about every day, but we're not recommending or advising a big bang solution, in terms of the our relationship with the United States. It's more a matter of practical, day-to-day, rules-based engagement with the United States, seeing that they're our greatest friends and allies, but also looking after our own interests in that relationship.

The second track that we believe in very strongly is the need to embrace the emerging markets as a core piece of our foreign policy —China, India, Brazil, and many others—because they are the second pole of economic growth within the world economy, and by deeper engagement in our foreign policy we can have a better articulated trade and investment policy towards those countries.

● (1115)

We cover all of that in a report of about 130 pages. It's hard to get through, frankly. I've read every word multiple times, and it takes about seven hours, if you have the patience. But we'll be putting out an executive summary next week of about 20 pages, which will articulate that more effectively.

Gilles, do you want to add a few words about your volume now?

● (1120)

Mr. Gilles Rhéaume (Vice-President, Policy, Business and Society, Conference Board of Canada): Sure.

Last week we released our second volume of the Canada Project, called *Mission Possible, a Canadian Resources Strategy for the Boom and Beyond*. We focused on the rising global demand for natural resources, which comes primarily from Asia, and basically the fast pace in terms of economic growth in China and India. We have a population in China, with respect to the middle class, of 200 million at the moment. We're looking at it rising to 400 million by 2010.

In India they have a middle class of about 90 million, and growing fast. All these people have higher incomes, and they are looking for things that basically we wouldn't think they would purchase in the past, including motor vehicles, electric appliances, housing, the various gadgets that we are used to. All of that requires the natural resources and energy.

There are some opportunities also within North America with what we are seeing in terms of long-term trends, demographic growth, and economic growth, but to a lesser extent. When we looked at that, we looked at four key sectors: forest products, agri-foods, mining, and energy. Each has important opportunities, but also major challenges.

I'll just briefly say a few words on each one.

[*Translation*]

The major challenge in forest products is maintaining global competitiveness. Our plants, particularly pulp and paper plants, are small and old compared to those elsewhere in the world. Some competitors didn't previously exist, such as Brazil, Chile and New Zealand. All that puts a lot of pressure on our Canadian producers. They're also dealing with costs that are growing faster that those of other countries. The strategy is therefore to renew the forest sector.

The biggest challenge in the agricultural sector is opening global markets. My colleague Glen mentioned that our tariff barriers were high. The Doha Round is not progressing. If we want opportunities in the agricultural sector, we really must have an aggressive strategy for liberalizing agricultural trade. We also have to raise the innovation level in our agricultural sector.

[*English*]

When we turn to mining, one critical thing is that there are great opportunities, but our reserves are declining. We need to boost our exploration activity to an extent that we have never seen before so that we can open new mines. There are a number of things we recommend to bring that forward. On the energy side, we have vast energy resources. The greatest challenges that we are seeing have to do with the environment, and dealing with those environmental issues.

What we are suggesting is that there is an opportunity for Canada to basically become a clean energy superpower. I emphasize the word “clean”, which means a dual strategy of developing that resource, but also developing environmental technologies.

That's basically in terms of the four sectors. There are two common themes that come out of it. One has to do with labour shortages. When we look at these resource sectors, the workforce on average is older than what we are seeing in other sectors. The shortage that Glen alluded to is coming faster than what we are seeing in other sectors, and we are already seeing it on the energy side.

The second major theme that crosses everything in terms of all the resource sectors has to do with the regulatory complexity, the hurdles these companies have to go through to get projects approved, and at a time when we have a boom that will not last forever. We're seeing this boom that will exist for maybe 10, 15, 20 years. Then it's certainly going to slow down, if not decline.

We are looking at that opportunity, which is not only a time-limited offer, but it is an offer that we won't see repeated for generations to come, looking at trends and demographics that we are seeing worldwide. This is a short-term opportunity where we can benefit, and we have to meet the challenges that we have identified in our volume.

The Chair: Thank you very much, gentlemen. Fascinating.

We'll go now to questions, starting with the official opposition Liberal Party, Mr. Bains. Go ahead, please, seven minutes.

Hon. Navdeep Bains (Mississauga—Brampton South, Lib.): Thank you very much, Chair.

I want to thank Mr. Hodgson and Mr. Rhéaume for coming in.

I wholeheartedly agree with your assessment overall, Mr. Hodgson. In a nutshell, the way I would summarize what you've said is the essential goal of this entire exercise in the reports is to have a better standard of living while working fewer hours and generating more income per capita. That's the essence of it, working smarter and being productive. Some say we have to work longer. I disagree with that. We have to work smarter.

One of the most important indicators that one can see as a means to judge our success is the average income, which is not keeping pace with that of the United States, and that gap is widening with other countries as well. That is really a reflection of individual wealth and the inequity that's growing in our society as well between the haves and the have nots.

The two areas where I want your assistance in better understanding are diversification in trade and, secondly, the Canadian common market, which you alluded to in your remarks as well.

In your view of the current Government of Canada overseas trade resources, are they limited when compared with other countries? For instance, we've seen and we've heard that they'll be closing consulate offices, for example, in Milan, in Italy, in Russia, and in Japan. Do you think that is the appropriate strategy to promote trade, or do you think we need to open additional offices? If so, strategically, what would some of the recommendations be? Which markets should we focus on?

That's my first question. After you answer that I have a couple of other questions as well for you.

● (1125)

Mr. Glen Hodgson: All right, let me take a step back and say that a well-articulated trade policy basically has three pieces. One, your business has to be ready to go and compete internationally, and that's why we put so much weight on the concept of a single market in Canada, ending the balkanization and allowing our firms to achieve optimum scale here so they really have that sharp edge that's needed to compete internationally.

The second piece is about market access, and that's what international trade negotiation is all about. Right now we can see Doha drifting. We've gone 13 years with NAFTA, and, as we articulated in our report, we think NAFTA has effectively matured. There's no more dynamic energy coming out of NAFTA. Firms are not restructuring any more, so there's a lot of capacity there to both broaden the coverage of NAFTA by including things like services in much more detail, and also deepen it through much greater effort around harmonization. Maybe that's the wrong word. Harmonization is a little bit scary sometimes, politically, but I think we can say alignment of regulatory standards and processes without giving up any of our sovereignty. Often we have slightly different standards that achieve exactly the same end, so we need to find ways to penetrate more deeply with the United States in the integration of North America, and then pursue other markets.

The third piece you're talking about is on the trade investment promotion side, but that is basically the sales force of a company. It's perfectly fine to talk about diversification and whether we have the right resources in place for sales, but we want to make sure that we have all three pieces in place and that we are actually building companies that are going to be competitive internationally, which can go out there and win market share based upon high-quality products and price, and the issue of market access.

When it comes to diversification, we all want to be more diversified, but you can't push a string, and without having these first two pieces, without having more active market access negotiations, let's say, bilaterally, regionally, multilaterally, there's really only so much you can do by mobilizing more resources in the field. I would argue strongly that you really have to look at all three pieces.

Clearly, 83% of our exports go to the United States, and our trade, frankly, with other parts of the world has not grown for some time now. It's actually fallen considerably with Japan, so arguing for more investment in trade development officers, let's say, on the ground with Japan without cracking the nut of market access with the Japanese is probably not going to be a very efficient use of resources.

It is the same thing with Europe and the same thing with many other markets. I would like to put at least as much weight on the export and investment readiness piece and the market access piece as I would on the number of trade commissioners in the field.

Hon. Navdeep Bains: In your understanding, how do our international trade resources and consular services and trade missions compare with those of other countries? Do you believe in the current strategy that's being deployed?

You talked about Japan. It's still a very important trading partner in terms of absolute dollars, and we've had a very strong relationship there. Russia is an emerging market with a strong GDP forecast at 6.5% for the upcoming calendar year. In your opinion, do we have sufficient resources in those markets to promote trade, or do you think we should cut back?

● (1130)

Mr. Glen Hodgson: Given how poorly our trade investment has performed for a number of years now, I think it would be folly to cut back the resources. Clearly, more is required in the right places based upon strategic analysis, which means, frankly, more in the United States and more in other markets where you see high potential.

Hon. Navdeep Bains: You talk about emerging markets. You speak at length about China, and I know we've seen that with the government over the past year, for instance, there have been issues in terms of the relationship. Now the Minister of Trade has gone there and the Minister of Finance has gone there. But you talk about how those visits are, at one level, important, but there has to be something more comprehensive. You allude to that as well. Can you talk about that? What more can be done? Because simply sending a minister once a year is not going to cut it. We acknowledge that, and there's common understanding. So what more can be done?

What more can the government do to really take our relationship with China, which is one of the most important emerging markets, forward? How can we further strengthen that? And that comprehensive strategy you're suggesting, can you elaborate a bit on that?

Mr. Glen Hodgson: I think the most important first step, as we articulated in our report, is to recognize that emerging markets really deserve a much higher priority within our foreign policy. I'm referring to China, and I put India and Brazil there as well, the major economies in the emerging world. We haven't completely ignored them, but they haven't been receiving the same weight over time that we think they deserve going forward.

Secondly, I think our future in engaging China, India, and Brazil is going to be investment-led. So rather than working on trade promotion and focusing on shipping finished goods from Canada to those countries, I think we have to look at the much deeper integration, which takes you to things like consideration of bilateral arrangements, looking at things that are called FIPAs, foreign investment protection agreements, for example, looking at all the tools we have both multilaterally and bilaterally to engage more deeply.

Unfortunately, there's no easy fix. You have to roll up your sleeves and really go sector by sector and identify where the opportunities are.

But, frankly, I also think there's a change in mindset required within Canada. Part of the reason why we put so much weight on the concept of a single market is because we have quietly protected much of our economy from international competition and therefore they don't have the same imperative, the same urgent need to go out and actively invest in India and China as companies in other countries do, and the protection is very subtle.

We have to really change our mindset to where it's not about mercantilist thinking where we protect ourselves at home and think we have a right to go out and trade with everybody in the world. Part of this is opening our own market up to more competition to ensure—

Hon. Navdeep Bains: That is taking place with the provinces of British Columbia and Alberta, and I believe now they're also incorporating another province, I believe Saskatchewan, and they're trying to get an additional territory in as well, so that is starting to take place.

What leadership can we show at the federal level with the provinces? How do you see that relationship being structured? Obviously that's their jurisdiction, but what kind of leadership can we show and where can we help facilitate that process?

Mr. Glen Hodgson: You're absolutely right. We believe very strongly that what's called the TILMA, the trade, investment, and labour mobility agreement between B.C. and Alberta, is effectively a turning point in attitudes in this country. There's very important leadership being shown by two provinces.

Frankly, it's extraordinary to think that two provinces in Canada had to sign a free trade agreement to reduce barriers between the two of them. But it's done, it's going into force. You're absolutely right that other provinces are now quite interested in figuring out the benefits from aligning themselves.

But what can we do federally? I think we go right back to the agreement on internal trade, which was struck in 1994. One of our studies called *Death by a Thousand Paper Cuts* sets out all the barriers and points to the small areas of progress we made under the AIT. But we have to go back and re-energize that as a real centrepiece and set much higher targets and have a much more ambitious negotiating strategy on the federal end to try to liberate, effectively, markets across the country.

The Chair: Thank you, Mr. Bains.

We'll go now to the Bloc Québécois, Monsieur Cardin, seven minutes.

[*Translation*]

Mr. Serge Cardin (Sherbrooke, BQ): Thank you, Mr. Chair.

Good morning, gentlemen. I'm pleased to meet you. I've often heard about the Conference Board, especially when I was dealing with oil. Let's say I haven't always been a believer, but I'm going to show some gratitude for the work you've done in Volume I. I admit I haven't read Volume II yet.

You mainly talk about natural resources. We had been promised a kind of summary in French. I read it in English, but I required help on certain aspects.

The international trade policy that Canada should adopt obviously concerns a number of virtually incalculable factors. Like some of my colleagues opposite, you advocate complete or nearly complete liberalization of markets, by eliminating supply management in Quebec, among other things, because you assume that certain protectionist measures here undermine the productivity of our manufacturers and so on.

So the four factors you mentioned earlier, productivity, a single Canadian market, trade policies versus investment and the aging population, are obviously based on productivity. We know this is an obligation, because we have to respond to quite fierce competition around the world in order to generate wealth.

I only want to make a brief digression and talk about the philosophy of progression, market development and economic growth versus demographic growth. I don't know what excuse is used to explain one or the other — demographic or economic growth. It's said that we lack people; we must make them, we must invent them. Is that in order to increase productivity or consumption? There will be limits at some point. There is China, whose population is 1.4 billion inhabitants, and there are other, small countries. So there's no comparison on consumption.

Today we're still aiming to increase wealth by increasing consumption, until we hit the wall. Technically, a number of countries have hit a wall, including Canada. It's said that the 1980s were harmful for productivity. Instead of replacing 100 employees with a modern robotic machine, we should have given one to each employee. Productivity might have increased as a result.

What actual recommendations are you making to the Canadian government? What path will it take so that Canada really becomes a competitor with time? If we die before we become productive, we won't be any further ahead. What do you recommend in the short term?

● (1135)

Mr. Gilles Rhéaume: You started by talking about demographic growth. We're not proposing that we increase the birth rate in order to meet our challenges. Instead we propose that we focus on the aging population. People will lose their pensions. We have to find ways to encourage them to stay in the labour market, on a part-time or other basis, in order to help. That's one of our proposals.

The other proposal concerns immigration policy. We have to be able to integrate immigrants into our markets more readily. That's another strategy we can adopt.

Mr. Serge Cardin: You mentioned immigration. While you're not advocating increasing the birth rate in Canada or Quebec, you're nevertheless indirectly advocating increasing the birth rate in foreign countries, so that we can have immigrants.

Mr. Gilles Rhéaume: In fact, a potentially very large number of foreign workers have skills and are looking for prospects. Where are they going to wind up? We could attract them here, rather than let them go elsewhere. An immigration policy might encourage them to come to Canada. Perhaps we could integrate them into the labour market and offer them wages comparable to what's offered elsewhere in the world. I think that's an important part of the strategy.

There's also the entire issue of training. Let's take adult training, for example. Canadian employers spend roughly $850 a year per employee on training. In the United States, it's more than $1,000. In Europe, it's approximately $1,200 a year. We spend very little on training. When we think of establishing a labour market strategy, we have to consider training.

Another group of potential workers, which Glen didn't mention but that we mention in our human resources program, are Aboriginal people. They form a young and growing population. However, they haven't achieved sufficient educational levels to enter the labour market. We have major challenges regarding education. The federal government has a role to play in this regard, particularly in relation to youths on reserves. We have an opportunity to integrate them into the labour market when we need human resources. So this is another factor that must be considered in the context of this thinking exercise.

Lastly, we talk about investment in order to access foreign markets. Another aspect of foreign investment is being able to access this professional competency outside the country.

● (1140)

Mr. Serge Cardin: I read somewhere that, for every dollar invested outside Canada, we can expect an impact of two dollars in Canada and Quebec.

Can you explain that to me?

Mr. Gilles Rhéaume: In fact, in the past, we put the accent on trade. We said that we needed exports. These days, there's a very close connection between investment and trade. We've often observed that investment in a country results in increased trade.

I think that Glen could explain that to you better.

Mr. Glen Hodgson: I could probably explain it to you better in English.

[*English*]

The concept—and this is really based on analysis done at the OECD, a multilateral organization—is that when you invest you're pulling along other services and you're deepening your business penetration with other countries, so there's a multiplier effect created by investment. It's not merely a matter of exporting jobs, although that does happen, but it's a matter of building that part of production into your total business model and making a particular business or a particular sector more competitive. So the analysis the OECD has done, which has been replicated at Export Development Canada, where I was prior to joining the Conference Board, shows that for a dollar invested in an industrial country, in a mature country, you probably get a multiplier of about 60¢, 0.6. So there's a small net effect through creating more trade by deeper engagement. But when you invest the same dollar in an emerging market you get a much more positive multiplier.

We actually cite the EDC analysis that says two dollars of future trade for every dollar invested. But in fact the poorer the country, where the country is less developed, where it has a less sophisticated economic system, financial system, where markets are not as well developed, you get a much higher multiplier. For a very low-income country you might get a multiplier of six times. So one dollar invested may create as much as six dollars of future trade, two-way trade, between the two countries. So that's a huge knock-on effect.

That's part of the reason why I personally have been on a bandwagon on this for five or six years in my research. We have to focus a lot more energy, not just on attracting investment to Canada, but on actually facilitating investment outward by our companies because there is this significant multiplier effect. That's particularly true at a time when we no longer have labour surpluses, when we now have labour shortages. One way to actually generate wealth in Canada is to encourage our business community to use investment as a way to deepen their penetration of other markets, to make themselves more efficient, to reach other consumers, to make sales from foreign affiliates.

But, really, *c'est le degré d'engagement d'intégration*.

[*Translation*]

Mr. Serge Cardin: When we talk about penetrating foreign markets, if we don't stimulate consumption, we don't create a direct link with businesses here. In that case, the only person who'll make $2 or $6 is the entrepreneur doing business outside Canada, not the exporting country or the country seeking to attract investment.

[*English*]

Mr. Glen Hodgson: No, but it's often the case that if a Canadian firm that is trying to compete globally does not make that investment, they may not be protecting any jobs at home. They may be out of business. Because this is not a closed system. They're competing head-on every day with firms from around the world that are doing exactly the same thing. And part of the reason you get the multiplier effect is that by becoming more efficient and taking advantage of that integrative trade model, they can probably maintain certain kinds of jobs at home, and in fact even improve the quality.

What we're seeing is that if you take apart global distribution, the kinds of jobs we want to capture in Canada are jobs that are high value, research and development, conceptualization of product, the marketing, the financial services. And frankly, I think this train has already left the station. The United States has lost 20% of its manufacturing employment in the last ten years. Almost all of it has gone to Asia, to China, to Vietnam, some to India. Yet American unemployment has actually gone down over that period.

There is a fundamental issue on the nature of employment and how we're sharing the gains from globalization. That's a very important issue, and that's something we'll have to think hard about in our social policy design. But it's not as if you can stand against the tide of globalization. Because if you resist, you may simply be gone. It may be not a matter of protecting a certain number of jobs within Canada. Those jobs may simply be gone because the firm will close. It will be gone, and you'll lose 100% of the jobs, rather than trying to find a way to improve the quality of the two-thirds of employment that you can maintain in Canada. Then with the multiplier effect, deeper engagement of trade, we do see it as a net positive.

Obviously this is a grand concept. This is not hard reality for a firm in a particular town. That can be very tough. You're absolutely right to have concerns about the consumption effect and the employment effect for a particular employer in a particular jurisdiction.

● (1145)

The Chair: Merci, Monsieur Cardin.

Mr. Menzies, from the government side now, parliamentary secretary to the Minister of International Trade.

Mr. Ted Menzies (Macleod, CPC): Thank you, Mr. Chair.

Thank you to both of you gentlemen. This is exactly what this committee is looking for, is this type of input. We've been trying to analyze what should be a go-forward position for Canada, a successful go-forward position. I think everyone in this room knows full well that we're an exporting nation, and if we don't take advantage of what God has given us, then we deserve to fail. So it's this encouragement that these papers of yours are bringing to us, and I hope we can.... I have to admit, I haven't read it all myself. It's a long read. I need a long airplane ride to be able to read all of this.

There are some highlights in it that I would like to.... Rather than your listening to me talk, I would rather have you explain this integrative trade strategy that you spoke about when we met last fall. You said that countries specialize in what they produce best through firms shifting elements of production globally, resulting in greater overall wealth. I would like you to elaborate on that. You talk about not only “outward foreign direct investment”, but “inward forward direction”, and how that can advantage Canada. Can you elaborate on that for us please?

Mr. Glen Hodgson: I invented the phrasing “integrative trade” because I was trying to find a simple brand that people could get their heads around and really understand. That reflects what's happened with liberalization of trade all the way back to the end of the Second World War. There has been steady, step-by-step progress. The tariff barriers have come down. That's allowed businesses to reposition parts of their production around the world because they don't face the same added costs of manufacturing something in one country and then shipping it to another. And that's being driven by foreign investment. This is a phenomenon you see in Canada, and you can actually trace it. For example, in looking at the foreign share of our exports—it's a hard concept—I'll flip it around: the Canadian content of our exports has actually fallen very progressively year after year, until recently, for a long period of time. I think in 1990 the Canadian content of our exports in aggregate was about 70% or 71%. Now it's about 65%.

Think about the auto industry. The auto industry is probably the most striking example, because it is arguably one of the most, if not the most, globally integrated industries in the world. In Canada, we make machine tools, which are then shipped to the United States to make parts, which are then shipped back to Canada to make bigger parts, which are then shipped back to the United States. Pieces of a car can cross the border apparently as many as seven times before the end product is made.

Of course, we're making more than our fair share of end products in Canada. We have a clear advantage in final fabrication in Canada. We're a net exporter of automobiles by about 1.6 million a year. So that's a clear example of where the auto companies fit within an integrated North America.

We've had the Auto Pact since 1965. We chose quite deliberately, as a trade policy way back then, to try to integrate ourselves into the North American economy. And they use that repositioning of pieces of their whole production chain within North America to create their greatest possible advantage. That's the most striking example of the integrated trade concept.

Of course, you have to invest on both sides of the line to do that. You may draw parts in from other countries. You might make seat cushions or pieces of glass in Brazil or in Poland and fit it into your supply chain. That is the new trade paradigm.

When I went to grad school—I did my undergrad at the University of Manitoba many years ago—we were taught about trade in end goods. One country was making cotton and one country was making shoes and you traded them. You traded based on comparative advantage, which was relative efficiencies. Modern trade is all about trade in inputs. Something like 40% of all global trade now is traded within companies, intra-firm trade, and that's because companies all around the world are looking to gain their competitive advantage by putting pieces of their supply chain wherever it makes the most sense.

Our thinking, as a country that has resources, but what we really have is brain power, is that we want to position ourselves at the end of the supply chain where we can make the most money by using our brain power. So the way forward is we think about a trade policy. It's wonderful to export coal and unfinished logs, but it's far better to export brain power and to invest in brain power. And that's why so much of our report goes back to human capital, investing more in our education system.

As you think about trade investment policy, you really have to take all the pieces on board and think about how to make the national economy as competitive as possible and where to make the right kinds of investments going forward.

One of the things I liked in Advantage Canada, but I also liked in the Liberal statement a year earlier—that's because the Conference Board doesn't do politics, we try to do policy—was the emphasis on post-secondary education. I think the federal government has a really significant role to play going forward and investing far more in post-secondary education, because human capital is ultimately very portable.

So as you think about trade policy you really do have to think about all the pieces and where you want to fit within those supply chains.

● (1150)

Mr. Ted Menzies: I might remind you that in our 2006 budget we did put a lot of effort and finances toward education, not just in the standard university education, but also in training tradespeople. We see that as a win too. That's a shortfall that we've recognized.

Another statement you have made is that the federal government should take a strong stand in favour of further trade liberalization in the food industry. I go back to some of your comments about us taking advantage of what we have and using that as a primary production and being able to add value to what we export a tremendous amount of from this country, that being food, whether it's beef or wheat or whatever it may be. For us, going back to your comments about the WTO, we have so much to gain, but we have a real concern about how much we have to lose if we don't get an agreement.

We have this issue—and there's no use being shy about it—of tariffs in Canada. How do we deal with that? All parties have said that we want to defend all of our industries. We want to provide the best opportunities for all of our industries. How do we, as a country, as a government, deal with those issues, to go forward, to provide the best benefit for all Canadians?

Mr. Gilles Rhéaume: If you go back to the agri-food sector, 80% of our farm income is dependent on exports. It doesn't mean that all sectors, all the farms and food producers, are export-oriented, but there's a large proportion that are.

If you're looking at it in terms of market access, the biggest challenges we're facing are more at the higher end, with the more processed types of foods, the higher-quality types of foods, where you have tariffs as high as 300%. Where you have practices that prevent selling these processed foods, they're willing to buy your raw commodities. We're missing out on opportunities for producing these higher-end products that generate more income and higher wages, etc.

This is why we believe that trade globalization is key in the agri-food sector. It doesn't mean that everyone is going to win. Not all farmers are going to win with that strategy; there will be some losers, definitely. But on average you're going to have a lot more winners than losers, and it's going to be a net gain for Canada. That's why we believe in that strategy.

If you're looking at when Doha stalled—and we can talk about our supply-managed farm sectors, such as eggs, poultry, and dairy—there was an element that there could be some protection for sensitive sectors. That means for supply-managed sectors they would have had less protection than they currently have, but at least they would still have had some degree of protection.

It's through these negotiations that you can achieve the best deal, but with something in mind: that the greater trade liberalization we can have for that sector, the better off Canada will be.

● (1155)

Mr. Glen Hodgson: I have a thought on that.

I want to go right to supply management, because you want straight talk from us today. If we believe there are particular sectors of the agricultural economy that need income support, then find a smart way to get them income support. Economists are always worried when we're using the price mechanism as a vehicle to provide income support. I mean, supply management locks prices in well above the world price for particular goods, presumably because we want to provide income support to particular classes of farms and farm products. But there has to be a smarter way to do that. Frankly, writing a cheque—direct income support—would be far more efficient, and it might be a more effective delivery. And it would actually strengthen our ability to go to the WTO, become a leader again, and be in favour of freer trade on many fronts.

We've been effectively pushed aside by Australia, within the inner circle of the WTO where there used to be something called “the Quad”. We've been pushed out the back door because we weren't ready to actually articulate a true free trade plan—a true engagement by the federal government, by Canada, in favour of greater free trade internationally. To get back inside we're going to have to be prepared to make some sacrifices, but they don't have to be absolute sacrifices. Gilles is absolutely right. Whenever you change rules, there are winners and losers. You can design public policies that allow the losers to be compensated. Arguably that's the great challenge of globalization going forward: how we find ways to ensure we can look after the losers, to either mitigate or even offset the loss, while the rest of us capture the benefits of greater globalization and liberalization.

The Chair: Mr. Rhéaume, you have something to add.

Mr. Gilles Rhéaume: I want to add one point to what you mentioned with respect to other mechanisms to compensate those who would lose out on further trade liberalization. With further trade globalization, you would be generating higher incomes in general in Canada, and so higher tax revenues, etc. You would have more of an opportunity to actually do that than would otherwise be the case. I would say that one has to have an aggressive strategy towards it, which we haven't seen in the past.

The Chair: Thank you very much, Mr. Menzies.

Now to the New Democratic member of our committee, Mr. Julian.

Mr. Peter Julian (Burnaby—New Westminster, NDP): Thank you very much, Mr. Chair.

Before I get to my question, I'd just like to follow up on your comments about supply management and supporting family farms.

I think it's fair to say Canadians haven't seen much support from their federal government, under the previous Liberal government or under the Conservative government. That is indeed the problem we saw with the softwood sellout, that a government was not willing to stand up for Canadian rights.

So the difference between the theory you're putting forward and the practice shows the gulf, I think, between the considerations here in Ottawa and what is actually happening on Main Street. There were thousands of jobs lost because the government wasn't standing up for us on softwood lumber, and potentially, farming communities across the country will be devastated if our government does not stand up for Canadians on the Canadian Wheat Board and supply management.

There will always be pressure on us to be like the Americans, but the point is Canada has to chart its own course. Most Canadians believe profoundly that our institutions need to be supported and that Canadians have the right to chart our own course. That is where I would disagree with some of the comments you've made so far.

I wanted to come back to my question. It's around the sustainability section. There is certainly one element within the report that the NDP has for some time been calling for, and that is significant new investment in education and training. We applaud that you have dealt with that in part in your report.

I went to your sustainability section first, of course, because the environment is, certainly in the public's mind, a major preoccupation, and it's something that is public policy. As people involved in public policy, we have to take consideration of it.

Now, you basically cite the arguments around the environment and sustainability, but there is one interesting comment. You say that Canada needs a well-functioning regulatory system to protect the public interest and the environment and ensure the public safety. I could not agree more. That is a very cogent statement.

However, previously you mentioned the SPP, the security and prosperity partnership, otherwise known as deep integration, where Canada would be essentially giving up our regulatory power to the lower American standards in about 300 different areas. You also mentioned TILMA, which, similar to chapter 11 in NAFTA, provides investor rights that override the public interest when it comes to the environment and public safety and a whole host of other areas.

So I'm wondering how you square what you've recognized—that we need to protect the public interest, we need to protect the environment, we need to ensure public safety—with investment agreements that give rights to investors that override public safety, override the public interest, and override the environment. The TILMA is very controversial in my province, British Columbia, because people are becoming increasingly aware of the details. Essentially, it provides a kind of protection to investors that allows them to override the public interest, as we've seen with chapter 11.

How do you square that contradiction? You've recognized the public interest in the environment, but you've also endorsed investment agreements that override that.

● (1200)

Mr. Glen Hodgson: Fundamentally, I'm not sure that our analysis takes us to the same conclusion that you've reached. I see the net benefits from freer trade, both horizontally across the country and vertically. We understand the trade-offs that are made, but I don't see the public interest being offended or abused by virtue of greater certainty on investment.

Mr. Gilles Rhéaume: I think the greatest contentious issue in terms of that is to use regulatory measures as a way of protecting an industry. You can use environmental standards, for example, that are different from, let's say, the Americans', which would prevent the American companies from investing unless they adopt the same standards, and they're saying that's not fair, in terms of that.

When you say protecting the public and the environment is paramount, having a very effective and efficient system to do that, a regulatory system, what we're seeing now is not a very efficient system. There are some doubts about whether it's actually effective, as well.

There's a lot of duplication and overlap that exists between the provinces, between the provinces and the feds, between various federal departments, between various provincial ministries. There's a lot of red tape. Basically, that is creating a problem with respect to our competitiveness and it is not necessarily benefiting the Canadian public or the environment. So there's a lot of improvement we can do with our regulatory system, to start.

Basically, the message is that we shouldn't say we're going to streamline the regulations at the expense of public safety and environmental protection, but there's certainly a way of doing it in a much better way than we're currently seeing. And that's basically the issue.

Mr. Peter Julian: But you understand the public concern around chapter 11 provisions, the TILMA provisions, and the basic giving away of sovereignty around the SPP. There's not a single area where the Americans are willing to accept higher Canadians standards. It's simply concession after concession at the bargaining table, which is frustrating Canadians. We saw that with the softwood lumber sellout as well, so you can understand why Canadians are worried about these.

Mr. Gilles Rhéaume: Yes, I can understand that for sure.

Mr. Peter Julian: I'd like to come to another issue. On Monday we had the ambassador from Chile testify before us, and he talked about the importance of not treating trade in isolation, that in fact what's happened under a much more progressive government in Chile now is that they are taking trade and the economy on a parallel track and engaging in a very targeted social policy initiative to try to reduce income inequality. In Canada, of course, we're seeing rising income inequality. We're now at the same stage we were in the 1920s. In fact, for most Canadian families their income has actually fallen since 1989, since the first Canada-U.S. Free Trade Agreement was signed.

Are there components within your report, either current or coming, that deal with that issue of ensuring that social policy addresses income inequality, so that we actually have prosperous communities?

And secondly, when we look at the human development index, which includes the standard of living and the overall quality of life, most of the countries that score at the very top are social democratic countries—in other words, countries that have not simply abandoned everything to the market but have integrated their social policies, including investment in education, as you've mentioned, and health care, which is a major source of competitive advantage for Canadian companies because we subsidize health care with our public system. Are there parts of your report that deal with those issues—social policy and income inequality—and with having an overall comprehensive policy, so we don't continue going down the same trail we've gone the last 15 years, which is more inequality, more poverty, more homelessness, and fewer social programs?

● (1205)

Mr. Glen Hodgson: On a general or aggregate level, you're absolutely right that some of the countries that are performing best in the world right now are ones that have high levels of taxation, high levels of social investment, high environmental standards, a country like Sweden, for example. It's very interesting that since Sweden entered the EU it has performed very well—they've met their Kyoto targets, and they've done marvellous things restructuring their economy inside. And I think part of the reason their productivity has taken off is because of more competition. They still pay high taxes and have far stronger productivity growth and therefore much more rapidly rising incomes than we do in Canada.

On the specifics, we have a couple of very specific ideas. For example, we were part of the support for the MISWAA task force in Toronto, looking at the working poor and the punitively high marginal tax rates that low-income Canadians pay in many provinces. We focused on that as one of three areas where we're advising tax reform for productivity; there is a need to address head-on the high marginal tax rates of low-income Canadians to have a much smarter and smoother transition from social support to paid employment. A very concrete way of addressing that would be through things like working income tax credits or tax benefits.

So we point to very specific things to try to address the social impact of liberalization and the opening up of markets in Canada.

The Chair: Thank you very much, Mr. Julian.

We will now go to the second round.

Five minutes, Mr. Temelkovski.

Mr. Lui Temelkovski (Oak Ridges—Markham, Lib.): Thank you very much, Mr. Chair, and thank you to the presenters.

Mr. Menzies mentioned earlier that Canada is an exporting nation. If we take that a little deeper and look at the labour shortages you mentioned earlier.... You also commented about improving some of the labour shortages. Most western countries are really looking at it through immigration. If all of these western countries and emerging markets are also looking at the same issue, I believe we're in the same situation: all of us share labour shortages. I was recently in Switzerland, where it's the same thing. I was in Colombia—a similar situation—and so on and so forth.

You mentioned smarter immigration. Maybe you can tell us a little bit more about smarter immigration.

Mr. Glen Hodgson: We have a huge advantage over many other industrial countries in that we've had an active set of values and a set of policies towards immigration for a long time. A country like Japan, which has reached and passed zero population growth, doesn't believe in immigration. It gives people one-year work permits and then tries to get them to go home, because they have a particular social view.

For us, smarter immigration policy would consist of things like offshore recognition of credentials. We pushed for that years ago—three or five years ago—and we were very pleased to see recent announcements that the government is going to establish a greater capacity for offshore credential recognition. That's a key piece. We think that the balance between economic and other classes of immigrants has to be rethought. We need to put more weight on people coming here who are going to be direct contributors to our workforce.

We clearly need to invest more in things like more rapid integration of immigrants into society. Recognizing credentials earlier so people don't have to come and requalify would be an important piece of that. I think there's a particular crying need, a short-term need right now, given the acute gaps that exist in Alberta—and I hear about it in Manitoba, as well—to be a lot more creative about short-term work permits and almost guest-worker programs, but in a very positive way, and to actually find ways to build that into our economic strategy.

It's interesting that we hear about the provinces taking a lot of the lead in that right now. They are actually doing programs, trying to match the needs of employers with the available workforce and looking outside the country. There is a lot of ground to be made up at many different levels.

● (1210)

Mr. Lui Temelkovski: How much of a labour force shortage will we be faced with in the next ten years, and will we be able to maintain our exporting nation designation, if I may say that? Or should we really look at the other side, which is that we're not very good at importing?

Mr. Gilles Rhéaume: If you look at the growth, in terms of our population and the age of the labour force, it's rapidly declining. Glen said that by around 2012, if you are looking at growth, the growth will be occurring from immigration, not from our natural population. That is the net growth in terms of labour force.

There is an issue you mentioned. You associated labour shortages with the aspect of being an export nation. There are other things that need to happen, as well, so that we continue to prosper as an export nation.

We refer to three components. We've already mentioned investing in terms of our human capital—training programs, and so on. The second has to do with investment in new technologies. We do poorly compared to other countries in terms of that. We don't invest as much. That's what we call, in economics, capital intensity. We're much lower than what we are seeing in other countries, which is affecting our productivity.

The third critical element is the degree of innovation and commercialization that we have in this country, which helps us become more efficient but also helps us figure out ways of producing higher-value types of products with the resources we have—our human resources and our machinery and equipment.

There are a lot of other things that we can do to make sure that we continue to prosper.

Mr. Lui Temelkovski: I sat on the immigration committee for two years, and we looked at some of those issues. One of the terms that came up was the brain drain from other countries and a brain waste in Canada. Are you somewhat concerned about the brain drain from other smaller countries than Canada, and their not being able to function themselves, and creating ghettos around the world?

Mr. Glen Hodgson: Ultimately, people vote with their feet, and if they don't feel valued within the society where they live, intelligent people will find a way to use whatever skills they have. I'm probably less concerned, frankly, about a brain drain from places like India and China, which are the two dominant sources of immigrants now, because they are making massive investments in education in growing engineers and skilled people in numbers that far exceed what we could ever use in Canada.

Your fundamental point is absolutely right. You have to worry, as a matter of fundamental social policy, about stripping the best and brightest out of other countries. But often they have a willingness simply because they cannot find a way to use their talent at home.

Mr. Lui Temelkovski: If I could, I'll change to the environmental sector. You mentioned that it is an upcoming and emerging sector in Canada, and it is very important for our future. You mentioned also that for us to be able to take advantage of global markets, we would need to seriously look at developing it for the future. Would you say that research and development is necessary in this area? What are some of the elements that would be necessary to kick-start this?

Mr. Gilles Rhéaume: Research and development would be a key element in terms of that.

When we looked at the aspect of making Canada a clean-energy superpower, on the clean side there were a number of environmental technologies that need to be developed, and that comes from investing in research and development but also helping and making sure that we can commercialize these new technologies in Canada so that we can build an industry that can then export and not only sell in this country.

Basically, in the past we've missed the shot on a couple of occasions. If you look at the forest products sector, for example, we used to have a lot of R and D. We used to have a manufacturing sector that was selling technologies to the forest products manufacturers. Now we're importing it from the Scandinavian countries, and a lot of that technology we did in terms of research has been licensed to the Scandinavian countries. We're missing out on a big opportunity of developing an industry in Canada that could have exported to these other countries.

On the energy side, we have an opportunity, given our vast energy resources, to develop also an industry that develops those types of technologies so that we can export it worldwide, because other countries will be facing the same environmental challenges as we are, as they will want to produce and consume that energy.

● (1215)

Mr. Lui Temelkovski: So it's not too late.

Mr. Gilles Rhéaume: No.

The Chair: Mr. Temelkovski, your time is more than up.

We will now go to Monsieur André, for five minutes.

[*Translation*]

Mr. Guy André (Berthier—Maskinongé, BQ): Good morning, Mr. Hodgson and Mr. Rhéaume.

First, I wonder whether you're really talking about an integrating type of trade, Mr. Hodgson. I wonder whether it's not a type of trade that excludes certain classes of individuals, whom you've enumerated. It's said that globalization and international trade are helping us withdraw from certain sectors, such as the manufacturing sector, which often enables less educated people to hold jobs.

You also mentioned agriculture and supply management. I have a lot of questions on that subject. I recently attended a seminar by the Union des producteurs agricoles, where I met farmers. You're not unaware that they're going through major difficulties. Agriculture is very much threatened, both in the hog industry — you no doubt heard that on the news recently — and wheat and exports, with regard to U.S. subsidies. People are experiencing major difficulties. I'd also say, with regard to the supply management system, that producers aren't making fortunes either.

At the same time, I was in the United States not long ago and I met with farmers there. They're renegotiating their Farm Bill, the U. S. agricultural legislation. To my great surprise, they told me they were also experiencing financial difficulties, despite the fact that the industry is highly subsidized.

So I believe that agriculture shouldn't be subject to bargaining as is the case in the manufacturing sector, the steel sector and other industrial sectors. I believe that agriculture should be a sovereign field. We should move more toward food sovereignty because food, as you know, is what enables us to live. So I think that detaching ourselves from our agricultural sector represents a major danger.

Coming back to globalization, trade and rural land use, I come from a rural area. What supports our area is agriculture, the manufacturing sector; these are soft sectors. We're thinking about the areas located in the Lower St. Lawrence, the Gaspé and not even that far. I'm from an area located between Trois-Rivières and Montreal. All businesses not established in large cities seem to be having enormous difficulties because the knowledge industry is developing in the large cities. So I'd like to hear what you have to say on that subject.

You also mentioned that there were winners and losers in globalization. We should be able to help the losers, but I believe the current trend is to abandon them. I note, for example, the cuts made to employment insurance, a health system increasingly oriented toward the private sector, the fact that education is leaning toward the private sector as well. So this is a form of exclusion. That's the current trend. We're even withdrawing from our students. There have been cuts to student programs and so on.

I'd like to have your opinion on that subject.

[*English*]

Mr. Glen Hodgson: Perhaps I'll start, and Gilles can talk in particular about agriculture, because I know you want to.

I think you just touched upon the single hardest question in discussions on globalization, which is how to share the benefits, how to share the proceeds, and how to deal with people who are left behind. It is very interesting.

The Economist magazine, in the most recent edition, has a whole section dealing with winners and losers in globalization, and the challenge of finding public policies that help people get lifted back up, retrained, and supported as they adjust. There is also the fact that in every country touched by globalization—there are only two or three that aren't, and we wouldn't want to live in any of those two or three, like Burma or North Korea—a share of the population is always left behind, and there is the question of coming up with fair and socially just programs to carry those people along, knowing that someone who does not have the basic literacy skills to function in a modern industrial economy probably can't be retrained at 55 to go back to work. As well, there is the fact, the reality, that people who lose well-paying jobs in manufacturing often end up in services, and the real wage goes way down. They're frankly not taking home as much. They're losers. That is the single hardest question.

I think we know as economists that on a net basis, *grosso modo*, globalization is creating wealth for the world economy and there are more people with higher incomes than there were 25 years ago. That's very clear, but it's equally clear that it's not a perfect equation by any means, and the design of social programs really does matter. Can we re-educate young people so they can develop skills and advance themselves? At what point do you simply put someone on social assistance because they're not capable of adapting to fit the modern economy?

But if I have to choose between greater market openness and greater protection, I know which way I'm going: it's towards greater market openness, because I can see the net gain for the collective, for society.

Do you want to talk particularly about agriculture?

● (1220)

[*Translation*]

Mr. Guy André: Let's quickly discuss the food sovereignty question, an increasingly popular concept.

Mr. Gilles Rhéaume: Food sovereignty is not a problem in Canada. Canada is a major net agricultural exporter. We have a lot more agricultural land than our population needs. So food sovereignty isn't a concern for us. It shouldn't concern us in Canada.

It's more important to ensure that Canadian farmers receive adequate incomes. There is a deficiency in that area because of the protection provided to farmers in other countries, subsidies granted not only by the Americans, but also by the Europeans, and that causes serious problems for us. That's why we're talking about a global trade liberalization strategy that would be essential to the prosperity of Canada's agricultural sector.

[*English*]

The Chair: Thank you very much, Mr. Rhéaume.

We'll now go to the government side for five minutes. Go ahead, Mr. Cannan.

Mr. Ron Cannan (Kelowna—Lake Country, CPC): Thank you, Mr. Chair.

Thank you, gentlemen, for your presentation. I appreciate your taking the time from our October meeting and sharing this information. I look forward to the report on the cities as well. The sustainable, prosperous city is important for all Canadians.

Looking at specifics, I think some of the comments raised about income support and the human development index are important. My understanding is that people in the top 20 countries in that index all have similar life expectancies, to within maybe a few weeks, so there's not really not much discrepancy. Canada, the U.S., and Australia are included in that top 20.

We are facing other initiatives and challenges, as we discussed before the meeting. You just flew over B.C. and saw the devastation caused by the pine beetle, and you mentioned in your preamble that the forest sector is vital for British Columbia. Fortunately, in this committee we were able to come up with a softwood lumber agreement to provide the certainty and stability for the industry to deal with that devastation and to provide employment. Otherwise, we would have been in an even worse situation. We provided over $1.5 billion for agriculture. There's more to come, and we'll be dealing with the CAIS program, so we have challenges. We continue to move forward in working with industry and we appreciate your report.

Specifically on the U.S.-Canada situation, you mention that Canada will continue to be our main trading partner. In your preamble you talked a bit about some of the trade barriers. Did you have any particular trade barriers in mind that you see as unnecessary? Could you recommend anything to our committee to help foster a more competitive expansion of our trade?

Mr. Glen Hodgson: Well, it's interesting. I know that our colleagues at the Canadian Council of Chief Executives are acting as the sort of secretariat within the North American Competitiveness Council that's been created. Having talked with them, they put on the table two issues on the Canadian side, which they reached independently from us, but I think they're right. They pointed to two things on which we have to make progress. One is on non-tariff barriers, which I find insidious. It's quite remarkable how subtle a barrier can be in the design of a regulation or a regulatory process that can keep Canadian businesses out of the United States and vice versa. With non-tariff barriers, it's a swamp, though, I'll tell you, when you get in there, trying to identify what particular things you can touch to make change, and it becomes extremely difficult.

The beauty of the world where protection was provided by tariffs is that it was transparent. You could see the price. You could see you were paying 12% more or 300% more for a particular good, and that was the barrier. But now that we've more or less done away with the tariffs—and they still exist, but they're fairly low for the most part—we're starting to discover really how insidious non-tariff barriers are and how hard it's going to be to actually fix that. So that's the one thing.

The other is the border, and making the border work. We have not invested adequately in the infrastructure at the border, really defined the security systems, or made for easy passage of both goods and people to get across the border. We're doing a study right now with the Conference Board in a centre we've created on trade and international investment, trying to examine wait times at the border pre- and post-9/11, and how businesses had to adapt to that. We'll be publishing that probably sometime this spring. I don't know the results yet, because we're still in the midst of doing it, but my suspicion is that there are all sorts of subtle costs that have been passed back to business on both sides of the border that have really made the trading relationship much more difficult.

So our advice, and it's through our report, is that significantly more investment is required in hard infrastructure, in alignment of security systems, and raising the IQ of the border, making the border a whole lot smarter. Otherwise, we've put yet another barrier in the way to attracting investment to Canada to serve the North American market and making it that much harder for our businesses to compete within North America.

● (1225)

Mr. Ron Cannan: Well, thank you, and I appreciate that. I know Minister Day will be looking forward to that report, because he's been working very closely with the Americans in trying to streamline that border-crossing initiative for tourism and our trade on both sides of the border.

I agree with the importance of a smarter, efficient immigration system, but I also believe that we can't just immigrate our way out of the skills problem, the skills and labour shortage. We're working on investment in education, as reiterated, so that we have some initiatives with post-secondary and continue to move down that road. But on one of the elements, as Mr. Julian alluded to, we had the ambassador from Chile here on Tuesday at our committee and we talked about bilateral agreements. Canada hasn't had a bilateral agreement since 2001. Chile's had over 40. From your perspective, do you see any specific areas we can concentrate on—what we can do to get out of that logjam?

Mr. Glen Hodgson: We've been putting all of our eggs, basically, in the FTAA basket. We were hoping that a Free Trade Area of the Americas would be the next step forward and we would be able to build a regional trade agreement, and of course that collapsed for whatever reason two or three years ago.

Part of the reason we've put emerging markets so high up in the foreign policy agenda is because that's where global growth is happening. I mean, ultimately, trade has to follow where the growth is happening, where the consumers are. So I would look to countries like China and India, recognizing that it's going to be tough negotiating because they're very different cultures and economies at a very different stage of development.

I'll give you a counter-example. We've put a lot of energy into trying to deepen our trade relationship with Europe and with the EU, and it's given us almost nothing. Much as I like the sense that Premier Charest brought to trying to re-energize trade with Europe last week, my fear is that we are really small potatoes compared to a European economy of 450 million people. Their interest is of course in the United States. So one lens we'll have to look through is whether it's bilateral or really it's going to be increasingly region-to-region negotiations.

I would argue part of the reason we're pursuing Korea right now, for example, is because the Americans got there first. They're talking to the Koreans about free trade as well, and we have to decide whether we're going to be “me too”s, trying to always catch up with what the American are doing, or are we prepared to really take the bold step forward and say that we have to look at this as a North American regional engagement with Europe, with Asia.

The Chair: Thank you, Mr. Cannan. Your time is up.

We'll go now to Mr. Julian for five minutes.

Mr. Peter Julian: Thank you, Mr. Chair.

I appreciate the economic theory that you're providing today. Of course, Canadians can't eat a theory.

I want to come back to the issue of the quality of jobs. What Statistics Canada tells us is from 1989 to 2004, and those are the most recent figures available, for the lower 60%—in other words, the first, second, and third quintile...over 60% of working families have actually seen their incomes fall in real terms, and they are actually earning less money now than they were in 1989, before we started these free trade agreements and started to change, to restructure the Canadian economy. The upper middle class has held its own, just barely hanging on, and they basically have kept up with inflation. Then you've seen the wealthiest 20% of Canadians see their incomes absolutely skyrocket.

We're not talking about a theoretical situation where there have been some losers. Most Canadians are worse off than they were in 1989. They're working longer and longer hours. Overtime has gone up, as you know, by almost one-third. We're seeing that most of the jobs created in the economy today—Statistics Canada tells us—are part-time, temporary in nature, with no benefits and no pensions. We also see the quality of jobs being created in the current economic context as being jobs with a lot more precariousness and jobs that don't provide the sorts of family-sustaining incomes that we used to see in Canada.

My first question is around that issue of the quality of jobs. I'm looking through and trying to find a road map within your document that actually points to family-sustaining jobs. I don't see it yet. Perhaps I'm missing it, or perhaps it's in later studies. How do you deal with the fact that we have gone through these various trade agreements and most Canadians are worse off than when we began, even though there generally tends to be, from the corporate sector, a siren call to “let's just do more of the same” and somehow magically it will transform into real, equitable prosperity for all Canadians? I have doubts, because the reality is that on the bottom line, over the most recent figures that we have available since 1989, it hasn't worked. It's failed. That's my first question.

My second question is around foreign investment. We've seen 11,000 takeovers in that 15-year period. That's 11,000, and they were all rubber-stamped. Liberals have rubber-stamped them and Conservatives have rubber-stamped them. When is foreign investment not in Canadians' interests? Again, we're seeing a fall in real incomes for most Canadian families—11,000 takeovers without a single real review.

My third question is coming back to the agricultural sector, the family farms. Countries that have the highest quality-of-life index, the human development index, are countries that support the family farms. Here we have a real push by the Bush administration to destroy the Canadian Wheat Board, although farmers are pushing the government back on that, and to basically give up on supply management. Why should Canada give up on supply management and the Canadian Wheat Board when it serves our farmers very well and helps to support family farms and farming communities across the country?

Those are my three questions. Thank you.

● (1230)

Mr. Gilles Rhéaume: I would basically link what we're seeing in terms of incomes to education. Basically, if you're looking at that, 40% of our population of labour force age has low literacy skills. How can they compete in this new reality that we're facing? We have immigrants who do not have their credentials recognized and they are underemployed for the skills they have and therefore are earning lower incomes. There's a big link between the level of education and the levels of incomes being generated. That's one thing.

As well, if you're looking at it in terms of the trends that we're seeing, and Glen mentioned the rights of global supply chains, in Canada we still haven't found our place with respect to global supply chains and making sure we can prosper within that new economic reality. We talk, in our volume, about Canadians being complacent on a number of fronts. That complacency is affecting our productivity. If we could generate more productivity in Canada we would also have higher incomes. The productivity challenge is very much on some of those jobs that are lower paid as well.

There are a number of issues around that. One has to do with education, but it also has to do with finding our niche within these global supply chains, and looking at it in terms of making sure that we can generate the types of jobs we need.

Glen, would you like to add anything?

Mr. Glen Hodgson: I think Gilles picked up a lot of the points I was going to mention.

We clearly acknowledge right up front that we're sliding within the OECD, in aggregate, in income per capita. The link we draw is to productivity, but as Gilles just set out, we then analyze in much greater detail not the jobs per se, but the attributes of the populations behind.

So you look at, as you said, the 40% of our workforce that doesn't have the basic literacy skills to actually adapt. That's where we talk about lifelong learning and the need for skill development in colleges and universities and in the workplace. We actually call upon employers to invest a lot more money in retooling and educating their own workforce on an ongoing basis.

We point to the aboriginal population, and the numbers, frankly, are shocking. Aboriginal kids who get through high school live as well as we do. They have roughly the same life expectancies and their incomes are not different from ours. But if they don't get through that gate, that grade 12 gate, they have a drastically worse life expectancy in every respect.

So I don't think it's a matter of capturing it simply in terms of the employment numbers. I think you also need to drill more into the microfactors. But your data is spot-on, and that's exactly why we focused on sustainable prosperity, on productivity and competitiveness, as such a key driver.

● (1235)

The Chair: Thank you, Mr. Julian. Your time is up.

We now go to the official opposition Liberal Party, Mr. Maloney.

Mr. John Maloney (Welland, Lib.): Mr. Hodgson referenced non-tariff trade barriers as being insidious with the United States.

Our next bilateral agreement will probably be with Korea. We've had strong representations before this committee from both labour and the producers on their extreme concerns that if we enter into an agreement with Korea, it will be a one-way street in the auto sector because of the non-tariff trade barriers.

Given that the auto sector is such an important part of our economy, how do we protect ourselves against those non-tariff trade barriers? How can we sign an agreement, until we have such protections or at least an escape, as well, if in fact they throw them up and we can't respond?

Mr. Glen Hodgson: That's a very valid question, an extremely valid question. For example, I don't know Korea as well as I know Japan, but in Japan, there are subtle things they use in terms of auto ownership, the fact that most people don't drive a car beyond year six, you have safety inspections, all sorts of little biases built in favour of consuming a Japanese automobile, so that penetration by cars fabricated in North America has been very, very slim over the years.

I don't think I have an easy answer for you. I do think we have to think very hard about whether we have two separate bilaterals.

The Americans have already approached the Koreans, and whether Canada is a "me-too" and goes along on our own separate track, or whether, frankly, we have to sit down and think very hard about Canada-U.S. as a team, effectively, protecting our collective interests in our engagement with Korea.... Clearly, America will have much more leverage in that relationship than we have alone.

Mr. John Maloney: Canada and the U.S. are certainly integrated in the auto industry.

Mr. Glen Hodgson: In the auto industry in particular, there's complete and total integration, except for the challenge of getting stuff across the border unimpeded.

And right now, of course, by virtue of things like a public health care system, we have a competitive advantage. That's probably the key driver—plus the exchange rate in the past, but that's gone.

But why are more cars made in Canada than in the United States? Because the auto manufacturers save between $800 and $1,500 a car by doing the fabrication here. Well, that tells me that, as a core strategy, if you're worried about that particular sector, we have to do it in alignment with the United States.

That takes us to very different places politically, and we understand that entirely, but in the world of *realpolitik,* it will be hard for Canada to really pursue its own interests in Korea without the kind of leverage that our neighbour to the south has.

Mr. Gilles Rhéaume: The other thing about the automotive sector is that we have in Canada the most efficient car assembly processes within the North American continent. We're highly productive.

One thing that is important has to do with what the auto industry introduced in Canada last year, an initiative called the "Beacon Project". The aspect is to find, basically, a way our auto sector can become more innovative, because of these global supply chains that are happening, and trying to make sure that we can thrive within that global auto sector.

Assembling cars is one thing, designing them is another. Getting involved in terms of greater innovation in the automotive sector could be a key in competing not only in the North American context but worldwide. That, I would say, should be a key strategy for Canada to be successful in that industry.

Mr. John Maloney: You also referenced the border and how we have to deal with some of the problems there. But how do you deal with the mindset that you have in the United States where they're so paranoid about security?

At one time, we used to cross the land border by just identifying what country we were born in, and only those born in another country would produce a passport. Now they want not only Canadians but their own citizens returning to their country to produce passports.

We have NEXUS cards, smart cards, but whenever we try to work something out, they're always putting up more barriers. How do you deal with a mindset that is opposed to a free flow of services and people across the border?

Mr. Glen Hodgson: We certainly don't have a silver bullet for all of that. Some of the advice we give in our report includes investing more in pre-customs clearance away from the border, for example. And I would add to actually to have the federal government step up with the provinces and be seen as investing in more things that boost American confidence in our security, like smart intelligence, looking at trucks, and various things like that.

● (1240)

Mr. John Maloney: But we have that now.

Mr. Glen Hodgson: And that's the frustration, because it really is two solitudes to a great degree right now, in the north-south context, around security. We put all of our weight on economic interests and they put all of their weight on security, and it is frustrating.

I lead a team at the board that gives advice on tourism. We're one of the core forecasters on tourism to various players across the country. The collapse of our tourist industry is very sad. It's been so quiet. It's a very atomistic industry, spread across, and we really don't notice the impact.

But you're absolutely right to worry about the border, because the day travellers from the U.S. are simply not going to come. They're not going to come to our casinos. Many of them will not go out and get a passport to make the trip. So it's a real point of concern. Yet there is no easy fix; there truly is not.

I would presume we're going to fall back on standard diplomacy, constant representation, finding the key interested parties in Washington, being there, sort of friendly, in their face all the time. But we haven't come up with a silver bullet by any means.

Mr. John Maloney: You indicated that we're small potatoes to Europe, and that they're looking at the U.S. market. You indicated also that 83% of our trade is with the U.S. How do we protect ourselves from being squeezed out by European goods and services that replace our goods and services that are going there now?

Mr. Glen Hodgson: To a great degree within Europe itself, we already have been squeezed out. We have a few charts in the report showing how little growth in exports we've had to Europe over the last 10 to 20 years, and how our businesses had to resort to becoming European companies. So there clearly is a very subtle fortress-Europe barrier that goes around Europe, a lot of it non-tariff.

Companies that want to do business in Europe have to become European; they have to invest in Europe to get inside that wall. The evidence of that is that sales from our affiliates in Europe are a multiple of our exports to Europe. In a country like the U.K., I think it's three and a half times. For Canadian companies established through investment operating in Britain, their sales are triple what our exports are to Britain.

How do we overcome it? Well, we've tried. We've tried very hard to get European attention. We have something called the TIA in place, where there's a dialogue between Canadian and European business, but it's going nowhere fast. So I guess, increasingly—and this is not in the report—we have to really think hard about whether we can use the North American integration as a platform.

Getting squeezed out.... I would argue it's already happened. We've seen the deflection of investment away from North America. The Canadian share of external investment—Gilles, you actually did this research three years ago—coming into North America has fallen progressively over 15 to 20 years. So the crowding out has already occurred. It's more a question of whether we can do anything to try to crowd ourselves back in.

The Chair: Thank you, Mr. Maloney. Your time is up.

We now go to the Bloc Québécois, with Monsieur Vincent, who is a member visiting from the industry committee. Welcome, and please proceed.

[*Translation*]

Mr. Robert Vincent (Shefford, BQ): Thank you, Mr. Chair. Thanks as well to my colleagues who have given me the opportunity to speak.

Good morning. I've been listening to you for a while, and you clearly have some experience in international trade. I'd like to know what you think are the three main factors explaining why we're not competitive with the emerging countries.

Mr. Gilles Rhéaume: We talk about the competitiveness problem in our report. The low productivity that characterizes our country is another important factor. That causes problems for us.

Mr. Robert Vincent: To what is it due?

Mr. Gilles Rhéaume: There are a number of factors. We've considered approximately 13.

In overall terms, the barriers imposed here in Canada are, above all, what prevents us from becoming competitive. There are interprovincial barriers, but also international barriers, that is between us and other countries. That explains why there is less competition here in the country. The low level of competition here means that we tend less to want to innovate or try to do things differently.

I spoke with a group of entrepreneurs in Sherbrooke. Among other things, those people told me about growing pressures from China. For a number of years, they sold the same product solely to the Americans, using the same technology. It became a habit. This kind of strategy can no longer really meet our needs as a country.

These entrepreneurs are suddenly feeling pressure from China and are wondering what to do. In that sense, you have to have a strategy for investing in new technology, in innovation. For the government, the idea is also to help entrepreneurs seize new business opportunities in these markets.

Our innovation group has conducted an analysis with this in view. From what we've found, the government has a lot of Web sites that entrepreneurs can consult to identify potential markets. However, the interface between the individuals in the foreign market and these entrepreneurs is quite poor. We would do well to improve these relations in order to help entrepreneurs, especially small Canadian businesses, seize these new markets.

● (1245)

Mr. Robert Vincent: What do you think about the intellectual property problem? I know perfectly well — and we've talked about this for hours and hours — that products are developed by the industry, but that other countries violate intellectual property by developing those products in those countries and subsequently selling them in the Canadian market at lower prices as a result of the low wages paid to workers in those countries.

What do you think about that? Should we pass a bill to protect intellectual property?

Mr. Gilles Rhéaume: We're already protected under the intellectual property provisions. That doesn't prevent these people from selling copyright elsewhere.

What is important is not to protect those rights, but rather to stimulate marketing in Canada in order to expand it. That's what we're lacking. We don't have an effective marketing strategy.

Mr. Robert Vincent: I'm going to go back to the intellectual property issue. Business representatives have told us that it wasn't worth the trouble to spend thousands of even hundreds of thousands of dollars in lawsuits against Japanese, Chinese or other companies. In their view, it's pointless to assert that they've stolen from us a product that belongs to us, that we've developed and marketed.

Do you agree on that?

Mr. Gilles Rhéaume: I don't know how you interpret the word “stolen”.

Mr. Robert Vincent: Let's say they've appropriated it.

Mr. Gilles Rhéaume: I believe that, in a way, there could be an agreement on the sale of intellectual property.

Mr. Robert Vincent: I'm going to give you an example. Imagine you have a new product and, at a trade fair, people from other countries take three or four pictures of that product, buy one, go home and manufacture a similar, even virtually identical item and market it in Canada. What do you think about that?

Mr. Gilles Rhéaume: That's another story. That goes on everywhere in developing countries: not in Japan, but definitely in China. We often talk about similar cases. We observe that this is a major international problem. Intellectual property is stolen — the term is appropriate here — and copied without any compensation for the development work done. This is a situation we should examine in international negotiations in order to find protective solutions.

We talked about negotiating a trade agreement with China. There are some items that can be included in the negotiating method. Under the North American agreement, for example, we also signed an agreement on the environment, as well as on the labour market, that is workers.

Mr. Robert Vincent: The Canadian government invests in industrial research and development activities and then takes the representatives of those industries to China on missions designed to make the research and development that it has financed pay in those countries. What do you think about that?

Mr. Gilles Rhéaume: The idea...

[*English*]

The Chair: You're out of time. That was the last question.

If you could, just give a short answer.

[*Translation*]

Mr. Gilles Rhéaume: The idea of missions is to help develop markets to which our entrepreneurs currently don't have access so that they can sell their products rather than see them copied.

Mr. Robert Vincent: I'm talking about research and development. Let's suppose you've designed a product. You're taken on a mission and you're introduced to a partner who is going to manufacture your product.

Mr. Gilles Rhéaume: Yes, that's part of the global production lines. All that is a strategy that must be... I'll give you an example, clothing production. Take the case of a shirt: the largest percentage of the price you pay for that shirt will go to the merchants and those who designed it. Those who make it up receive virtually nothing. That's today's economic reality. The same is true in the case of other products. So there's no problem.

● (1250)

Mr. Robert Vincent: You don't see a problem? You talked about grey matter at one point. So we don't need more grey matter, if we're going to manufacture our products elsewhere in order to sell them in our market. We don't need people either; we'll never need workers. You're telling us that we lack labour, that we'll have to resort to immigration in 2012. If we design our products here with government assistance, have them manufactured in China and introduce them to our market, ultimately, we need workers to do that.

[*English*]

The Chair: Just a short response, please.

[*Translation*]

Mr. Gilles Rhéaume: You have to consider the comparative advantages between countries. With our grey matter, we can design products, but not necessarily manufacture them and sell them in Canada. We can come up with the design, the content, and production can be done elsewhere.

[*English*]

The Chair: Thank you very much.

Mr. Lemieux, for five minutes.

Mr. Pierre Lemieux (Glengarry—Prescott—Russell, CPC): Thank you. I'll be sharing my time with my colleague.

I just wanted to ask a question. We spoke about exporting, but we also want investment in Canada. We're talking about trying to improve border access, border crossings, and making the border more seamless. Down in the Windsor area, I know we're looking at improvements that we can make there.

The government has also made a huge announcement about investing in the Pacific gateway. I don't know whether you've had the opportunity to look at the Pacific gateway and what sorts of opportunities this might bring to Canada. I'm wondering if you could comment on what you see that doing for Canada.

Mr. Glen Hodgson: At this time yesterday morning, I was sitting there looking out the window at the Pacific gateway, because I was in Vancouver. I actually had a discussion very much like that with three or four players, people who are doing analyses of the B.C. economy and the Pacific gateway.

The question I have is whether it's big enough in terms of adequacy. There's a huge debate about Prince Rupert and whether or not there's actually economic viability in expanding. But I think the really critical question is whether Vancouver and the Pacific gateway, flowing across the national economy, will be of sufficient scale to attract our fair share of the trade compared to Long Beach, compared to Portland, compared to the expansion in Mexican ports. So that's one level.

The other risk, however, is what happened with the information superhighway. Are we all going to make a massive investment and end up with double the capacity that we actually need on an ongoing basis? There's a real scope for some debate around that.

Fundamentally, if we're going to attract our fair share, we have to make sure the investment is adequate. Of course, the true investment being made there is far beyond what the federal government has announced. The provincial government has invested billions of dollars. The private sector will too. One of the things we would like to see happen, in fact, is extending it across and seeing how we can actually build the entire linkage for things like cross-shipment of containers and taking some of the capacity away from the port, to ensure that we can become a gateway across the entire North American economy.

But it's a great question to ask, and I guess our question mark at the end of the day is whether or not it's actually big enough. There's no doubt in our mind that the investment has to happen. Otherwise, trade will be diverted to Long Beach, Portland, and all the ports along the west coast, including the expansion in Panama. The Panama Canal expansion offers another alternative.

Mr. Pierre Lemieux: Thank you.

The Chair: Mr. Allison, go ahead, please.

Mr. Dean Allison (Niagara West—Glanbrook, CPC): Thank you.

I just want to start off by saying that I'm going to disagree with my good friend from the NDP in terms of what free trade has done in terms of real salaries. I understand that they have gone down. My thought is that we're overtaxed, we're not as productive, and there are all these other things going on, and they are the reasons for that.

In human resources right now, we're doing a study of employability. Certainly there are all the issues you've touched upon in terms of literacy. We have a great educated workforce that has come in from around the world, but it is not necessarily literate, not always able to produce foreign credentials, and all these other things.

I know you don't talk about the Irish experience, but my thoughts in terms of productivity here in Canada—and you've touched on this already—are that some of the things that made a big difference over there were not just cutting taxes, but the educated workforce, people returning home, infrastructure, and all these other kinds of things. We could spend ten minutes on this, but I'm only allowed three minutes, so it's my only question and the only time I have. Talk about that in terms of addressing the issue of rising salaries and some of these other things, and the experience in Ireland and how we could benefit from that.

Mr. Glen Hodgson: There is actually a high degree of convergence among economic analysts on what things are required to have an effective productivity strategy in order for a country to actually create sustained wealth. You touched on them. You have to be tax-competitive. You have to invest in your people. You have to have your infrastructure working well. Those are all pieces we touch on in our report.

The one thing Ireland had that we will not have was the fact that it became a gateway for foreign investment into Europe, while it obviously also had subsidies from the EU for its farm community. We can't duplicate that. We're not going to attract a disproportionate share of investment into North America, but we would like to capture our fair share.

The Irish case is interesting, as are the cases of Singapore and some other really high-performing global economies, such as Iceland right now. Little Iceland has spectacular productivity growth rates. We can't replicate them, but we can learn what the key elements are. We've done a pretty good job of setting them out by articulating the need to have a national strategy around competitiveness and productivity, and then by pointing to the national market, education, and the role of investment, trade, and ultimately foreign policy in supporting those.

● (1255)

The Chair: Mr. Rhéaume, do you have something to add?

Mr. Gilles Rhéaume: There's an interesting thing about Ireland. If you're looking at it around the late 1980s or 1990, the income per capita in Ireland was about 50% of the Canadian average. Now it surpasses the Canadian average. That's point number one.

Point number two is that they focus. They have a niche strategy. We don't. They looked and said they were going to focus on two things, information communications technology and biotechnology. That's where they attracted the investment, that's where they attracted the top talent, and that's why they've been successful within the basic business environment. We have to develop niche strategies for Canada. They're something we don't have.

Mr. Glen Hodgson: That's where Gilles and I would probably differ from some other economists who say to let the market decide. The truth is that governments have finite resources, and every day we're taking priority-setting decisions: we're going to give more money for this, but we're not going to give it for that. We think you have to bring the same mindset to the development of sectors without picking winners, without picking individual firms, or even individual subsectors, and really to creating the conditions and identifying the races in which we're really equipped to run.

Mr. Dean Allison: As I said, the report is excellent. We will appreciate seeing the next couple of reports coming down.

Thanks.

The Chair: We just have a couple of minutes left.

Mr. Julian, do you want to ask a short question, or should we just close off now?

Mr. Peter Julian: I have no further questions. Perhaps one of my colleagues, Mr. LeBlanc or Mr. Bains....

The Chair: No, we're almost out of time anyway. It would be one short question.

Gentlemen, it's been a fascinating discussion. I'm looking forward to part two next week. I'm sure it will be equally as interesting. It's a fascinating study that you've done. It's extremely worth while and very informative. So I'd like to thank you very much, gentlemen. We'll see you again.

The meeting is adjourned.

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