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Chair

The Honourable Rob Merrifield

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● (1105)

[*English*]

The Chair (Hon. Rob Merrifield (Yellowhead, CPC)): We'd like to call the meeting to order. We were delayed a little bit. We are continuing our study on the global markets action plan.

We have with us in this first hour Cam Vidler, director of international policy at the Canadian Chamber of Commerce. Mr. Vidler has been with us a number of times, so we welcome you back to committee.

We have also from York University, Lorna Wright, professor. She is actually delayed because of a flight this morning. I think most of the members can relate to that. She will be joining us, perhaps by the end of the meeting, but as soon as she can, she will. If not, she'll join us in the second hour.

With that, Mr. Vidler, we'll yield the floor to you and hear your presentation and move on to questions and answers. The floor is yours.

Mr. Cam Vidler (Director, International Policy, Canadian Chamber of Commerce): Thank you, Mr. Chair. I just want to thank the committee for this opportunity to provide comments on the global markets action plan, or as we've all come to call it, the GMAP.

My name is Cam Vidler and I'm the director of international policy at the Canadian Chamber of Commerce, which represents over 200,000 businesses of all sizes, sectors, and regions across Canada.

As you know, the Canadian Chamber of Commerce was part of the advisory council that provided input into the GMAP. Upon the announcement of the GMAP, our president, the Honourable Perrin Beatty, called it a "comprehensive international trade strategy that will help businesses of all sizes expand and grow in new markets around the world."

He added, "By prioritizing markets, focusing on core strengths and ensuring that government services reflect the needs of exporters, the plan is right for the times, and its adaptability will help Canada increase its competitiveness over the long term."

We continue to hold this view, Mr. Chair.

However, recent signs that Canada's trade has not yet recovered from the recession are causing industry to look at the plan with a renewed sense of urgency. Earlier this month, the Governor of the Bank of Canada told the Commons finance committee that Canada's exports are $40 billion lower than where they should be, according to the bank's models. There are in fact now 9,000 fewer firms exporting than in 2008, and the problem isn't limited to exports. Businesses are reluctant to invest abroad as well, especially in emerging and frontier markets where the bulk of future growth opportunities lies. According to the United Nations Conference on Trade and Development, only 1.5% of Canada's foreign investment stock is located currently in developing countries in Asia or Africa. This is by far the lowest share among the G-7. Once the epitome of a trading nation, clearly Canada is quickly falling behind our peers.

The GMAP holds the potential to get our trade and investment back on track. Its focus on key markets and sectors should make our existing efforts more effective, and the ongoing push to sign trade and investment agreements, such as the ones recently announced with Europe and Korea, is very important. But we need to do much more.

I'd like to focus here on the GMAP's commitment to a new trade promotion plan that promises to enhance the services available to Canadian companies and ensure that Canada's diplomatic presence is leveraged to support our businesses on the ground.

As you may be aware, on Monday, the Canadian Chamber of Commerce released a new report titled *Turning it Around: How to Restore Canada's Trade Success*. I've circulated copies to the committee. Based on consultations with our members and a look at what our competitor countries are doing in this area, the report offers a set of recommendations under four themes.

The first theme is that we need to make the most of what we already have by integrating trade services and connecting them with businesses. There are literally dozens of departments and agencies at the federal and provincial levels offering valuable training, business development, financing, and marketing support for international expansion, but these efforts are often poorly coordinated and the system is very difficult to navigate, particularly for SMEs, which are largely the target of the global markets action plan.

Service providers need to be better at working together and sharing information on their domestic clients and foreign leads. We understand that the government is already taking steps to do this. An MOU between Export Development Canada and Business Development Canada, for instance, has led to a rapid rise in the number of two-way referrals. A similar MOU has been signed recently between the trade commissioner service and Export Development Canada. We would encourage the government to deepen and broaden these coordination efforts to include other federal departments and ministries that may be involved in international trade promotion, as well as provincial agencies that play a role in what we can increasingly call a trade promotion ecosystem. We should also explore an online portal that would bring together all of these services, as well as up-to-date market intelligence and leads on foreign opportunities, in a way that is easily accessible for businesses.

Second, we need to put the business back in Canada's global brand. International polls repeatedly show that Canada's reputation is virtually unmatched, and this government can take a lot of credit for the economic management that has helped to perpetuate that reputation. But we need to do a better job of extending this brand into the business realm and not just as a destination for investment. High-level business representation on state visits would help bridge the awareness gap. CEOs are often approached just days before prime ministerial trips. One suggestion we have is that the Prime Minister could appoint a special trade ambassador from the private sector who would be dedicated to working closely with the provinces and the heads of major Canadian companies to organize high-level delegations to priority markets under the national banner.

We should also consider a more active national branding program that would monitor and manage our business reputation among those of key influence in priority markets. Currently a lot of our national branding efforts are fragmented according to specific sector objectives and are not united in a more holistic story about Canada's business capabilities.

Third, we need to strengthen the front lines. The trade commissioner service is at the heart of Canada' s economic diplomacy, and they need to have the resources and skills set to get the job done right. Despite rising service requests, budgets and staffing are at the same level as they were in 2007 and are set to stay flat for the foreseeable future. As a share of GDP, the United Kingdom now spends twice as much as Canada on its trade diplomats.

Finally, we need to do a better job of connecting trade and aid. The government has taken some steps in this direction, but we have some more specific suggestions. The involvement of Canadian business in international development projects is currently well below its potential. Canada should make more use of direct programming, managed by Canada with target countries. Nearly 80% of our official aid in 2013 went to foreign agencies, often on a sole-sourced basis, and tenders on federal websites for international development projects have slowed to a trickle. More could be done to connect Canadian expertise to multilateral development banks and international humanitarian institutions, where our share of contracts is particularly low relative to other countries.

The government also needs to expand the financing tools it has to stimulate Canadian private investment in developing countries. For decades, Canada has been the only G-7 country not to have a dedicated national development finance institution that can offer concessional loans, equity, risk guarantees, and grants for technical assistance and feasibility studies.

The serious decline in Canada' s trade performance deserves immediate attention. The GMAP certainly points in the right direction, but we need to do more than just sign trade agreements and shuffle resources within our existing trade promotion model. The time has come for bold action, to make sure our companies have the best tools and the muscles behind them to succeed in an increasingly competitive world.

Thank you.

● (1110)

The Chair: Thank you very much.

We'll move to questions and answers, and we'll start with Monsieur Morin.

The floor is yours.

[*Translation*]

Mr. Marc-André Morin (Laurentides—Labelle, NDP): Good morning, Mr. Vidler.

In a report published on May 12, the Chamber of Commerce states that free trade agreements are not enough to reverse Canada’s poor trade performance in the last decade.

In your view, why has our performance been so disappointing? Could you give us reasons or point to specific facts that would explain that situation?

[*English*]

Mr. Cam Vidler: *Merci beaucoup.*

To start off, there are lots of different reasons why Canada's trade performance has been below potential, and we don't want to say that trade promotion, economic diplomacy, is a panacea. It is one of the many tools we have available to get our trade back on track.

The efficiency of our transportation infrastructure, the efficiency of our customs administration, the productivity of Canadian businesses, our access to skills, all matter immensely to the competitiveness of Canadian companies.

Free trade agreements are an essential part of the solution. We need to crack open markets that have barriers at the borders. We need to lower tariffs to Canadian products. We need to protect Canadian investments in those markets.

What we have focused on in this report is the set of policy tools that essentially help businesses get in through the doors that are opened by free trade agreements. While we have a lot of the tools at our disposal, the point we are making is that these are not always being leveraged to their full potential. In some cases, the tools need to be sharpened, and in other cases we need to make sure we have certain tools that we currently don't have at our disposal.

[*Translation*]

Mr. Marc-André Morin: The report also notes that Canada should take parallel measures to assist the promotional services of trade agreements and strengthen the support provided to businesses abroad.

What steps do you feel that entails?

[*English*]

Mr. Cam Vidler: Mr. Chair, I would answer that question by pointing to the four general areas that we've suggested, which are to integrate our service offering, connecting it to business—making sure these agencies are working better together and companies are made aware of these services—and that companies don't have to experience hurdles to access these different government programs. Beyond that is a focus on marketing Canada's business brand. Third is to ensure that the boots on the ground, so to speak, our diplomatic presence, remains robust and competitive with other OECD countries. Finally, it's that we do what we can to help Canadian companies connect with Canada's international development objectives, which can be a very important tool for companies to get a foothold in these markets.

● (1115)

[*Translation*]

Mr. Marc-André Morin: Do you believe that, aside from the diplomatic support and the other measures that the government could introduce, there are improvements to be made to our industrial strategy, such as with our transportation infrastructure, for example?

[*English*]

Mr. Cam Vidler: Mr. Chair, there are certainly things that we can do beyond focusing on economic diplomacy and trade promotion. I think some of that is probably beyond the scope of this committee, but I would point again to transportation infrastructure, as a member of the committee just mentioned. There has been a report recently, or a presentation that has been circulated to me recently, by Professor Charles McMillan at the Schulich School of Business, which looks at the competitiveness of the Asia-Pacific gateway.

If you look, I believe there has not been a reduction in the time to market between key export sources in Canada and ultimate export from the port of Vancouver. There are many factors at play here. We need to make sure that the logistics and the supply chains work seamlessly. I think that certainly would help get Canada's exports going again.

[*Translation*]

Mr. Marc-André Morin: Thank you.

One of the objectives is to enhance the presence of SMEs in emerging markets. But statistics show that trade in Canada is generally led by larger companies. SMEs do not have a lot of success in penetrating new markets.

Do you think that the GMAP's objectives are realistic? Is there a cost associated with measures like that?

[*English*]

Mr. Cam Vidler: I would say the point that large companies can succeed more in emerging markets is probably true. They're able to distribute risk across their larger operations. They can sustain a sort of beachhead in markets for a longer period before they would see revenues being realized.

That said, there is also research out there that shows that SMEs in Canada have been fairly successful or increasingly successful in these markets, and are going there. This can be strengthened obviously by some of the measures we talked about here; connecting those businesses with those services, showing them how they can use them.

Another point that should be made, though, is that large companies also require trade promotion support and economic diplomacy. When we help our larger companies enter a market, and build relationships with new customers, new suppliers, they often are going to bring with them a longer supply chain of Canadian SMEs. Oftentimes, the objective of achieving more SME penetration in emerging markets can be equally achieved by working with some of Canada's leading companies that have supply chains here in Canada. In some cases, it may be more strategic to do so because there'll be one or two points of contact that the Canadian government can work with that will then distribute down to their SME supply chain.

The Chair: Thank you very much.

Mr. O'Toole, go ahead.

Mr. Erin O'Toole (Durham, CPC): Thank you, Mr. Chair.

Thank you, Mr. Vidler. I appreciate your returning to the committee. Your last time here was during our meetings on CETA and so that was appreciated.

Your report title is an interesting one, “Turning it Around: How to Restore Canada’s Trade Success”. In it you had a number of things I'll explore in a moment. But would it not be fair to say that a large challenge with trade in the last number of years since 2008–09 is really the sluggish economic performance of some of our largest markets, the U.S. and Europe for instance, and that would be a large part of the equation?

Mr. Cam Vidler: The significant slowdown of the European and U.S. economies after the recession certainly hit Canadian companies pretty hard. Part of that is because the Canadian economy is so dependent on those markets and that we had not made inroads into some of the emerging economies earlier.

At the same time, the emerging economies are partly what kept us afloat. If you look at commodity prices, for instances, those were sustained by China, and a lot of what we sell in those markets continued to grow, agrifood, minerals—

● (1120)

Mr. Erin O'Toole: If you look at resources and agriculture, demand remained high, including in Asia and some parts of the world, but in some of our traditional markets, their import demand was a little sluggish.

Mr. Cam Vidler: That's certainly the case.

I would add, though, that if you look at our market share in the United States .... If it is the case that it was just the U.S. slowdown that explains Canada's trade performance, you wouldn't necessarily see a reduction in the share of U.S. imports that are coming from Canada, and you have seen that. Not only were we hit by the systemic slowdown of the U.S. economy, but we've been losing our competitive position in the U.S economy over that time vis-à-vis our competitors.

Mr. Erin O'Toole: I appreciated reading your report from earlier this week. In many ways I used it as check mark of programs that we're already undertaking: integrating trade services, bringing business back—and I'll explore that in a moment—and strengthening the front lines. I'm sure you saw the minister's announcement about the integration of trade commissioners within industry sectors yesterday. Too bad we didn't do that last week, before your report. Then there's connecting trade and aid programs, which is certainly our economic diplomacy, and the merger of DFATD. We're doing all of them.

Bringing business back in Canada's brand is an interesting one. Some might suggest—and you could read Andrea Mandel-Campbell's book *Why Mexicans don't drink Molson*—business has never been in Canada's brand. We're actually trying to put it there, not restore it.

Regarding your proposal on a trade ambassador, is that modelled on the United States Trade Representative?

Mr. Cam Vidler: Mr. Chair, I'll respond to the last part of that question about the trade ambassador.

It's not modelled on the USTR. I think the equivalent USTR position in Canada would be Minister Fast, the Minister of International Trade. This would be an additional position, which would largely be focused on basically corralling or "herding the cats", so to speak, of Canadian business, of different cabinet ministers, maybe provincial-level folks too, to bring a high-level presence to priority Canadian markets.

The model that we look at in the paper is the model that New Zealand has used. They've created a position of a special envoy for agricultural trade. They go to a leading business executive or trade leader from the country and have them represent the New Zealand agricultural brand around the world, pursue specific opportunities, and work as a sort of coordinating point.

I think it's a bit unfair, to a certain extent, to have to rely on Minister Fast or Minister Baird, or even the Prime Minister, to be the ones who are going out there with businesses all the time and opening those doors at the highest levels of government, in markets like China and India. They have a lot of domestic political obligations, and there are also security concerns that can inhibit the ability for us to mobilize a united front.

With this trade ambassador role, because it would be dedicated for that purpose, I think it could help us on some of the coordination problems.

Mr. Erin O'Toole: There are two points that I'd like to raise on that.

The reason I raised the USTR is because it's not equivalent to Minister Fast. In fact, the USTR is not a cabinet position. As you probably know, it's an office of the President. We actually have a cabinet minister dedicated to international trade.

I'd like you to contrast your suggestion with what the C.D. Howe report from April said. It actually showed that reinvigorating the ambassadors themselves, and the trade commissioner service within that construct, that government-to-government..., was part of their suggestion on the impact of diplomatic representation of Canada's interests abroad.

Do you not feel that those positions, with a total approach to diplomacy, including trade, is far better than one roving ambassador, who I guess would report to the minister of trade or the Prime Minister? We have a cabinet level position for international trade. I'd like your comments, contrasting with C.D. Howe's.

Mr. Cam Vidler: Certainly.

I've read the C.D. Howe report, and I think it's a fantastic report. My view of the report is that it would support a position such as an additional trade ambassador. We're not talking about either/or here. We need to have the ambassadors on the ground in the markets full-time. We need to have the trade commissioners on the ground there as well.

When it comes to bringing CEO-level representatives from Canada, who bring the best of the best from Canada and show them off to these markets—markets that are being visited by 20 or 30 different countries a year, at the highest of levels, with their entire business community—I think that having a trade ambassador would be a complement to what we already have in place.

● (1125)

Mr. Erin O'Toole: Do you not see that there's potential for some confusion? I find even meeting with diplomats, trying to explain what the parliamentary secretary for trade is...but when we have ambassadors, we have a Minister of International Trade and then a special envoy. Is it hard to explain that to our foreign partners?

Mr. Cam Vidler: I think that's a good point. Again, I would refer to the New Zealand model, which has been quite successful. Perhaps you call it a trade envoy. We could look into the semantics. I think the suggestion that we're providing in this paper is obviously something we can look at in detail and adjust according to what we feel is most appropriate. I think the more fundamental point was that we just need to have better coordination at the highest levels of business and government in order to really penetrate these markets.

The Chair: Thank you.

Mr. Pacetti.

Mr. Massimo Pacetti (Saint-Léonard—Saint-Michel, Lib.): Thank you, Mr. Chair.

Thank you, Mr. Vidler.

My first question would be, you asked for more trade commissioners, so where specifically are you asking for more trade commissioners? Is it for certain parts of the world, or in all countries? Can you explain that?

Mr. Cam Vidler: I think the GMAP does a good job of pointing out priority markets for Canada, so we should probably be looking at enhancing our presence there. Steps have been taken over the past years, though, to shift trade commissioners from perhaps markets that we consider more traditional markets, that perhaps companies don't need as much service in, toward other markets. If you look at our presence in China, it's expanded quite significantly.

I think the point also needs to be made here that the trade commissioner service also plays an essential role in markets like the United States and Europe. If we look at CETA and the implementation of CETA and at trying to realize the benefits that have opened up through that agreement, we need to—

Mr. Massimo Pacetti: How many resources do you put toward trade commissioners, and where? We can't be everywhere. Canada does have limited resources like every other country, but I think Canada, due to a limited population.... How do you prioritize it? Is it for potential, or where you've already been?

We talk about the U.S. Have we reached a saturation point with the U.S.? Will more trade commissioners bring in more trade? The idea would be that trade commissioners would bring in more trade, but it hasn't done that, so do we need to double the number of trade commissioners? Do we need to have specialized trade commissioners, where their focus is only on certain industries or certain sectors? That's the part that I'm having a bit of difficulty understanding.

Mr. Cam Vidler: I think there are a few parameters that we could look at. We could look at the increase in service demands. The trade commissioner service, I understand, uses a fairly sophisticated customer relations management system that looks at where the service requests are coming from, looks at other parameters such as satisfaction of the trade commissioner service clients, and areas where perhaps we're not seeing as much satisfaction, or areas where we would need more focus of the trade commissioners.

I think there are obviously the new trade development needs that we have in emerging markets, but there's also a need to defend markets that we're already involved in, and looking at, for instance—

Mr. Massimo Pacetti: It's not an easy question, I know that. But to simplify it, do we add additional resources to the EU where we just signed an agreement, and we're going to sign a formalized agreement? Or do we add resources to the U.S., which is just a natural trading partner? Or do we add more resources to countries that are going to be potentially coming forward, as with TPP? I know it's not an easy question, but you do have to make choices or priorities.

Mr. Cam Vidler: Certainly. I think we need to make sure we are strengthening across the board in all of those markets, and probably with more of a focus, though, on the emerging markets, where we expect more trade growth in the future and where the business climate is more difficult for business.

Mr. Massimo Pacetti: The other question was on this. You alluded to the fact that we need a financial institution that provides more services for export, I believe you said. The institution that I think would fit that criteria would be EDC. But you went on to say it should provide guarantees, it should provide other things. I don't have your brief, so I couldn't list all the items, but can you expand on what you were referring to?

● (1130)

Mr. Cam Vidler: I'd be happy to expand on that and make the clear distinction between what Export Development Canada does and what a development finance institution would do.

The development finance institution would be looking not so much at financing exports, but financing private sector investments or growth in developing markets. The products that they provide—loans, risk guarantees, equity—are similar, in fact, to the products that EDC currently provides. However, the EDC provides those products on a commercial basis. Under the OECD principles, it has a certain band in which the pricing of its financial products can be. That prevents it from taking on a role of stimulating projects that are essential to development in developing countries that are nonetheless, from a commercial perspective, perhaps too risky.

Mr. Massimo Pacetti: Can you give me an example?

Mr. Cam Vidler: You could look at an infrastructure project in, say, a market like Senegal, where private investors may look at an opportunity. There's clearly a growing population. There are clearly people who would be using these projects, but political risks or counterparty risks with local partners are such that a company, whether it's an investor like a pension plan or whether it's an engineering company, would not be able to take on those risks. The project would otherwise not happen. Right now, you have organization—

Mr. Massimo Pacetti: Why can't EDC provide the funds or guarantee the funds?

Mr. Cam Vidler: Because they would also have to price their risk at a point that would probably be prohibitive for the involvement of a private company.

Mr. Massimo Pacetti: So you're asking for an institute that—

The Chair: Time is gone.

Mr. Massimo Pacetti: —is going to be taking out loans at a riskier level than anybody else would?

Mr. Cam Vidler: Mr. Chair, can I respond to that very quickly?

The Chair: Yes, go ahead.

Mr. Massimo Pacetti: I didn't mean to use all the time.

The Chair: It happens.

Go ahead.

Mr. Cam Vidler: I appreciate the points you're making there. I would just like to point out that this is not an uncommon practice at all. If you look at the International Financial Corporation as an arm of the World Bank, which Canada supports, it currently does that. If you look at the Overseas Private Investment Corporation in the United States, it currently does that.

In fact, all G-7 countries have an institution that provides that kind of concessional loan to stimulate projects in developing countries. Canada does not have those tools right now. All we're asking for is for Canada to basically step up to the standards that other countries have met.

The Chair: Okay. Very good.

Mr. Hiebert.

Mr. Russ Hiebert (South Surrey—White Rock—Cloverdale, CPC): Hi. Thank you again for being with us.

I was wondering if you could elaborate on this comparison between our current approach to economic diplomacy as it's laid out in the GMAP versus what the Liberals did in the past under Jean Chrétien and his Team Canada missions. What are your thoughts? How would you compare the two initiatives?

Mr. Cam Vidler: I don't think that we have a fundamentally different approach between the two governments. If we look at the so-called Team Canada, where Canada was going, the Prime Minister would go with a large delegation and try to bring the best of what Canada has. I'd like to reference, and I do in the report, the 2012 mission that the Prime Minister led to China. I don't want to get into semantics, but that was a team of leading Canadians who went there to basically show the Chinese leadership and Chinese business community that Canada was very serious about our relationship. If you look at the progress that the economic relationship had almost immediately after that trip, I think it bears out the merits of that kind of approach.

Mr. Russ Hiebert: In your remarks, you made the suggestion that SMEs could penetrate these foreign markets by working with larger companies. Could you explain the nature of that relationship? How would that work? Certainly if they're competitors, that might be awkward. Have you seen examples of joint ventures or smaller companies taking advantage of the supply chain relations that these larger companies currently have?

Mr. Cam Vidler: Yes. I think we could take a look at the aerospace sector, for instance. We have in the Montreal area, for instance, a cluster of suppliers that work with leading manufacturers, companies like Bombardier, like Pratt & Whitney. Because they're co-located, because they use the same business practices, and because they speak the same language, it makes it much easier for those small and medium-sized enterprises to supply that company as that company takes on some of the risks of entering a new market than it is for that SME to split off from that supply chain and try to penetrate a new supply chain in a market like China.

● (1135)

Mr. Russ Hiebert: Fair enough.

In your document, you highlight a difference between a country brand and a made-in brand. I see that Canada has a fairly strong country brand. I think we're listed second after Switzerland, but we don't have as much of a strong made-in brand.

Could you elaborate for the committee the significance of that difference and what would need to be done to address that difference?

Mr. Cam Vidler: I think the significance comes through in that report.

We give everybody a very warm and fuzzy feeling, as Canadians. As this committee has travelled, you've obviously experienced those feelings and seen how Canada can command a lot of respect when it travels around the world. But if you ask leading businesses abroad which countries they think of when they think of innovation, when they think of business partners with leading expertise, when they think of the highest quality products, Canada doesn't come up, unfortunately.

Prior to this, I worked at the Canada-India Business Council. We took a survey in India of the business community and asked them about their perceptions of technologies from different countries. We asked about mobile technology. As you may know, BlackBerry has one of the highest market shares in India, and Canada should be very proud of that. We asked which countries they knew of as leading countries for mobile technology. Canada finished seventh or eighth, behind Australia for instance. Perhaps I've never seen the product, but I'm not aware of an Australian mobile technology that was succeeding in India. I think that's the gap we're talking about here.

I think it matters. When we're competing for attention in these markets, we're certainly not the only country that is trying to build these relationships. While our resources and all of these assets will help us get attention, we also need to be competing, essentially, with the reputations of countries like Germany and Sweden for their technological expertise, as those countries that we're targeting are looking to move up the value chain. Our ability to get access to leading government decision-makers, to leading business executives, depends very much on that perception.

Mr. Russ Hiebert: I think you commented positively on linking trade with aid in your earlier remarks. Although historically those have been separated in recent years—some people say for good reason—you don't want to tie what would normally be humanitarian aid to a particular country with trade relations, contracts, treaties, and that sort of thing. Are there pros and cons to this, or is it clearly a one-sided positive relationship to link trade and aid?

Mr. Cam Vidler: I think it's important to start from the understanding that development aid has a fundamental overriding objective, which is poverty reduction in developing countries. That's essential. That shouldn't change.

The idea of tying aid, saying we're going to help you out only if you're buying Canadian products, doesn't wash internationally and it doesn't wash in Canada. The Canadian business community doesn't want to see the government move in that direction. However, Canada has significant stores of expertise in areas like agrifood, financial services, microfinance, infrastructure, engineering, and significant capital sitting in pension plans and investment funds that could help achieve a lot of the development objectives in these markets. Oftentimes they're not being connected to those opportunities.

We're looking at ways that we can help better connect that expertise to those opportunities. If there's an international company or entity that can do it better, by all means, but we want to make sure that Canadian companies have a level playing field to be able to get involved in those projects and, ultimately, improve development outcomes.

The Chair: You have about five seconds, so I don't think you can do justice on a question or an answer, so we'll go to Mr. Tremblay.

[*Translation*]

Mr. Jonathan Tremblay (Montmorency—Charlevoix—Haute-Côte-Nord, NDP): Mr. Vidler, thank you for coming to testify before the committee. It is going to help us in our study.

Looking at the last decade, your report points to a poor performance by Canada. What do we have to learn from the last decade that will allow us to reverse the trend?

● (1140)

[*English*]

Mr. Cam Vidler: Mr. Chair, I think we've learned that we can't rest on our laurels. Minister Fast has been very clear to say that he understands that.

I like to use hockey analogies because they are so popular when we talk about trade in Canada. In the first period, if you look at the post-NAFTA period, say the first ten years, we were up. If you look at Canada's share of global trade, it was growing a lot, but I think we got a little bit passive about that. In the second period we sort of sat back, thought we could keep the lead, and the other teams put up a big fight and we fell behind. Essentially, we're in the third period right now and we need to rally and we need to come back. I think the message of the past ten years is that we need to take a look at all the tools we have, all the policy levers we have. I think there is a general consensus in Canada, across all of the parties, that trade is going to be a fundamental part of our future prosperity. We need to basically fire all pistons and use all the tools we possibly can to get this back on track.

[*Translation*]

Mr. Jonathan Tremblay: Still on the same topic, but in the area of research and development, I want to mention the 2012 report from the C. D. Howe Institute. It says that Canada’s performance in productivity in the last decade was one of the worst. In the OECD, that is. It points to insufficient and ineffective support for innovation from the private sector.

At what point do innovation and research and development become necessary for your members? And what must the government do to improve R and D in Canada?

[*English*]

Mr. Cam Vidler: Mr. Chair, I think the member makes a very interesting and important point here.

The report that we did largely looks at what we can do to overcome some of the foreign barriers, but in the first few pages we do point out that there are a lot of things we need to be doing at home. Earlier I mentioned transportation infrastructure being one, but innovation and productivity growth is essential. If we're going to be able to be competitive in global markets, we need to be highly productive, we need to be offering high quality products at low cost, and that requires much more focus on our research and development and on skill development here in Canada. Some of the steps the government has taken on innovation, as well as skill development, hold a lot of potential, I think. We would encourage the government to continue to take steps to enhance the innovation climate here in Canada and connect companies to skill sets that are going to be needed for innovation.

[*Translation*]

Mr. Jonathan Tremblay: Could you give us your opinion about exchange rates and national currency fluctuations in trade agreements? They have a significant influence and I am sure you have an opinion on the matter. Could you please tell us about that?

[*English*]

Mr. Cam Vidler: If I understand the question correctly, exchange rate obviously affects the competitiveness of Canadian products in the markets, particularly if there's a lot of Canadian value that's being produced and priced in Canadian dollars.

That said, the high Canadian dollar of the past decade did not hit all industries in the same way. Some industries that would expect to have been substantially affected by a high Canadian exchange rate did quite well, actually. I think that points to that issue of innovation you mentioned: companies and industries that can innovate are able to still compete with a high dollar.

Another point we make in the report is that the high dollar should in fact encourage companies to invest abroad as well, because it would make it easier to acquire assets. We're actually quite concerned—and this is why we think this is more of a systemic issue of Canadian companies being willing to go abroad—because we didn't see a large growth in our outward investment during the time when our dollar was high.

The Chair: Okay. Very good.

Mr. Shory, you are next.

Mr. Devinder Shory (Calgary Northeast, CPC): Thank you, Mr. Chair.

Thank you to Mr. Vidler for coming back to the committee.

In your recent report, *Turning it Around: How to Restore Canada' s Trade Success*, I found a paragraph, and I'll quote:

> Studies on the impact of trade promotion repeatedly find that it is a cost-effective way to increase firm internationalization. In the Canadian context, for instance, companies using federal trade promotion services export 18% more than comparable firms. They also export to 36% more markets. Assuming a proportional relationship between the trade promotion budget and incremental exports, every dollar spent stimulates $27 of exports.

I want you to make a comment. How is the federal government's GMAP impacting the number of companies taking advantage of the implementation of economic diplomacy? Also, what barriers to trade does this new strategy address that companies have experienced in the past?

● (1145)

Mr. Cam Vidler: I think it's probably too early to tell what the impact of the GMAP has been in terms of company exports. If those studies are in fact true—and I think they've been looked at by quite a few different experts—we would expect that the expansion of a trade commissioner presence in markets like China and India should be helping to stimulate our exports.

I would like to point out again, though, that our overall trade commissioner presence in the world, and the overall funds being allocated to that, have stayed at the same level, in fact, as they were in 2007. That's not even taking into account inflation, in which case you might actually, in real terms, be looking at a less resourced trade commissioner service than we had almost seven years ago. I would caution that we're seeing a renewed export growth because of actions taken by the government with respect to the trade commissioner service.

I know you had a second question that has escaped me at the moment.

Mr. Devinder Shory: My second question is, what barriers to trade that companies have experienced in the past does this new strategy address?

Mr. Cam Vidler: I think it takes on some that have long been identified as barriers to entering foreign markets. By referring to the tools we have, the trade commissioner service, Export Development Canada, the Canadian Commercial Corporation, Business Development Canada—all of which are a big part of the global markets action plan.

It talks about taking care of the information barriers. In other words, information about what your export requirements are: what steps you have to take; what kinds of market opportunities exist abroad; how companies can establish relationships with local partners, suppliers, customers they don't know beforehand; how they can finance the risks associated with exporting—whether that's exchange volatility, political risk, and counterparty risk. Also, overcoming cultural barriers; overcoming issues related to changes in government policy, so ensuring that we have strong advocates for Canadian companies to host governments where they're doing business—all of those types of barriers are certainly part of the target barriers that the GMAP addresses.

Mr. Devinder Shory: You mentioned in the past that you had worked for CIBC, the Canada-India Business Council, and you did some looking to India, I believe. Of the issues you identified in that research, do you see that any of those issues could be addressed in this GMAP?

Mr. Cam Vidler: Yes, I think the GMAP does address a lot of those issues, and certainly in the Indian market, I would say the whole range of issues I just mentioned apply, and perhaps apply even more acutely.

The point that the chamber wanted to make with this report is not that the GMAP is identifying the wrong barriers. It's certainly identifying the right barriers. It's talking about the trade promotion services and the economic diplomacy that can be done to overcome those barriers. Where we think it could be improved is by having more ambitious, concrete changes in those directions, so ways of strengthening our approach to addressing those barriers. In a sense, it scopes out the right issues, but we think we need to pay a lot of attention and put the “action” part in the global markets action plan.

The Chair: Your time has gone, Mr. Shory.

I would like to let the committee know that our witness, Lorna Wright, has just arrived.

We'll suspend the committee at this time, and we thank Mr. Vidler for his testimony.

We also have our next panellists all set to go. We will proceed with the second hour and we'll give it a little more time because of our not being able to hear Ms. Wright’s testimony in the first hour.

If that's fair, I think we will suspend.

Thank you, Mr. Vidler, for a very interesting panel. I appreciate your visiting our committee.

● (1150)

Mr. Cam Vidler: Thank you.

The Chair: With that, we'll suspend.

●

(Pause)

●

● (1155)

The Chair: I call the meeting back to order.

We have a bit of a change to this panel. We have three of our guests. We have Lorna Wright from the first panel, who was delayed by a flight. As members of Parliament, we've been there many times, so we understand very well.

We will start with you, Ms. Wright. You're from the Export Development Canada professorship in international business at York University. Thank you for being here.

Also I will introduce, from the Information Technology Association of Canada, Mr. Gupta, president and chief executive officer, and as well, as an individual, Keith Head, Professor of Sauder School of Business, University of British Columbia.

We'll start with you, Ms. Wright. The floor is yours.

Dr. Lorna Wright (EDC Professor of International Business, Director, Centre for Global Enterprise, Schulich School of Business, York University, As an Individual): Thank you very much.

My apologies for being late. Just in time seems to work for the auto industry, but when you apply it to the airlines, it doesn't work quite as well.

Thank you very much for giving me the opportunity to be here today to comment on the GMAP.

There are many things that I like about the document, and there are some things that I think could add to its impact. I should mention that my comments will be coming from the perspective of an international business educator, as someone who spent 20 years working outside of Canada in various capacities, and someone who is now trying to do exactly what the GMAP is trying to do: get more of our SMEs taking advantage of the opportunities beyond our borders.

One of the things that has impressed me about the GMAP was the amount of consultation that went into its production. Stakeholders were not only consulted, but actually listened to, and the resulting plan shows this. The consultation is to continue with the proposed advisory council and its two standing subcommittees on emerging markets and established markets. I think that's one of the strengths of this plan.

But what I was most happy to see in the GMAP was its focus on SMEs. They are the backbone of our economy, and there is enormous room for improving their export performance. Only 10% export. Of those that export, the majority do so to the United States, with less than one-third exporting to Europe, about 21% exporting to Asia, and to other parts of the world, much less.

However, if we look on the glass-half-full side, looking at growth in exports to Asia, Canadian SMEs outpace our large companies in China, India, Hong Kong, and five of the ASEAN markets.

The third point that I liked about the GMAP was the fact that the plan prioritizes markets. I haven't seen that done before at the government level, and it's an important step to take. However, when I look at the list, it's a long one. Are they all priorities? Can we really focus on all of them? Do we perhaps need to categorize them further as top priorities and secondary priorities within each of the regions?

I was also glad to see “improve and coordinate branding and marketing of Canada” in the plan. For too long we've been too modest, and finally it's not un-Canadian to boast a little bit, to show what we've got.

As a last point, the recognition that this plan must be “agile and adaptable” is critical. Events in the world move quickly these days, and we have to be flexible enough to take advantage of the new opportunities that present themselves. Reviewing periodically to recalibrate if necessary is also good to see included.

However, some areas that I would like to have seen given more emphasis in the plan are services, which are a huge part of Canada's trade that deserves more prominence in the GMAP. There are services in the 22 priority areas listed, but I think they should be given more prominence.

One of those services is education. When I checked Canada's international trade and services by category on the DFATD website, I couldn't find education. Is it lumped in with government services? Maybe, but if you don't see it, what doesn't get measured usually doesn't get counted. International students add greatly to Canada's economy. I'm happy to see that there is also an international education strategy, but I would like to see a closer link between the GMAP and the international education strategy; otherwise, I see them becoming siloed. Embedding a trade commissioner in the international education strategy is a good step, but I'd like to see more. Don't forget that international students, on returning home, often rise to positions of influence, and when faced with international procurement decisions, will turn first to the country they know best, Canada. I've seen that happen with other countries; I'd like to see it happen more with Canada.

Still on the education point, the GMAP focuses on our current business people, understandably. But what about the next generation? Let's think ahead and have them better prepared. Partnering with universities and colleges would be a good plan to link the present and the future, and EDC is doing that now. Witness my professorship, the EDC professorship in international business at Schulich.

● (1200)

I'd also like to see some emphasis in the plan on accessing multilateral lending agencies, for example the Asian Development Bank. We've always done very well at the ADB on consulting services, but not nearly so well on the far more lucrative goods, works, and related services. Are there ways that the GMAP can help SMEs enter the supply chains of companies bidding on these projects, and also help our larger companies? That would be extremely beneficial to Canada.

Also—probably it's top of my mind since I'm speaking on this at the APEC meetings in Beijing next week—mobile commerce. I didn't see that at all in the GMAP. Mobile commerce is a step on from e-commerce, and this is the way the world is going. Some recognition of it, with help for SMEs to access the latest technology, would be good to see in the GMAP.

The GMAP is very good at giving a strategy, but it also needs the implementation. A strategy is only as good as its implementation. Adding more resources to the trade commissioner service is a good start. Beyond that, I see several areas to focus on. First, how are you going to get information out to the SMEs? There's a lot of information out there coming from all sorts of sources, and the SMEs that I talk to are bewildered about where to start to look. If they're new to cross-border business, they often don't even know the questions to ask. Those with some experience under their belts still find it arduous to wade through all the different sources. A one-stop shop or portal with a user-friendly interface that you could market as the place to go to get all the information, with links to all the appropriate agencies, would be a great help.

As to the education of SMEs, almost anyone who talks about Canadian business mentions its conservativism and risk-averse nature. Cross-border business by its very nature entails risk, but it's manageable risk. SMEs need to overcome the fear factor if they're to succeed internationally. They need to know how to manage this risk, and this can be helped with education. The education can be done through forums, seminars, mentoring, accelerators. These are some of the things we're trying to do at Schulich Centre for Global Enterprise.

The other point here is that among the top six or seven factors that are found in numerous studies to be the reasons a company isn't doing business internationally are that they don't understand the business culture, they don't speak the language, or they don't have the management expertise. These are all factors that can be addressed in seminars or by mentoring, but they can also be addressed by linking SMEs with business students who do have these skills, who can be hired on a project basis, as interns, or as full-time employees.

That leads me to partnering, not only consulting but partnering with other organizations with the same aim. There are a lot of us out there with the same aim of getting more SMEs doing business outside of Canada, the CME, I.E. Canada, the chambers of commerce, my own Centre for Global Enterprise. This partnering can provide synergies and make scarce resources go further.

The GMAP needs to have a plan to follow up, to track individual companies. Without this, there may be a good start but there may not be follow-through on the part of the companies. This was one of the problems with the old Team Canada missions. There was almost no follow-up. A lot of the companies went out and kicked tires. It looked like there were some things happening, but once they got back to Canada they forgot about it.

Finally, we need a holistic view of trade. Trade is a two-way street. It's imports as well as exports, and more and more these days it's being part of the global supply chain. I didn't see that notion of the global supply chain reflected to the extent it should be in the GMAP. And another part of this point on a holistic view of trade, although I think it's probably beyond the scope of the GMAP, is that it would be very helpful if there were more coordination among government departments. I often saw what appeared to me to be DFAIT—as it was then—and CIC at cross-purposes, with DFAIT trying to promote trade and investment and CIC trying to slow it down via visa roadblocks.

I believe one of your earlier presenters mentioned import regulations being under the Ministry of Public Safety and not always aligned with export regulations. With companies these days often being both importers and exporters, we need to align them.

● (1205)

Then there are the interprovincial trade barriers. It's better than it used to be, but we may soon be in a situation where it's going to be easier to trade with Korea than between Ontario and B.C., which is very confusing for foreign companies.

In conclusion—am I still within my allotted time?

The Chair: You're a little over, but I'll let you conclude.

Dr. Lorna Wright: Okay. I'll just offer my list of key success factors for SMEs to be successful internationally: good product or service, building relationships and reputation, maintaining a technical edge, being strategic, developing local knowledge, and being adaptable. On the government front, I see the GMAP moving forward on doing exactly that.

The Chair: Thank you very much.

We'll now go to Professor Keith Head, another professor, from the University of British Columbia.

The floor is yours.

Dr. Keith Head (Professor, Sauder School of Business, Strategy and Business Economics Division, HSBC Professorship of Asian Commerce, University of British Columbia, As an Individual): Hi. I'm very happy to be here, and thank you for inviting me.

How much time do I have?

The Chair: You have ten minutes.

Dr. Keith Head: I wanted to start by giving some background on what I see as the main goal of policies like the global markets action plan, and then talk briefly about the research I did on previous policies that pursue the same goals. Then finally I'll talk about what we can learn from those, and infer what might be effective in the GMAP.

Is that okay?

The Chair: Okay.

Dr. Keith Head: Ever since I've been doing this, there's been this overriding concern in Canada to diversify trade away from the United States. I think that some of that has to do with what happened in the 1990s. In 1990, Canada exported about three-quarters of its goods to the U.S., but by 1999 that had peaked to 87% of Canadian exported goods going to the U.S. market. That stayed there for three years. It's much higher in Ontario, at 93%. Since then, though, the long sought-after diversification to other markets has been going on. With the tailwinds of a stronger Canadian dollar and simply changes in the different sizes of the economies, exports to the U.S. have now gone back to the level they were in 1990, at about 75% of total; still higher at around 80% for Ontario, but much lower in B.C., at 46%.

One way to read this is that the mission was accomplished, that the long sought-after trade diversification away from the U.S. has occurred. But another way of thinking about it is to say we've moved away from trading so much with the U.S., but how did we do it and how can we continue to move in that same direction? I think that leads to the study of what policies have been employed to move Canada away from the U.S.

The one that we were really interested in was the Team Canada approach taken by the governments of Jean Chrétien and Paul Martin from 1984 to 2005. John Ries and I spent a long time going through the numbers and looking at the effects of a series of trade missions that Canada ran during that time. They visited 17 different countries. They made deals that, if you summed them all up, they claimed to be worth $33 billion, and $33 billion is a large number when you consider that in 2000 the total trade to non-U.S. destinations was $54 billion. So we're looking at three-fifths of the total amount of trade during that year.

Then the question was: did these trade missions that were run under the auspices of Team Canada actually work? If you listened to what people said at the time, you'd get highly conflicting accounts. The Ontario premier said, “This trip was an unqualified success”, “trade deals that will expand their business in the short-run”, they “made contacts that will lead to continued trade” and “even more job creation” in the long run. That was his view.

On the flip side, Michael Hart, who had been a negotiator of the trade agreement with the U.S. and long an advocate of more trade with the U.S. and less emphasis on diversification, said that trade missions are popular with ministers, but they have virtually no enduring impact on trade and investment patterns. So there was this alternative view that basically considered trade missions, like Team Canada, to be only photo ops.

We didn't know what the truth of the matter was. Both of those seemed like they could be plausible, so we took all the trade missions.... There were eight Team Canada missions and 15 different Canadian trade missions that were smaller, led by the Minister of International Trade instead of by the Prime Minister. These missions involved a lot of other government officials, premiers often, anywhere from 25 to up to 500 Canadian companies would come along, so they were a big deal. It is important to find out whether they work, because they're attractive to politicians and we want them to be doing them if they actually yield benefits for Canada.

What we found was that if you cut the data in the most naive way possible, it seemed like these trade missions were really successful. Yet when you started drilling deeper, when you started cutting the data in a more intelligent and thoughtful way, you found the effects started to diminish.

● (1210)

What we finally did, what we believe is the most natural thing, was to look at trade between Canada and the trade mission visited country, the trade mission targeted country, and look at how that bilateral trade evolved after the mission. You find there's no significant change. Trade with these countries we visited was higher after our mission to them, but it was higher before the mission. We don't really have any real evidence, any statistically significant evidence, that the trade missions affected Canadian exports to the targeted countries at all, which is kind of a downer.

We also looked at services. The previous panellists emphasized that services are very important. What about foreign direct investment? It's the same sort of story. Nothing was really happening. We were targeting countries with which we already had pretty good commercial relationships. We kept those commercial relationships at about the same level, so, in other words, nothing much changed.

If you believe our results, what does that tell you about the global markets action plan and what things should be done in the future by Canada to diversify its trades? The first observation that I would draw is, a policy that was geared toward photographs of politicians serving Beaver Tails in China is a policy geared toward appearances, and therefore we might expect it to have only superficial effects. In some sense, our results were predictable if you take that kind of skeptical view.

What kind of policy would be better? It would be a policy that works more quietly, behind the scenes. It's not about photo ops, but it's more about Canadians creating the connective tissue of networks between Canadian businesses and the foreign businesses that would buy from them. Everybody working on international trade right now is really obsessed with this process by which firms connect to each other and create trade with each other. Maybe we were late to the party, but we now understand that it's not just about markets, that networks and the formation of networks are vital.

I believe that using consular trade missions to permanent trade missions that are there every day, all year, for years in a row, is a potentially more effective way to do it because it allows for that kind of follow-through, the kind of building of connections, sharing of connections, sharing of all kinds of valuable information that can make a lasting impact. There is research to support that. I don't know if you're going to hear from Dan Ciuriak, formerly of DFAIT. He's done research for Canada showing that consular offices increase exports from Canada to the countries where they're located. Also, for the United States, Andrew Rose, a pretty well-known trade economist from Berkeley's Haas School of Business, has shown this for the United States.

There is some evidence to support it. I would caution that I haven't worked with that data and subjected it to all the same scrutiny that I subjected Team Canada to. It's possible some of these results would not be as strong if we drilled deeper. But I do think that based on the evidence we know so far and simple reasoning, quiet, behind-the-scenes network-building can be more valuable than the kind of flashy stuff that gets done in front of the cameras. That is a very promising aspect of the global markets action plan, namely, its upfront and central emphasis on economic diplomacy. If I understand economic diplomacy the way the GMAP does, then I think that to me seems like a much more promising way of approaching things.

The second thing that I think is a really sensible aspect of the plan is an emphasis on small and medium-sized enterprises. What you see over and over again, if you look at the data from every single country, where anybody's looked at the data, is that large companies have no trouble really exporting. Size and export participation are extremely closely linked. It's the small companies that have the trouble. What do we need to do to get smaller companies more involved with exporting? We need to perhaps have our government act as a facilitator to try to bridge those gaps for them.

● (1215)

Thank you.

The Chair: Thank you very much.

We'll now hear from our last presenter.

Mr. Gupta, the floor is yours.

Mr. Karna Gupta (President and Chief Executive Officer, Information Technology Association of Canada): Thank you very much for inviting ITAC to this forum. We are pleased to submit our position on this issue.

To frame the discussion, we represent the information technology companies in Canada. Our members are multinationals, but 75% of our members are SMEs across the country. There are 30,000 ICT companies across Canada. We generate about $155 billion in revenue, and 5% of GDP. We're the largest private sector R and D provider in the country today, by a factor of five; we do about $5 billion of R and D. The second largest is pharma. The last estimate for the total export that goes into the ICT sector was around $21 billion, and it's still quite extensively over-rotated towards the U.S. Some 64% of our exports are in the U.S. and 12% in the EU. The other countries are much smaller. The service side of ICT makes up about 86% of our export.

When you see this kind of backdrop, there is the underlying thesis that for most of the technology—I'm talking about Canadian companies—to be successful, they must have a global footprint. The Canadian market in its totality is extremely small, with 35 million people. These SMEs traditionally do not know how to do business outside of the north-south Canada-U.S. border. They typically don't go to Asia or to east Europe. Those markets are foreign to them. The GMAP lays out a foundation for Canadian SMEs to grow their business in broader emerging markets.

There are a couple of main challenges that our members face, and I will bring in two sets of examples here. In my past life, I ran public and private companies globally. I've seen how the other markets play out, so I'm going to weave that into the discussion.

The major issues facing Canadian companies, what I call "in terms of adding muscles quickly", are really in three sources. One is access to market. Other than the U.S., the access to market continues to be fairly low for Canadian companies. This is where the GMAP could play a significant role by having the proper trade commissioner services on the ground, not only providing intelligence, but also connecting a B2B connection. If you don't connect the demand side and supply side, it ends up being just a photo op. You need to connect the demand side and the supply side.

The second issue that most companies face is access to capital. On the capital side, the Canadian SMEs are struggling, after initial friends and family funding. That means that they now have product and it has been commercialized; they have one customer, and they need to scale.

From then on, the funding cycle is not there in Canada because nobody is funding Canadian companies until they become cashflow positive. There's a huge "dead man zone" opening up for SMEs to build out the organization and exports. This is where we need to work with EDC and other government agencies. Whether it's an IRAP...they need to come together to support that level of SMEs to scale their businesses.

The third issue that the SMEs face is access to talent. In our industry particularly, the talent is the resource that we base our products on. It is a knowledge-based economy that we're creating. When you're creating a knowledge economy, it will move where the conditions are right. It is not tethered to the ground, so it's not tethered to the resources. They will move where the conditions are right. We need to create the right conditions to attract the right talent in the country.

When I look at the global markets action plan, the fundamentals are very good in terms of outlining the broader strategies. It responds to most of the needs that we lay out in the ICT sector. The target markets are way too large. They need to be narrowed down and focused, as the previous witness mentioned. You can't have 76 priorities. You need to pick five, maybe ten, but you can't go to 76 priorities. We need to narrow down where we focus on.

● (1220)

We need to try to build economic diplomacy by working in back offices and connecting people to the right places, rather than having broader trade missions. When we take businesses from here to a foreign country, ITAC sets up proper business arrangements on the other side through the trade commissioner service. There is a business-to-business dialogue to create a transaction, rather than having a broader trade mission.

TCS is absolutely critical in achieving our success. From an ITAC point of view they are providing a very good service on the ground, but they are underfunded. They do not have sufficient resources to do what is necessary to help our businesses. In our budget submissions to the government we have previously recommended that this funding be changed

Canada's business incubators need to be encouraged to connect to foreign countries to create the free flow of goods and services and human capital back and forth. That is absolutely critical to our success.

Finally, the whole EDC and IRAP support needs to be added to the overall strategy to move this forward.

On the GMAP side, we think enhancing the Canadian competitive edge is laid out at the end of the document. It's fairly well articulated, but it needs to lay out what we are going to do specifically to help Canadian companies be successful in a global market because we have an importer/exporter distinction. Most of our companies are importers as well as exporters. If you're trying to punish them as importers because of tariffs and everything else, they cannot in turn export. As somebody said, they cannot have their feet nailed to the ground then you give them a back rub and say go and export, because we're dealing with the global supply chain. Both the import and the export need to be dealt with in a comprehensive fashion.

I'll stop there. I'm not going to go through the presentation. You have the details and those are the highlights.

● (1225)

The Chair: That's very good. We'll get into the question and answer period right away.

We'll start with Mr. Côté. The floor is yours.

[*Translation*]

Mr. Raymond Côté (Beauport—Limoilou, NDP): Thank you very much, Mr. Chair.

I would like to thank our three witnesses too. First, I would like to talk to Ms. Wright.

I appreciated the frankness of your presentation. You really got down to business, we might say. It was really very helpful.

In terms of the plan, the example used was the Team Canada missions, which, unfortunately were not followed up on. Mr. Gupta also took the opportunity to talk about the resources required to launch a plan.

For 10 or 20 years, Canada’s approach has always been to think things happen by magic, which is unfortunate. Things have been allowed to slide, with very little investment made to support Canadian services abroad, including our trade commissioners, and our network of embassies, delegations and representatives in a given country.

To what extent will you have trust in the plan if it does not come with resources?

[*English*]

Dr. Lorna Wright: If there are no resources I have no trust. If you want this to succeed, you have to put in resources, both financial and talent, as one of the other witnesses said. It's very important.

On the trade commissioner service, when trade commissioners on the ground come fresh out of Canada, it takes them a while to figure out how things work in the particular market they're in. If you can keep trade commissioners in place longer, so they understand things more...from my experience a lot of the major value in the trade commissioner service comes from the local hires who know exactly what's happening on the ground, who know who the good players are, who the suspect ones are. Building those networks that Professor Head talked about is absolutely critical.

[*Translation*]

Mr. Raymond Côté: I would like to look at an article you wrote with you.

[*English*]

The title is “The e-business capability of small and medium sized firms in international supply chains”.

[*Translation*]

There again, you are talking about resources. But what is very interesting is that companies devote their own resources in order to be able to do their own distribution chain. You mentioned that in your presentation. You talk about new technologies, new approaches. From that point of view, Canada seems to be behind. Canada seems to have a cultural problem compared to the United States, where entrepreneurs are not afraid to innovate and to invest in new technology.

What do you think about this missed opportunity? Do you think that the government has wasted an opportunity to make us competitive and to let the plan we are now studying reach its full potential?

● (1230)

[*English*]

Dr. Lorna Wright: Yes, I think we have missed some opportunities. Canada, compared to many of the Asian countries, for example, is very far behind. I'm working with Korea at the moment, and Canada just isn't in sight.

SMEs need a couple of things where government can help. Because SMEs are usually cash-strapped and don't have the finances, they're reluctant to try something new because, if it doesn't work, what are they going to do?

Canada re-entered the GEM project, the Global Entrepreneurship Monitor project, after 10 years away, and it was quite interesting what their report found in terms of use of technology. Most are not cutting edge; they're using technology that is one to five years in use.

What the government can do is provide training for SMEs so they know what the value is going to be. Help them with some financing. For BDC, SMEs are its target market. I was talking to one of their vice-presidents the other day, and he was saying that their penetration rate in Ontario is 3%. That's not much.

One of the other things goes back to education. It goes back to marketing, actually making SMEs know what's available and what's out there, and doing some training with them to get the information out.

[*Translation*]

Mr. Raymond Côté: Thank you.

Now I am going to turn to you, Mr. Head. In terms of the lukewarm results of diversifying our international trade outside the United States, the conclusions you presented to us are very interesting.

I cannot stop myself from leading you to another area, to the fact that Canada has become a major exporter in the extractive industries. In other words, our manufacturing has lost a lot of ground in international trade. Pablo Heidrich, one of our witnesses, brought that up and made the point that we are making a serious mistake by concentrating on exporting natural resources. The Conference Board of Canada came to the same conclusions in the report it published in December 2012.

Do you want to comment on the problem of our lack of product diversification?

[*English*]

Dr. Keith Head: It's a really interesting issue, products interfacing with countries. If you look at trade patterns, Canada is almost two countries on this issue. You have Ontario and Quebec being manufacturing-oriented but also being very U.S.-oriented. On the flip side, once you go west, we're more aimed toward Asia, but if you look at the list of things that western provinces export to Asia, it's all natural resources. You can just go through the top 20 commodities and you find almost nothing that's not related to the earth, to what's available below or above the soil or in the sea. That's the thing, and that's the fact, and that has not changed, that really sharp orientation of ours in terms of exporting natural resources to Asia.

It's very different from the U.S. The U.S. does export manufactured goods to Asia, and so it is a puzzle that Canadian manufacturers are so good at exporting to the U.S. but not so good at exporting to Asia. The fact that the resource exporters are good at exporting to Asia is not that surprising when you think about the huge growth that's going on in Asia. A lot of that growth requires raw materials of the kind that we can provide: fertilizer, ores, etc.

● (1235)

The Chair: Absolutely.

Mr. O'Toole, the floor is yours.

Mr. Erin O'Toole: Thank you, Mr. Chair. Thanks to all of our witnesses for appearing.

I found it very interesting to have Professor Wright and Professor Head together in the order they were. Because Professor Wright, after your assessment of the pros and some areas of improvement in the GMAP, you looked at Team Canada and you said that it looked as though things were happening, but there was no follow-up.

We were fortunate, then, to have Professor Head, who's actually analyzed the follow-up, monitored the post-Team Canada mission trade between the countries, and said there was no significant change and it was difficult to show that those missions yielded any benefits.

Professor Head, when I look at the largest mission that Prime Minister Chrétien and the Liberal government did, it was in 2001 to China, with over 600 people—premiers, mayors. There was $5.7 billion announced in that event. But then if you look at it, there were a lot of letters of interest, memorandums of understanding, that sort of thing. Did you look at that mission in particular, and does it fit with your general conclusion? You mentioned photo ops; there were a lot of photo ops. But an analysis of the data shows that there was no long-term change. Our trade with China was already going up, and there was no discernable benefit from this flashy mission.

Dr. Keith Head: We didn't look at trade missions mission by mission. We looked at the 17 visits as an ensemble, estimating the average effect of those missions. And the average effect was zero. If you start going country by country, the trade is just so volatile, it's just bouncing around, and it's very hard to see what's going on at all. We did some graphing of it. Trade bounces around a lot, so you have to take all the missions together and average them out to see what's happening. And the average is basically zero.

With regard to what you said about the memorandums of understanding, etc., what we've heard from talking to people is that they would take some deals that were already happening, and then they would hold off on announcing them for a while so that they could announce them at the mission. And they would take other things that were sort of wishful thinking, hoping they might someday come together, and add those. So in other words you take the future that may not happen, and you take the past that's already happened, you lump them together and announce this big thing, but that's not really a change that was brought about by the mission.

Mr. Erin O'Toole: You mentioned Mr. Hart, who said these were very popular with ministers and Prime Minister Chrétien, but of no impact, and I can see from that description the politics of it.

The phrase I liked best, when you talked about the contrast approach, the global markets action plan, a strategy, was your term “connective tissue”. So putting resources on the ground; enhancing the role of trade commissioners; building a less photo op-driven and more long-term approach, including getting that small number of SMEs that export, and getting more of them exporting, do you feel that's a better long-term approach, that it doesn't provide for a good short hit in politics, but it's probably the more prudent long-term approach?

Dr. Keith Head: Yes. I like the idea of the quiet Canadian who's behind the scenes telling the people who are really in a position to make big purchases from Canadian companies, that maybe they've overlooked Canadian companies they should be talking to, that have products they're not aware of. That kind of thing that's going on—and it won't be covered in *The Globe and Mail*—might end up being much more effective in the long run.

Mr. Erin O'Toole: Professor Wright, do you have any comments on that longer-term approach to diversification, but also of growth of markets in Asia in some areas that you said were lagging? Do you see that reflected in the GMAP? I know you've identified areas such as education and a few specific areas you'd like broken out better. But do you see the strategy and the long-term allocation of resources being effective for the long term?

● (1240)

Dr. Lorna Wright: I see the strategy as definitely effective. What worries me is that I see a lot of great strategies, but a strategy is only as good as its implementation. For this to work, you do have to put the resources in.

And the other thing I would be very concerned about is that this does have to be long term if it's going to succeed. You can't chop and change and next year decide it's going to be something different, because I've seen that happen a lot with governments. You need to keep on, because it will be long term. You're not going to see a big jump in exports this time next year, but if you keep moving slowly, keep the follow-up, keep your eye on the ball, then yes, I think it will work, and I think it is the way to work.

I would say, though, particularly in Asian markets, there is a place for the photo-op. There is a place for high-level government people to go out, if a company's having problems—for example, I think Bombardier in a couple of instances found it extremely useful to have Jean Chrétien come along—because that show of authority, of prestige, means a lot, and can help smooth things out if there are problems. So I wouldn't abandon it entirely, but I wouldn't make that the focus. I think the GMAP has the right focus of, behind the scenes, building your trade commissioner's service, and, I would also say, reaching out to other partners—private sector, NGO, whatever—so that it becomes a coherent whole.

Mr. Erin O'Toole: This approach with the consular and trade commissioner on the ground permanently is also more conducive to SMEs, which you've both identified as an area we can really increase our exports in, if we get that 10% of SMEs that export most to the U.S. Even if we doubled it to 20%, it would be huge.

Professor Head, on the big trade missions, many of them were the large companies that already had the contract signed, as you said. You broke it down as being the large companies don't need the supports—like the trade commissioners—that the SMEs do.

Do you see the GMAP helping SMEs much better than the Team Canada large missions?

The Chair: I'll allow a short answer.

Go ahead.

Dr. Keith Head: There is some evidence that heads of state visits can sell things like Boeing, Bombardier, and Airbus. That can work when the heads of state show up and Bill Clinton can get the United Arab Emirates to buy an extra 747, but I don't think that should be the priority for Canada. I think the priority should be to address the deficits that the small and medium enterprises have. I think that's done not by heads of state but by the consular missions.

Mr. Erin O'Toole: Thank you.

The Chair: Very good.

Mr. Pacetti, the floor is yours.

Mr. Massimo Pacetti: Thank you, Mr. Chair.

Thank you to the witnesses for coming forward.

Ms. Wright, a lot of people talk about SMEs and the fact that they have trouble exporting. You refer to some of the problems such as lack of time of the owners. For example, normally it's companies with five to ten employees where the owner does everything, does the payroll, then another day, he'll do the fixing of his machinery in the shop in the back, and then he goes out and puts on his tie and does the selling.

My experience, from being an accountant, is that you'll say to somebody, “You should do this with your company”. The owner is all into it, but then some “fire” occurs in his business, and he changes the channel and forgets about what he said he was going to do the prior day. He doesn't have the resources to allocate that project to somebody.

And the major one is exporting. I'm in total agreement that they don't have the human resources, and then the capital is missing. If I'm in Canada—I'm from Montreal—and I'm going to pay for a plane ticket to go to China, it's going to cost me at least $10,000, between plane tickets, accommodations, and then trying to take people out—that's a lot of money for a small business.

I like your idea of mentoring business students, but the problem with that is, the business student doesn't have practical experience, the business student is going to want to get paid, and so how do you start that? How do match that? What's the starting point?

Dr. Lorna Wright: On the mentoring side, it's not only mentoring the students, it's also mentoring with companies that have done it. But, on the students side, it's not true that they don't have experience. If we're talking about the MBA level, they come in with experience. If you're at the undergraduate level, yes, you're quite correct. There are several ways, and I'm going to use Schulich as an example, but other universities do this as well. For a company that wants to look at a market—let's say China, for example—but isn't sure, doesn't have the capital to expend at the moment, our students, in order to graduate in the MBA program, have to do a strategy study with a real live company, and they provide that cost-free except for out-of-pocket expenses. A company can access that, and can get a strategic plan for market entry.

● (1245)

Mr. Massimo Pacetti: Where is that available, if I have small businesses that want to get involved in that?

Dr. Lorna Wright: We're situated in Toronto, but we do that in any place in Canada if the company is willing to pay for Skype or transportation. Carleton does something similar, and there are other universities around the country. This is information flow, you need to find out about them. That's the same problem SMEs have: where do I find this?

Mr. Massimo Pacetti: Quickly on the follow-up, you said the GMAP is lacking a follow-up plan. What would be your vision, how would you see that? Would it be greater goals in terms of dollars, percentage? How would you measure it?

Dr. Lorna Wright: It would be dollars, it would be percentage. I would have the trade commissioner service on the ground keeping track of who's come out, what have they done, and following up. This is an example from my own experience. A Canadian company went out to Thailand, made a deal with a Thai company to sell tiles. The Thai company was very happy. The Canadian company went back and, exactly as you said, had fires to put out and totally forgot about Thailand.

Mr. Massimo Pacetti: The way you envision it, would there be a reporting of accomplishments and failures? How would that look?

Dr. Lorna Wright: Yes.

Mr. Massimo Pacetti: There would be a reporting once a year.

Dr. Lorna Wright: I would think that would be a good way to do it, with each of the trade commissioners in each of their territories giving a report back.

Mr. Massimo Pacetti: I want to get a question in to Mr. Gupta, because I have less time than the other people.

Mr. Gupta, do your member companies get affected by tariffs? Because they are mainly in the service business, free trade agreements are not an issue. It's more getting into the company, free flow of—

Mr. Karna Gupta: Yes, goods and people. Tariff has very little impact for the ICT sector. There are some component pieces that would get tariff and the range is probably between 7 and 20. None of our members really have a major issue with the tariff items.

Mr. Massimo Pacetti: How about in terms of flow of human capital, trying to get people in and out of country?

Mr. Karna Gupta: Well, human capital is a big issue now. We all know what's getting played out in the media with the temporary foreign workers. In the ICT sector today, we are running between 2% and 3% unemployment, which means we can't find people to fill the jobs.

There are two ways to fill it: you grow your home-grown talent, so we ask the schools to send them to the STEM program and graduate with the technical knowledge; and you import talent, access global talent. We should attract top talent into the country, and if we build the bench with top talent, they can contribute to the economy and build more jobs around here. Our sector pays 52% more than any other sector—

Mr. Massimo Pacetti: I understand, but is your industry being affected by the temporary—

The Chair: Mr. Pacetti, your time has gone.

We'll go to Mr. Hiebert.

Mr. Russ Hiebert: Thank you.

I'll continue that line of questioning.

Mr. Gupta, you talked about the importance of access to markets, to capital, and to talent. All of us have been talking about access to markets, the use of the TCS to connect businesses to businesses.

From my experience on the trade committee for several years now, and having done a fair amount of travel overseas, I've seen that happen. I've seen our trade commissioner service actually tracking this data, and there's probably more that needs to be done there. But simply throwing more resources at them, I don't think is always the answer either.

I mean, we've heard complimentary things about the TCS for many years now at this trade committee, but the reality is that these are temporary postings. These people aren't there for the rest of their lives, except for the locally engaged staff. They're typically there for two or three years. It takes them a year simply to re-connect with the connections that the previous trade commissioner service established, and then they have about a year and a bit before they start thinking of their next posting. So there is this transitional complication that's added to this.

I want to open it up to all three of the presenters today to talk about the follow-up side, because I think, Ms. Wright, you're absolutely correct, we're good at aspirational objectives here, but the hard work is getting it done and concluding it.

I don't disagree with my colleague, Mr. Pacetti, in terms of the challenges that SMEs face. It's exactly as he described, where they will be distracted by urgent situations.

With the time we have left, all three of you, how would you increase the access to capital?

We'll start with you, Mr. Gupta. How would you make Canada a more attractive place for this international talent you have identified?

● (1250)

Mr. Karna Gupta: I think there are two pieces here. One is the talent for the companies themselves to continue to produce and expand, the talent internally within Canada. There are really limited resources to push kids at a younger age in high school more towards STEM programs, science and math, so they can go into the technology arena. Technology doesn't mean that they're going to be sitting at a computer writing software. It could be marketing of technology or it could be finance. Technology is the enabling tool in our lives today, so better understanding of technology is important.

Then, have university programs. A lot of the universities are now using BTM, business technology management, as part of their curricula, and those graduates have a 90% hire rate today. Having kids coming out of the programs that our sector needs is very critical now.

There is no way the demand could be met internally, so we need to find a way to get the foreign talent into the country based on specific needs. They come into the country in three different ways: there are projects that are three to four months long, to get something done; there are people who could come in for two to three years for knowledge transfer; and then you have the permanent people through the normal immigration or permanent resident process. We need to attract talent into the country to meet all three dimensions. If we don't do that, we will not be able to compete on a global scale because people will go where they have the right conditions to work.

Mr. Russ Hiebert: Okay.

Ms. Wright.

Dr. Lorna Wright: Perhaps I can pick up on the follow-up side because it's more than just measuring. It's also poking the companies. Basically someone comes out and looks promising, but they've gone back, and you haven't heard from them, so follow up and say, “Hey, I thought you were going to do something out here. What happened?” That just keeps it top of mind for the SMEs.

You made the point about the trade commissioners being there for only a short period of time, but really, bring to the fore the locally engaged staff because those are the ones who know what's going on. If you can bring them more in touch with the Canadian SMEs as well, I think that would be very helpful.

Mr. Russ Hiebert: Dr. Head.

Dr. Keith Head: I don't know the answers to these questions, but I think that the issue that Mr. Gupta raised, about the capital deficits of companies that could be exporting but don't have the capital to do it because of this hole, really needs to be investigated. Why aren't Canadian financial institutions willing to lend to these companies? If that financial side of it is a really important part of it, we need to address that. But that's sort of a separate set of policies that would address finance more than it would address this other issue about forming networks and building connections. We really need to know the critical thing that's holding us back. Is it one of these two things or both?

Mr. Russ Hiebert: Is there an opportunity for more joint ventures internationally between SMEs that don't have the natural resources to penetrate the markets, to connect them with companies in China, let's say, or in India, to keep that relationship alive? Once you have somebody on the other side of the world who you're committed to doing business with, you can't really let urgent matters distract you from that relationship because it's valuable to you.

Is there some way we can facilitate those kinds of relationships?

Mr. Karna Gupta: Absolutely.

Again, to some of the other comments made, the staff on the ground is critical to connecting them. In any country, and take India or China, for example, as a market, it doesn't really matter, any of the Asian countries, it's tough to do business there. It's a lot easier for an SME to go down to Boston and try to peddle his stuff than to go to Mumbai. To go to Mumbai and be successful, they need local staff who know the local context. It is building a long-term relationship, so it needs multiple visits. From a funding point of view, a lot of the SMEs could benefit from what is now done through GOA.

I took seven companies down to India and then I took some to Dubai. GOA funded half of their travel costs. Typically SMEs' troubles are twofold: can I make my payroll? Where is my next customer? Those are the two things that keep them up at night, so they don't want to spend a lot of money going to India and China looking for new business. If we can help, that's one, financing for them, solving part of the cost, then have the local staff help them connect to the right people and build those networks. Whether they need joint ventures or selling, it all starts there.

● (1255)

The Chair: Thank you very much.

We have about four and a half minutes left. We will split the time going into the second round, and we'll allow a couple of minutes for the NDP and a couple of minutes for the Conservatives.

Mr. Morin, the floor is yours.

[*Translation*]

Mr. Marc-André Morin: I am going to try to summarize.

Mr. Gupta, you said that small businesses have trouble getting financing. My impression is that big business has access to finance markets and international financing, where huge amounts of capital move around. Businesses of that size can protect themselves from currency fluctuations and longer-term risk.

In your view, how can we make up for that disadvantage so that smaller businesses can achieve some success too?

[*English*]

Mr. Karna Gupta: That's a very good question. Let me frame the problem to exactly where we see the problem in our sector.

If you take a company at a start-up level, what I call the incubation level, there is really no funding problem. Friends and family can fund them to get the product to pre-commercialization or maybe up to the first customer, so there is no funding gap there.

Once the company has the product on the market and it now needs to scale, meaning it needs larger financing, until they are cashflow positive no Canadian bank will write a cheque. They cannot get any funding, unless they have a foreign business supported by EDC as a guarantee. The whole funding model in Canada suffers there. The VCs in the Canadian market are in complete chaos. I think the recent announcement around the $400 million that came from the government is very good news and is creating a fund of funds, but it still hasn't been doled out, and that's where the gap is. These companies are trying to scale while they're cashflow negative, and nobody in Canada gives them money. There's no family money anymore, and they need more money.

The Chair: That's a *Dragons' Den*...

Let's go to Mr. Shory.

Mr. Devinder Shory: As usual, Mr. Chair, you will cut me off quickly.

Thanks to the witnesses.

Mr. Gupta, your sector is dominated by small businesses, and you talked about funding issues, but are there any other barriers that would prevent small and medium businesses from taking full advantage of new and emerging markets for Canadian goods?

How do you feel about a new approach in economic diplomacy and the GMAP possibly removing some of the barriers for those companies to establish themselves in those markets?

I'd also like you to comment on whether the GMAP complements the work you already do with your member companies.

Mr. Karna Gupta: Those are long questions, and I'll try to cover them all off very quickly.

The GMAP, the document we have seen, I will call the framework. It has the right framework with the elements that we from the ICT sector support. Now the executional side becomes very important. Do we have the resources on the ground? We have trade commissioners in multiple countries. I think government can benchmark which ones are working better, and create some best practices. I would not say how we should use one versus the other, but I think it's something the government can do: find out which ones are working well, and model some of the other ones on them. Some are very successful. I think the whole trade commissioner side needs to be addressed.

On the financing side, I think beyond what the government has done, it needs to encourage or create policies whereby investment will continue to happen post-incubation. I don't think there is any policy in place today that encourages further investment for people who take that risk. Nobody's putting money into the companies at that level, when they're cashflow negative. They're truly struggling. Maybe have something where foreign direct investment could also come in.

From the ICT sector, I think those are the same three that always come up, and it's been consistent over the last few years.

● (1300)

The Chair: Thank you very much.

Thank you, Professor Head, for taking the time with us from Vancouver.

Dr. Keith Head: It's been my pleasure.

The Chair: Thank you, Mr. Gupta and Dr. Wright, for spending this time with the committee.

That takes us to the end of our meeting, and with that we will adjourn.