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**Wednesday, April 20, 2005**

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**Chair**

**Mr. John Cannis**

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Wednesday, April 20, 2005

• (1540)

[English]

**The Chair (Mr. John Cannis (Scarborough Centre, Lib.)):** I'll call this meeting to order.

First of all, let me begin by welcoming our witnesses today to the Subcommittee on International Trade, Trade Disputes and Investment of the Standing Committee on Foreign Affairs and International Trade.

With that, we'll go down the list and introduce our witnesses.

I understand Mr. Laking will be coming very shortly from BTI Photonic Systems Inc. We also have with us, from the Information Technology Association of Canada, Mr. Bernard Courtois, president and chief executive officer. From the Canadian Plastics Industry Association, we have Mr. Serge Lavoie, president and chief executive officer; from the Asia Pacific Foundation of Canada, Mr. Yuen Pau Woo, vice-president and chief economist; and from the Association of Universities and Colleges of Canada, Ms. Karen McBride, vice-president, international affairs branch.

Welcome to the committee.

We'll start with 10 minutes each, if you will, and then we'll go to questions from the members.

The floor is yours, Mr. Courtois.

**Mr. Bernard Courtois (President and Chief Executive Officer, Information Technology Association of Canada):** Thank you Mr. Chair.

I thank you for the opportunity to present the views of the information and communications technology sector. Over half a million Canadians work in our sector, designing systems, manufacturing equipment, providing consulting services, designing websites, and running telecommunications in virtually every community in every part of the country.

Our workforce is significant not merely for its size—it's quite large among industry sectors, larger for example than the automotive sector—but also because of its level of education. We boast one of the best educated workforces in the economy, with over 38% of ICT workers holding university degrees compared to the national average of 20%.

This strong knowledge resource enables us to punch well above our weight class in terms of research and development. ICT

companies are by far the largest source of private sector R and D in the economy. They invest over \$5 billion in R and D annually, which is well over 40% of the private sector total. This is many times what we represent in terms of our share of GDP.

We are proud free traders and we have benefited considerably from bilateral and multilateral trade agreements such as NAFTA and the Information Technology Agreement, concluded in 1996, that provided for the elimination of duties on a wide array of ICT products.

For a variety of reasons such as size, historic trading relationships—I don't need to go over a long list—the United States is a vitally important marketplace for Canadian ICT companies and will continue to be for the foreseeable future. Nothing should diminish the strength of our trade policy focus on the United States and the ongoing efforts to expedite and expand trade across the Canada-U.S. border.

While the United States is our most important market, the leading companies in our sector have recognized for a long time that it's not our only market, and as a result, ICT companies have been pioneers in the exploration of emerging markets. For example, Nortel has been doing business in China since 1979. Their foresight and early commitment is validated by the strong relationships Nortel now enjoys throughout China. It's now a major supplier to all of the telecom operators in China, and these relationships help ensure that the best, most appropriate technologies are deployed in the growth of China's telecom infrastructure.

Nortel's mission to bring the world together is being fulfilled on every continent, and most recently, for example, it's placed a particular emphasis on the Indian marketplace. In December it secured a major contract to expand the digital wireless network in eastern and southern India. And just this month it announced a \$10-million equity stake in Sasken Communication Technologies, a Bangalore-based pioneer in telecom research and development outsourcing. And the foresight that's made Nortel such an important global player continues. It's currently very active in Brazil, seeking partners, talented employees, suppliers, and customers in a market that it believes will soon rapidly expand.

While Nortel is our largest and most experienced ICT exporter, newer companies have shown themselves equally adept at succeeding in emerging markets. Entrust Technologies, a leader in public key interface software, has had an office in China since 2000. In 2001, the China Financial Certificate Authority installed Entrust software to secure the online transactions of Chinese stock traders and corporate banking customers. Entrust continues to play a vital role in the task of ensuring that as the Internet grows at the mind-boggling rate of 100% per year, in China as elsewhere it affords a secure environment where Chinese people can transact business with a high degree of confidence.

RIM's BlackBerry continues its relentless march around the world. In 2003, *HK Magazine's* readers voted the BlackBerry the best new gadget of the year. RIM entered the Asian market in partnership with Hutchison Telecom, a venture that's contributed significantly to RIM's quite remarkable growth. The company has just announced a new venture with Hutchison Telecom and Partner Communications to bring the BlackBerry to Israel. Earlier this year, the company announced the availability of the BlackBerry for corporate customers in Brazil.

Our sector also includes a number of designers and producers of microelectronics components that are world-leading in their field. ATI Technologies is a world leader in the supply of graphics, video, and multimedia products for the desktop, workstations, notebooks, TVs, cell phones, and game consoles. ATI is inside both Xbox and PlayStation, and these ubiquitous game systems can be found from the outback to the Arctic Circle.

● (1545)

Gennum Corporation of Burlington has a product line that can be found in 60% of the world's hearing aids. Like many of their counterparts in ICT, microelectronics companies have been swift not only to export to emerging markets but also to include companies from emerging markets in their global supply chains. Even companies that we think of as providers of domestic service have their eyes on export opportunities. For example, last November SaskTel International announced a major contract to build communications infrastructure in Mozambique. That was its eleventh contract in Africa.

Experienced global players like these perform a vital role in Canada's exporting ecosystem. They provide a productive context for smaller Canadian-based companies to sell into. Many successful ICT exporters enjoyed their first piece of foreign business as part of the supply chain of larger Canadian exporters. Our large exporters

are to be prized not only for the value of the wealth they create, but for also for their catalytic impact on domestic industry.

All this is to say that ICT understands the importance of exporting and is a vigorous participant in emerging markets throughout the world. We've been ably assisted in these markets by programs put in place by International Trade Canada. Our members are particularly complimentary of the services provided by trade commissioners' offices. They are ready participants in and beneficiaries of Team Canada missions and regional trade fairs. They are customers of the full suite of services rendered by Export Development Canada.

The feedback from our sector is that these instruments are effective and eminently sensible. The only suggestions for improvement we can offer are simply to do more and to do it in a fashion that is alert to the political realities of emerging markets. The chemistry of trade in non-liberal democracies is not the same as it is in countries where democratic institutions are strong. In our members' experience success in the emerging markets often hinges on the depth and intensity of personal contact at the highest level. Our industry looks to the Department of International Trade to help us establish these relationships.

We'd also like to see the principles that guide programs such as PEMD to more closely reflect the importance of emerging markets. PEMD is a useful vehicle for the exchange of information between associations, which in turn benefits our members' export activities. We'd like you to ensure that PEMD continues to play the supportive role it's played in the past, and there may be some tweaking required to ensure that PEMD's definition of core activity aligns with the objective of fostering opportunities in emerging markets.

Budgetary restraints no doubt impose restrictions on what's possible, and the complexity of this is compounded by the overarching importance of the U.S. market. Effective policy planning and disposition of resources must walk a tightrope between maintaining the robust trade with the U.S., which is a marketplace not without its diplomatic demands, while identifying and resourcing programs in emerging markets. In this context, covering all the bases may be impossible. We should aim to cover the right bases. This would, in our view, suggest a strong focus on all of the BRIC countries—Brazil, Russia, India, and China. I've mentioned that Brazil, India, and China, and sometimes Russia as an emerging market is overlooked in the enthusiasm for the countries in Asia and Latin America.

Emerging markets are also important to us because they are leading a revolution in the global redistribution of knowledge work. This, like other factors in the globalization of trade, is unstoppable. Done right, it can be a win-win for both the developing countries and the developed countries like ours. Canada is a player in the globalization of knowledge, and a well-placed one. A recent study by the United Nations Council for Trade and Development placed Canada among the leaders in offshore outsourcing, but primarily on the strength of our call centre industry. We believe, however, we cannot be complacent about our competition and our position. We currently rank behind countries such as India and Ireland in terms of the reported value of our business services and computer information services. Even more alarming is that compared to these emerging leaders, our growth in these areas is relatively flat.

From our perspective, constructive engagement, collaboration, and a free exchange of knowledge are critical to ensuring we realize our potential and find our place in today's global supply chains. The recent science and technology initiative to advance science and technology collaboration between India and Canada is an excellent example.

• (1550)

Beyond the immediate benefits, agreements like these inspire comparable exchanges between sectors, associations, and companies. For example, for our part, ITAC is currently pursuing a collaborative relationship with NASSCOM, the technology association in India. Exchanges of this nature can be immensely fruitful, and should be encouraged in all sectors.

As I conclude, I'll point out that as emerging markets become more and more important to our future, we must ensure that their trade commitments better reflect the free trade approach we think is key to success in today's economy. When it comes to equipment, we feel we have a good regime around the world. But when it comes to services, which is going to be the predominant area of trade in the future—even manufacturing companies now have become service companies as they outsource manufacturing—we find that the world is divided into two camps.

The developed world is a free trade environment. The developing world and the emerging markets, save for a few exceptions, still have considerable constraints on the flow of trade and services. As the importance of the emerging market grows and the importance of services grows, that's something that as a country we will need to address.

Those are my remarks, Mr. Chairman.

**The Chair:** Thank you very much.

Monsieur Lavoie.

[*Translation*]

**Mr. Serge Lavoie (President and Chief Executive Officer, Canadian Plastics Industry Association):** I, too, will be making my presentation in English. I have spent some 40 years in Ontario, and I have to say that is, unfortunately, the language I feel most comfortable in now.

[*English*]

I'd like to start by giving some background to set the scene for what this sector is.

The Canadian plastics sector is a completely integrated value chain, including resin producers, plastics manufacturers, machinery makers, mould makers, and plastics recyclers. The sector has about 3,000 enterprises and employs about 165,000 people. Most are SMEs, but there are numerous large and well-recognized international players in all of our subsectors.

Almost 60% of manufacturing is located in Ontario, and about 24% in Quebec. The rest is distributed across Canada. In fact, there are significant plastics manufacturing clusters in every single province.

Almost 35% of the output is in the packaging area, 26% in construction products—which is actually a Canadian specialty and is recognized as such around the world—and about 18% is in the transportation sector, primarily automotive, but also aerospace and recreational vehicles. The remaining output is spread across a wide range of products such as household goods, medical, electrical, electronic, and agricultural products, etc.

The value of all plastic outputs is about \$36 billion, making this sector one of the top three manufacturing sectors in the country. The value of resin production machinery and mould making contributes a further \$10 billion, for a total value chain contribution of around \$46 billion.

Each of the industry's subsectors exports, and all of them have a positive balance of trade. In fact, mould making has had a positive balance of trade for over 25 years, machinery for about 12 to 15, and even plastics goods have had a positive balance of trade for just under 10 years.

In short, the industry is an important sector. It has managed over the years to build and maintain a growth rate almost three times that of general manufacturing. But the sector finds itself challenged, in part due to several emerging markets and in part due to a public policy direction that appears not to value the contributions that manufacturing makes to the economy and to the workforce.

Here I'd like to make it clear that I'm going to make my comments in the context of SMEs, which I think are in a different place vis-à-vis emerging markets than some of the larger players in the industry that we represent.

As mentioned, all the sectors have built international markets over the years. Moulds and machines have shipped all over the world, while plastics products have built their markets primarily with the U.S. because of the U.S.-based supply chains. There's no question that the plastics manufacturing sector benefited strongly from the introduction of NAFTA. In fact, if you take away the business with the U.S., the positive balance of trade in plastics manufacturing evaporates and becomes negative.

The newer emerging markets—China, India, Brazil, and to a very minor extent for us, Russia—are presenting short-term opportunities for exports of machinery and moulds. Over the long term these sectors are investing in overseas facilities, initially to meet domestic demand in those markets, but then later, of course, to take advantage of re-export opportunities back into North America. Examples for us would be Royal Group Technologies in the vinyl area, Husky Injection Molding in machines, and Mold Masters in the mould area, and there are numerous other examples.

Plastics manufacturers, on the other hand, have found very little export opportunity in the large emerging markets, but some have taken steps to expand manufacturing capacity overseas in order to meet local needs or sometimes to move with their value chain—automotive is a good example—while others are simply outsourcing manufacturing capacity outright. They take on a commercialization role in Canada, but a manufacturing one overseas. This, I would say, creates a quandary for the sector.

Our most successful machine and mould manufacturers now sell in excess of 90% of their output to other markets, while the domestic market, including the U.S. market, shrinks even further because the manufacturing capacity is diminishing. That leads to the second part of the challenge faced by us as a result of emerging markets. Faced with this massive change in supply and value chains domestically, the industry, primarily manufacturing, and especially the SMEs, must search out new niche products and markets while increasing the value-added component of their products.

The irony is that while they're all up to this challenge because they've been doing it for years with all sorts of other competitive challenges that they've met along the way, a lot of the traditional marketing tools and supports they've relied on to build market share are disappearing. As I said earlier, public policy appears to be largely silent on the needs of the manufacturing sector.

• (1555)

You've heard a lot of this before, so I won't belabour it. I'm going to move into a few recommendations that actually illustrate some of the concerns that we have.

To begin, I'll make the statement that we believe domestic manufacturing must remain central to any efforts to build Canada's place in the global economy—domestic manufacturing. I note that the commerce portion of Canada's international policy statement barely mentions the word “manufacturing”. There is mention of technology partnerships and international commercialization. The feeling is that we create ideas and find other people to manufacture them for us.

We would submit that's not where we want to go as a country. There's not very much in public policy these days about actually

making things in the domestic market. In fact, even the recent budget is largely silent on manufacturing. You won't find the word there.

When dealing with emerging markets, we believe our government has a role to promote, police and enforce mechanisms protecting intellectual property. This is a key point. Fear of piracy is one of the major factors keeping SMEs and even larger players from partnering in emerging markets. You can sell a machine once or twice, but before long, you find it's being reverse engineered and a copy of your machine is now competing with yours in the international marketplace. This is a major concern. Every time I raise the issue with my members, they always raise the same thing: piracy is number one.

Competition from emerging markets won't go away. Everyone recognizes that. We have to adapt our manufacturing base to meet those challenges. Retooling an entire industry for constant innovation costs money. There's a willingness to do it, but it costs money.

We believe the budget missed a major opportunity by not including provisions for faster write-offs of capital investments in machinery and moulds. We don't think it would have been unreasonable to go for accelerated rates as high as 50% to 100% simply to send a very strong message that there's a willingness to spur productivity and innovation in the country's manufacturing sector. Innovation cycles are that fast these days. You would need to retool almost annually, or every couple of years, and that doesn't work when you're looking at write-offs that take you to three to five years.

Canada must market itself more and better. Every mature and emerging country in the world is chasing the same opportunities as we are. We need more trade officers on the ground. We need more trade offices on the ground. The Virtual Trade Commissioner service is great, but it should be supplementing, not replacing, direct representation.

The Canadian plastics industry has historically taken advantage of the full range of innovative export marketing programs such as PEMD, which was mentioned earlier, Brand Canada, and Trade Team Canada. We've leveraged against these funds for years. We know that we've been able to build a profile for ourselves far in excess of our size and capacity. We've just built a very large reputation. We've always been able to leverage against federal and provincial levels of marketing. We believe that a country markets itself, an industry sector markets itself, and finally, individual enterprises market themselves, but you need a strategy that includes all three. We find that at the very time when we need them again, these programs are either diminished or gone entirely, and they haven't been replaced yet. We believe we're losing ground to more aggressive countries as a result.

We feel that industry sectors must be consulted regularly about their needs to ensure that government has all the data it needs for planning. I note that, for instance, our SAGIT, the sector advisory group for international trade, has not met in two years. While we understand it's in the process of being changed, we don't know what that change will be. We haven't had a meaningful way to discuss with senior officials and with the minister some of the very real changes and challenges that are being met.

In conclusion, what I'm arguing here is that if government has a role in promoting industrial and technological activity in emerging markets, it actually has an equal role to play in creating a framework that will support domestic manufacturing as it adapts to the new market conditions; not protection, but aggressive development and promotion of a new domestic manufacturing capacity that will continue to find and increase export markets.

•(1600)

Finally, what's missing is an integrated strategy that takes advantage of the opportunities in those emerging markets, the opportunities in our research sector, and the opportunities in the value chains we've already built on our resource base.

Thank you very much.

**The Chair:** Thank you.

Mr. Pau Woo, the floor is yours, sir.

**Mr. Yuen Pau Woo (Vice President and Chief Economist, Asia Pacific Foundation of Canada):** Thank you for the opportunity to present the views of the Asia Pacific Foundation on this important work of the subcommittee.

The Asia Pacific Foundation of Canada was established by an act of Parliament in 1984, and we are the leading non-governmental advocate of stronger Canada-Asia relations in all of their dimensions. We provide value-added information and analysis on economic, political, and social developments in Asia, and we serve as a focal point for a variety of business policy and research networks in the Asia-Pacific region. Our goal is to better equip Canadians to be more effective in their dealings with Asian countries and, in so doing, to broaden and deepen the Canada-Asia relationship.

The foundation produces an extensive range of information and analytical products, which include a daily news service, weekly analyses of written news in Asia, and monthly business intelligence

on China, Japan, and India. We produce quarterly economic and political outlooks covering 14 Asia-Pacific economies, and a range of other publications. We provided, for example, much of the briefing material circulated to delegates on their recent trade missions to both China and India.

This very brief introduction to the foundation is simply to say that many of the questions posed by this committee on building stronger trade and investment links with Asian emerging markets are central to the work we do and are part of my daily preoccupation and that of my staff. There's insufficient time to share with you all our thinking on Canada-China and Canada-India relations, let alone on the other emerging markets of Southeast Asia and East Asia.

I would, however, refer you to some of our recent work—for example, on the state of Canada-China economic relations; a study, very recently, on the prospects and conditions of the East Asian automotive industry and what that means for the Canadian industry, particularly auto parts; a study on Canada-India trade and investment, completed last year; some case studies of successful examples of Canadian companies doing business in India; and a major upcoming report, in the works now, looking at the outward investment intentions of Chinese enterprises, and particularly at what they think about investing in Canada. All our products are available on our website, which is [asiapacific.ca](http://asiapacific.ca).

I want to use the remainder of my time to offer some ideas for expanding economic relations with China and India.

China is, as you all know, a rapidly growing market with a voracious appetite for imports that is at least as impressive as its much-vaunted export success. Canada has benefited from Chinese import growth, especially in the sale of commodities, but our market share in China, as is well known, has been falling very steadily since the 1980s. This is reflected in a number of the government documents that have come out recently, and again in yesterday's international policy review.

My feeling is that there is a mismatch in the pattern of Chinese demand on the one hand, and Canadian industrial capabilities on the other hand. Other than primary products, China's recent surge in imports has been led by demand for capital goods—such as machinery and equipment for manufacturing production lines—to stock the factories of China that have given the term to China that it is the factory or workshop of the world. In addition to capital goods, machinery, and equipment, China's import demand has been driven very much by electronic and other components that are sourced from countries in the region as part of a production network process that typically terminates in China for final assembly and then is exported to the destination market, again typically the United States or the EU.

As a very gross generalization, Canada does not have a substantial capital goods sector. We do not, in general—notwithstanding the important comments of my colleagues here—produce the large amounts of capital equipment or whole production lines that Chinese factories are seeking. We have missed out on this phase of Chinese economic development, not for a particular fault of the Canadian industry, but because of the reflection of the structure of our industry. Likewise, there are relatively few firms involved in the types of electrical and electronics manufacturing industries that are part of the production networks so central to China's place in the world economy. Again, I qualify that with deference to my colleague from ITAC, noting that we do have some world-class players, mentioned previously—Nortel, ATI, Celestica, and so on—that do participate in production networks. Nonetheless, we are a small player and are participating only very slightly in the proliferation of inter-regional trade that has been driven so much by these electronic supply chains.

• (1605)

All of this is simply to explain in part why we have lost market share in China, despite the very rapid growth of imports through particularly the 1990s, but also in the decade before.

In general, I see great potential for the further expansion of Canadian services exports to China. There are already many good examples of Canadian business success in the areas of architecture, landscaping, education, software, and what you might call, broadly, lifestyle services.

In education, for example, Canada is a leading provider not only of English language instruction but also the textbooks that are used in teaching English and other subjects.

It's my sense that our presence in China as a provider of high-quality education services is limited by the scattered and disparate nature of these initiatives. I think the government could increase our visibility and leverage to commercial and diplomatic benefits by branding Canada more explicitly in a number of targeted education initiatives, for example, a government-to-government program on teaching English in China.

Already there are many Canadian providers of English language instruction, both through formal institutions and private schools and individuals, but there is no recognition across China that Canada indeed is a major provider and a source of many of the newly emerging accents in rural China that can be identified as vaguely Canadian.

Another idea to consolidate and leverage the image of Canada in China in the education field is to launch a highly prestigious scholarship program named after some Canadian icons in China. Two that spring to mind, of course, are Norman Bethune and Pierre Trudeau.

An important point to note in the further expansion of services exports to China is that many of these ventures will not succeed unless there is a commitment on the part of companies to invest in China and to set up what is known in trade jargon as commercial presence, mode three export in services. The same is true for manufacturing industries, such as auto parts, the plastics industry, and so on.

The point is that Canadian firms have to consider investment in China as a strategic consideration in enhancing competitiveness. The Government of Canada can no longer be squeamish about outward investment. I note, again parenthetically, that yesterday's IPR makes very supportive remarks about outward investment. I think it is a sign of the recognition that we cannot be squeamish about Canadian companies aggressively looking at outward investment as part of their global strategies.

China, after all, has its own outward investment strategy, known as the go-out strategy, as do many other Asian economies. They are certainly not squeamish, and they recognize that outward investment can be good for both company and country.

There is also excellent potential, I think, for inward investment from China, going well beyond the headline issues of energy and mining. The Noranda-Minmetal saga of last year raised important questions around the treatment of so-called state-owned investment in so-called strategic industries. The very public angst around this issue, I think, has led to a perception in China that Canada is at best cool to investment from the mainland.

I think the Government of Canada can correct this impression, for example, by inviting an official Chinese investment mission to Canada. We could dub this Team China, the analogue and the natural successor to our own invention, the Team Canada missions of the 1990s, but focusing explicitly on investment rather than exports. We don't need to encourage more Chinese exports to Canada.



Let me move on to India now. I have just returned from India, where we had our third Canada-India policy dialogue, a so-called track two policy dialogue among think tanks and policy analysts. We focused this year on questions of global governance, such as UN reform, G-8 membership, L-20, APEC, etc.

I happened to be in New Delhi at a time when Premier Wen Jiabao was visiting. I was very fortunate to witness an incredible lovefest between the two leaders from India and China respectively, considering that these two countries have fought a war in living memory—truly extraordinary.

●(1610)

A few years ago, when Zhu Rongji, the former Chinese Premier, was in India, he set a goal for China and India to expand their bilateral trade from \$350 million in 2002 to \$10 billion. Most observers were quietly laughing to themselves and most officials were horrified that they had to implement this target. However, bilateral trade crossed \$10 billion last year—\$350 million to \$10 billion in three years.

In the recent meeting between Wen Jiabao and Manmohan Singh, the leaders decided to increase this target to \$20 billion by 2008. Mark my words, they will achieve this target, and that will be an increase of thirty-fold in a space of less than eight years.

The point of this anecdote is simply to stress that our emerging market strategy for Asia should not be just about China on the one hand and India on the other, and of course Brazil, Russia, and others in addition, but it also has to be about China and India working together in ways that one could not have imagined a decade ago. We don't fully understand what this means, but we have to keep right on top of it.

I would even go further to say that the emerging market strategy for Asia is about Asia and not just China and India, and it's about the growing economic weight of the region, the growing political weight of the region, but these are questions of course for another subcommittee.

With respect to bilateral trade with India, our volume of two-way trade right now is a paltry \$2.5 billion, which is barely 10% of our bilateral trade with China. Despite an average of nearly 6% annual real GDP growth over the last 20 years, India doesn't even rank in the top 15 trading partners for Canada, and our exports to India continue to be dominated by primary products and agricultural goods. Because the volume of bilateral trade with India is so small, the potential for expanded commercial relations exists in virtually every sector. There really is no need to cherry-pick here. The base is low, the opportunity is large, go for it.

The government of Manmohan Singh, however, has put very special emphasis in a number of areas, and infrastructure development and energy are two I want to single out, because these are two areas where there's particular expertise in Canada. Of course, financing is the key issue to develop business in these sectors of infrastructure and energy, and this is where the roles of EDC and CCC will have to be enhanced and augmented to make sure they can support Canadian companies looking to expand in these areas.

More generally, I strongly support the comments of my ITAC colleague that cooperation in science and technology, including

bilateral industrial research assistance and commercialization of technologies, can be an important stepping stone for stronger Canada-India business relations. And a priority for bilateral economic relations should be the promotion of inward investment from India, especially in the information technology sector. The top Indian software firms have already established offices in this country, precisely because we have a very strong pool of highly skilled computer engineers in this country and because of our proximity to the U.S.

Again, I think there's a role for government and institutions to embark on an expanded program of educational exchanges, scholarships, and other students flows between Canada and India, especially in science, technology, and engineering, but working closely with industry. With the right incentives, there's potential for Canada to harness Indian software and engineering talent in the manner of Silicone Valley, especially given the increasingly stringent regime for student visas in the United States.

Let me go now to my final set of points, and this has to do with—

●(1615)

**The Chair:** You're already four minutes over your ten minutes, and I know there'll be plenty of time to—

**Mr. Yuen Pau Woo:** Would you like me to wrap up?

**The Chair:** If you could summarize for us....

**Mr. Yuen Pau Woo:** I will.

My final point is to say that the underpinning of our relationship both with China and India is strong people-to-people relations driven by immigration, but also driven by a new flow of migrants who have come to Canada and then returned to both Canada and India. We have in the past considered this flow of returned migrants to be failed immigrants—immigrants who could not succeed in this country and therefore had to go back. I think it's time that we now think of them as our Canadian diaspora in Asia and come up with policies to tap into this vast potential.

I'll be happy to answer questions on that point.

Thank you.

**The Chair:** Thank you very much.

Ms. McBride, the floor is yours.

**Ms. Karen McBride (Vice-President, International Affairs Branch, Association of Universities and Colleges of Canada):** Thank you very much. Let me join with my fellow representatives in thanking the committee for the opportunity to present.

[*Translation*]

I represent the Association of Universities and Colleges of Canada, AUCC, a non-profit non-governmental organization which represents some 91 Canadian public and private not-for-profit universities and university-degree level colleges.

AUCC's mandate is to contribute to the development of public policies with respect to higher education and to foster collaboration between universities and governments, the private sector, communities and foreign institutions.

AUCC's advocacy activities are intended to ensure that higher education is recognized as being an essential component of Canada's quality of life and prosperity, as a knowledge-based society and economy.

• (1620)

[*English*]

In today's world, it is taken as given that knowledge is a key driver of opportunity. A major challenge from a foreign policy perspective is therefore maximizing the benefits of the globalization of knowledge through Canada's economic competitiveness and social development. In our view, meeting this challenge requires that we foster sophisticated knowledge-based relationships with nations, particularly those that are important current or potential economic partners, such as China, Brazil, and India.

Canadian universities are critical players when it comes to developing knowledge-based relationships and networks with partners around the world, OECD countries, and emerging countries alike. In terms of formal linkages at the university level, there are over 3,100 active partnerships worldwide, a large number of these in place with China, India, Brazil, and Mexico in particular. Added to this is the multitude of researcher-to-researcher collaborations across borders, which in today's research environment are a common phenomenon.

To illustrate this point, the following facts and figures present a snapshot of Canadian universities' knowledge partnerships in key emerging markets. China is the top country of Canadian university involvement in international development, with 229 projects since the beginning of the 1970s. China is second of the top five countries of university engagement abroad, with 244 active university agreements, including almost 80 focused on joint research. China is also a top source country of international students to Canada, with over 6,600 students studying at universities in 2001-02.

Mexico, it's interesting to note, is also a top country of Canadian university engagement, with over 216 active agreements, including 40 focused on joint research.

According to a new International Trade Canada report mapping Canada-India S and T capacity, Canadian universities have been the drivers of Canada's research collaboration with India with a significant number of joint projects involving university partners. In addition, India is second of the top five countries of Canadian university involvement in international development, with some 100 projects since the 1970s. Canada is also a popular destination for Indian students, with just over 1,400 studying at Canadian universities in 2001-02.

Since the 1970s, universities have been involved in over 90 projects with Brazil, making it the third top country of university engagement and development cooperation. There are currently 82 active university agreements between Canadian and Brazilian universities, including almost 50 focused on joint research.

[*Translation*]

Unlike many of its international competitors, including the United Kingdom, Australia, The Netherlands and the northern countries, Canada has not yet developed a coherent strategic framework that would allow it to benefit from the full range of linkages it has already developed in the field of research.

Consequently, as the Sub-Committee on International Trade seeks to advise International Trade Canada with respect to its strategy, we strongly recommend ways of taking full advantage of university partnerships in the knowledge domain in order to support the general objectives of Canadian trade investments in key markets. Specifically, AUCC is recommending that the federal government take the following steps.

[*English*]

Our specific recommendations are as follows.

First, ensure a long-term knowledge pipeline for the transfer and exchange of talent with key countries of strategic interest to Canada through scholarships for the best and brightest students and young researchers to study at Canadian universities, and promote Canadian student mobility to these countries—echoing comments of my colleague from the Asia Pacific Foundation. Initiatives by competitor countries such as the United Kingdom and Australia could provide some useful models for your consideration, and I have some more examples that we could look at during the discussion period to show you what other countries are doing with respect to scholarships for top-flight students from these nations.

Second, ensure that there is a systematic connection between Canadian university offices for technology transfer and appropriate international trade officials in Canada and abroad in order to facilitate partnership opportunities for commercialization purposes. Consideration should also be given to organizing missions of university transfer officers to key countries.

Third, building on the successful experience of the 2003 Canada-India S and T study on institutional linkages and academic, government, and private partnerships—that's a title that won't sell many copies, I'm sure—the federal government should work with AUCC and other key actors to map existing linkages and complementary research interests and strengths in countries of interest in order to develop strategic plans of action for research cooperation between Canada and key nations. Given the scope of Canadian university relationships in China, the interest of the Chinese government and Chinese universities in closer collaboration, a focus on enhancing knowledge partnerships with China would be a very good starting point.

• (1625)

[Translation]

In closing, I would just like to come back to our key message. Knowledge partnerships make optimum use of complementary strengths in the field of research, bringing short-term trade benefits, while at the same time fostering long-term knowledge transfer which is the basis for innovation in many disciplines.

As the Sub-Committee on International Trade develops its recommendations to government regarding the appropriate strategy with respect to emerging markets, AUCC strongly urges that it focus on the importance of knowledge partnerships and the need for Canadian universities to build on these relationships in order to further Canada's international goals. Thank you very much.

[English]

**The Chair:** Thank you.

We'll go to Mr. Brian Jean.

**Mr. Brian Jean (Fort McMurray—Athabasca, CPC):** I have so many questions, I don't know where to start.

I'm wondering from a general perspective what the presenters see as Canada's ultimate role in the international global economy. With that I mean specifically that we are a resource-based country. We have high wages per capita. How do we compete with an emerging market such as China, which quite frankly has very little respect for patent and copyright infringements? India is very similar. There are many other countries that allow, or can't do much about, the infringement of rights of patent holders, for instance, in machinery, which was mentioned earlier.

How do the presenters see what we're going to take as our competitive advantage in Canada and work with it, especially given what's happened with the manufacturing industry?

We know that the global economy is moving towards free trade, at least in some parts. How do you see it panning out for Canada?

**Mr. Bernard Courtois:** Some of the companies in our sector have been quite successful operating in China, as I mentioned. They would be particularly sensitive to the danger of intellectual property

piracy. It's probably more difficult for a medium-sized enterprise than a larger one that is prepared to spend the time and the resources in being very careful about the partnerships it gets into over there.

We simply can't play ostrich or ignore a phenomenon. There's a fundamental shift taking place. We have to make sure we remain fully active in and fully part of it. Again, a very significant shift in knowledge work is about to take place. Canada's place is to be actually a good gate of entry to North America. Canadian enterprises have to learn to invest in those markets and take advantage of not just the cost advantages but the resources available there to make themselves more competitive in the North American and the global markets.

There is a need for Canada to realize, as we like to say, that the competitor with a strategy will always do better than a competitor without one. We have to strategize around this phenomenon, this new shift taking place. We do have a lot of assets. We have proximity to the U.S. We have a well-educated population. It's a question of strategizing to find our place.

We will find that today's enterprise has exploded geographically and in what it does. Today's production chains have exploded. We have to find our place in those supply chains and in those operations.

• (1630)

**Mr. Brian Jean:** I agree with you 100%.

I'm familiar with a company that has moved its manufacturing over to China from Canada. In this particular instance it is high-speed modems for ADSL. They've divided their technology into three different companies so there can't be any patent infringements, intellectual property theft. They're doing so at a savings of about, quite frankly, a third of what they were producing the same product for in Canada. The quality is tremendous. They're bringing that product back here.

Obviously the jobs we've lost here in the manufacturing sector are going to affect Canadians. We're talking high technology here. We're talking of a sector that should, you'd think, stay in Canada, but it's not. It's going overseas because of the cost. I think that's happening in the plastics industry as well.

I own a manufacturing company. Quite frankly, I've taken that company in the last two years over towards a service sector company, because it can't compete on the global scale. It just can't.

**Mr. Bernard Courtois:** That's what's happening. Manufacturing companies are becoming more service companies. But if the choice is to not take advantage of that and your competitor in the U.S. does and you're uncompetitive, you lose your market anywhere. Your competitor next door does it. You have to remain competitive. In those cases that I think you've illustrated, there are strategies to get around the problem of intellectual property.

But we also have members who say, we're creating a new product and we're getting it manufactured by someone else, but just across the street. At the moment we can't afford our designers not to be right next to the people manufacturing it. Once we get into a steady state of the product, we'll probably get it manufactured, say, in China, but in the meantime we will be producing a new innovation, a new one that will get manufactured across the street.

So some of the advantages we find are our intimacy and our understanding of where the sophisticated markets are—usually in the U.S.—and then our taking advantage of the productivity capability of China so that we retain our share of the jobs. But we're going to have to evolve and we're going to have to adjust.

**Mr. Brian Jean:** That's exactly what I'm getting at. Where do we evolve? Where do we see our competitive advantages? I think ultimately with the technology going overseas to these developing countries.... What I've seen in the past with Japan emerging out of the Second World War is that they don't wait. They not only duplicate but they exceed that duplication by way of innovative technology just from within the ranks.

How do you see Canada competing on an international scale to make sure our economy stays where it is and keeps growing?

**Mr. Serge Lavoie:** Let me use an example of the plastic sector. Our success is built on the resource base we're sitting on—oil and gas, and now increasingly because of the tar sands. There's a lot of research being done in the use of the tar sands to create plastic resins and more research being done in the use of plant-based resins for biodegradables.

Our manufacturing sector—the moulds, the machines, the processing itself—has all acted as a working laboratory for those innovations. We've been able to take that stuff around the world. There are still decades worth of markets that we can bring our innovation to, but we're not going to be able to do it unless we retain some sort of manufacturing capacity here. Husky Injection Molding, for instance, didn't grow in a vacuum; they grew by being able to sell machinery in North America, learn from that, and take that learning around the world.

There are still jurisdictions everywhere we go around the world that are looking for our innovations in multi-layer film, in a whole variety of new resins, and what have you, and we continue to develop those. So we have a niche based very much on our resource base, and that hasn't finished yet. We haven't finished developing that resource base in terms of what it can bring to the manufacturing base.

We have expertise. It's partially service, but it's also partially having the hard capacity in place to manufacture and learn from that and transfer that technology around the world. It's been a winning formula in Canada for at least 40 years. We see lots of opportunity,

given what's going on in the oil and gas sector, given what's going on with plant-based resins, for us to move into that.

We're also world leaders right now in a lot of these new green technologies, where plastic plays a major role—not only plant-based resins but a whole variety of construction products. We're a cold weather climate. We've developed technologies for keeping our houses energy efficient. We have a higher concentration of construction products in this country than you find in most other countries around the world. That's been export for us, not only of goods and services but also the technology.

So I think the strategies are there, if we take a look at what we've got underpinning those strategies.

• (1635)

**Mr. Bernard Courtois:** I would strongly support that. When you strategize for success, you look at your strengths and you build on it. It would be hugely unfortunate if Canada's future was to revert back to hewers of wood and drawers of water. We do have a natural resource base and we must capitalize on innovations tied to those areas. We also have a strength in information and communications technologies and we're saying, why don't we put two and two together—make sure our enterprises and natural resources keep focusing on being the most innovative in the world, and create a supply chain that in Canada will have innovations that can be sold around the world?

**Mr. Brian Jean:** I see that. Specifically you mentioned Royal Manufacturing, which of course has an excellent product that is patented. I think there's another company out of Vancouver that does the same sort of product, which is very energy efficient and easy to put up, \$50 a square foot to manufacture.

I'm actually curious. You mentioned manufacturing capacity shrinking and you mentioned the cause of it was...I can't remember exactly, but you did mention price in there. I have to say that again I know a manufacturer that buys their bottles overseas because they're a third of the price they are in Canada. They just need a longer lead time. Right now this company buys small quantities that it needs immediately, and ones it can plan for it buys overseas because they're cheaper. It just seems that what you're saying...the technology I understand perfectly, but it seems like a short-term solution to a long-term problem. If we don't do something about changing the way our markets go, we're going to lose out, ultimately.

**Mr. Serge Lavoie:** There are some sectors that clearly we're not going to hang on to in the long haul—large-run commodities, plastic bags, things like that. Bottles I wouldn't agree with. There's a whole lot of air in a bottle, and you don't ship that around the world. We're actually shipping preforms for bottles to India, not the other way around, because of the density.

But there are sectors that are tied to the marketplace. Packaging is a good example. Of course, other value chains such as automotive and what have you stay where they've been developed, because there's a supply chain for North America and a supply chain for other areas. It's a question of knowing where we're going to be able to hang on to the supply chain and the manufacturing and building on that.

So there's a shift there, and we're taking advantage of that shift. We know we'll lose some markets, but we know we can hang on to and build other markets, for sure.

**Mr. Brian Jean:** Well, certainly the education market. I think that's a very good point.

**Mr. Serge Lavoie:** I mean in manufacturing. I'm not talking intellectual property; I'm talking physical goods.

**Mr. Brian Jean:** But you're also talking about how we have to keep the competitive advantage of technology ahead, and those are pretty much the places we have to deal with. We're going to lose out on the larger process, which means more jobs lost, in essence, because we're going to have to specialize.

**Mr. Serge Lavoie:** In some sectors.

**Mr. Brian Jean:** We're going to have to find our competitive advantage, which you're suggesting is technology, and capitalize on it.

**Mr. Yuen Pau Woo:** If it makes you feel any better, this same question is being debated and agonized over by all the countries of East and Southeast Asia, to a much greater extent than what Canada is facing. In all of the Asian countries—Taiwan, for example—there's a huge debate around hollowing out.

The conclusion generally is that they're better off as a result, because they've moved into higher value-added sectors. They've made a conscious shift to update their industries into more sophisticated forms of computer and electronics production or to move specifically into design and research areas, which is of course a solution to our situation as well.

If indeed you have to move up the value chain, and knowledge is the key to it, you have to invest in educational institutions, and you have to create a climate where you can not only produce the best and

the brightest, but also attract the best and the brightest. I cannot overemphasize the importance of creating the conditions, both the immigration conditions and the institutional conditions, for getting top students from China, India, Brazil, Mexico, Russia, and around the world, because when they come to Canada they will find it a very attractive place. It will be hard for them to look at alternatives once they see what we have to offer.

**Mr. Brian Jean:** I agree with you, Mr. Woo. As a student who went to the United States and Australia for education, I found it a very interesting scenario to study with other people. I found it very beneficial.

**Ms. Karen McBride:** Maybe I could add a few comments.

You asked what the strategy is. One of the documents I disseminated to you was a communiqué we developed, with our perspective on the foreign policy statement. The central message of that statement is that we're in a global talent race. There are ways to use foreign policy and trade policy to support Canada's position in that global talent race. If there's a niche that Canada needs to fall back on, it's the talent of our people and it's the knowledge that we have.

Perhaps a strategy is twofold. First of all is getting in on the ground floor of partnerships with these countries, which are becoming more sophisticated in their own education sectors—that is, more sophisticated in terms of the workers they produce. Why don't we strengthen our partnerships with them?

As I mentioned, China in particular is the number one country that Canadian universities have linkages with. There are many platforms we can build on in terms of strengthening research collaboration. We need to work with them in partnering on an equal footing. In the past, we were in a development cooperation mode. We're not in a development cooperation mode any longer. In fact, China has been taken off the CIDA list.

The question becomes how we ensure a continuum in Canada's relationship with China and other countries that have come off the ODA list. We believe that trying to build on these partnerships that exist for the purposes of joint research and innovation is a strategy that helps you get in on the ground floor as these countries become much more sophisticated in their own knowledge.

A second part of the strategy, just echoing what you said, is about creating a two-way flow of talent and bringing the best and brightest students and young researchers into Canadian institutions. I said I had some examples of what other countries are doing. Let me just give you a few.

The EU has had a long emphasis on early-stage researchers. They have a fellowship scheme to provide international mobility opportunities for university graduates and post-doctoral fellows. Canada has precious few supports to send Canadian students abroad to where we need to be developing these linkages. Our research shows that fewer than 1% of Canadian students go abroad, and that at the current rate of growth it will take 23 years to get to the point we feel we need to get to.

It's about bringing the best and brightest in and finding mechanisms that brand Canada abroad for its knowledge excellence, and also having an opportunity to build networks with these countries by sending our students for short-term study abroad and research opportunities abroad.

• (1640)

**The Chair:** Thank you very much.

Mr. Paquette.

[Translation]

**Mr. Pierre Paquette (Joliette, BQ):** Thank you, Mr. Chairman.

I want to thank you all for your presentations. I would like to begin with Mr. Courtois. I believe you referred to the PEMD. Yesterday or the day before, someone else referred to it. My understanding is that this program no longer exists.

**Mr. Bernard Courtois:** As far as I know, it is still in operation, although it may have been subject to budget cuts.

**Mr. Pierre Paquette:** Could you tell me a little bit more about it? I can always check this information again, but it seems to me we were told that the program is no longer available and that people very much regretted that. Could you tell me more about this, so that we can make a recommendation?

**Mr. Bernard Courtois:** This program is not of particular interest to us, given the nature of our activities. Our organization is the national partner of a federation of information technology associations representing all the provinces. The national associations are the ones with primary responsibility for policy issues, while the provincial associations are a little bit more involved in developing SMEs, and local associations provide a lot of development assistance to business. The smallest companies—at least in the software and in certain equipment-based industries—spend just about all of their resources on exports, and so they cannot afford to go and do their own lobbying in order to capture new markets. The associations can certainly provide a lot of help in terms of making contacts, and so on.

As for our role, we request funding under PEMD to allow these associations to take part in international activities, where they can develop contacts with other associations and, in some cases, policy-makers, with a view to helping Canadian business.

This raises a technical question, however: is helping businesses to export one of the association's fundamental activities or not? There may also be certain budget constraints.

• (1645)

**Mr. Pierre Paquette:** We are going to see to it that this program, if it still exists, is enhanced.

**Mr. Bernard Courtois:** The largest association in Quebec to belong to our federation represents businesses that are part of the inter logiQ Network in the software industry. The vast majority of their activity is focused on exports. People often make use of the program to help their business.

**Mr. Pierre Paquette:** It may just have been a coincidence, but in your opening statement, you talked about four markets, namely China, Brazil, India and Russia. I want you to know that very few people have talked about Russia thus far.

I don't know whether you have had an opportunity to look at the trade portion of Canada's International Policy Statement or not. Russia is listed there along with key markets such as the Middle East, North Africa, Australia and New Zealand.

In any case, I don't have the feeling that the government currently considers it to be a priority market. Since you raised it and we haven't heard much about it, I would like you to explain why Canada should, in your opinion, pay greater attention to Russia, as a market.

**Mr. Bernard Courtois:** These four markets, which are quite large and are rapidly expanding, are often called the "BRIC" nations. There is fairly strong economic growth in Russia—about 7 per cent per annum. Political changes have occurred, and the business environment has made this market particularly problematic.

Some of our larger companies, which tend to want to place their pawns in these kinds of places before anyone else, are telling us that this is a huge market, and that it is growing. So, we simply can't ignore that. There will continue to be problems there. For example, in China and Japan, it took Nortel years and years to achieve some market share. As a country, we have to do the same thing and not just decide to ignore a market that is going to remain significant. We're talking here about a market that could be important to us, even though it may be rather difficult to do business there at this time.

**Mr. Pierre Paquette:** I would like to put one question to Mr. Lavoie.

I appreciate your reminding us of the importance of manufacturing. I sometimes have the feeling—and I'm not sure whether this is the fault of the media, officials or government—that this industry is somewhat neglected. You almost have the sense that the knowledge-based economy has created a situation where only design and patents seem to matter. That's why it was important for you to remind us of the need to support our manufacturing industry.

As you say, we are developing new products, in the textile, apparel and furniture industries. We have succeeded in renewing our products, in response to the challenges posed by NAFTA. Fifteen years ago, we thought that the entire textile and clothing industry would disappear. But now we no longer produce the same goods we did 15 years ago. On the government side, and particularly in the Department of Industry, people don't seem to think this is an important issue.

Also, I would like you to tell me, based on your own experience, what kind of support SMEs require to meet the challenges posed by emerging markets in the plastics industry. We talked about a program earlier.

At the present time, the plastics industry is producing certain products. I was actually surprised to see that in Rawdon, which is part of my riding, there is a concentration of small- and medium-sized businesses that are active in that area. In order to survive, what exactly do they need from the government?

For example, in the furniture industry, I'm told that research and development activities are not recognized as being eligible for tax credits, although they are for new information technologies. What suggestions would you have to make with respect to the tax system?

**Mr. Serge Lavoie:** I clearly understood your question, but I am going to answer in English.

[English]

I think there are two levels of things, and we're involved with them both. It's very important to help SMEs restructure for the new reality, so in Quebec we have a program called *Tables régionales* that we do in partnership with DEC federally, as well as MDERR provincially. Through six regions we bring PME's together and put them through a diagnostic and help them look at their businesses—whether they can meet the challenges of the future, how they need to change. We bring partners to the table: EDC, banks—

• (1650)

[Translation]

**Mr. Pierre Paquette:** What is the name of that program?

**Mr. Serge Lavoie:** Regional Tables.

**Mr. Pierre Paquette:** Regional Tables; good.

[English]

**Mr. Serge Lavoie:** It's a pilot in Quebec only, but now other sectors are looking at it.

So we put them through a diagnostic. We put them through a business planning exercise. We put them through a 12-point program under the lean approach—lean manufacturing, but it's lean processes. At the end of the process, they've remade themselves into an export-ready business. We have to help the SMEs prepare for that.

We also have to help them recognize where the market opportunities are. For SMEs there are very few opportunities in China. It's an impenetrable market, very hard to get into. We think, however, India may be a different situation. It is very entrepreneurial, and there are lots of SMEs in India as well. I'll be going there Friday night to meet with a lot of them. We think there are opportunities there, but more importantly in South and Central America, and in the new emerging markets in Europe, Hungary, Poland, and Ukraine. We like the look of Ukraine. It's perhaps easier to move into than Russia—a very big market, unknown. They're a neighbour. They share the language with Russia. They're entrepreneurial. I think there's an opening there.

I visited some of these countries last year, and I found small enterprises that were hungry for our technology, so the size we're looking at means there's a better opportunity for SMEs to make contact. SMEs find it difficult to enter large markets with large enterprises, but there are niche markets, and we're always looking for those niche markets. Those will be, as I said, Mexico, South America, Central America. We have Vietnam coming on. We have

many of the countries in Europe. I visited Croatia; there was a lot of interest there.

These are more manageable, and I think it's going to be a great leg up for SMEs, whatever they're producing.

[Translation]

**Mr. Pierre Paquette:** Mr. Woo and Mr. Lavoie, you referred to intellectual property and piracy.

We are currently in the process of negotiating a free trade agreement with the Republic of Korea. In my opinion, the intellectual property issue should be the government's main focus, because we all know that Korea does not have a perfect reputation in that regard. I would be interested in hearing your comments on future free trade agreements with countries such as Korea. I imagine that Canada is doing this mainly in order to develop a template that it could possibly use in China or other countries.

So, Mr. Woo or Mr. Lavoie, I would be interested in hearing your comments on intellectual property.

**Mr. Yuen Pau Woo:** Thank you for your question.

[English]

I'll answer in English, if it's all right.

The negotiations with Korea are at an early stage, and if they are on track, as we have indication from both sides they are, the deal with Korea could well be the first FTA that Canada signs with an Asian partner.

Intellectual property is certainly one of the issues that will have to be discussed, even though Korea is not by any means the most problematic country to deal with in Asia. Koreans, of course, have very sophisticated technology of their own that they find under threat, particularly in China and southeast Asia. They have a very strong vested interest in making sure there is an IP regime that respects and protects their technologies, and in that sense I don't reckon it will be particularly difficult to come to an agreement on the issues of IP.

Where I do see some potential negotiating difficulties with the Koreans is in the area of some of the agricultural products—pulses, for example, and some of the—

• (1655)

[Translation]

**Mr. Pierre Paquette:** The shipyards.

[English]

**Mr. Yuen Pau Woo:** —yes, the shipping industry, absolutely, but also in some other agricultural products that were excluded in Korea's first free trade agreement, which they signed with Chile. If the Chile agreement is any indication of what will come, you can expect the farmers to protest very vigorously against a fast liberalization of the agricultural sector.

Finally, I think the area where there may be some potential difficulty in the negotiations has to do with anti-dumping. Korea has been the target of a number of countervailing actions on the part of Canada, particularly in steel and steel products, just in the last year to 24 months, and I'm sure the Koreans will be looking at ways in which the thresholds will be less stringent and where these anti-dumping accusations can be resolved more quickly, because they are a major exporter of steel products to Canada.

As to whether the Korea agreement might form a template for subsequent agreements with Asian countries, it's really hard to say. In some ways we thought the Singapore agreement that's still under negotiation would form a kind of template, but Canada has been negotiating with Singapore now since 2000 or 2001 and has been unable to close that deal. I personally think it is a very embarrassing situation for Canada, because Singapore is essentially a free port, a free trade country.

It's not clear to me, also, even if we close a deal with Korea on time or within the next 24 months, that there are other partners in Asia who are ready and willing to enter into negotiations with Canada.

[Translation]

**Mr. Pierre Paquette:** Mr. Lavoie, would like to add something with respect to intellectual property?

[English]

**Mr. Serge Lavoie:** Obviously I'm not a lawyer, but it strikes us that if it's possible to get financial guarantees when the government helps finance deals—for machinery and moulds and what have you—tied to them should be guarantees around the intellectual property. Everyone pays lip service; everyone says it's important. But I think what's missing are the mechanisms to actually follow up and enforce those mechanisms. That's a point we wanted to make: every opening deal has something in there about intellectual property, but we don't follow up, and I think that's where the government needs to do more work. It may be in agreements like this, but even agreements like that, if they're not followed up and enforced, will be meaningless. We need to put a mechanism into place—as an EDC would have—to make sure that if money is lent, it's paid back; that if there's an agreement to respect intellectual property, it's respected; and that we don't turn a blind eye when it's not respected. I think that's important.

[Translation]

**Mr. Pierre Paquette:** I have one last question, and it is addressed to Ms. McBride. First of all, I wanted to inform her that International Trade Canada no longer exists. The House of Commons voted down Bill C-32, which would have created International Trade Canada.

**Ms. Karen McBride:** Yes, that is correct.

**Mr. Pierre Paquette:** Thus far the government has paid no attention, but I did want to point that out because it is one of several causes of frustration among the Opposition parties.

I would have liked to hear a more fulsome explanation from you with respect to these agreements. I am aware of some of them—particularly the one between the Université of Québec and the National Autonomous University of Mexico, but I would like you to tell us what these agreements can accomplish, since you refer to them extensively, as well as to intellectual partnerships. But there is

no description of them anywhere. Are these agreements between university departments or between chairs? Are we talking here about the development of joint chairs?

**Ms. Karen McBride:** It's difficult to give a precise answer to that question, because there is such a wide diversity.

Let me give you a few examples in English.

[English]

Before HIV/AIDS became a threat in the early 1980s, the University of Manitoba was actually conducting a lot of research on sexually transmitted diseases with the University of Nairobi in Kenya. This work soon gave way to research on HIV, as soon as AIDS was identified in Kenya in 1985. The Manitoba-Nairobi research group is famous for observing that some commercial sex workers did not acquire HIV despite intense exposure to the virus. This was a finding that led to a long-awaited vaccine against AIDS.

But their research is already benefiting Canada, because the work they did in public policy helped to prevent the spread of HIV/AIDS through that research cooperation; helped in identifying the virus that caused the 2003 SARS outbreak. In this case there was specific research cooperation around HIV transmission patterns in Africa that had benefits for Canada, because it brought back to Canada knowledge that was applicable in other cases of public policy crises. That's one example.

• (1700)

[Translation]

As I was saying, it is difficult to provide a good overview of this type of agreement, because it is almost always managed by specific researchers or professors.

**Mr. Pierre Paquette:** You say the government has to make a firm commitment to this kind of development. But what form would that commitment take? Would it involve a specific budget envelope for universities, for the purpose of developing that kind of activity?

**Ms. Karen McBride:** In my opinion, it's important to talk about developing a strategy. There are a lot of different forces at work in terms of university research, and we can make the most of existing commitments. I think we should bring together at the same table a senior government spokesperson and some key players, to talk about developing a specific strategy to derive maximum benefit from these different forms of collaboration and identify what the two countries involved—for example, Canada and China—are looking to get out of this cooperation. In fact, we could be putting a lot of effort into that.

[English]

**Mr. Yuen Pau Woo:** Can I add to that?



This is a very important discussion in the context of the IPR discussion on the narrowing of the aid recipients, which foresees a so-called graduation of China by 2010. Of course, India is not mentioned as one of the countries to be graduated, because India graduated us last year—rather suddenly and I think in a somewhat bungled way. What we are left with now is, in the near future, the absence of a mechanism to provide policy cooperation that's of mutual benefit, between Canada and China and between Canada and India, in ways that look a lot like technical assistance.

CIDA used to fund these kinds of projects that really provided mutual benefit rather than a kind of donor-recipient relationship. To be honest, CIDA was very bad at doing it, because they were always conflicted about the mutual benefit aspect of these kinds of projects.

If indeed India is gone and China is also gone from the aid envelope, and we lose all financing ability to participate in what are essentially technical cooperation projects for mutual benefit in public policy areas between Canada and China and Canada and India, we will have lost a lot. And we should not use the excuse of narrowing the ODA focus—which is for a very good reason and is a very good policy objective—to say that we should then not have any kinds of technical cooperation programs that are publicly funded with India and with China.

[Translation]

**Mr. Pierre Paquette:** If I have any time left, I just want to mention that if there were this kind of partnership in place through the universities, we would want the provinces to be at the table as well, because the university system continues to be within the purview of the provinces, even though the federal government has responsibilities in that regard. I wanted to remind people of that right away, so that it is not forgotten if a recommendation is made in that area.

Mr. Woo, many people have told us about the problems that Chinese and Indian investors encounter when attempting to obtain a visa to come to Canada. Has your foundation looked at that specific issue? A number of stakeholders have raised it with us, but no one seems to have any solution to propose to resolve it. We've been told about a number of people who are investing in Canada but are not even able to come and visit their own plants, or have to invest a great deal of time in order to do so. When they get here, even if they come for six months, they cannot bring their wife or children with them.

Has your foundation given any thought to that problem and does it have any suggestion to make in that regard?

[English]

**The Chair:** We're being very liberal today with our time, as you can see. We're going to go to Mr.—

[Translation]

**Mr. Pierre Paquette:** We're going to be here until at least 5:45 p.m.

• (1705)

[English]

**Mr. Yuen Pau Woo:** May I have one minute to address that?

This is the single most common complaint we receive from the business community when we talk about problems they face doing

business with Chinese counterparts and Indian counterparts. This is also the area where our colleagues in Citizenship and Immigration Canada continually tell us they're improving, so there's a major disconnect between what the constituencies, the stakeholders, are saying and what the bureaucrats are responding with.

I think we need a whole new approach to the way we issue visas, one that goes beyond simply increasing the number of staff or changing the regulations. Perhaps what we need to do are some pilot projects, where we allow for a more liberal regime of allowing temporary entry of business visitors and we look at the risk assessment.

I don't want to be cavalier about the risk of so-called immigrants who overstay or who may get involved in petty crime and so on, but let's carefully ask ourselves what the downside risk is to a slightly more liberal regime, one that allows for a stronger flow of, say, entrepreneurs and business people from China. I mean people who are coming on official delegations with official letters of invitation from maybe ITAC and the plastics association or the Asia-Pacific Foundation but who still get their visas denied on a regular basis. It happened again just three weeks ago at a major conference, a trade fair in Vancouver, where 60% of the Chinese delegates were denied visas.

**The Chair:** We will go to Mr. Jean. Brian.

**Mr. Brian Jean:** Thank you, Mr. Chair.

I take exception to the constant use of the term “liberal”.

**Some hon. members:** Oh, oh!

**Mr. Brian Jean:** I'd rather you thought of the “conservative” approach as getting results, and that's what you'd want.

Actually, I'd like to expand on those two questions, specifically relating to how we get that two-way flow of talent without the use of money and instead through policy. Do you have any ideas on that?

**Ms. Karen McBride:** I distributed a little brochure that just gives you a bit of a pictorial overview of the Canadian universities' engagement. You'll see they already have in place a number of mechanisms to facilitate the flow of students.

The data we have, however, shows that for students, lack of funding is the key obstacle for their going. Our research also shows that what's required is a small amount of support, in the range of \$2,000 to \$3,000, to make it happen.

In terms of sending Canadian students abroad, we believe the networks and the relationships are there. The universities have the supports in place to make it happen. What's lacking is a little bit of seed money for the students to be able to afford to partake in and have that international experience.

We believe that, unfortunately, in some cases it is about resources. Students with financial needs need a little bit of extra support. We feel those students in financial need should have access to some bursaries on a competitive basis in order to help them take advantage of these exchange opportunities.

**Mr. Brian Jean:** But a foreign education costs somewhere between \$20,000 and \$30,000 per year in most universities in the U. S. or Australia and places like that, so \$2,000 to \$3,000 seems like a small price to pay. How are we going to get that kind of creative talent through that kind of minimal investment?

**Ms. Karen McBride:** I'm talking about short-term study by Canadian students in partner universities of their Canadian home institutions. Often, when that's the case, we're not talking about a student going abroad to do their full course of study but going abroad for a year or a semester to do a particular research project, for example. Most often, universities will have reciprocal arrangements with those institutions that are their partners abroad. Therefore, it's a very cost-effective way for the students to get that kind of international experience, because they're not footing the bill for a full program abroad.

**Mr. Brian Jean:** So it's the \$2,000 or \$3,000, but also a space in our universities and the full cost of tuition, etc., for that student. But the exchange in a foreign country—

**Ms. Karen McBride:** The student continues to be enrolled in their home university and to pay tuition to their home university, which has an agreement with foreign partners to exchange students.

Most European countries and other countries, when they come to talk to AUCC, complain and want to know why Canadian university students are not interested in coming to their countries. They have so many students they could send on exchange programs to Canadian institutions, but there aren't enough Canadian students to take up the available places in their universities abroad. We tell them all the research we have shows it's not a lack of interest; it's a lack of a little financial support for those students who need it to take advantage of that.

• (1710)

**Mr. Brian Jean:** My final question is along the same lines, and that is, how do we attract the best and brightest to get higher education here and to continue to live here? Obviously, our competitive advantage in that sense is that most people from developing countries want to live in Canada, but how do we keep them here and how do we petition those countries to allow them to come?

**Mr. Yuen Pau Woo:** We shouldn't have a one-dimensional view of how we attract the best and the brightest. It is certainly about bringing them over here to our universities and schools, but it can also be about educating them in situ. It's a lot less expensive; we can offer Canadian degrees with the right kind of accreditation and so on; they get it for a much lower cost; and they get Canadian experience. Part of that Canadian experience might be in the final year, in the final semester, or in whatever permutation, and then they will have the Canadian experience at a lot lower cost than if they have to spend a full four, five, or six years in Canada. That's one option, and a lot of Canadian universities are pursuing that strategy. It's very exciting.

Also, I should say in terms of the cost of funding here, a lot of private education companies are setting up schools right across China. There's a Canadian company that runs a K to 12 institution. There's another Canadian company that runs a chain of kindergartens across the country. A private school in Vancouver has bought a university in the northeast of China. There are many examples like that. These are all ways of providing Canadian quality education services at lower cost in situ, but giving the Canadian experience.

The other point I want to make is that sometimes foreign students come and they go back. Sometimes immigrants can't hack it here; they can't get jobs and they go back. These numbers are growing. We've been reading in *The Globe and Mail* about the problems faced by many people not getting jobs and so on.

We have to start thinking of these people as assets and embracing them, even though they return to their home countries. Many of them, most of them, left to go back to their countries with a Canadian passport. Instead of thinking about them as Chinese immigrants who did not make it in Canada and had to go back, we should think of them as a Canadian diaspora or as overseas Canadians and find ways to cultivate, build, and maintain those networks so they stay in our camp, so to speak.

Many of these individuals, those who choose to go back voluntarily, go back to very senior positions in Indian companies and in Chinese enterprises. You can be sure they will be the future captains of industry, running Chinese enterprises while holding Canadian passports.

**Mr. Brian Jean:** All of the presenters got me on board today with the suggestion that we had to take advantage of our technological advantage in the future, etc., bringing in foreign students, educating them, and getting them to stay, which I think is ultimately necessary in order to keep a positive population growth. Again, I have to re-ask the question: how do we get these people into the country to stay and be educated fully? Obviously, that would help with integration.

**Ms. Karen McBride:** Right. Well, I think you said the most important objective is to recruit them and to retain them. I think that has to be balanced by the benefits that occur when they go home after we recruit them and train them. There are tremendous benefits from that scenario, as well, because these people go back with, as you know, a strong affinity for Canada. In fact, the Conference Board of Canada did a study two or three years ago now, I believe, that showed a two-way flow of students is correlated with a lot of economic competitiveness indicators. From our perspective, it's not only a good outcome when they come, we train them, and—if they're planning to leave their home country anyway—they choose Canada. That's a good outcome, but it's also a good outcome when they go back, because they become our networks.

I'd like to pick up on the point you made, however, about the diaspora. There are many opportunities to tap into the alumni networks of Canadian universities abroad. We've been quite active in the last number of years. There are some privacy issues, obviously, but we've been trying to facilitate, for our embassies and our missions abroad, some contact with Canadian university graduates who live there now. We think that's another important part of the diaspora. It's also a good outcome when they go back, but only to the extent that we keep track of them; we have to maintain the connection.

In getting them here, I have to say that one of the obstacles we faced was that international students in every other competitor country—except Canada—were allowed to work off campus. That recently changed, and we're very pleased. We think having the capacity to stay and work for two years in a field after graduation, instead of one, is a step in the right direction as well, because clearly there are fewer, if any, integration challenges if they've been trained in Canada.

You ask what we can do with few resources. I want to come back to the issue of scholarships for students. Australia has 400 prestigious awards. The U.K. has 3,000 postgraduate scholarships that they award annually to international students. Just to give you an example, Germany has a long history of supporting the flow of students, with over 200 programs and an annual budget of €256 million.

We think what's needed is a start. A good way to start, and to brand Canada for its excellence in higher education and research, is through a prestigious scholarship program. We've called for that for some time. There are Government of Canada awards. They have been diluted over the past number of years in terms of both their value and their focus. We think there is an opportunity, through scholarships, to help brand the overall system of higher education and research abroad for its excellence, with relatively little investment. That will attract attention in what is a very competitive international market.

I was just at a meeting in Washington last week. They will tell you it's only a popular misconception that international students aren't welcome in the United States, and they are preparing to mount quite an aggressive marketing campaign to get the message out that they still want to be the lead welcoming country for international students. We need to establish a presence in these markets abroad.

● (1715)

**The Chair:** As we wrap up, I have one or two comments.

On the last point there, Ms. McBride, I guess post-9/11 has caused those numbers in the United States to drop, but those two countries you mentioned, Australia and Great Britain, according to my findings, certainly have a great benefit in terms of education revenue that Canada doesn't have.

Could you comment for me about the 2,000 research chairs that were announced some years ago, and what effect that has had? I remember it was described once—it was, one, MIT, and Canada was going to have centres of excellence across the country. You've not given us any indication on that.

Second, I'd like to ask you, as you are representing post-secondary institutions, why countries considered third-rate to Canada—for example, the European Community—can provide their students with free post-secondary education, but we here in Canada cannot.

**Ms. Karen McBride:** I'm sorry. They provide...?

**The Chair:** They provide free post-secondary education, and we here in Canada cannot.

With respect to alumni abroad, I personally have experienced at York University, for example, alumni who live abroad—in Greece, as an example—who continually provide funding to the university. That, unfortunately, is never even recognized, never even commented on once.

Could you comment on those before I add one or two more?

**Ms. Karen McBride:** Certainly.

The Canada research chairs program has been a tremendous tool for branding Canadian research abroad. I don't have any facts and figures with me, but I can send them to you. Certainly when I speak with presidents from universities and with other countries' representatives, it is recognized how the research climate in Canada has become very positive, very forward-looking, and the Canada research chairs program is one piece of what's made that happen.

We know of a few countries that have actually requested the Canada research chairs program to learn about the model, to see whether they might replicate it in their own jurisdictions, so we think it's very much helped to make Canada the place to be in terms of being at the forefront of research, and it's going to be important to maintain that momentum.

I'd be happy to send you more information on it, if you think it would be helpful.

• (1720)

**The Chair:** I say that only because I experienced firsthand the exercise in which we were able to attract researchers who were offered positions abroad but chose to stay in Canada specifically because these research chairs or this funding was now available. One specifically had to do with the steel industry. Instead of going to Germany, they decided to stay here in Canada, of course with the cooperation of the private sector, which I'm sure you're aware of. It really coincides and works well.

I'm just disappointed that I didn't hear any comments from you with respect to the effect that program has already had in our ability not just to brand but to attract the best and the brightest.

**Ms. Karen McBride:** Indeed, some major programs such as this, and others, have had a tremendous branding effect. So you're right, I'm remiss in not mentioning them all, but I'm happy to point to even more examples. In fact, there are some statistics showing how successful the program has been in achieving its objective of recruiting top talent to Canada—either Canadians back to Canada, or international talent to Canada.

It's those kinds of investments that will help Canada be a winner. I mentioned at the outset that we're in a global talent race, and we really need to make the investment that will help Canada be a winner. That's one of them.

Your other question is a very large question to tackle. I think...my goodness, I don't even know how to begin. That's a very large question.

**The Chair:** I'll give you an example. I know of students in Greece—I have a Greek background—who go to study in England, for example. Their tuition and expenses are paid for, except for their own personal room and board. They pay for that. Why can they afford to do that, and we here in Canada cannot?

**Ms. Karen McBride:** Britain has just recently introduced tuition fees.

**The Chair:** I shouldn't say Britain—the European Community. They just went to Britain to study, but I'm saying members of the European Community family are able to study in different parts of the European Community at no cost. Why can they provide that, and we here in Canada cannot afford free post-secondary education in terms of tuition? That's all.

**Ms. Karen McBride:** Well, generally speaking, the operating costs of universities provided by governments represent about 60% of the cost. The rest of that revenue for the operating expenses needs to come from other sources. If you increase part of that equation, the other part of the equation could decrease. It's a question of public policy. Perhaps the current judgment of public policy-makers is that it's both a private and a public benefit, and that's why there needs to be a balance between the two sources of funding.

It's a very big question, a very big debate, and obviously AUCC is concerned about making certain the balance is right, so that accessibility remains the hallmark of Canadian higher education systems.

On your last issue, about alumni abroad, as more and more universities are recruiting international students and realizing the potential of maintaining these networks and what it means for their own alumni development efforts, you're seeing a more systematic approach to trying to keep in touch with international alumni. It's not surprising that there's been a bit of a curve in terms of doing a better job at that. As I said, the universities want to make the contribution of ensuring the diaspora is connected and working toward our overall goals in raising the visibility of Canada in these countries.

**The Chair:** The best venue I have personally experienced is through our mission offices or embassies abroad. They are really the key instrument where this network can just unfold as we work.

Thank you for those comments.

On the small and medium-sized enterprises you talked about that can go to new countries, such as Croatia—I think it was Croatia that was mentioned—and a few smaller countries, I am puzzled why an SME cannot go to the new and emerging bigger markets such as China, for example, or India and compete. What is it they don't have that a Nortel has? I know what it is in terms of product. What is it in the ability or inability of a small plastic injection moulding company that might have a niche to go in? Why can they not compete? What kinds of tools would they need to go to one of these markets—China, Brazil, India—and compete?

• (1725)

**Mr. Serge Lavoie:** Let's look at it in two parts. If they're in the machine or tooling business it's perhaps a bit easier. They're going to have a particular market niche, a particular product that well could be interesting in China. But the enterprises there are pretty monolithic; there is definitely a language barrier; there is a financing barrier; there is a rule of law barrier. There are a lot of things they are very uncertain about, so by and large SMEs, which don't have large legal departments and don't have large marketing departments, will shy away from a difficult sale. That's the first thing.

On plastic-produced goods, SMEs don't try to take coals to Newcastle, to use an example: you don't take processed goods to China, because the perception is that you're not in the same league. So they don't generally try.

There are exceptions to all of those rules, but by and large we bring enterprises to China, we go to the major trade fairs—we're there every year—but the opportunities don't seem to be there. The size of Chinese enterprises is just so big. And quite frankly, those enterprises are looking for export opportunities, not import opportunities. There is a lot more need, a lot more desire to deal in the smaller markets, because they are hungry for the new technologies, they are hungry for new products, and by and large they're buying in reasonably sized quantities that an SME in North America can meet.

**The Chair:** We appreciate your time and your input in helping us put this report together for the Standing Committee on Foreign Affairs and International Trade, as it still is called.

I thank you all for being here and joining us today. Thank you very much.

We will adjourn.







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