

CONSULTATION

SHARPENING CANADA'S COMPETITIVE EDGE

**Isabelle Hudon
President and CEO**

Chambre de commerce du Montréal métropolitain
380, St-Antoine Ouest, bureau 6000
Montréal, Québec
H2Y 3X7

January 11, 2008

*Every morning in Africa, a gazelle wakes up.
It knows it must run faster than the fastest lion or it will be killed.
Every morning a lion wakes up.
It knows it must outrun the slowest gazelle or it will starve to death.
It doesn't matter whether you are a lion or a gazelle.
When the sun comes up, you better start running.*

- African Proverb
Source: Friedman, Thomas L. The World is Flat

"In Canada you have hope, but are you dreaming?"

- James D. Wolfensohn
Ninth President, World Bank Group
Conference de Montréal, 2004

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RE: Sharpening Canada's Competitive Edge

First and foremost, I would like to thank you for inviting me to participate in the consultation process on how to enhance Canadian productivity and competitiveness. As a Canadian that has been on the "front lines" of Canada's trade and investment agenda for the past 14 years, and as a lecturer on international business and competitiveness at McGill University, this is a topic that I believe requires significant attention by government, industry and academia if Canada Inc. is going to be on the net benefit side of what globalization has to offer.

As you know, I am currently co-authoring a study with Dr. Karl Moore titled, "Addressing the Problems Confronting SMEs," as part of the Competition Policy Review Panel's research efforts. Because of this work, which will be completed by the first week in March, I have decided to keep my comments at this stage relatively brief, focusing only on a few key questions presented in your consultation paper.

1. Should Canadians be concerned about foreign takeovers of Canadian firms?

If the acquisition has negative implications for our national security or sovereignty, or the acquiring entity originates from a nation that does not afford Canadian companies the same rights and direct investment privileges, my answer is yes. Otherwise, I would say no.

2. How important is domestic control and ownership of Canadian business activities to Canada's economic prospects and ability to create jobs and opportunity for Canadians?

Statistics Canada research has shown that foreign-owned Canadian plants tend to be more productive, pay higher wages and hire more white-collar workers than their domestic counterparts. This same research has shown that labour productivity of plants owned by non-Canadians has "increased considerably" relative to domestic plans in the last three decades.

This research is consistent with writings from Michael Porter of Harvard University and World Economic Forum fame. Porter states that productivity in a nation is a reflection of what both domestic and foreign firms choose to do in that location. The location of ownership is secondary for national prosperity.

Personally, I do not support the argument of those that are trumpeting the “hollowing out” of the Canadian economy. Bottom line, we need to learn how to compete at a different level now. Capital flows to where it can make the best return in a global economy and Canada has proven itself to be an ideal destination.

3. Do Canada’s economic policies appropriately reflect our increased integration with the North American and global economy?

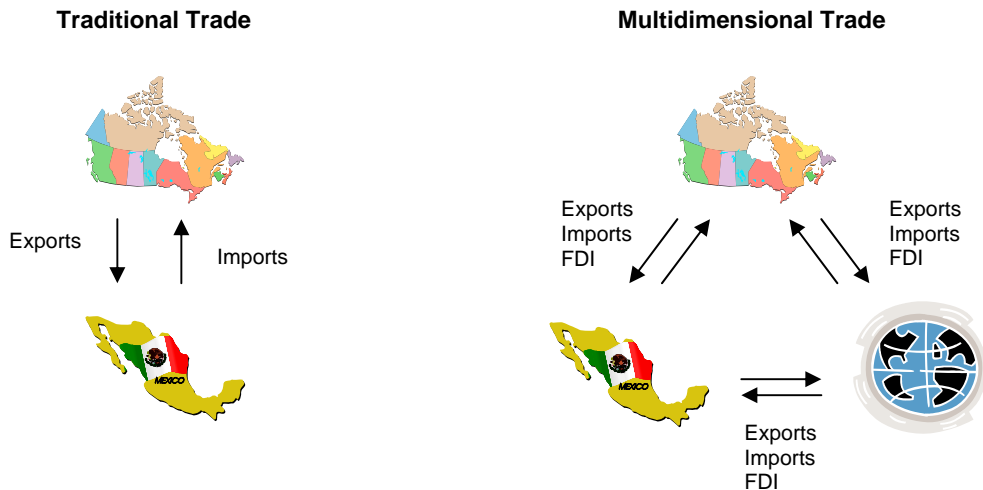
I believe our economic policies are more reflective of our increased integration with our North American partners – particularly the United States – versus the broader global economy. While there has been a modest reduction in our relative dependence on the U.S. for trade and investment flows, they still, and will for the indefinite future, represent our most important trading partner.

4. How might these policies be changed to better reflect this new competitive environment?

Multidimensional Trade: Creating Competitive Advantage

- Canadian companies – particularly small and medium sized enterprises – cannot view trade as an unnecessary evil or an activity reserved for the privileged few, but as a means to create competitive advantage at the firm level.
- The challenge for Canada Inc. is to determine how to best leverage trade in a world in which trade liberalization, the democratization of technology, and improved access to capital around the globe have led to a significantly more integrated and competitive business environment – both domestically and internationally.
- The traditional, linear view of trade – the exporting or importing of goods to and from foreign buyers or sellers for final consumption – is too limited. A much more holistic perspective is required for Canadian companies to understand, and ultimately benefit from, the multidimensional and multidirectional nature of trade.
- Trade can be thought of as having three principal dimensions – exports, imports and foreign direct investment (FDI). The key to creating competitive advantage at the firm level is to determine how to best incorporate each of these dimensions into a company’s

planning and operational processes – the precise combination being a function of the company’s competitive posture and the dynamics of the industry in which it competes.



- Multidimensional Trade, as I have defined it, is about innovating the way we trade. Whether we’re talking about a large, multinational engineering and construction group like SNC-Lavalin, or a medium-sized manufacturer of knitwear like Splend’or Industries, or a small retail chain of children’s footwear like Petit Pied, future competitiveness and profitability is very much dependent on how well these companies tap into global supply chains or leverage the multilateral trading system to better penetrate new markets. It is no longer a questions of why you export or import, it is a questions of what, when, where and how.

Building a Nation of Traders: Canada’s Challenge in the 21st Century

- DFAIT, Industry Canada, and their respective provincial counterparts have built up institutional frameworks that are export-centric, promotionally oriented, and do not adequately respond to the multidimensional nature of trade today, and unless real change is implemented, we can expect Canada’s diminishing share of global trade to continue.
- The challenge for our policy makers is to work with the private sector, labour, and academia in creating platforms upon which our companies can thrive in an increasingly competitive international business environment.
- Prior to introducing any practical reforms to Canada’s international trading system, though, we must first understand the following:

- ⇒ While Canada is statistically a trading nation, the trade agenda is dominated by a limited number of large companies (many of which are foreign subsidiaries). In 2001, 82% of the total value of merchandise exports was exported by companies that have annual exports of at least \$25 million (4% of all exporters in Canada).
 - ⇒ Relative to other major trading nations, Canada has a small, geographically dispersed population, and the vast majority of our companies are small and medium-sized enterprises (over 99%).
 - ⇒ Small and medium-sized enterprises invariably do not possess the necessary in-house “know how” and “know who” to efficiently develop business internationally.
 - ⇒ Small enterprises, in particular, typically do not possess the necessary financial resources to carry out proactive export or direct investment campaigns.
 - ⇒ In any one industry, in any one particular country, Canadian exporters and direct investors face formidable competition for both local and foreign enterprises that are eager to close the deal and often draw upon whatever political or economic lever they have at their disposal to realize success.
- In response to these constraints, I propose that the Governments of Canada, in collaboration with the private sector, introduce a series of trade innovations in an effort to create a more robust and responsive trading system in which Canadian companies can compete and grow internationally. The following is a preliminary list of recommended initiatives:

a) Trade Clusters

The development of industrial clusters, and more specifically technology clusters, in Canada is well documented. The objective – to move Canada to the front ranks of the world’s most innovative countries. As applied to trade, the objective would be similar, but the construction of the clusters would be distinct. In this case, we are building commercial channels to enhance trade and investment flows across particular geographic areas.

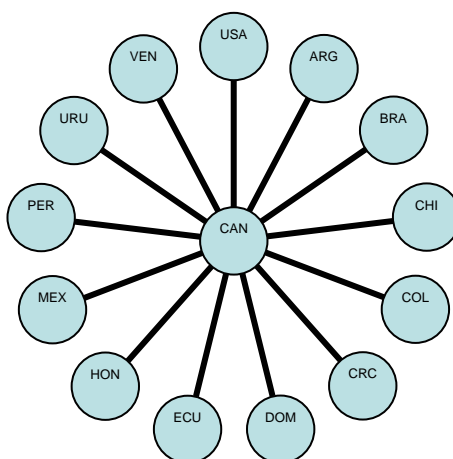
Example: Federation of Canadian Chambers of Commerce of the Americas

Including Canada and the United States, there are now Canadian chambers of commerce or like business associations established in 14 countries across the Western Hemisphere. These organizations all developed independently of one another and historically have had limited to no interaction.

Given the movement toward greater economic integration in the Americas, though, it no longer makes sense to have these individual chambers operating solely within the confines of their national borders. Capital flows and market opportunities are definitely not limited to political boundaries, so efforts must be taken to ensure that their existing and future members, which consist of both Canadian and local enterprises, are in a position to benefit from hemispheric trade and investment liberalization.

By forming a network of Canadian chambers of commerce and like business associations that are all committed to strengthening both their members' and Canada's commercial positions in their respective countries, an effective structure is created that facilitates greater trade and investment activity across the Americas. New or existing exporters and investors to any part of the region are able to tap into an established channel that represents over 1,000 companies in Latin America and the Caribbean alone. As reflected in the following diagram, the Federation epitomizes the spirit and multidirectional nature of Multidimensional Trade.

Federation of Canadian Chambers of Commerce of the Americas



The success of the American Chambers of Commerce Abroad (AmChams) – a similar type of network that was established several years ago and that is now present in 80+ countries – in helping advance U.S. business interests around the world is testament to the synergies and results that can be generated through these type of trade clusters.

b) Public-Private Partnerships in Trade Development / TCS+

While the Canadian Trade Commissioner Service and its provincial counterparts are of definite value to Canadian companies as they attempt to enter foreign markets, their core services are limited to the provision of market and contact information. Depending on the in-house experience and expertise of the exporter or investor, though, the greatest challenges often come during the execution phase. Unfortunately, International Trade Canada and the Provinces' international trade ministries are not equipped to respond to this need, and given their resource constraints – both human and financial – it is not realistic to think that they will.

A very workable solution that would not require our governments to assume any additional budget burdens would be the creation of Public-Private Partnerships in international trade and investment development, or TCS+. Building on the P3 model that was introduced as a means to enhance our governments' ability to meet its infrastructure obligations, Public-Private Partnerships in international trade and investment would build on the services currently offered by the Trade Commissioner Services and its provincial counterparts, with the objective of helping Canadian companies implement their international business plans. These services would be made available to companies in Canada and abroad (with particular emphasis on developed and large emerging markets) and would be offered on a cost reimbursable basis.

While Public-Private Partnerships in the delivery of trade and investment services would be an evolution in Canada's approach to international trade, it is something that has existed among, and is being tested by, a certain number of our principal trading partners.

Example One: The Canadian German Chamber of Industry and Commerce⁷

The Canadian German Chamber of Industry and Commerce - with its head office in Toronto and branch offices in Montreal and Vancouver - is a non-profit, bilateral business organization that fosters trade and investment relations between Canada and Germany.

The Chamber is part of a worldwide network of 120 offices of bilateral German chambers, delegates and representatives with more than 1,300 full-time experts in 80+ countries around the globe. All of these countries together count for more than 98% of Germany's foreign trade and investment.

Like all other German chambers abroad, the Canadian German Chamber is affiliated with the Association of German Chambers of Industry and Commerce (DIHK) in Berlin, the central organization of all chambers of industry and commerce in Germany with about three million member companies (membership is compulsory for every company in Germany).

The Chamber also acts as the German Trade Commission in Canada but on a bilateral basis. The Canadian German Chamber not only promotes German foreign trade and investment with and in Canada but also Canadian foreign trade and investment with and in Germany.

Example Two: The State of Guanajuato, Mexico World Trade Commission

In 1992 – following an initiative from Guanajuato's business community – the Guanajuato World Trade Commission, or COFOCE, was created in an effort to position the state's products and services in international markets.

Over the years COFOCE has built up a dynamic, specialized organization that seeks out opportunities for Guanajuato exporters through its international offices in Montreal, Toronto, New York, Dallas, Los Angeles, Guatemala, Colombia and Spain. Beyond offering its exporters traditional trade promotion services, though, COFOCE's international offices, which are now completely operated by private sector companies, offer prospective exporters advanced business development solutions, including direct representation in the country. The more advanced services are offered on a fee-for-service basis.

The end result of this Public-Private Partnership approach has been higher exports, greater focus on those exporters that are truly export-ready and have a competitive offering, and a reduction in amount of money the State of Guanajuato has had to spend in trade promotion activities.

At the Panel's request, I would welcome the opportunity to discuss any of above in more detail.

Thank you again for giving me the opportunity to participate in this consultation.

Sincerely yours,

William C.T. Polushin
President