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FROM A TRADING NATION TO A NATION OF TRADERS:

TOWARD A SECOND CENTURY OF CANADIAN TRADE DEVELOPMENT

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From a Trading Nation to a Nation of Traders:

Toward a Second Century of Canadian Trade Development

Executive Summary

Government trade development programs, in contrast to trade policy, are rarely the subject of academic research and evaluation. This is surprising; governments throughout the world spend considerable resources on trade development programs, in order to assist companies in identifying and pursuing opportunities created by trade liberalization. Canada, as a nation highly dependent on trade, is no exception; current federal trade development expenditures are estimated to be between $ 500 - 600 million annually.

For close to 100 years, the Trade Commissioner Service has been the focal point of support for Canadian exporters. This study, drawing from extensive Canadian government data, aims at developing a more systematic and comprehensive approach to trade development, based upon the changing nature of international business today. The challenge facing trade development programs, in an era of globalization, is how best to serve the more sophisticated, integrated and varied needs of the internationally-oriented companies. A consequent reorientation of the Trade Commissioner Service is desirable, as the Service prepares to celebrate its centenary in 1994.

The business community understandably takes full advantage of any government assistance available. Trade development programs allow private companies to stretch their international market development resources, ideally to support new and incremental activities. Yet at a time of resource constraints, universal access to trade development programs needs to be questioned. The challenge for government is to devise programs and services that are truly risk sharing and stimulate pursuit of new opportunities rather than subsidize already planned international marketing.

Government support to the private sector should be justified on the basis of market failure and comparative analysis of expected returns on program funding. Just as the private sector evaluates investment based upon probable rates of return, trade development programs should be considered as comparable investments. This will require assessment of risk as well as a variety of specific criteria: is support necessary, does support engender dependency, is support comparable to the practice of major competitors, is support complementary to domestic competitiveness, is support selective and targeted, and is support productive? These criteria need to be applied on a market and sector-specific basis.

Program management and activity tracking statistics collected by the Trade Commissioner Service provides an informed basis for analysis of the effectiveness of the Service, its related government-initiated trade development activities, industry-initiated financial support programs and export financing facilities. This statistical base, in sharp contrast to other programs and activities of the Department, allows us to identify areas of concern and suggest possible improvements.

The analysis indicates that current government trade development programs do not meet criteria established earlier. Trade development programs, while largely comparable to those

offered by Canada's major competitors, are neither selective nor targeted. As a result, government support is not based upon need or market failure, has created a small group of companies dependent on continued government support, has overly encouraged participation in trade fairs and missions by non-export-ready companies, and is overly allocated to markets with comparatively lower marginal rates of return.

Future trade development programs will need to become much more selective. A formal requirement for export education or experience needs to be implemented to assist companies in maximizing the long-term benefits of government support. The current emphasis on evaluating programs on the basis of events and activities needs to be reoriented towards tracking the international expansion of companies assisted by government programs. Cost recovery needs to be enhanced, particularly for habitual users of these programs in OECD markets. Trade commissioners will need to address more and more the linkages between trade and competitiveness, particularly investment, technology and longer-term institutional factors. Aid-trade linkages need to be enhanced and made comparable to those of major competitors. Delivery mechanisms need to be devolved to the private sector when possible, in order to allow trade commissioners to devote more time to market intelligence, information brokering and other value-added activities. Greater federal-provincial cooperation, particularly in the export-education and sourcing of new companies, may be possible. As the distinction between trade policy and trade development continues to fade, particularly in OECD markets, trade commissioners will need to develop a more sophisticated understanding of policy issues just as trade policy practitioners will need to be more attentive to trade development concerns.

The more sophisticated demands of the Canadian business community will require a more systematic approach to recruitment, training and career development of trade commissioners. Creeping bureaucratization has reduced direct links with the business community, particularly at headquarters, and new mechanisms, such as enhanced interchange programs, are likely to be required. Organizational change by itself would not address any of these issues; most needed changes can be accommodated within the current organizational structure.

Government fiscal restraint is here to stay. Given resource limitations, trade development programs will need to become more focussed and targeted on where such programs reflect market failure, provide significant value-added, and respond to private sector needs. A more strategic approach, in contrast to a universal approach, is required, to ensure that government both leads and responds to the requirements of competitive Canadian companies.

Résumé

Contrairement à la politique commerciale, les programmes de promotion du commerce du gouvernement font rarement l'objet de recherches approfondies. C'est assez surprenant. En effet, les gouvernements du monde entier consacrent des ressources considérables aux programmes de promotion commerciale afin d'aider les entreprises à repérer les possibilités offertes par la libéralisation des échanges et à en tirer parti. Le Canada, qui dépend étroitement du commerce, ne fait pas exception; on estime en effet que les dépenses actuelles du gouvernement fédéral au titre de la promotion du commerce se situent entre 500 et 600 millions de dollars par an.

Depuis près de cent ans, le Service des délégués commerciaux est l'organisme central d'aide aux exportateurs canadiens. Cette étude, fondée sur de très nombreuses données du gouvernement canadien, s'attache à élaborer une stratégie de promotion du commerce plus systématique et globale, qui tienne compte de la nature changeante d'aujourd'hui. Le problème qui confronte actuellement les programmes de promotion du commerce consiste à savoir comment, à notre époque de mondialisation des échanges, répondre le mieux possible aux besoins plus complexes, intégrés et variés des entreprises ouvertes vers les marchés internationaux. Il est donc souhaitable de donner une nouvelle orientation au Service des délégués commerciaux, qui se prépare à célébrer son centenaire en 1994.

Comme on peut s'y attendre, le monde des affaires tire pleinement parti de toute aide offerte par le gouvernement. Les programmes de promotion commerciale permettent aux compagnies privées d'étirer les ressources qu'elles peuvent consacrer au développement des marchés internationaux, idéalement pour financer des activités nouvelles et additionnelles. En cette période où les ressources sont limitées, il convient cependant de remettre en question l'accès universel aux programmes de promotion du commerce. La tâche du gouvernement est de mettre en place des programmes et des services qui sont vraiment à risques partagés et qui stimulent la recherche de nouveaux débouchés plutôt que de subventionner des activités de commercialisation internationale qui sont déjà prévues.

Le soutien du gouvernement au secteur privé devrait être justifié en fonction des défaillances du marché et de l'analyse comparative du rendement prévu des fonds consacrés aux programmes. Les programmes de promotion du commerce devraient être considérés comme des investissements au même titre que les investissements du secteur privé, qui sont évalués en fonction de leur rentabilité probable. Il faut pour cela évaluer les risques et établir divers critères précis : l'aide est-elle bien nécessaire, engendre-t-elle une dépendance, est-elle comparable à ce que font les principaux concurrents, vient-elle renforcer la compétitivité nationale, est-elle sélective et ciblée, et finalement, est-elle productive? Ces critères doivent s'appliquer selon les marchés et les secteurs.

Les statistiques sur la gestion des programmes et le suivi des activités, recueillies par le Service des délégués commerciaux, fournissent une base d'information pour l'analyse de l'efficacité du Service, de ses activités de promotion du commerce, des programmes de soutien financier et des mécanismes de financement des exportations. Cette base statistique, qui contraste fortement avec d'autres programmes et activités du Ministère, nous permet de repérer les secteurs à problème et de proposer des améliorations possibles.

L'analyse indique que les programmes gouvernementaux actuels de promotion du commerce ne répondent pas aux critères établis plus tôt. Ces programmes, bien qu'ils soient dans une large mesure comparables à ceux qu'offrent les principaux concurrents du Canada, ne sont ni sélectifs ni ciblés. Il s'ensuit que l'aide gouvernementale n'est pas fournie en fonction du besoin ou des défaillances du marché, qu'elle a créé un petit groupe d'entreprises qui dépendent de l'aide continue du gouvernement, qu'elle a encouragé de façon excessive la participation aux foires et missions commerciales de compagnies qui ne sont pas prêtes à exporter et qu'elle est trop souvent affectée à des marchés dont le taux de rendement est comparativement peu élevé.

À l'avenir, les programmes de promotion du commerce devront être beaucoup plus sélectifs. Ils devront comprendre une exigence relative à une formation ou à de l'expérience dans le domaine de l'exportation afin d'aider les entreprises à maximiser les avantages à long terme de l'appui du gouvernement. Il faudra modifier l'accent mis actuellement sur l'évaluation des programmes en fonction des événements et des activités et s'attacher plutôt à suivre l'expansion internationale des entreprises qui ont bénéficié des programmes du gouvernement. Il faut améliorer le recouvrement des frais, particulièrement à l'égard des utilisateurs habituels de ces programmes dans les marchés des pays membres de l'OCDE. Les délégués commerciaux devront de plus en plus tenir compte des liens entre le commerce et la compétitivité, particulièrement en ce qui concerne l'investissement, la technologie et les facteurs institutionnels à plus long terme. Les liens entre l'aide et le commerce doivent être améliorés et être portés à un niveau comparable à ce qui se fait chez nos principaux concurrents. Les mécanismes d'exécution doivent être délégués au secteur privé lorsque c'est possible, pour permettre aux délégués commerciaux de consacrer plus de temps à l'analyse des marchés, à leur rôle de courtier en informations et à d'autres activités à valeur ajoutée. On pourrait voir une plus grande coopération entre le gouvernement fédéral et les provinces, particulièrement pour ce qui est de la formation dans le domaine de l'exportation et du répertoriage de nouvelles entreprises. À mesure que disparaît la distinction entre politique commerciale et promotion commerciale, particulièrement dans les marchés des pays membres de l'OCDE, les délégués commerciaux devront acquérir une connaissance plus approfondie des questions de politique, tout comme les spécialistes de la politique commerciale devront accorder plus d'attention aux questions de promotion commerciale.

Les exigences plus complexes du monde des affaires canadien nécessiteront l'adoption d'une approche plus systématique au recrutement, à la formation et au perfectionnement professionnel des délégués commerciaux. Une bureaucratisation envahissante a réduit les liens directs avec le monde des affaires, surtout à l'Administration centrale, et de nouveaux mécanismes devront sans doute être mis en place, tels que de meilleurs programmes d'échange. La modification de l'organisation ne résoudrait pas à elle seule ces questions. La plupart des changements nécessaires peuvent s'effectuer au sein de la structure organisationnelle actuelle.

Les restrictions financières du gouvernement sont chose permanente. Étant donné les ressources limitées, les programmes de promotion du commerce devront être davantage ciblés afin de répondre aux défaillances des marchés, de donner lieu à une importante valeur ajoutée et de satisfaire aux besoins du secteur privé. Une approche plus stratégique, contrairement à une approche universelle, est nécessaire pour que le gouvernement puisse à la fois donner le ton et répondre aux besoins des entreprises canadiennes compétitives.

From a Trading Nation to a Nation of Traders:

Toward a Second Century of Canadian Trade Development

I. Introduction

Canada is a trading nation. Yet we are <u>not</u> a nation of traders. 70 percent of Canadian companies do not export; fewer than 100 firms account for 70 percent of our export trade. Nearly 100 years of government services and programs to encourage trade has not changed the paradox of a trading nation bereft of a trading culture.

Canada's economic welfare has always been based upon trade. This trade — from the cod fisheries and the fur trade to agricultural and natural resource exports — depended upon foreign investment. Canada did not become a trading nation by developing new products and services; foreign demand for natural resources drove Canada's economic growth, the USA gradually supplanting Britain as our major trade and investment partner.

Successive government policies, from the National Policy on, did not foster a more dynamic outward-looking Canadian business community. The National Policy, based upon an import substitution and 'miniature replica' foreign investment strategy, was in effect maintained by a trade policy that opened up markets for our natural resources while protecting our manufacturing base. The FTA, however, marked a major break by opening Canadian industry to foreign competition.

Canada can no longer depend as heavily on demand for its natural resources for future growth. A trading culture based upon innovation, creativity, value-added, design of new products, processes and services is needed. Global economic developments and changing international business practices are forcing adjustment and change.

Government policies and programs — both domestic and international — need to change accordingly. Economic liberalization and the more outward-looking trade policy of the FTA need to be matched on the trade development side. Trade development will need to become more sophisticated in developing linkages to domestic competitiveness and addressing market access issues. Fiscal restraint should be viewed as an opportunity to develop more effective and focussed programs. Programs and services should be designed to reduce dependence on government support rather than entrench it. Access to programs and activities will need to become more selective and differentiated.

After a brief history of the Trade Commissioner Service and related government programs, this paper discusses the changing international business environment. Reduced government participation in economic and trade development suggests that existing programs need to be re-evaluated on the basis of new criteria. To place Canadian programs and services in context, a summary review of practices of selected competitor countries is included. A detailed performance review of trade commissioner services and trade development programs suggests that current resources and activities are over concentrated in mature markets with diminishing marginal rates of return. Future programs will need to question universal access to government programs and services, enhanced linkages to the basic competitiveness of Canadian companies, and greater devolution of program delivery. Discussion of training requirements, business linkages and organization follows.

II. The Trade Commissioner Service: Adapting to Change

The Trade Commissioner Service (TCS) has led the government's trade development efforts for close to 100 years. TCS was founded largely in order to sell Canadian wheat, timber and other resource products. Canadian trade policy was largely British trade policy; the United Kingdom was our largest trading and investment partner at the time.

> *I fear there is no concealing the fact that the Trade Commissioner Service is at a low ebb in Canadian public opinion, and it is necessary to overcome this condition before effective and valuable work can be done.*

Richard Grigg, Commissioner of Commerce, 1912-16

Under George Foster, Minister of Trade and Commerce, 1911-21, the Service, then called the Commercial Intelligence Service, was established on a professional basis. Recruitment and training for assistant trade commissioners became formal and systematic. The forerunner to Statistics Canada was established to provide both trade and basic economic information. A foreign tariffs division was established to advise exporters of tariffs and related matters they faced in foreign markets. Post operations were systematically reviewed.

As the manufacturing sector developed in the years following World War I, TCS increasingly promoted Canadian industrial products abroad. As a result the departmental publication, the *Commercial Intelligence Journal*, provided more varied and detailed information to Canadian exporters. Trade commissioners were expected to prepare long and exhaustive country-wide market studies. A publicity branch was later formed to coordinate and prepare publications for overseas markets and inform trade commissioners of developments in Canada and other promotional materials.

The UK, then still Canada's largest trading partner, was granted the most resources and personnel, both in London and at various satellite offices. As the largest operation, it became over time a testing ground for the Trade Commissioner Service as a whole. This not only applied to trade fairs and missions, publicity and other promotional techniques but also on issues such as relations with other government departments and the role of the specialist versus generalist trade commissioner. Presence in the US market was limited to New York; the resident trade commissioner concentrated his efforts on investment development and the international aspects of New York as a trading centre rather than on trade development.

Steamship subsidies were the main program the Department used to encourage trade. Frequent and cost effective transport was seen as necessary to export success in all export markets, including the UK, the West Indies, Australia and the Orient.

The Post-War Years: Today's 'Good Old Days'

TCS and related programs adapted to the development of Canadian industry, the emergence of the USA as our major trade and investment partner and the rapid growth in world trade and investment that occurred under the GATT. While the fundamental role of TCS did not change — selling Canada to the world — programs and services became more varied and sophisticated.

Trade Development Activities

- Ministerial missions
- Trade fairs/missions
- Market intelligence
  - decision-makers
  - distribution networks
- Market access issues

More posts were opened, including in the all important US market. Trade commissioners spent most of their careers outside Canada, coming back mainly for cross-Canada industry familiarization tours and visits.

The Department of Industry, created in 1963, was folded into Trade and Commerce in 1969, to form the Department of Industry, Trade and Commerce (ITC). Although strains existed between the geographic and sectoral components within the various permutations and combinations of the portfolio, domestic and international support programs and services were largely complementary and mutually-reinforcing. Detailed sector expertise was available to assist trade commissioners in the field to 'source' Canadian suppliers. The backward and forward linkages of trade and the domestic economy were well understood in the industry sector branches. Canadian exporters had fewer contact points in Ottawa. The comparatively small number of exporters, centralized recruiting for trade fairs and missions, and frequent cross-Canada tours fostered strong ties between trade commissioners and company representatives.

In contrast to the steamship subsidies of the early years, more targeted support programs were developed. To support market development costs, on a risk-sharing and repayment basis, the Program for Export Market Development (PEMD) was established in 1971. To encourage technology transfer to and long-term investment in developing countries, CIDA introduced the Industrial Cooperation Program in 1977. To equip exporters with competitive trade finance instruments, the Export Development Corporation was created in 1969.

Domestic industrial support programs increasingly had an export component. The Defence Industrial Productivity Program (DIPP) assisted Canadian companies meet the research and development requirements of our major export market for defence products.[1] Given the integrated nature of Industry, Trade and Commerce, domestically-based programs were often in effect linked to export development programs and activities. Comparatively generous levels of funding provided companies an incentive to work closely with industry sector specialists.

A Consolidated Foreign Service

The decision in 1982 to integrate TCS within the Foreign Service, alongside the Immigration Service, recognized that foreign policy had to serve broader interests. This had been foreshadowed by integration earlier of operations abroad. External Affairs had always had a role in the formulation of trade policy. Foreign policy would now include the whole range of Canadian interests overseas — economic, trade, immigration, political, aid, cultural — centralized under one department.[2]

> *The function of a modern diplomatist (sic), {Canadian Minister to Japan Herbert Marler} contends, is largely concerned with the promotion of economic intercourse between nations.*

London Times, 29 May 1929

The fundamental logic was sound. Canada could not afford to have a series of independent foreign services.[3] Moreover, from a trade development point of view, economic and commercial interests would become more integrated into overall foreign policy formulation. These would not be limited to traditional trade development activities but would include greater use of framework agreements and institutional links to further the development of trade and investment.

Consolidation, however, weakened the links between industry sector branches and the trade commissioner service. The former industry sector expertise of Industry, Trade and Commerce became dispersed in the new Department of Regional and Industrial Expansion. Subsequent separation of regional development goals — through the creation of regional development agencies such as the Atlantic Canada Opportunities Agency and Western Canada Diversification — from industrial development objectives led to the Department of Industry, Science and Technology in 1990. The former industry sector expertise, however, did not return.

At the same time, trade commissioners had to adapt to the more bureaucratic culture at External Affairs.[4] While trade commissioners at post continued to believe in their role as providing a service to the business community, trade commissioners at headquarters spent more and more time preparing briefing notes and less and less time with business. Institutionalization of government-industry consultations — the International Trade Advisory Committee (ITAC) and the Sector Advisory Groups on International Trade (SAGITs) — and support to bilateral business councils ensured private sector input but did not fill the perceived void of previous contacts. The visitor-unfriendly character of the Pearson building — minimal parking, obsolete security procedures, unclear signage, distance from the downtown core — was symbolic of this change.

While in the field, heads of missions understood the importance of the trade program, at headquarters trade development programs and activities were often perceived as secondary to the pursuit of broader political and trade policy objectives.[5] The EAITC culture can be summed up in the phrase 'has Canada made a difference' rather than 'does this serve Canadian interests'. While bureaucratization is a problem, the real issue is how can the Department become more focussed on the competitiveness linkages of trade policy and trade development with the economy. The Department's interest in broader foreign policy issues, admittedly encouraged by its political masters, may detract from the pursuit of Canadian economic interests.

> *For a small country surrounded by larger countries and heavily dependent on trade with one of them, foreign policy should, in major part, be trade relations policy. Of course, other policy issues are also vital to Canadians, but if a small country dissipates its foreign policy bargaining power on issues that concern it primarily as a member of the international community, it might not have the resources, the credibility, or the leverage to protect its trade policy interests.*

Rodney de C. Grey, Former Ambassador to the Tokyo Round of the GATT

The identity and the leadership role of the Trade Commissioner Service became diluted within EAITC and within the government as a whole. In response, fifteen other federal departments expanded trade development programs of their own. While these generally complemented EAITC's activities in the field, considerable duplication and turf rivalry resulted.

The provinces also became more active players. Programs such as trade fairs and missions were expanded. International offices were opened, largely to encourage inward foreign investment and business immigration. Several provinces chose to place personnel in a number of our missions abroad. Federal-provincial consultations on the trade policy and trade development front became institutionalized and joint activities became common.

During this period, the number of companies interested in exploring trade opportunities increased, given departmental exhortation and encouragement and greater general awareness of the trade and economic issues. Parallel developments — explosive growth in air travel, telecommunications and world information flows (e.g., CNN) — has set the stage for broader interest in trade development programs in more and more markets. While contracting out in Ottawa to industry associations and private consultants — trade fairs and missions, seminars, publications among others — allowed trade commissioners to increase their levels of activity, concerns developed over the quality of the services offered.[6]

In contrast to earlier growth periods, the late 1980s were characterized by fiscal constraint. Resource allocation increasingly became a zero-sum game of trade-offs within and among the geographic and functional branches. Bureaucratic inability to set priorities often resulted in across-the-board cuts. Cost-sharing and cost recovery were introduced.

Going Global: Addressing Investment, Technology and Institutional Issues

Trade commissioners in the developed markets of Europe and the USA, perceived the implications of globalization on international business practices. Just as business increasingly viewed trade, technology and investment as complementary techniques to international expansion, a number of programs were developed to deal with these issues.[7] Moreover, the change from a protectionist to a more open economy — exemplified in the Foreign Investment Review Agency (FIRA) being transformed into Investment Canada and the negotiation of the FTA — provided trade commissioners with the opportunity to adapt to these new challenges.

Going Global

US Opportunities

- New Exporters to Border States (NEBS)
- New Exporters to the US South (NEXUS)
- Partnerships with trade associations
- Focussed market sector studies
- Trade satellite offices

Europe 1992

- Analysis of the 1992 Single Market
- Counselling on 1992 opportunities and challenges
- Develop programs to capitalize on 1992
- Expanded European trade fairs and missions
- NEXOS (to overseas)

Going Global Investment Program

- Designed to support focussed investment promotion initiatives aimed at attracting technology-bearing investment from Western Europe and Asia

Science and Technology

- 8 Science and technology counsellors
- 11 full-time Technology development officers
- Umbrella agreements
- TIP (since suspended)

Pacific 2000

Pacific Business Strategy
- trade promotion activities
- key sector market penetration
- expanding trade representation
- bilateral and sectoral business linkages

Pacific 2000 language and awareness fund
- Strong focus on Japan
- Major centres
- Regional post-secondary institutions
- Employment opportunity clearing house
- Corporate language course participation
- Asian studies conferences
- Secondary schools activities
- Japanese language teacher development

Pacific 2000 Projects Fund
- Strategic message program
- Young leaders program
- International education
- Asia-Pacific Research Fund
- Pacific institutions
- Asia Pacific Foundation

Japan Science and Technology Fund

The Going Global initiative was developed to address the challenges posed by globalization of technology innovation, investment, production and marketing. While trade development resources were provided to the US market, Going Global focussed on Western Europe, in anticipation of 1992, and Asia Pacific, our fastest growing market. While most resources were devoted to trade development — with trade understood to include investment and technology — new and innovative approaches were developed.

The Pacific 2000 strategy of Going Global, in addition to providing considerable additional funding for trade development, addressed the longer-term education challenge posed by the emergence of Asia Pacific as a major economic power. Awareness and language training programs were developed to prepare Canadians and Canadian companies for increased trade and investment linkages with the region.

Generalized investment development — encouraging companies to locate in Canada — was complemented by more targeted and selective programs. 'Canada is open for business' was superseded by targeted programs to strengthen Canadian capabilities in priority high tech sectors. Fostering linkages between Canadian and foreign small, rapidly growing high tech firms has emerged in Europe under the *Strategic Ventures Program*. 'Teaming' — developing trade, technology and investment linkages — has grown in importance in posts in the United States. Investment counsellors from the private sector were hired in key markets to provide specialized expertise in attracting investment to Canada. The politically contentious issue of Canadian outward investment started to be addressed. A renewed focus on strengthening the forward and backward linkages of international business with the domestic economy has emerged, most recently under the Prosperity Initiative.

For the trade commissioner in the field, the essential information brokering task in such programs was similar: identify companies interested in developing linkages with Canadian companies and arrange a 'matching' seminar or workshop.

Strategic Ventures Program

- Integrated approach to trade, technology, investment
- Key high-tech sectors
- Consultant-based eligibility criteria
- Consultant provided follow-up retainer
- Consultant provided less-than-market rates given further follow-up private incentives
- Joint EAITC/ISTC/Investment Canada program

Technology Inflow Program

- Exploratory visits abroad by individual companies
- Industry-oriented group technology awareness missions abroad
- Visits by foreign technical experts to Canadian companies

The need to assist Canadian companies in becoming more competitive by adopting advanced technology, product and process, led to the creation of the *Technology Inflow Program*

(TIP). Science and technology agreements with other countries and organizations were signed to assist Canadian companies to participate in major research and technology projects, most notably in the space sector. A Japan Science and Technology Fund was established to encourage small-scale joint-research and researcher exchanges between the two countries. A number of science and technology counsellors were also appointed, again to provide required specialized expertise.

The Trade Policy Dimension

Trade policy and trade development have remained two solitudes throughout much of the history of the Trade Commissioner Service. In the early years, Canadian trade policy was largely Imperial trade policy. In the limited negotiations that occurred, the Departments of Finance and Customs were the lead departments in the negotiation of trade agreements, with the Department of Trade and Commerce providing a supporting role.

Trade commissioners thus became involved in addressing trade policy issues on an ad hoc rather than systematic basis, not reflecting any particular government or departmental policy. It depended more on the "location of a post, the aptitudes and contacts of the trade commissioner in that post, the department's opinion of his judgement and capability, and the need for quick communications with a foreign government."[8] Political interest in furthering Imperial ties lay behind negotiations for an agreement with the West Indies and Australia[9], while more commercial motives underlay the negotiations (and trade commissioner involvement) with France and Czechoslovakia.

> *A Commercial Secretary is an adviser to the head of Legation and his primary concern should be with matters of policy ... A Trade Commissioner is for the actual promotion of trade by practical methods... [The] functions of a Commercial Secretary and a Trade Commissioner are so divergent that any attempt at supervision or control of the latter by the former is not workable in practise. As a theory, it is splendid.*

Frederick Hudd, Trade Commissioner, 1930

Tensions naturally developed over this trade policy role, within and outside Trade and Commerce. While it was natural for trade commissioners to address market access issues in local markets, broader more general reporting on trade negotiations was discouraged.[10] This reflected the belief that a trade commissioner was to provide direct and immediate service to the business community; other tasks would invariably detract from this objective.

A more independent and active Canadian trade policy gradually emerged in the years following the 1931 Statute of Westminster Conference that accorded Canada the power to negotiate and sign treaties on its own behalf. Three departments — External Affairs, Finance and Industry, Trade and Commerce — were responsible for trade policy and negotiations.

In the post-war years, trade negotiations became more varied. While Canadian participation in the GATT was negotiated by the same three departments (as were additional tariff reductions negotiated in successive rounds), agreements with the USA were handled differently, most notably in the case of the auto-pact and the FTA, where negotiations were led by comparatively autonomous negotiating teams. Even within Industry, Trade and Commerce, the dichotomy between policy maker and program implementer was strong; comparatively few trade commissioners were involved in trade policy, reflecting personal preferences and the institutionalization of trade policy practitioners.

Consolidation within EAITC did not change this divide. While a number of trade commissioners were able to 'make the switch', the designation of positions by stream limited the opportunities available. Yet trade policy dominates relations with major trading partners. Trade commissioners in the field are dealing more and more with market access and related issues rather than 'classic' trade development. While this may be most pronounced in OECD markets, these issues are increasingly common in developing markets.

The trade commissioner service and related government programs has demonstrated remarkable flexibility and adaptability throughout its history. Trade commissioners have evolved from salesmen of Canadian staple products to managers of an increasing variety of programs and services to meet the needs of Canadian businesses.[11] Yet the changing nature of international business and limited government resources will require even greater flexibility and willingness to adapt than before for the trade commissioner service to remain an important, relevant and effective agent of change of Canadian international business development.

III. The Changing International Business Environment

When the Trade Commissioner Service was founded nearly 100 years ago, economic integration was led by trade in goods. Trade largely involved transactions between unrelated private parties organized as national companies. Natural resources and semi-manufactured goods were dominant. Relatively high tariffs helped to maintain nationally segmented markets. The main barriers to trade were differential treatment in taxation and regulatory requirements (e.g., commodity taxes and mixing requirements).

As the Service matured in the decades after World War I, it did so in a world where most international trade was undertaken by large, nationally organized firms. Companies designed, engineered, manufactured, marketed and serviced a range of related products. Outside services were largely limited to financing and advertising. Foreign investment generally involved the establishment of miniature replicas (as encouraged by the National Policy) and only represented a fraction of global economic activity. Trade policy and trade development programs were oriented towards goods trade and national firms.

While trade in semi-manufactured and end products increased in importance, this characterization of international trade and industrial organization — national companies producing national goods for national markets — changed little during TCS's first 75 years.

Starting in the 1960s but particularly over the last ten years, however, dramatic changes in industrial organization and international trade have occurred. Previous declines in the relative value of natural resource and agricultural trade have accelerated. World trade is now led by manufacturing, particularly by knowledge-based industries, and services. Trade has become investment driven, conducted on an intra-firm and intra-industry basis, particularly in OECD markets. Investment flows are growing almost four times as fast as trade flows. Companies compete more and more on a global basis. Technological development, particularly in informatics, telecoms and transportation, has made this globalization possible. At the same time, the emerging regionalism — Europe, Asia, North America — forces companies to develop a distinct presence and approach for each region. Companies have become more sophisticated; trade, technology and investment are now viewed as complementary tools to international business development.

Small and medium-sized companies are not exempt from these trends. The model of the Japanese car industry — long-term supplier relationships characterized by shared R & D, quality and cost reduction responsibilities — has been adopted in North America, initially in the car industry but increasingly elsewhere. Reduced tariff and non-tariff barriers in North America and lower relative transportation costs worldwide have reduced the requirement for suppliers to be located close to major manufacturers. Local suppliers are thus being forced to compete more and more on a global basis, no matter what their size or sophistication. Companies that choose to remain domestic suppliers will increasingly find themselves unprepared to face North American and other competition. Canadian companies trading with the major markets of the USA, Europe and Japan have reflected these changes; over the past 20 years, end products have formed an increasing percentage of our merchandise exports as shown in Chart 1.

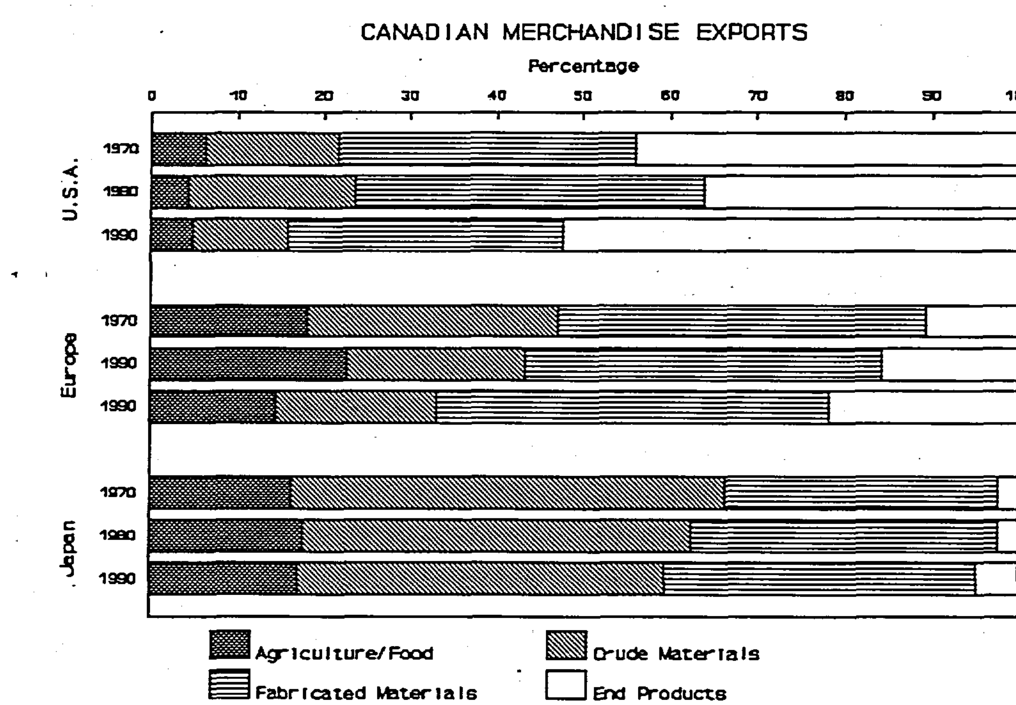

Chart 1

Source: EAITC/CPE (Cansim data)

Implementation of the FTA marked a significant change in attitude toward foreign direct investment (FDI) in the Canadian economy. It put an end to a 100-year strategy of encouraging investment in Canada to serve the Canadian market. Time had eroded the relevance of such a strategy. Instead, Canada now competes for investment to serve the North American market and even the global market, a trend which will accelerate following negotiation of the NAFTA. Investment decisions will be based upon fundamental underlying factors: macroeconomic stability, major factor input costs, quality of labour force and infrastructure. FDI has become much more influenced by the comparative advantage of the Canadian 'enabling environment' than by investment development programs.

The role of government is also changing. Governments have deregulated and privatized many activities. In the more competitive environment of the 1990s, the role of government is increasingly being limited to pursuing sound macroeconomic policy and developing human resources and basic infrastructure. Governments, particularly in a small country such as Canada, can no longer afford major subsidy programs to industry. Fiscal restraint is likely to continue as a priority in the 1990s.

Notes

IV. The Role of Government: Changing Criteria

The changing role of government — from participant to referee — has implications for industrial development and international business development. Fiscal restraint has limited direct government support to industry. Support programs, whether for regional development, productivity enhancement or the Canadian industrial defence base, do not necessarily result in more entrepreneurial and competitive companies. Indeed, such programs may have resulted in undue dependence on government support rather than preparing companies for the global marketplace. While these programs will not disappear, they will likely continue to decrease in importance.[12] Similar concerns should be raised with respect to international business development programs. While the central aim — to support and develop competitive Canadian companies, thus contributing to economic growth — should remain, the means may change.

> *It is in our national interest to ensure supply side strength and {an environment of} created comparative advantage where value added is a dynamic process.*

Jim Taylor, President, CEA

Government trade development resources are allocated to the major markets of the USA, Asia and Western Europe. This reflects several inter-related factors: traditional trading patterns, market size, competitive conditions, projected market potential, technology and investment links, and private sector interest, and the existing resource base.[13] Government largely parallels private sector assessment of market opportunities. However government rarely questions whether assistance is necessary to new economic activity, i.e., provides value-added to available private sector services. The following analysis is intended to provide a theoretical justification for government trade development programs and develop a series of criteria or judgement factors that can be used to evaluate new and current programs.

Market Failure: Why Government Trade Development Programs Exist

Government intervention in the economy is largely justified on the basis of market failure, whereby markets and the 'laws' of supply and demand do not automatically produce an optimum outcome. While non-economic objectives are also an important consideration, economic analysis should be the basis for government support programs to industry, given that the purpose of such programs is to enhance the ability of particular industries or companies to compete in domestic and international markets. If government intervention addresses market failure, resulting in improved 'competitiveness', then it can be justified; if not, then government intervention may even result in reduced market efficiencies and less competitiveness.

> *Market failure does not mean that nothing good has happened but that the best attainable outcome has not been achieved.*

Lipsey, Purvis, Steiner

Efficient markets — both domestically and internationally — require transparent business practices, widespread information flows, and dispersed buyers and sellers. Institutional or other factors that impede transparency and information flows also hamper market efficiency and may, if serious, result in market failure. Until recently, it was largely in the OECD that market failure was an exceptional circumstance. Recent trends towards liberalization in many developing countries, however, are resulting in more efficient markets globally.

While market failure — on a national basis — may increasingly become a thing of the past, for individual companies trying to enter the market significant barriers may remain. For new-to-market exporters, the cost of obtaining needed information may be prohibitive. There may be additional transaction costs that do not apply to competing firms. Business practices that are transparent to domestic firms may not be so for foreign firms. Clients and competition may be more limited, further reducing the availability of information.

Government programs need to consider a number of additional factors. Government efforts to recruit new exporters without proper screening and/or preparation — i.e. market failure resulting from limited information — may result in many of these exporters over-extending themselves through neglect of immediate corporate prospects. Universal access to government trade development programs and services, in effect as a public or common consumption good, can result in excessive use. Just as increased road or air traffic may result in increased travel time and greater risk of accidents, increased use of trade development resources may result in poorer quality of service as more and more companies require market intelligence and related services. The request by an individual company for assistance may reduce the average level of assistance available to all companies.

Government must also consider whether action is needed to reduce any discrepancy between private and social costs. The social cost of pollution may not be reflected in the production cost of a petrochemical plant. The social costs of an inward-looking business culture to a country's economic development may be higher than that of the private costs, in terms of foregone business opportunities, to individual firms. Conversely, government financial support programs to industry to compensate for perceived market failures — i.e., to support a more outward-looking business culture — may create greater dependency on government support among firms. The private cost for individual firms may be minimal but the social costs, in terms of a dynamically-expanding and sustainable corporate sector, may be considerable.

Public or common consumption goods such as national defence, public order and environmental protection cannot be entrusted to market forces. Traditional supply and demand mechanisms are ineffective in situations where a good is available to all, regardless of whether particular individuals pay or not. Canadian trade development programs such as the Trade Commissioner Service are essentially public goods, available to all potential users.

Given that market forces do not necessarily reflect social goals, government intervention is often needed to ensure that social goals — e.g., a cleaner environment, a more dynamic cultural life, a healthier population — are achieved. Government trade development programs to encourage market diversification and export education serve the broader social goal of reduced dependence on particular markets and a limited number of exporting companies.

The private sector — lawyers, accountants, trade fair organizers, consultants among others — may not be able to provide an equivalent and effective alternative, particularly in the case of non-OECD markets. However, in developed markets such as the USA and Europe, these private sector alternatives are widespread and effective. For individual firms, these services may be costly but they are available. After all, information and business practices are largely transparent; government services may provide low-cost knowledge but not value-added. Government assistance, however, may risk 'crowding out' these private sector alternatives.

Nevertheless, for many small and medium-sized companies, government may be better able to provide a worldwide information and support service. A trade commissioner service can provide economies of scale unavailable to all but the largest companies. This information-brokering role may thus improve market efficiencies.

Government support is likely to be required in markets or market segments where local governments are the end client and political considerations are significant. Normal market mechanisms do not prevail. Companies pursuing opportunities in countries with large government participation in the economy generally require support and assistance from their own government. The need to provide access to key decision makers, intelligence on procurement practices and assessment of the local business environment is often crucial to success.

Government should continue to have a major role in providing a level playing field for Canadian companies, i.e., ensuring that the basic competitive market conditions do not significantly disadvantage Canadian companies. This includes both a policy dimension — seeking international agreement, for example, on limits to financial support to business — and practical measures such as concessional financing and related support.

Rate of Return and Opportunity Costs: A Basis for Comparison

Private sector concepts of rate of return and productivity are difficult to translate into a basis for assessing government programs and services. Yet given that trade development programs have commercial goals, the underlying analysis of the effectiveness of individual programs should reflect similar criteria and concepts.

For the private sector, the rate of return is narrowly defined as the percentage rate of return within a specific time period. Rate of return is inherently comparative and related to the opportunity cost of other investment possibilities. A productive investment would generate a greater rate of return than the interest rate available or other investments.

For government programs, it is more difficult to quantify the rate of return. While government regularly measures the productivity of investments in infrastructure — e.g., airports, the St. Lawrence Seaway, major roads — it is more difficult in the case of many traditional foreign policy programs and activities. How does one measure the rate of return of the Trans-Atlantic Declaration, the G-7 summit process or incoming and outgoing ministerial visits? Yet given the strong commercial and risk-sharing orientation of trade development programs, many of the principles used by the private sector to evaluate and compare rates of return are particularly useful and valid for these programs. In making such comparisons, we need to take into account any differences in the characteristics of what is being compared. Given the differing nature of markets, pricing and factor costs, rates of return vary accordingly. These differences make it difficult to make direct comparisons of rates of return (e.g., the European versus the African market, tires versus tune-ups at Goodyear).

It is valid to make comparisons of different programs on the basis of opportunity costs, i.e., the opportunities foregone by not making a particular investment. This approach encourages comparability because it considers the difference between markets, industries or companies to be less important than the return on different opportunities. This is intrinsically linked to the marginal rate of return; what is of interest is the effect of reducing or increasing resources incrementally rather than globally. The impact of shifting two trade commissioners from US border posts to establish a satellite office in Monterrey, Mexico, is a case in point. Similar analysis may apply to shifting resources from Western to Eastern Europe and the former USSR.

There may not be an inherent causal link between a given input and a measured output. Other factors play an important role. For the private sector, the return on equity does not reflect the equity itself but rather how well or poorly the equity was managed. For trade development programs, the causal link is more tenuous. We assume that the Program for Export Market Development (PEMD) reported sales are a direct causal result of PEMD contributions rather than due to other factors more fundamental to success — e.g., managerial competence and basic competitiveness of funded companies or market requirements. We equally assume that PEMD resulted in a company making the decision to pursue a particular market opportunity rather than providing a subsidy — i.e., a windfall — to a previously arrived at decision. The Business Influenced reports of the Trade Tracking System have an even more tenuous causal link with trade development programs.

Rate of return is also affected by the risk or the probability of success of an investment. The higher the risk — i.e., the greater the degree of uncertainty — the lower the expected value of success. Given these circumstances, private companies may not be willing to assume fully the risk developing a particular foreign market. Trade development programs consequently are designed to reduce the risk for the private sector to a manageable level. Government analysis of risk factors should therefore closely parallel company analysis of risk. For government and companies, two major considerations stand out:

> **Market Risk:** Risk varies from country to country. OECD markets are of lower risk than developing country markets, given the possibility of rapid and unpredictable regulatory and institutional changes in the latter. Mexico's sweeping economic reforms, adhesion to the GATT and negotiation of a NAFTA reduce risk. Political factors (e.g., China in the immediate post-Tienanmien period, Iran during the Rushdie affair and Iraq following its invasion of Kuwait) increase risk. Non-transparent business practices, often reflecting linguistic and cultural differences, increase risk. A more developed and sophisticated infrastructure and institutional environment may reduce risk. Larger, more open markets generally have lower risk. Arbitrary market access measures and barriers (e.g., US trade unilateralism) increase risk. EDC regularly carries out country risk analysis in its lending and insurance operations.

> **Company Risk and Industry Risk:** The smaller the company and the shorter the track record, the greater the risk. New exporters are more risky than new-to-market exporters who are more risky than experienced exporters. Managerial competence, experience and sophistication affect risk. Moreover, the industry of particular companies affects risk. Stable regulatory regimes reduce risk, rapidly changing regulatory frameworks increase risk (e.g., increasing environmental restrictions — recycling requirements, clear cutting concerns — increase risk in the forestry industry). The visibility and vulnerability to protectionist measures (e.g., competitor nation practices of subsidizing "strategic" industries through industrial policies or concessional financing — public transit, aerospace). Expanding industries, without dominant players or predatory competition, have reduced risk.

Market failure and risk assessment are central to rate of return analysis for trade development programs. While this analysis cannot predict an expected value or rate of return with certainty, it should provide the means to assess probable rates of return for a given marginal increase in trade development personnel or program funding. It is the probable marginal rate of return for a specific market or sector that is relevant for comparison purposes. Government decision-making in investment in trade development programs should parallel private sector investment in export marketing.

Differentiating our Clientele

Market failure and risk considerations apply differently to large and small firms. For small and medium-sized enterprises (SME), government can better provide worldwide economies of scale necessary for market intelligence and information brokering. Trade development programs are correspondingly tailored to provide economies of scale and to reduce risk for these companies. The Program for Export Market Development, the trade fairs and missions programs, and the Trade Commissioner Service are all aimed at the SME.

While large companies, including multinationals, may benefit at times from market intelligence in certain markets and/or sectors, their requirements are generally different. In OECD markets, market access issues often require government advocacy and lobbying. In developing markets, political support can provide access to key — e.g., political — decision-makers and concessional financing may be required.

Trade development programs should differentiate more among our clientele. Within SMEs, export-ready companies should be separated from non-export-ready companies. The latter should be directed towards domestic support programs and export education rather than 'clogging-up' the system abroad. Moreover, we should not, despite recruitment pressures, effectively encourage such companies to over-extend themselves through premature export market development.[14] Export-ready companies can either be continuing exporters or new-to-market exporters. New-to-market exporters should be the focus of trade development programs to stimulate new trade and investment linkages.[15] Financial support in such cases can reduce the perceived risk of international expansion. Continuing exporters require support to follow-up and pursue already identified export opportunities, support that will often be comparable to the requirements of large companies.

Committed companies expend significant resources on international marketing. It is only natural that they will, wherever possible, use government programs to expand their marketing and related budgets. The policy challenge for government is to ensure that this support stimulates new activities rather than subsidizing previously planned activities.

At the same time, trade development programs may have to distinguish further between the nature of the product, service or transaction of individual companies. In the era of globalization, we need to recognize that a dollar of exports may not be a dollar of exports. Does a wheat sale provide the same level of benefits as sale of a flight simulator? Should an export sale over-extend a company, have we really assisted the company? If we encourage overseas direct investment, are we displacing jobs in Canada?

Judgement Factors: Making Choices

Given the need to consider comparative rates of return and opportunity costs and relate these in turn to risk considerations, the following judgement factors seem pertinent to assessing current and future trade development programs and services:

Necessity: Does market failure provide grounds for government programs and services? Do effective private sector alternatives exist? Does government support provide value-added, competitive advantage or unique benefits to Canadian companies?

Dependency: Are government programs and services developing and transferring expertise to the private sector rather than increasing dependency?

Competitive Practices: What are the practices of major competitor nations? Is there market failure? Are Canadian companies significantly disadvantaged in comparison to competitors?

Complementarity: Are programs and services complementary to domestic competitiveness? Are marketing priorities matched by 'supply-side' strengths?

Selectivity: Are programs and services targeted towards 'export-ready' companies? Are levels of service sufficiently differentiated — by company and market requirements — to ensure efficient use of resources? Are opportunity costs — for both government and companies — factored into programs?

Productivity: Given resource constraints, how productive — in terms of business generated and clients served — are programs and services? Do priorities — sectoral and geographic — reflect these considerations? Are there externalities or hidden costs that explain variations in rates of return?

Differentiation: Different Approaches for Different Markets

The general considerations discussed above should be applied differently in each market. Given that international business strategies vary market to market, government support programs and services should reflect this diversity. Limited resources mean that

If we are going to be a global trading nation, we have to have global presence.

government cannot provide all services and all programs in all markets. Resources should be deployed and programs implemented where government value-added is significant. If private sector alternatives exist, we should be prepared to redeploy our resources to other sectors, markets or activities where the private sector is unwilling or unable to provide such supportive services.[16]

Externalities or indirect impacts should also be considered. Participation in leading trade fairs in Europe and the USA may result in export opportunities to other markets, given the large number of foreign buyers present. Trade development programs in the USA may have an important export education role, preparing companies for further expansion overseas.

This geographic differentiation leads to additional criteria in evaluating programs and services:

Role of Government: Does the government or the private sector have the leading role in the economy? What is the regulatory environment covering foreign trade? Do major market access barriers exist?

Business Practices: Can companies serve the market directly from Canada? Are local intermediaries (agents, joint-ventures, strategic alliances) required? How transparent is contract awarding?

Language/Culture: How foreign is the language and culture? How internationally aware is the local business community? Are business practices culturally-driven?

Competitiveness: How can trade, technology and investment contribute to improving the competitiveness of Canadian industry? What are the forward and backward linkages with the Canadian economy?

In general, the more an economy is market-based, the more likely it is to have an open regulatory environment, few market access barriers, and transparent business practices. Most OECD countries would fit this description. Private sector services to the exporting community are likely to be effective and widespread. Market failure does not provide a rationale for government programs and information acquisition costs, although high, are not prohibitive. Japan would be an exception, given the significance of institutional, linguistic and cultural factors in this market. Government should, however, focus more on the backward and forward linkages between the international and domestic economies. Government has a catalytic role in encouraging strategic alliances and other innovative international business relationships in OECD markets to encourage competitiveness.

Conversely, the larger the role of government, the greater the likelihood that local intermediaries of one sort or another are required. Effective private sector services are few. The McKinsey review of the Australian trade commissioner service (Austrade), for example, recommended that government trade development programs and services concentrate on developing country markets. Until recently, the predominant role of government described much of the developing world, although recent liberalization and privatization, particularly in Latin America, is changing this former dichotomy. Such markets are as yet not critical to the competitiveness or profitability of Canadian companies.

Trade development programs face a paradox: large developed markets of the OECD, of greatest interest to the private sector, require less government support than developing markets, of secondary importance, where government support is crucial to success.[17] A global presence cannot, as a result, be uniform across all markets; on the contrary, it must match specific characteristics of individual markets with appropriate presence, programs, and priorities.[18] Moreover, this global presence must identify where government assistance is necessary and provides significant value-added on a market and sector specific basis. A number of competitor countries, operating under similar constraints, are developing a more varied approach to their programs and services.

Notes

V. What Others Are Doing

The nature and effectiveness of trade development programs of competitor countries is difficult to compare, given that each system reflects national priorities and business practices.[19] Moreover, it is difficult to isolate trade development programs from overall government spending and domestic support programs. One recent study maintained that Canadian trade development programs and services were more generous than those of our major competitors.[20] While difficult to prove; it would appear that Canadian trade development funding is broadly

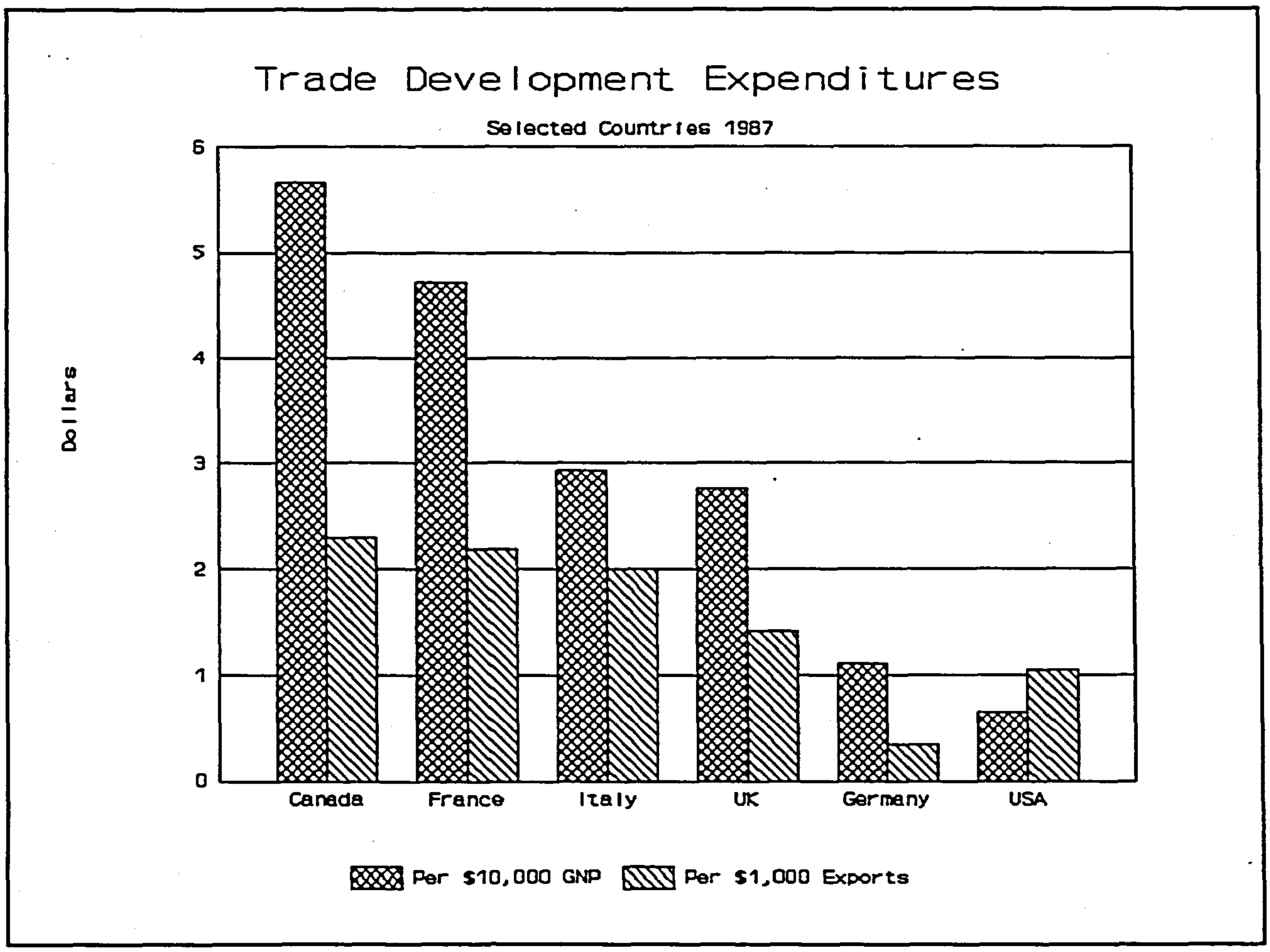

Chart 1 Source: US Department of Commerce (see previous endnote)

comparable to the practices of major competitors (excluding concessional financing). Chart 2 provides an approximate indication of government expenditures on trade development in relation to export volume and GNP.

Comparison of Trade Development Organizations

Country	Organization	Focus
Australia	Operating agency	Trade development, Non-OECD markets, Asia, high cost recovery
Canada	EAITC	Trade, investment and technology development, global coverage, minimal cost recovery, conservative export financing
France	Ministère des Finances acts as super ministry for other government departments	Trade development, global coverage, minimal cost recovery, aggressive export financing, tied-aid significant
Germany	Chambers of Commerce, limited government subsidy, mandatory association membership	Trade development, business services, global coverage, full cost recovery, aggressive export financing, tied aid significant
Holland	Government, separate agricultural service, separate investment promotion	Trade development, non-OECD markets
Hong Kong	Operating agency, mandatory trade levies	Trade development, design/competitiveness links, develop Hong Kong as trade fair centre, OECD and regional markets
United Kingdom	Department of Trade and Industry	Trade and investment development, global coverage, full cost recovery, moderate export financing, tied aid significant
United States	Department of Commerce	Trade development, global coverage concentrated in OECD markets, new-to-market firms, full cost recovery, moderate export financing

Table 1

A detailed comparative study is required to assess the level and forms of support provided to trade development programs in competitor countries. Individual approaches to trade development largely reflect the general nature of the government private sector interface and thus are not easily transferable from country to country. Such a study would serve to identify which particular programs, facilities and services offered in other countries could be applied in the Canadian context. Table 1 highlights the general approaches adopted.[21]

On the basis of the range and extent of trade development programs, Canada, the only country in this group with trade development under its foreign ministry, compares favourably with these competitor countries. Global reach and active programs of trade, technology and investment development, backed by comparable levels of resources, provide credible support to Canadian companies. A major weakness, however, lies in the comparatively poor linkages between official development assistance and Canadian commercial interests.

Notes

VI. Trade Development Programs: Performance Review

Given the evaluation criteria outlined earlier, how well do trade development programs and services perform? Surveys of Canadian exporters provide a mixed picture, some indicating a high degree of satisfaction with the Trade Commissioner Service and related programs, others indicating concerns over declining and inconsistent levels of service.[22]

More objective analysis is difficult, given that current management information systems neither adjust nor verify inputs received. Moreover, these systems are not integrated and double counting, particularly of business influenced or reported sales, is likely. Nevertheless, trade development programs are audited, tracked and evaluated to a far greater extent than other activities and programs of the Department. It is this tracking data that allows us to discern trends and patterns regarding the effectiveness of trade development programs.[23] Our analysis concentrates on the Trade Commissioner Service (Trade Tracking System), the Program for Export Market Development (PEMD) and the Industrial Cooperation Program (INC) of CIDA. A brief discussion of international trade fairs, ministerial-led trade missions, export financing and concessional financing is also included.

Resource Allocation

Current allocation of trade development resources is biased towards the traditional markets of the OECD and the comparatively new markets in Asia. This reflects block allocation by region, special initiatives earmarked to certain regions (e.g., National Trade Strategy for the USA and Asia Pacific, Going Global for Europe and Asia Pacific, Eastern Europe Renaissance), and the Trade Allocation Formula. Resource allocation is divided into Vote 1 (Programs) and Vote 10 (Grants and Contributions). Vote 1 covers trade fairs and trade missions, seminars, publications and other government-initiated programs and activities. Vote 10 covers funding to non-governmental organizations for trade-related activities, foreign language training, the Program for Export Market Development (Industry-Initiated), and foreign trade offices not operated by the Department (e.g., Taipai, Dubai). Annex A lists current resource allocation by region and program.

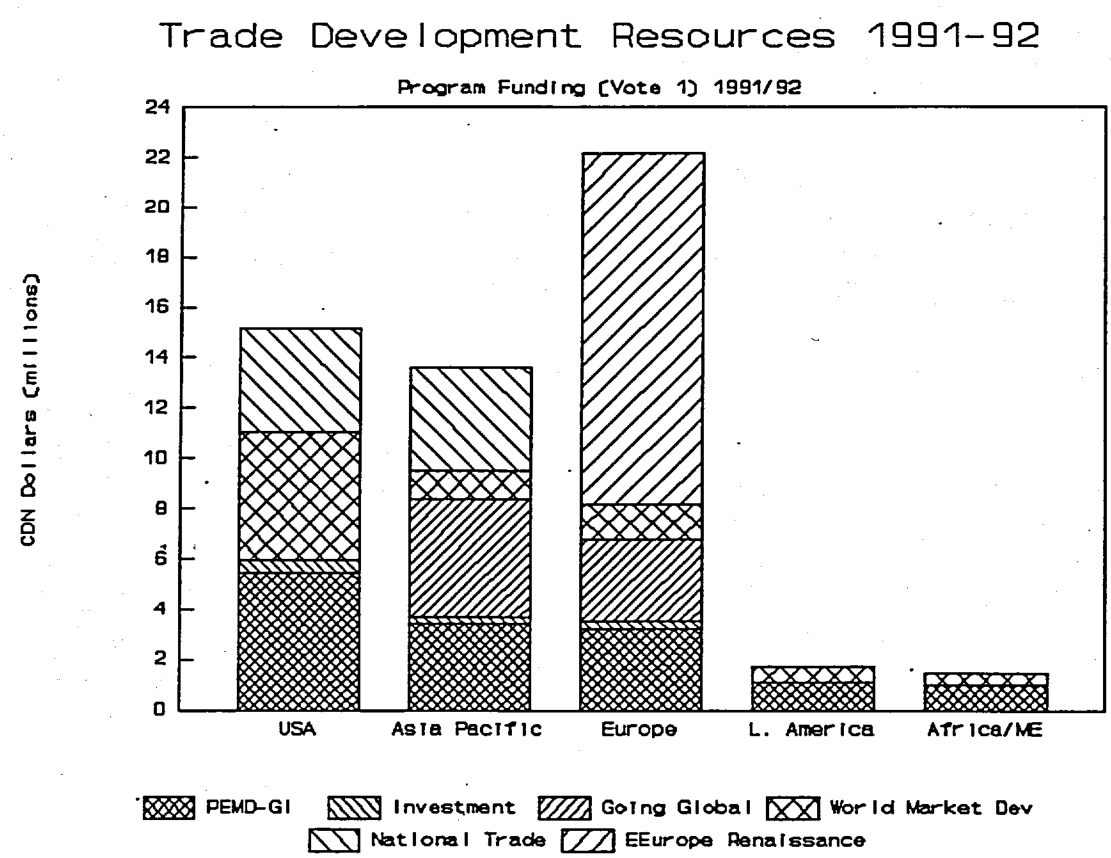

Chart 3 Source: EAITC/TPE

Latin America and Africa/Middle East depend largely on the Trade Allocation Formula (Vote 1) for trade program funding in contrast to the other regions as indicated in Chart 3. The Formula only accounts for about 30 percent of government program funding (i.e., Vote 1 as distinct from Vote 10 - Grants and Contributions). The following table lists the factors used in determining funding levels and their respective weights. The Formula largely reflects post-reported activities and projections. As a result, the greater the number of resources at post, the greater the degree of exporter interest and priority sector potential. Despite the somewhat circular nature of the Formula, it does redress somewhat the imbalance in resource allocation.[24] Yet major decisions or events can result in major changes to the activity level, leading to equally dramatic changes to resource allocation. For example, following the withdrawal from Sub-Saharan Africa of all trade commissioners and the drop in business visitors to the Middle East during the Gulf War, the trade development budget for the Africa/Middle East branch was cut by 38 percent.

Trade Allocation Formula (Weight in parentheses)

Exporter Interest	Market Potential
Canadian Business Visitors (.14)	Export Potential (.25)
Canadian Exporter Enquiries (.09)	Priority Sector Potential (.19)
PEMD - I.I. Applications (.13)	Local Importer Enquiries (.11)
PEMD - G.I. Participants (.09)	
Subtotal (.45)	Subtotal (.55)

The Formula analysis of market potential is based upon post estimates of priority sector potential and a generalized estimate of export potential derived from IMF, Statistics Canada and the WEFA business forecasting software program. Historical export data over the past 10 years is used to make 5 year projections, based upon projected Canadian market share. Export projection models, like most econometric models, cannot however account for major discontinuities (e.g., economic liberalization in Latin America, the move towards market-based economies and democratization in Eastern and Central Europe and the former Soviet Union).[25] Models may provide more sophisticated and refined interpretations of historical data but nevertheless are less forward looking than sometimes considered.

The Formula does not consider whether government support is necessary and whether such support can provide value-added not available from private sector alternatives. We do not 'adjust' the Formula to account for the comparative difficulty of pursuing business opportunities in different regions for example.

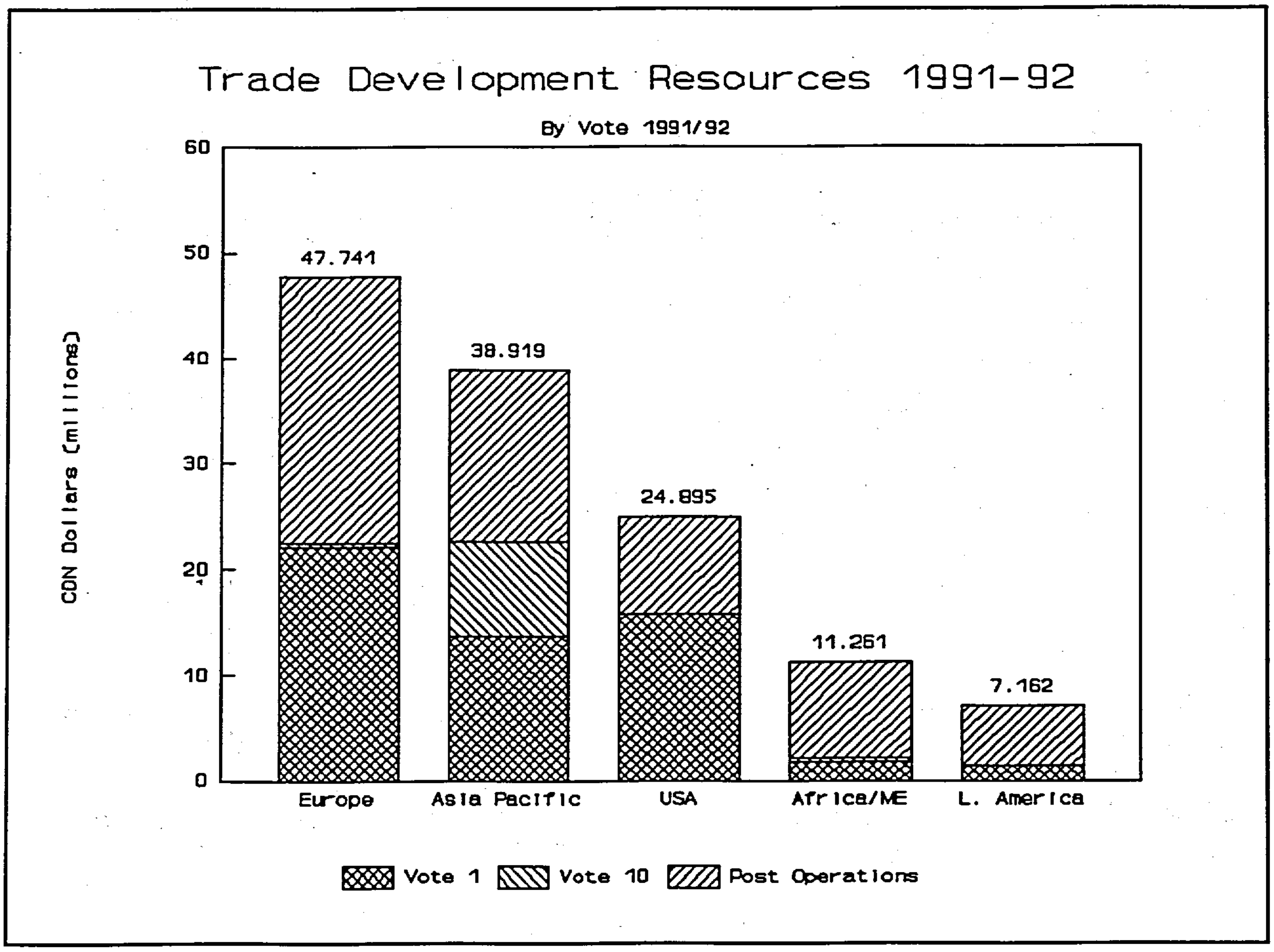

Chart 4 Source: EAITC/TPE and Corporate Management Branch (MCBA)

The high cost of post operations somewhat overstate the importance of Europe; in terms of program spending, it ranks after the USA and Asia Pacific.[26] Developing country markets predictably have the highest relative operating costs. Trade development staffing reflects a similar bias albeit to a lesser degree; the balance between Canada-based and locally-engaged staff appears in accordance with the particular characteristics of each region. In overall terms, however, Europe is the most generously endowed as indicated in Charts 4 and 5.

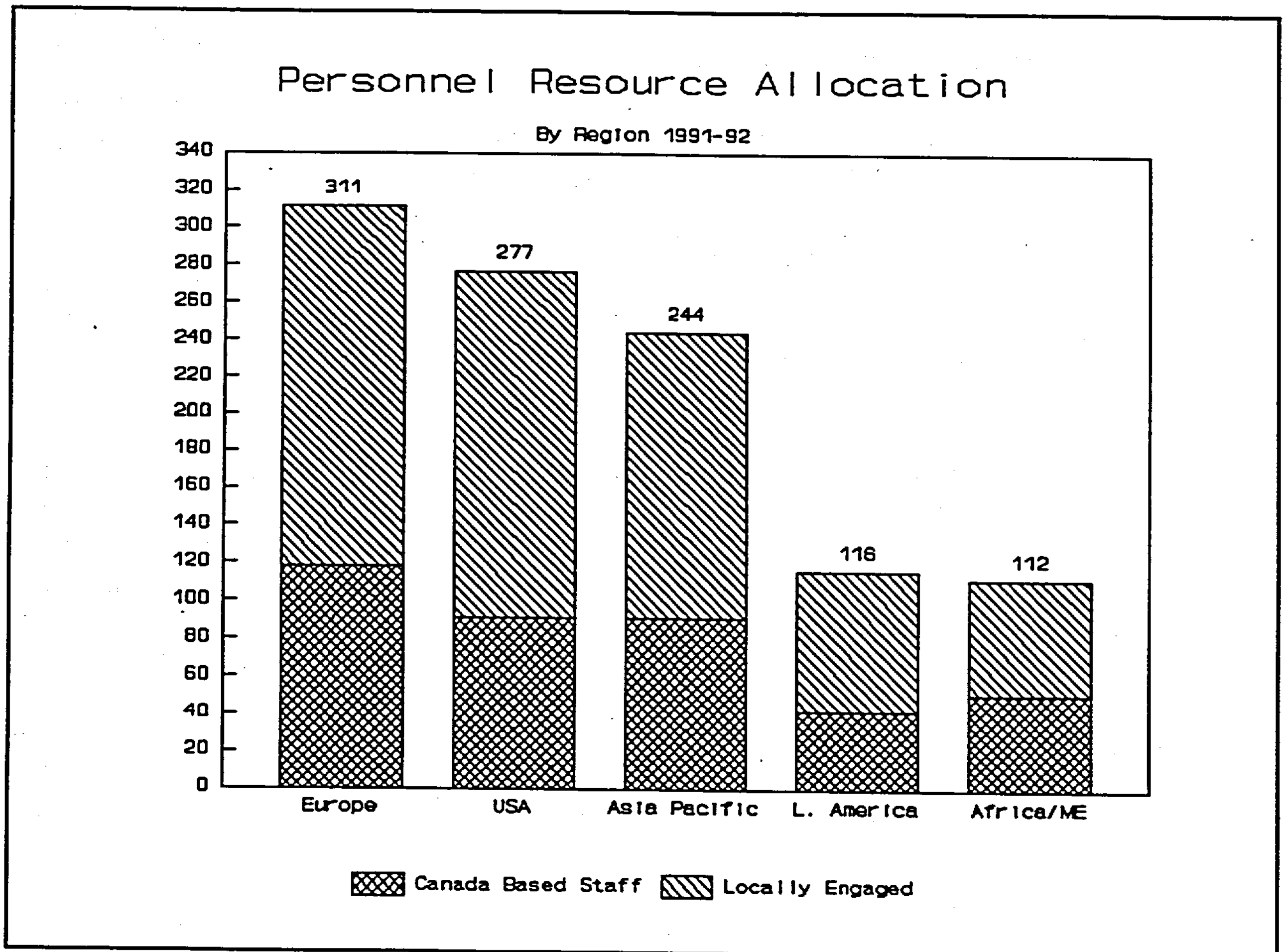

Chart 5

Source: EAITC/MCBA

Trade Commissioner Service

The Trade Commissioner Service abroad remains the focal point of trade development programs. For Canadian companies, it is the trade commissioner in the field who provides the essential service of market intelligence and information brokering in addition to logistic and related support. Are Canadian companies pleased with the services provided by trade commissioners and do they find trade commissioners effective and instrumental to success in developing export market opportunities?

Recent surveys of Canadian exporters provide a mixed picture. The recent Porter study on Canadian competitiveness rates export promotion and development programs, including the Trade Commissioner Service, very highly, noting that they are well-targeted to improving the international orientation of small and medium-sized firms.[27] A recent survey conducted by the Corporate Communications Division of the Department by Canadian Facts revealed that the Trade Commissioner Service provided useful services to the vast majority of companies surveyed.[28] Trade fairs and trade missions abroad, themselves highly dependent on trade commissioners, earned even higher favourable ratings.

Yet surveys by the Conference Board of Canada, supported by Department funds, and the Institute for Research on Public Policy, independently funded, found considerable concern over the quality, consistency and timeliness of the services provided by trade commissioners.[29] Levels of service are felt to vary widely from post to post and from trade commissioner to trade commissioner. Exporters are increasingly frustrated by ad hoc filtration systems — a consequence of universal access to trade development services and programs — developed by trade commissioners at post — exporters do not appreciate being sent 'stalling' questionnaires and the like (workload constraints of trade commissioners are apparently not appreciated).[30] The short length of postings and frequent rotationality is felt to hamper trade commissioners' effectiveness and market knowledge. The Conference Board survey indicated that trade commissioners required more business experience and that interchange programs needed to be enhanced. Marketplace 1989 clients, according to a survey carried out by Sector Associates, complained of a perceived lack of business acumen on the part of trade commissioners, a lack of training to make trade commissioners as effective as possible and that demands were being placed on trade commissioners that could not be serviced.[31] The Department itself is conscious of these concerns and is in the process of developing a 'quality control' survey of Canadian business visitors to posts abroad.

While manufacturing firms contacted trade commissioners in all markets, service companies — i.e., consulting engineers — largely limited their use to developing country markets where government was the main client.[32]

The Trade Tracking System (TTS) has, for the last five years, provided a more objective measure of workload and effectiveness than was available earlier. Trade commissioners report on their activities and results on a quarterly basis. A number of measures — Canadian and local trade enquiries, business visitors and investment queries, reports submitted — are comparatively objective. Business influenced reports are, however, more subjective. Given the natural tendency to claim credit for success, these figures must be assumed to be overstated. While there is no audit or quality control procedure for post input, one would expect that any exaggeration would be reasonably consistent over time among regions and thus should provide a reasonable basis for inter-region comparisons (see Annex C).

We have reviewed the annual results reported by the Trade Tracking System over the last five years, broken down regionally.[33] We have used the main indices — Canadian trade enquiries and business visitors, local investment enquiries and business influenced — highlighted in the annual summaries. With this in mind, it is interesting to note annual average workloads for the five-year time series in Chart 6.

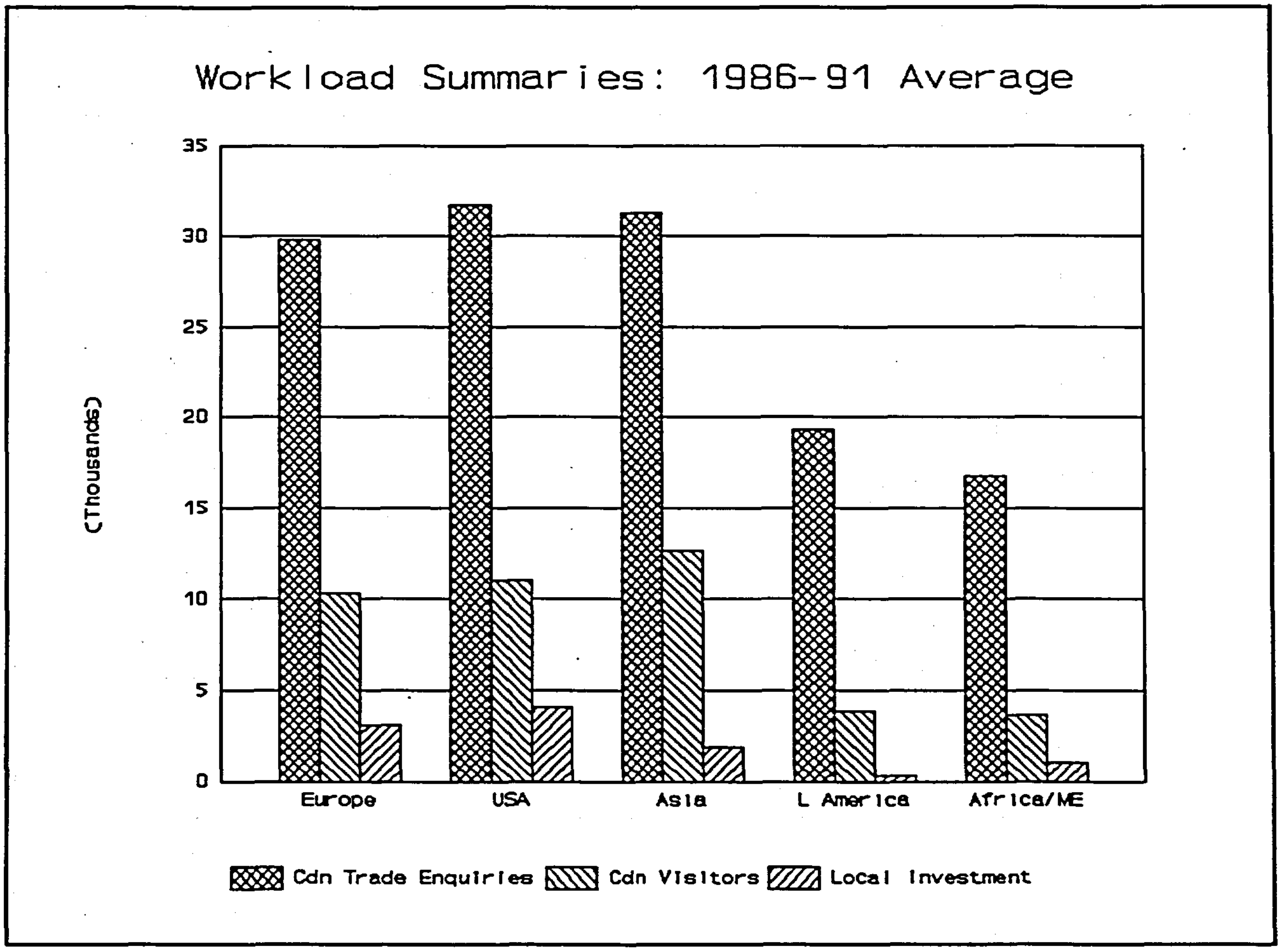

Chart 6

As expected, two major groupings appear. Europe, the USA and Asia Pacific have broadly comparable workloads whereas Latin America and Africa/Middle East receive significantly fewer trade and investment enquiries and business visitors. The difference is less than one would expect, however, particularly on the trade enquiry side. This may reflect the influence of word processor mailings; company interest in these developing markets would appear to drop off remarkably after the enquiry stage. The number of business visitors partially reflects government-sponsored trade fairs and missions and PEMD-Industry Initiated support; regions with greater resources have more trade development events, in turn generating additional Canadian business visitors.[34]

When compared against personnel, however, a different picture emerges. Developing markets receive a disproportionate level of trade enquiries and comparable levels of business visitors. Only local investment enquiries remain higher in the developed markets. Reporting requirements, both headquarters and post-initiated, are broadly comparable.[35] Chart 7 is revealing.

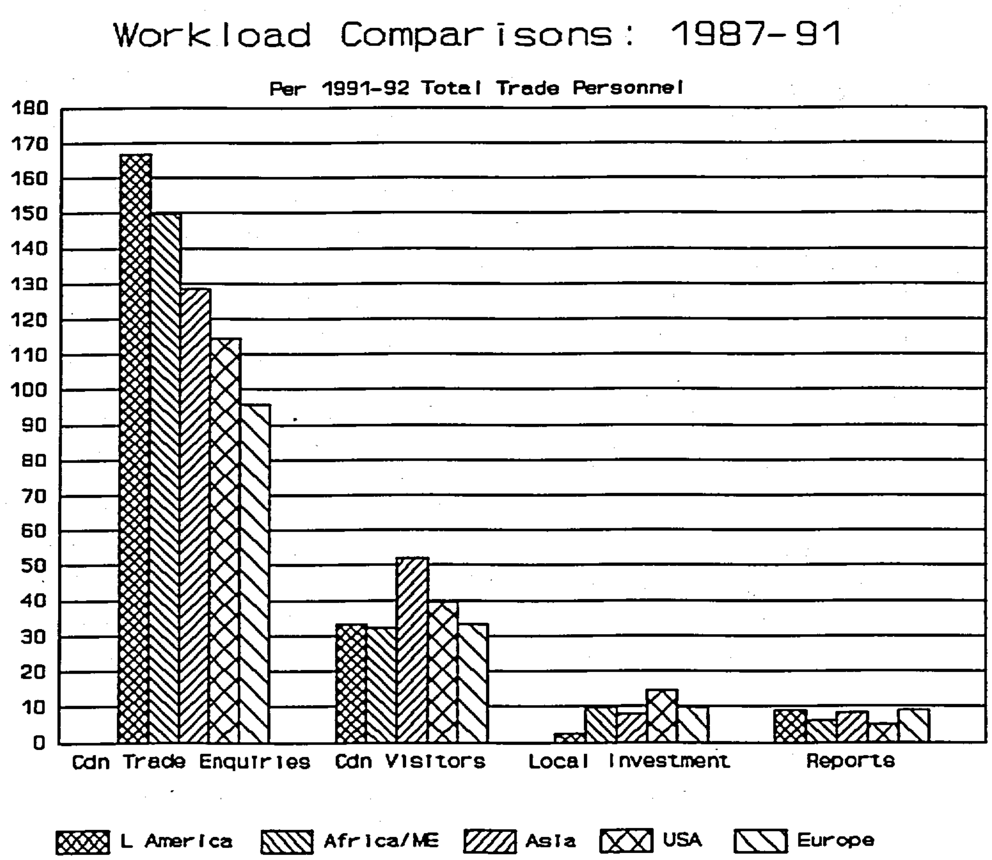

Chart 7

When we compare business influenced in relation to personnel and trade development funds, a more nuanced picture emerges.[36] The US market provides a comparatively poor rate of return, particularly with respect to trade development funds. Europe provides rates of return comparable to developing markets. One would have expected higher 'productivity' in OECD markets, given more transparent business practices, well-developed infrastructures and services, and the less time-intensive nature of working in these business environments — i.e., things work. This may, in part, reflect that companies need to remain in close contact with trade commissioners in developing markets in order to close deals whereas companies in OECD markets are able to pursue initial contacts and market intelligence provided by trade commissioners more independently. Given that the business influenced reports are not audited and that no serious follow-up of company results is undertaken, direct comparisons and evaluations are problematic. Despite these caveats, productivity levels appear in the same general order of magnitude, as shown in Chart 8.[37]

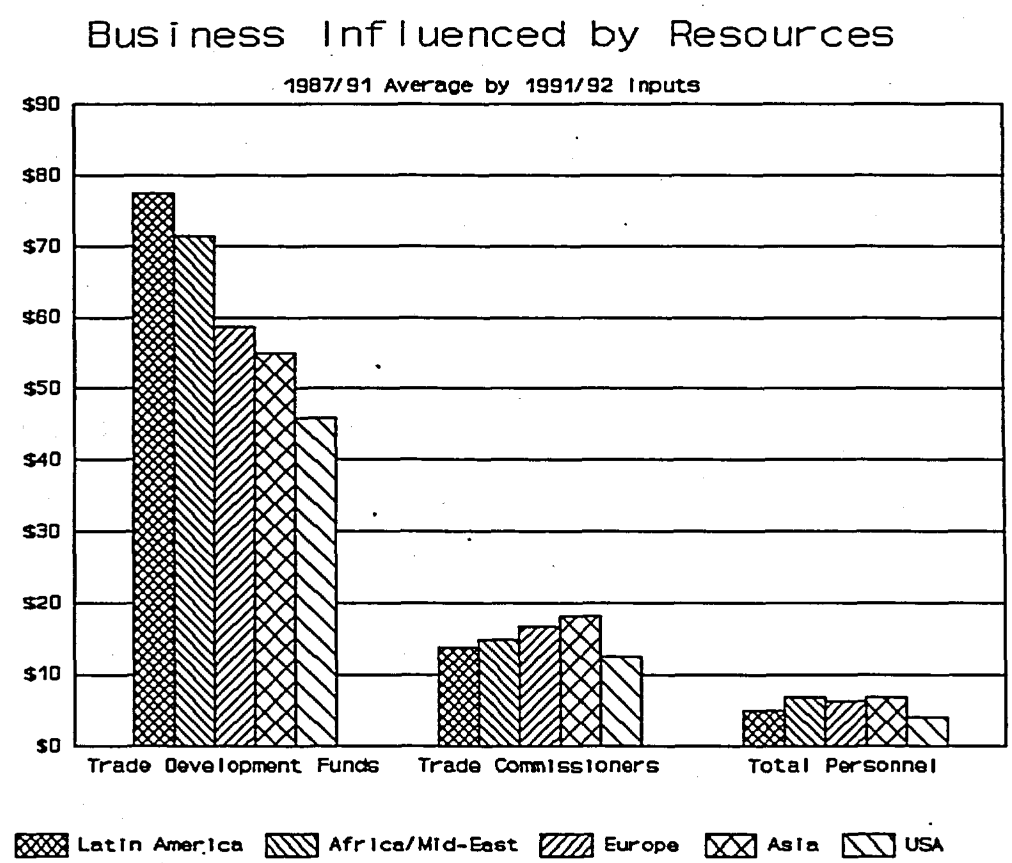

Chart 8

The only exception to this observation would appear to lie in the use of trade development funds. The impact of 'Going Global' on Europe and Asia Pacific has reduced the rates of return; Latin America and Africa/Middle East show significantly higher 'productivity' for their respective trade development budgets.

Surveys of exporting companies and analysis of Trade Tracking System data raise concerns regarding the effectiveness of trade commissioners abroad. Surveys, government and independently funded, indicate that significant variations in the level and quality of services provided are of real concern to the business community. Tracking System analysis suggests that, contrary to expectations, trade commissioners in the developed markets of the USA and Europe are not more productive than trade commissioners in developing countries. Investing more trade development funds — i.e., government-initiated rather than industry-initiated — in particular regions may result in reduced marginal rates of return. The existing cost recovery formula effectively recognizes this difference in marginal rates of return.

International Trade Fairs: Canadian National Stands

Trade fairs remain an important international marketing tool. Companies participate in trade fairs to obtain market intelligence and market feedback, to develop marketing channels and to establish company and product identity — on-site sales are secondary. Trade fairs can be regional, national or global in scope and are, with the exception of certain developing world markets, sectoral in focus.

Considerable trade development resources are devoted to organizing Canadian participation — i.e., national stands — at trade fairs throughout the world. National stands can provide significant advantages to Canadian companies — guaranteed and preferential space allocation, one-stop shopping for trade fair services and the benefit of on-site assistance from trade commissioners at post. Individual companies can also seek support from the Program for Export Market Development to participate in trade fairs without a Canadian national stand.

A limited number of trade fairs in Western Europe are global in scope.[38] The CEBIT computer show, the ANUGA and SIAL food fairs (grouped together as the two fairs attract the same clientele and occur on alternate years), the ISPO sporting goods show and the Paris Air Show cannot be considered on the same level as national or regional shows. As the prestige trade event in a particular sector, competitors and buyers from around the world are present. Not being there may have more of an impact than being there. In many cases, government-sponsorship ensures guaranteed space and a preferred location, advantages not available to individual companies wishing to participate. Economies of scale may be limited, given the high cost of ensuring a quality national stand.

Canadian stands at international trade fairs attract a mix of companies. Our analysis of the 5 leading international trade fairs, as shown in Chart 9, reveals that between 50 to 70 percent of companies have only participated in the particular trade fair once. The remaining companies are split between those who have participated two or three times and the 'habitual' users, those that have participated four or more times.

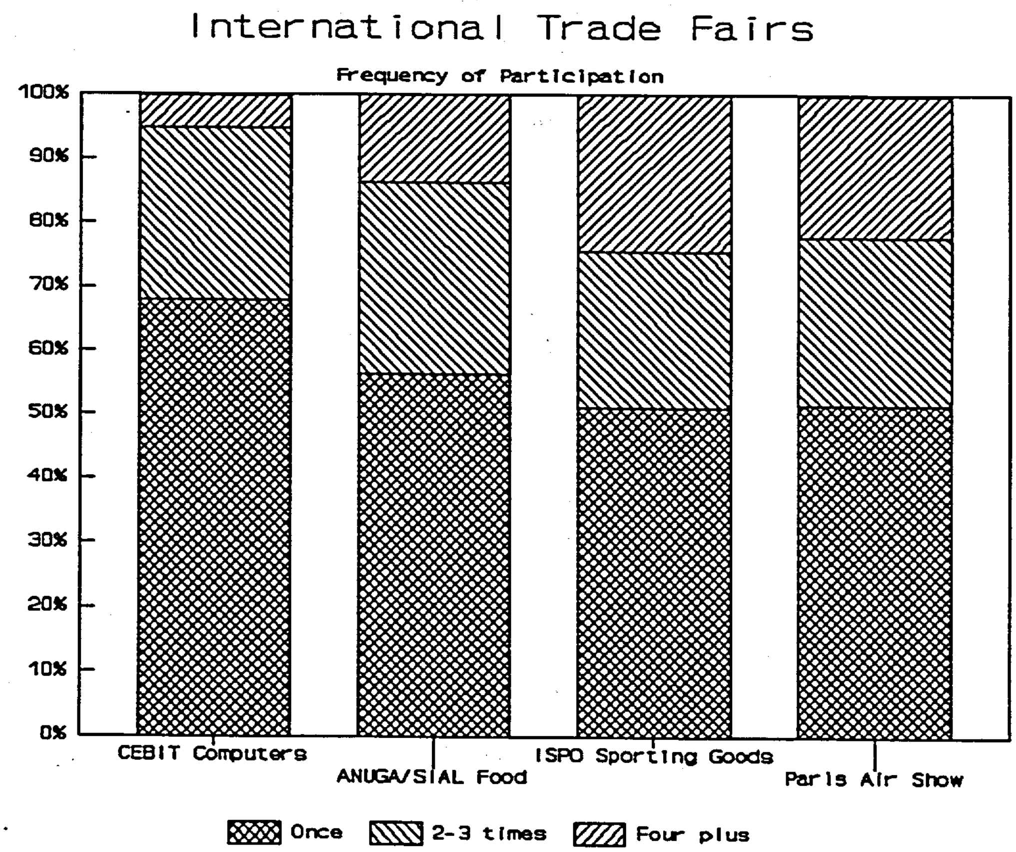

Chart 9

Source: Western Europe and United States Trade Divisions

This suggests that companies are participating for different objectives. One-time participants likely have market intelligence as their major reason for attendance. This may or may not encourage them to pursue market opportunities; these companies may discover that they are not yet prepared for the market and may decide to concentrate on other export opportunities or the domestic marketplace. One-time companies may also be able to identify distribution channels that can be identified independently of future participation in these trade fairs. Companies that participate two or three times would appear, however, to fit a more typical pattern of sequential participation in order to develop more detailed market intelligence, establish distribution channels and refine marketing strategies. Sustained presence in these trade fairs provides continuous updating of market intelligence, reinforcement of distribution networks and strengthening of brand or corporate identities.

While the high 'drop-out' and new participant rate is understandable in fast growing sectors such as informatics, more detailed research and surveys is necessary to understand further the factors contributing to an individual company's decision to return to a trade fair or not. The current first-come first-served approach to participation, with minimal consideration of export-readiness, may contribute to an apparent high 'drop-out' rate.

Ministerial Trade Missions

The Minister for International Trade has both a trade policy and trade development role. In recent years, it is the former that most occupies the ministerial agenda in Canada and overseas. Participation in meetings such as the Quads (USA, EC, Japan and Canada), OECD, GATT, Asia Pacific Economic Cooperation (APEC) all contribute to maintaining and enhancing the institutional framework that governs international trade.

Ministerial-led trade development missions can provide increased access and visibility to participating companies. These can be led by any minister; until recently, the Secretary of State for External Affairs and the Minister of State for External Relations frequently travelled with private sector representatives on bilateral visits. Ministers from outside the portfolio can also be used. This can be particularly valuable in markets or sectors where government is the end client. The political support provided by ministers can provide that extra push needed to clinch a contract. In OECD markets, ministers can be effective in encouraging foreign direct investment in Canada — the annual ministerial participation in the Davos symposium in Switzerland is perhaps the highest profile example.

Over the last ten years, ministerial-led trade missions have concentrated largely on Asia Pacific and Western Europe. While ministerial profile can make a significant difference in many markets of Asia Pacific (particularly in markets with significant government influence in major procurement decisions such as China, Korea, Malaysia, and Thailand), it would appear to be less so in the developed OECD markets of Western Europe. While particular ministers may have individual preferences or requirements — i.e., John Crosbie, when Minister for International Trade, participated twice in the Boston Seafood Show given his political responsibilities for the Maritimes — it is officials who propose most ministerial travel. There is thus little surprise that ministerial travel, with the exception of travel to the USA, largely reflects resource allocation patterns. Similarly, CIDA allocation explains the comparative high frequency of trade-related travel by the Minister for External Relations. Chart 10 outlines ministerial travel since consolidation of the Department in 1982 (Annex G lists ministerial missions).

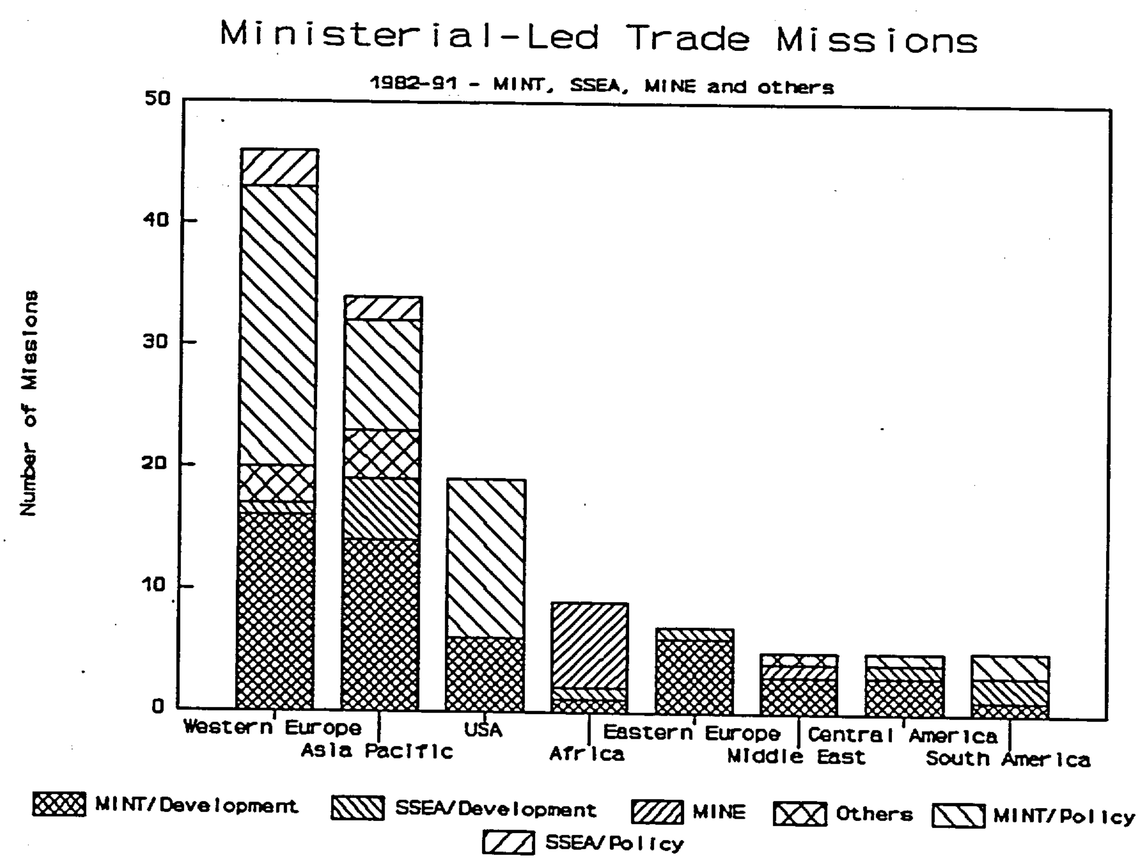

Chart 10

Source: EAITC Press Releases

Support Programs

Programs such as PEMD (Industry-Initiated), CIDA INC and Renaissance Europe complement the services of trade commissioners. Their role is to encourage Canadian companies to develop internationally by sharing the risk between government and industry. They are industry-initiated although they are often used to provide effective support to organized trade development events such as participation in provincial trade missions. Their characteristics are similar. All companies meeting minimal financial criteria can apply. Both established and new exporters are eligible. To reduce paper burden, reporting requirements are minimal and audits rarely required. To encourage companies, approval is virtually automatic unless strong objections are raised by the trade commissioner at the concerned post.

Government Financial Support Programs

	PEMD	CIDA INC	Renaissance Eastern Europe
Objective	Export market development	Technology transfer to developing countries	Business activity in Eastern Europe
Activities supported	<u>Industry Initiated</u> • Trade Fairs • Visits • Marketing Agreements • Innovative Marketing • Project Bidding • Sales Office Abroad • Special Activities <u>Government</u> • Trade Missions • Trade Fairs	<u>Industry Initiated</u> • Viability studies • Capital Project Studies • Investment • Industrial Planning <u>Government</u> • Seminars • Missions • Training	<u>Industry Initiated</u> • Venture front-end studies • Enterprise specific training • Joint-ventures only <u>Government</u> • Business councils • Information seminars • Incremental funding for fairs and missions
User profile	Diverse, SME	Large engineering companies, organizations	Medium to large manufacturers and engineering companies
Approval rate	60-75 percent	50-80 percent	65-75 percent
Budget 1990-91	$ 18.3 million	$ 64.8 million	$ 14 million
Repayable?	3 % on sales over 2 years, all sections	1 % on net profits of over $5 million over 5 years on contributions greater than $100,000	No

The IRPP study suggests that these programs enhance dependence on government support rather that providing 'launching' support. Companies may not factor market development costs into export pricing given the financial support available. While we have no quantitative analysis to substantiate the study's assertion that the "vast majority of firms receiving government financial assistance have begun to factor in a regular infusion of government funds as part of their operating budgets", it would appear natural for many export managers to use PEMD to enlarge their marketing budget[39]. Tied aid comes in for similar criticism.

Program for Export Market Development - Industry-Initiated

PEMD is divided into Government-Initiated and Industry-Initiated programs. We have already covered the Government-Initiated program in our discussion of the Trade Commissioner Service and related trade development funding. The Industry-Initiated program is extremely popular with the Canadian private sector. From initial support of export marketing trips abroad and trade fair participation, new sections to establish innovative marketing and sales offices abroad have emerged. PEMD contributes up to 50 percent of eligible costs; successful companies are expected to repay the government contribution. Small companies are targeted by the program; close to 60 percent of PEMD approvals for market identification and trade fair participation are granted to companies with annual sales of less than $ 2 million.

Repayment provisions are three percent of sales up to the maximum of the contribution made within two years.[40] Given this, companies have an incentive to understate success in order to reduce repayment requirements.[41] Moreover, PEMD provides consistent and clear management reports that facilitate assessment of the program's effectiveness. PEMD may thus be viewed as a partial check on the biases of the Trade Tracking System (double counting of results is, however, likely as both posts and companies may report the same transaction).

Over 50 percent of PEMD contributions are made to pursue opportunities in the developed markets of the USA and Europe. What is interesting, however, are comparisons of the relative rates of return among regions. It is the developing markets that consistently show the highest rate of return, as shown in Chart 11 (PEMD sections A through F refers to the sections analyzed earlier, namely project bidding, visits abroad, trade fairs, visits to Canada, export consortia and sales offices).

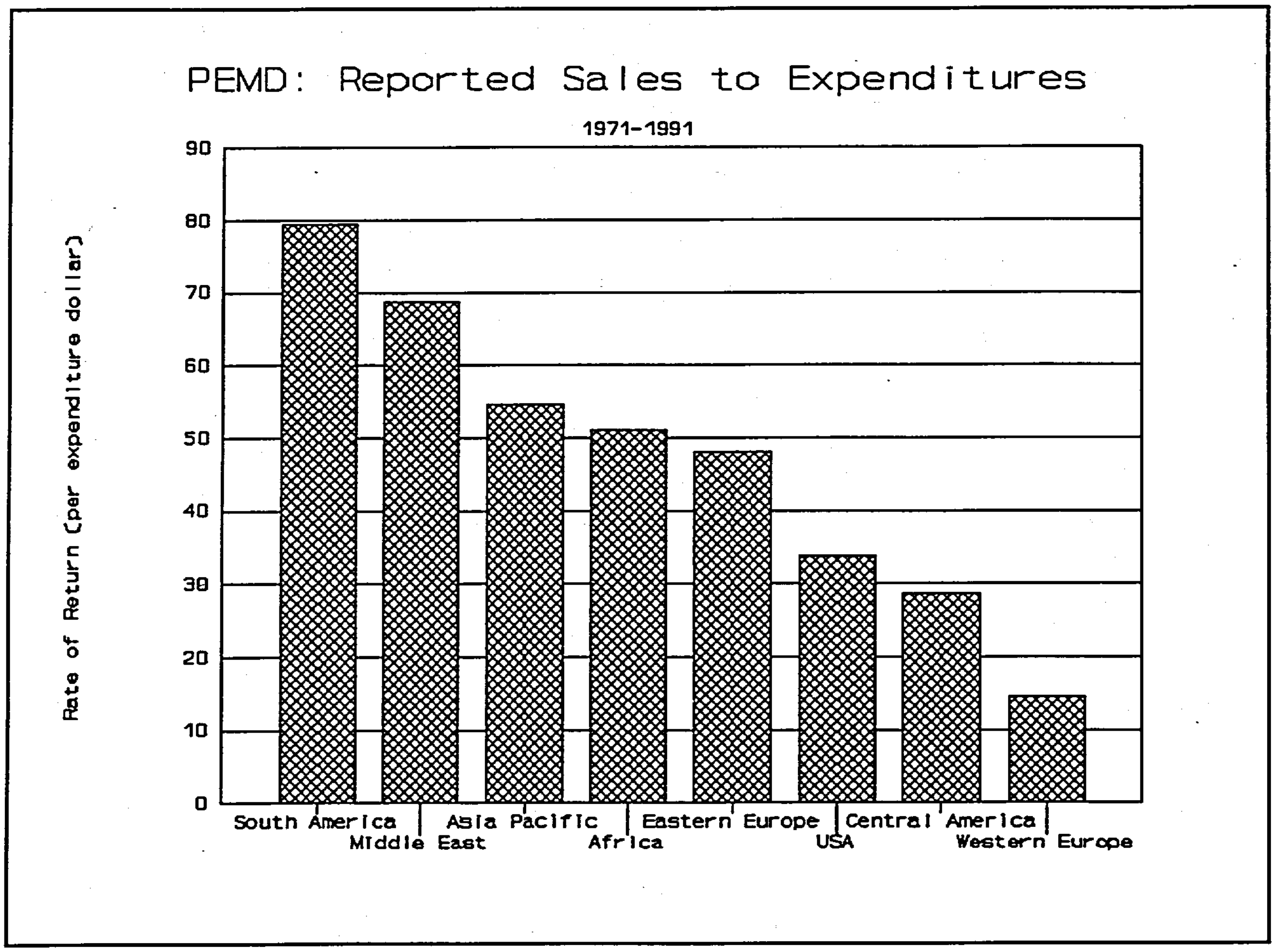

Chart 11 Source: EAITC/TPE data

Given that a 21-year time series of data was used, differences in rates of return — ranging from $ 80 in South America to $ 15 in Western Europe of reported sales per expenditure dollar — are significant. It may well be that the more mature markets in Europe and the USA may inherently offer lower rates of return than elsewhere. While one would expect differences in approach to requests for PEMD funding to be relatively consistent over time among regions and posts, posts may be effectively applying tighter eligibility criteria in their comments on PEMD applications to pursue opportunities in developing markets. It may also reflect an 'auto-selection' process whereby companies choosing to use PEMD in developed markets may also be less committed to export market development. The more 'difficult' markets may attract companies that are truly export ready.

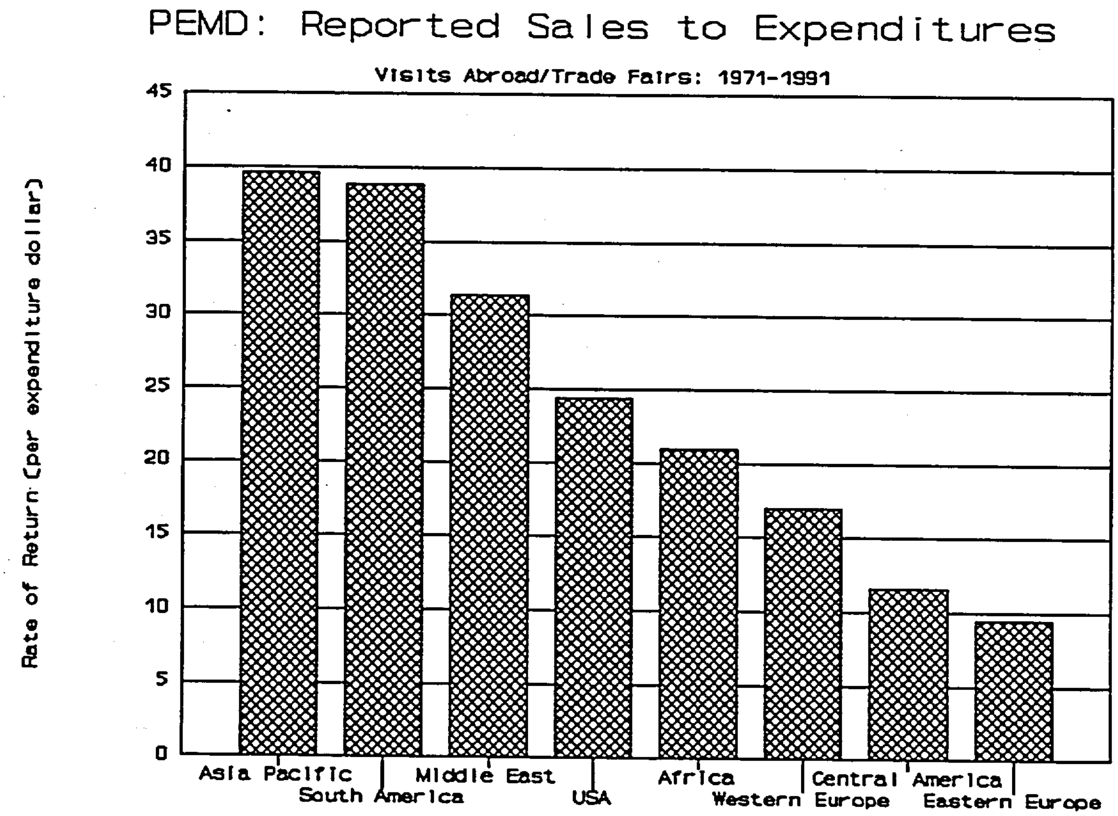

Chart 12

Source: EAITC/TPE data

Project bidding appears particularly successful in developing markets whereas trade fair participation and visits from Canada appear relatively more successful in developed markets. Yet even when we compare core PEMD activities — support for visits abroad and trade fair participation — we largely find a similar pattern: relatively greater rates of return in the developing world as shown in Chart 12 (PEMD support for project bidding has become less important given the more generous support available from CIDA's Industrial Development Cooperation program).

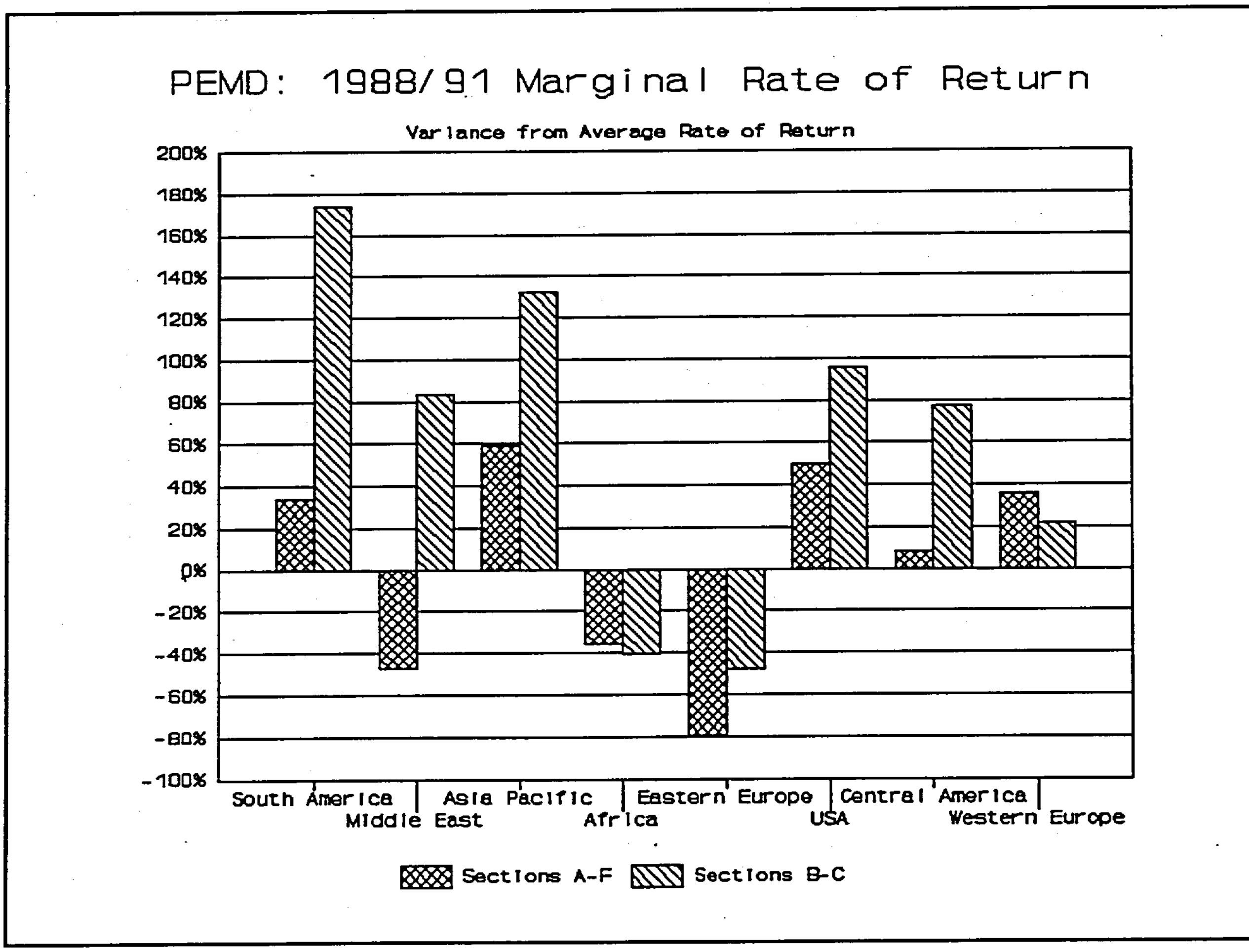

Chart 13 Source: EAITC/TPE data

Comparison of average and marginal rates of return demonstrates a similar pattern with some notable exceptions. Chart 13 compares the average rates of return over a 21-year period with the marginal rates of return over the last three years. While the developing markets of Latin America and Asia show strongly increasing rates of return, the Middle East provides mixed results and Africa and Eastern Europe show declining rates of return. The USA also provides significant marginal rates of return while Western Europe shows slightly increasing rates of return. Annex B provides data and detailed breakdowns for each geographic region, Annex F has inter-regional comparisons by PEMD section.

The discrepancy between PEMD rates of return for Europe and those of the tracking system is of note. No other region demonstrates such variance, suggesting that there may be some merit in further review of European post input into the tracking system.

PEMD is targeted towards small and medium-sized companies. There is comparatively little variation among PEMD users on a regional basis. With the exception of the USA, it is overwhelmingly used by companies with annual sales of less than $ 5 million, as shown in Chart 14. Company size, with the possible exception of the USA, cannot explain the difference in rates of return.

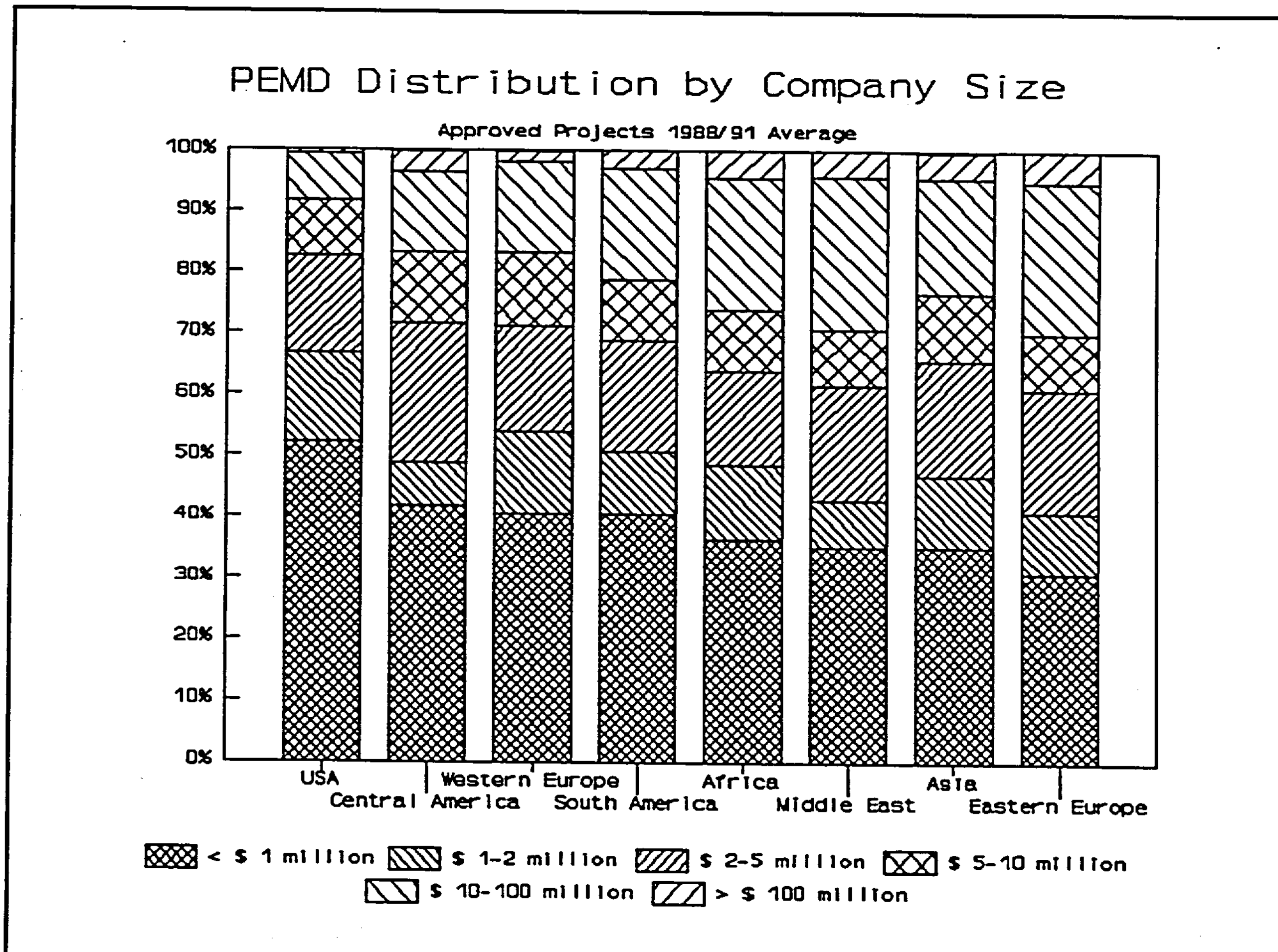

Chart 14

Source: EAITC/TPE data

Has PEMD become more selective and more effective over time? Chart 15, measuring reported results in relation to PEMD contributions received on an annual basis (the time lag should not be significant on an aggregate basis), demonstrates comparatively stable rates of return for project bidding and a slight rise in the case of visits abroad and trade fairs. Sales offices would appear to have an increasing rate of return, perhaps reflecting a longer-term payoff (visits to Canada and export consortia were too erratic to be included).

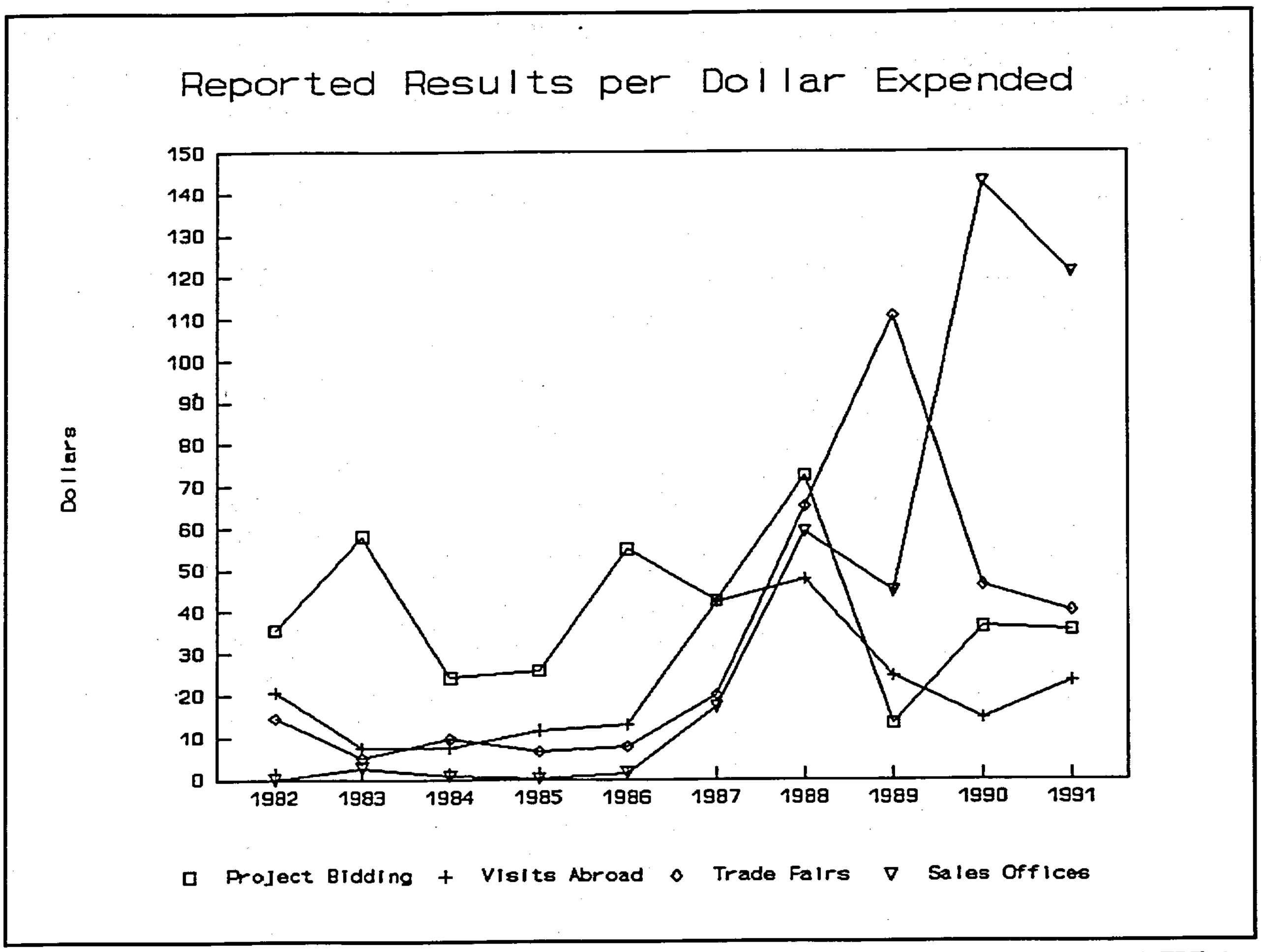

Chart 15 Source: EAITC/TPE data

High approval rates suggest that serious vetting is not carried out. PEMD managers themselves note that some exporter abuse has occurred, with the program being "regarded as an entitlement rather than an option for assistance where an export initiative is too risky or too costly to be undertaken within the company's ongoing marketing program."[42] While reported results are positive in virtually all cases, repayment and success ratios are low, averaging approximately 10 and 20 percent respectively. Chart 16 shows remarkably similar trends across the full range of program sections with the notable exception of support for the establishment of sales offices abroad (see Annex D for time series data). Not only are approval rates similar for companies with less than $ 10 million in sales, but success and repayment ratios are comparable although the smallest companies, those with annual sales of less than $ 1 million, demonstrate marginally lower success ratios (see Annex E). Similar examination of regional approval rates on an inter-regional basis demonstrated consistent approval rates of between 60-75 percent.[43]

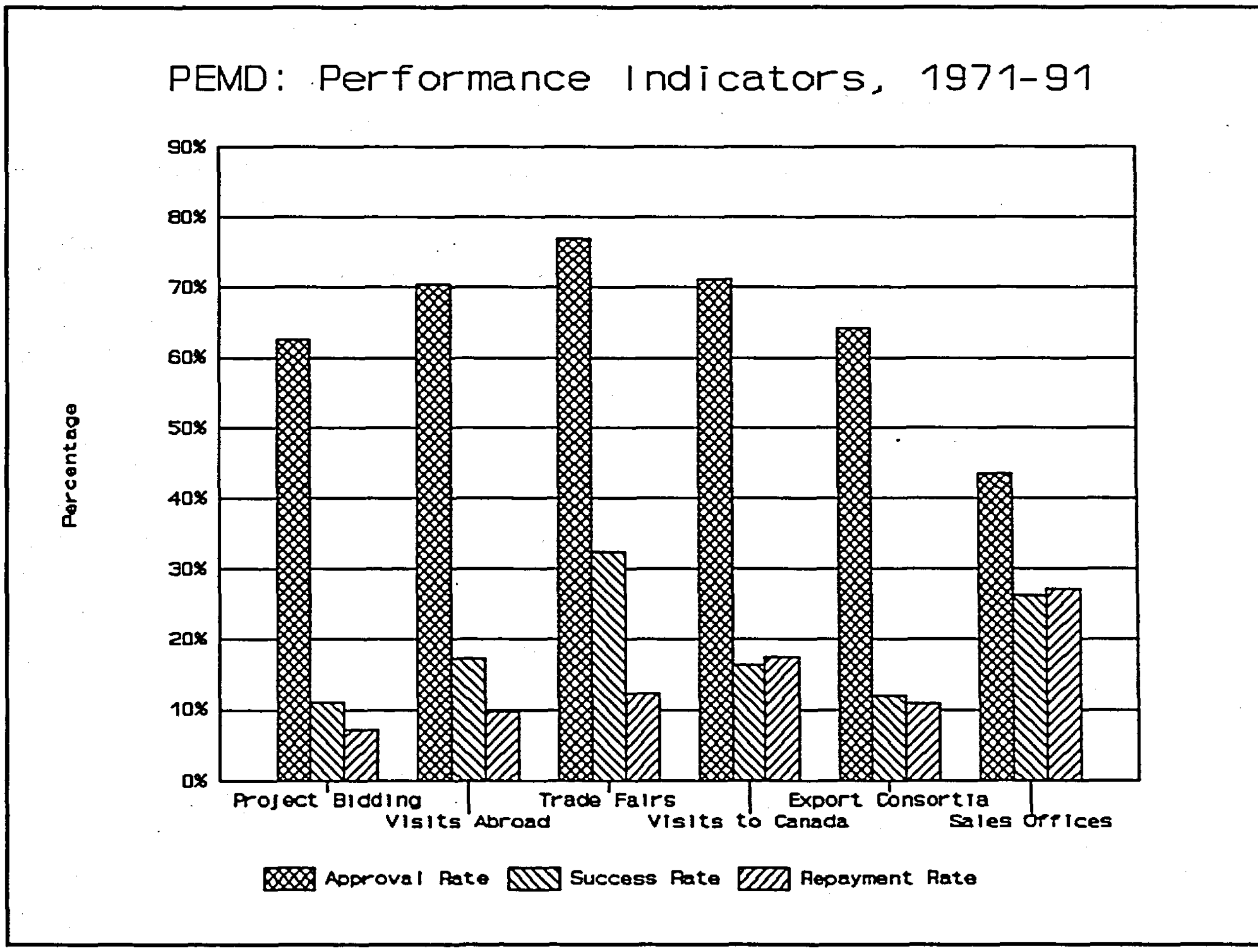

Chart 14

Source: EAITC/TPE data

Industry-initiated PEMD funding reflects historical trading patterns, resulting in comparatively lower rates of return in the developed markets of the USA and Western Europe. High approval rates result in poor success and repayment rates. Existing eligibility criteria may not be consistently applied. While in any given year, over 1,000 companies may use PEMD, there would appear to be a core group of habitual users of the program. Ongoing review and modification of PEMD over the years has not changed this. As a result, PEMD may be providing less of an incentive for new business activities than desired.

CIDA Industrial Cooperation Program (INC): The Aid-Trade Link

The humanitarian focus of Canadian aid programs contrasts sharply with the more commercially-minded ODA programs of our major trading partners. While Canadian commercial participation is integral to our support for projects, the increased emphasis on poverty alleviation, women in development and provision of community basic health and education services is reducing its relative importance. This orientation is not in question; what needs to be asked, however, is whether we are taking full advantage of commercial opportunities and linkages that may arise. Mixing trade and development objectives may be doing both a disservice; it may be easier to achieve complementarity if the differing objectives are drawn more clearly.

CIDA INC is designed to encourage Canadian business activity and long-term investment in the developing world. It plays a significant role in making Canadian companies aware of how to adapt CIDA corporate objectives — environmental, social and cultural sustainability — to concrete business practices in developing countries. This can be as prosaic as designing washroom facilities in conformity with local customs or providing a water supply for women workers to allow them to carrying out their domestic chores during their trip to the workplace.

CIDA INC is not directly comparable to other trade development programs given the development orientation, the funding of institutional links and training, and the reduced emphasis on results. CIDA only recently introduced a repayment provision of one percent of net profits of over $ 5 million over five years. Repayment does not apply to projects of less than $ 100,000. This makes it more difficult to judge the efficiency of the program.

CIDA INC's current budget is $64.8 million. Over the last 15 years, over $420 million has been expended to transfer technology, expertise and business skills to developing countries. Comparable funding is allocated to the three geographic regions covered by the program — Asia, Africa and the Americas. Approximately 50 percent of funded projects are in one form or another of feasibility studies as per Chart 17.[44] (CIDA INC also funds considerable seminar and mission programs in Canada and abroad as detailed in Annex H.)

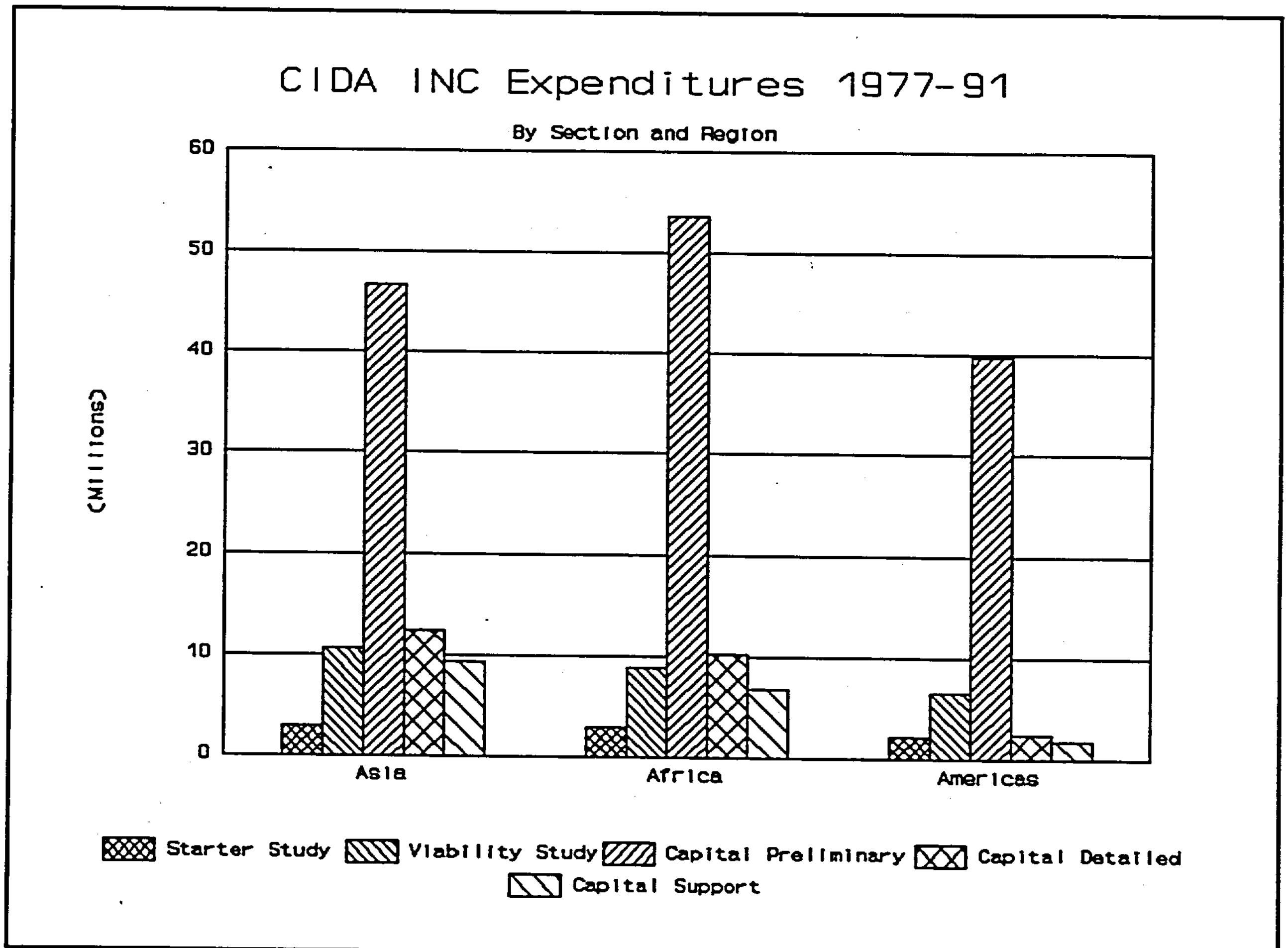

Chart 17

Source: CIDA INC

The noticeable drop-off in funding accorded to preliminary capital project studies and that accorded to detailed studies and project support may suggest that many preliminary studies were not implemented. A detailed project-by-project review would be required to ascertain how many of the feasibility studies were implemented, whether by CIDA or the international financial institutions. Discussions with CIDA and EAITC officials suggest, however, that downstream spin-offs were largely limited to additional consulting service contracts rather than to exports of capital goods.

CIDA INC provides more funding to fewer companies than PEMD. The top 25 corporate users account for almost 40 percent of grants made during the period 1990/92.[45] Chart 18 indicates the degree of user concentration. As expected, large engineering firms are frequent users of the program. Yet support is also given to smaller companies, many of whom may

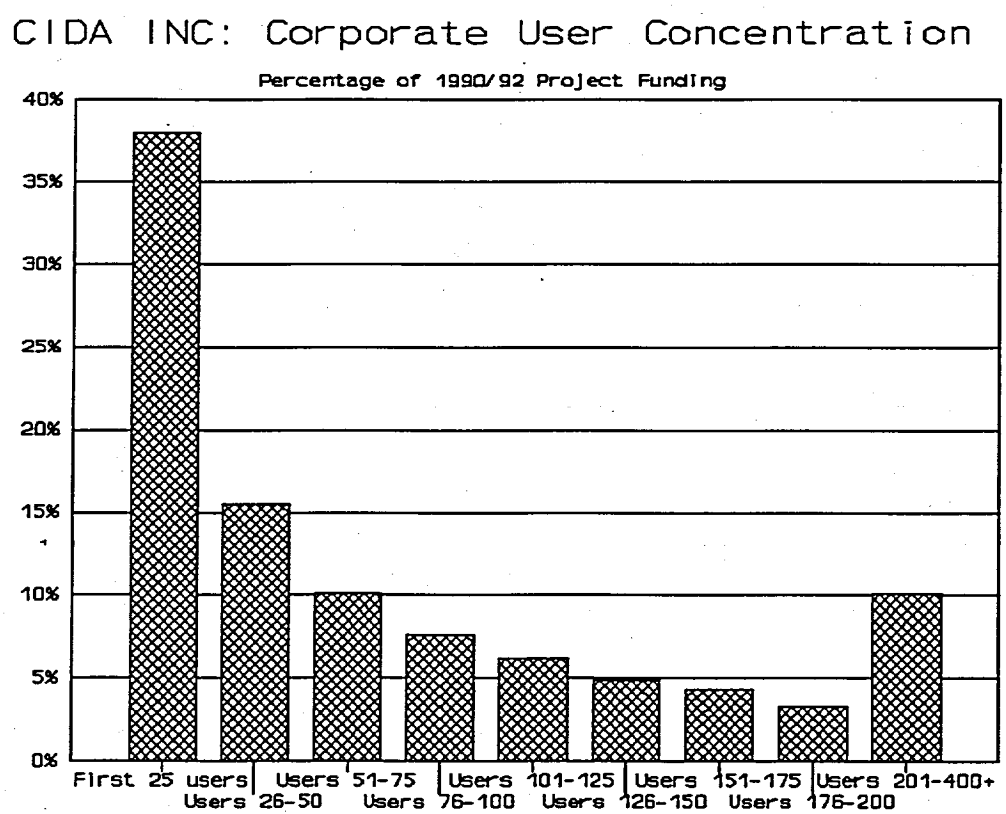

Chart 18

Source: CIDA INC

depend largely on CIDA funding for their international activities. Support to organizations and institutions is, however, far more concentrated; 10 organizations account for 85 percent of grants over the same period. Moreover, the average size of contributions has increased as the number of users has decreased.[46]

Unfortunately, the program's definition of results is extremely soft. "Actual" results refers to proposed projects within the region or territory and other proposed projects that may occur elsewhere as a result of the particular project. Potential results is one-step further removed from results; it would appear that no transparent and accurate measure of results, as per PEMD, exists for this program. Given that approximately 25 percent of CIDA INC's funding goes to "soft" indirect business development support, rates of return would be expected to be lower than for trade development programs. The high percentage of support granted to institution-building and training accounts for the lower rate of return in the Americas. Chart 19 provides the details.

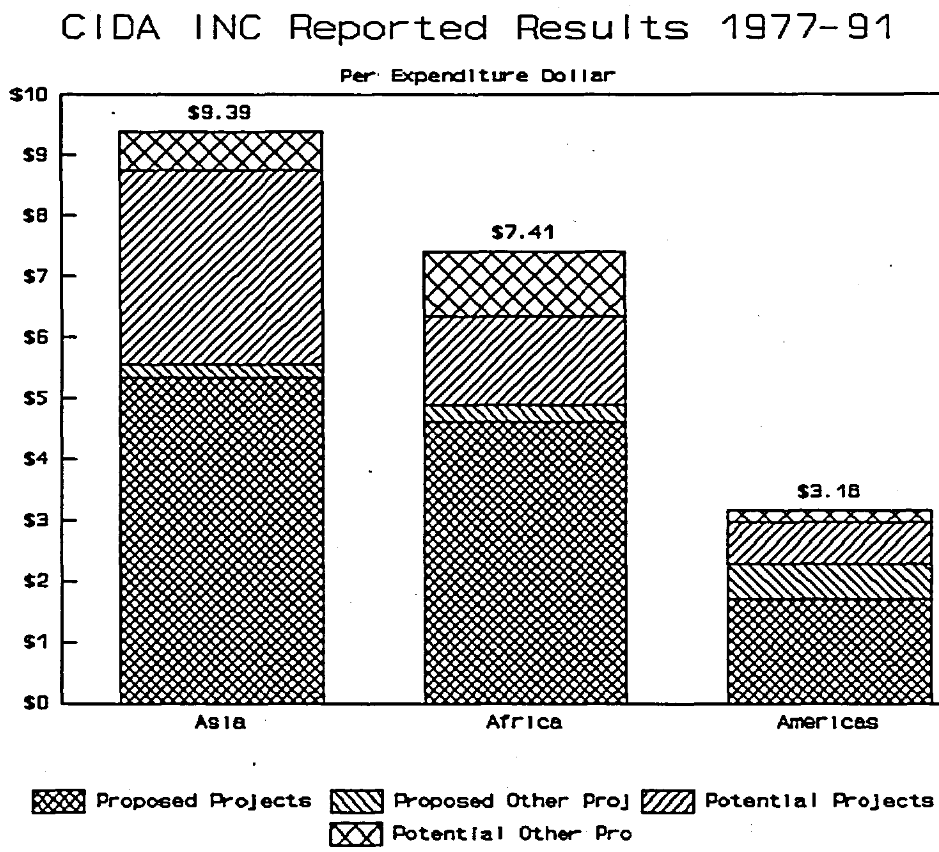

Chart 19

Source: CIDA INC

The soft reported results and high degree of user concentration suggest that CIDA INC may be providing ongoing marketing support to a limited number of companies. Given the greater risk in many of these developing markets, such an approach may be valid. The significant number of smaller users, with limited staying power in such markets, may be a greater cause for concern. Available data suggests both groups of companies may be significantly dependent on CIDA INC funding for ongoing corporate operations.

Export Financing

All OECD countries provide export financing and insurance services, particularly for non-OECD markets. In countries with well-developed private sector trade finance capability, the government role is limited to providing guarantees or insurance on private lending. Limited interest in international trade finance by the Canadian banks reflects both conservative business practices and the fact that the Export Development Corporation provides direct export financing in addition to export insurance.

EDC's role as lender is unlikely to change in the near future as Canadian banks continue to retrench their overseas activities. Even European banks, with strong client bases of major exporters, do not derive major profits from trade finance commissions and services. Given our small export community, Canadian banks have even less incentive to provide innovative and responsive financial services to other than OECD markets. Foreign branches (Schedule B banks) are able in many cases to provide alternative services to Canadian companies. But rarely are these to serve markets other than that of their home base or Canada. EDC does appear to provide a higher degree of insurance services to OECD markets, particularly in the USA, than comparable export financing agencies.[47]

EDC Services and Activities

Financing

- Loans
- Supplier credit
- Lines of credit
- Loan guarantees

Insurance

- Short-term
- Medium-term
- Performance guarantees
- Foreign investment

The private banks, both Canadian and foreign, are, however, well-placed to serve the changing nature of international business in OECD markets. Financing of investment, foreign acquisitions and strategic alliances are inherently private sector activities. Economic liberalization in Latin America, Eastern Europe, Russia and other members of the Commonwealth of Independent States (CIS) will likely result in greater private sector interest in investing in these emerging markets. This will likely require, however, expansion of the investment insurance facility of the EDC. While in Latin America, investment guarantees are likely to be largely on the corporate account, in Eastern Europe and the CIS this is likely to require significant use of the Canada Account (government-backed rather than EDC-backed).

EDC, in contrast to foreign counterparts, largely operates on a self-financing basis. As a result, country-risk analysis has largely determined exposure guidelines and risk premiums rather than political factors. Only the annual administration and general operating costs of approximately $ 40 million are government funded, a negligible amount in comparison to EDC's annual volume of business ($ 6.4 billion in 1990). It is EDC's ability to raise capital at government rates that provides EDC with a competitive advantage in comparison to the commercial banks (concessional financing, or a direct credit subsidy, is considered later).

The impact of provisioning for losses, imposed by the Auditor General, has made a significant impact on the amount of new lending and related services offered. EDC has become even more focussed and more hard-nosed in its decision-making as a result. Again, given continued fiscal restraint, this situation is unlikely to change; EDC will continue to operate largely as a specialized private sector bank, unable in many cases to provide comparable and competitive levels of support to that available from other countries. The ECGD of the United Kingdom and the Export-Import Bank of the United States are more subject to fiscal pressures and are becoming more self-financing. Ongoing discussion of harmonization of exposure limits and risk premiums at the OECD may lead to similar moves by other countries. Yet Canadian export financing is likely to remain the least generous of our major competitors. Canadian companies will have to develop alternative and innovative means of financing themselves.

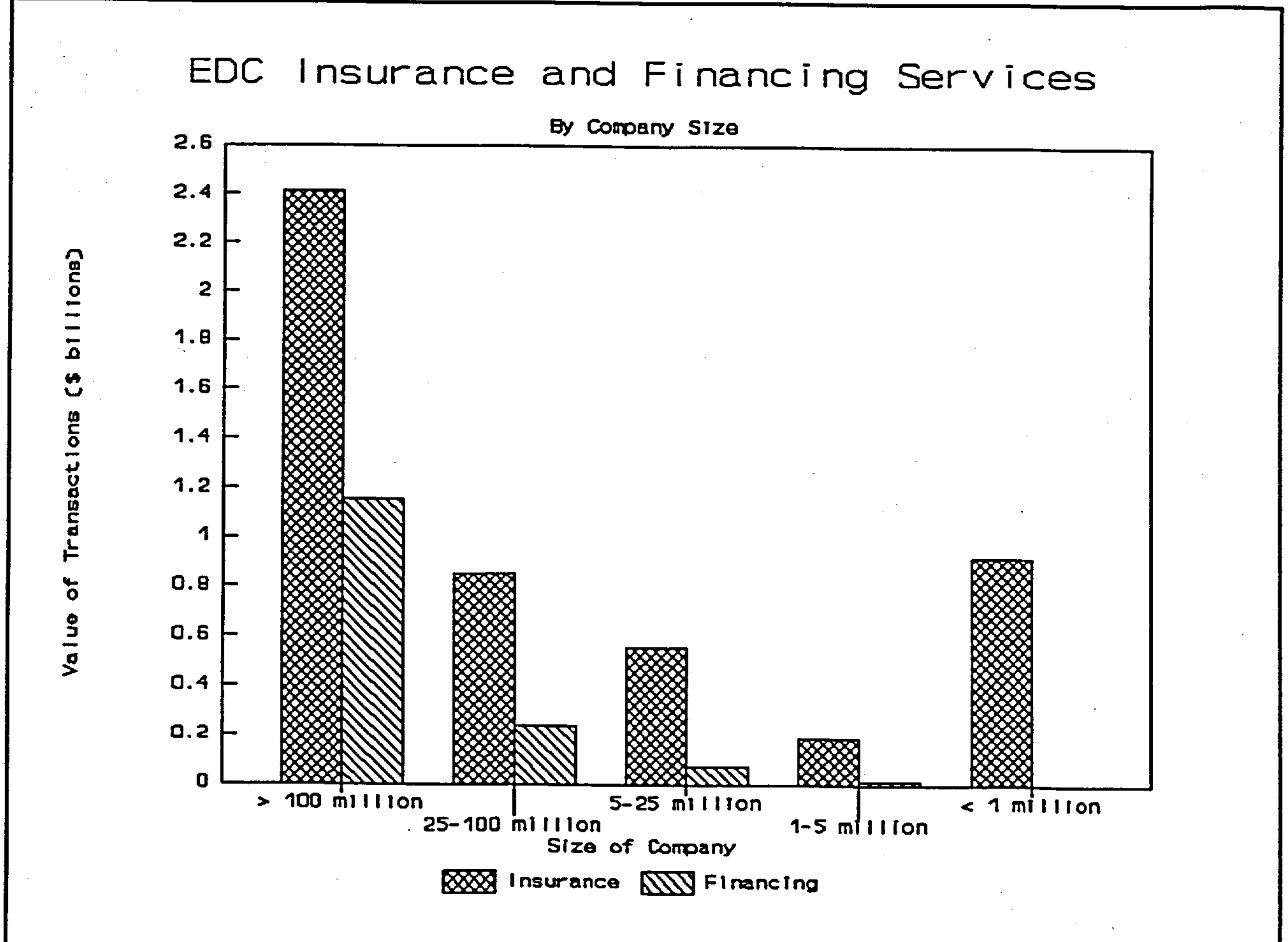

Chart 20

Source: Export Development Corporation Annual Report 1990

The EDC user profile varies according to the service provided. Larger companies use both the financing and insurance facilities for larger amounts than smaller companies. Smaller companies use the insurance facility proportionally more than larger companies. Chart 20 provides a user profile.

EDC is one of the few government services that operates on a broad cost-recovery basis. Moreover, EDC provides support only to companies that have succeeded in securing export contracts. EDC services are thus selective, results-based and commercially-driven.

It remains open to discussion, particularly with respect to lending operations, whether it crowds out the commercial banks. Given limited interest among Canadian banks for international trade finance, this would appear not to be the case. However, continued EDC activity in this area, particularly in OECD markets, may reinforce this rather than stimulating a more internationally aggressive and supportive Canadian banking industry.[48] Should EDC not lend directly, the banks would have a greater incentive to provide trade finance. EDC would appear to provide an essential service to companies that are successful in export market development.

Concessional Financing

The Canada Account provides financing when normal EDC commercial and exposure criteria cannot be met. Financing may or may not be offered on a concessional basis. Such subsidized credit is provided largely to match foreign competition. Fiscal restraint has greatly limited the availability of concessional financing; the Department of Finance, needless to say, largely determines the amounts available. Currently, two sectors, transportation and telecoms, and one country, China, absorb a disproportionate share of the limited uncommitted funds available.

Canada Account Criteria

- Normal EDC criteria
- Country risk classification for Section 31 support
- Economic benefits to Canada
- Importance of transaction to exporter and borrower
- Previous support provided to the exporter
- Impact on Canada's bilateral relationship

The limited progress of the OECD Consensus discussions to restrain this practice suggests that concessional financing is here to stay. The government provides support to farmers hurt by subsidy wars and the case can be made that similar support should be available to the export sector. The benefits from such support in terms of jobs, economies of scale, and 'loss leaders' for additional business, it can be argued, contribute towards competitiveness. These should of course be judged against the comparative value (and cost) of other government subsidies. A recent study confirmed these and related benefits.[49] In an imperfect world, we will likely need to continue to provide such 'level playing field' support to Canadian companies.

Overall Assessment

These programs and services are available in all regions and to most companies. The perceived political imperative of universality has seemingly precluded a more selective and targeted approach, although the cost recovery formula is an encouraging step in that direction. Yet as shown above, significant variations in productivity exist among regions; a 'micro' analysis of company results would likely generate similar results.[50] Chart 21 summarizes the rates of return by program and region.[51]

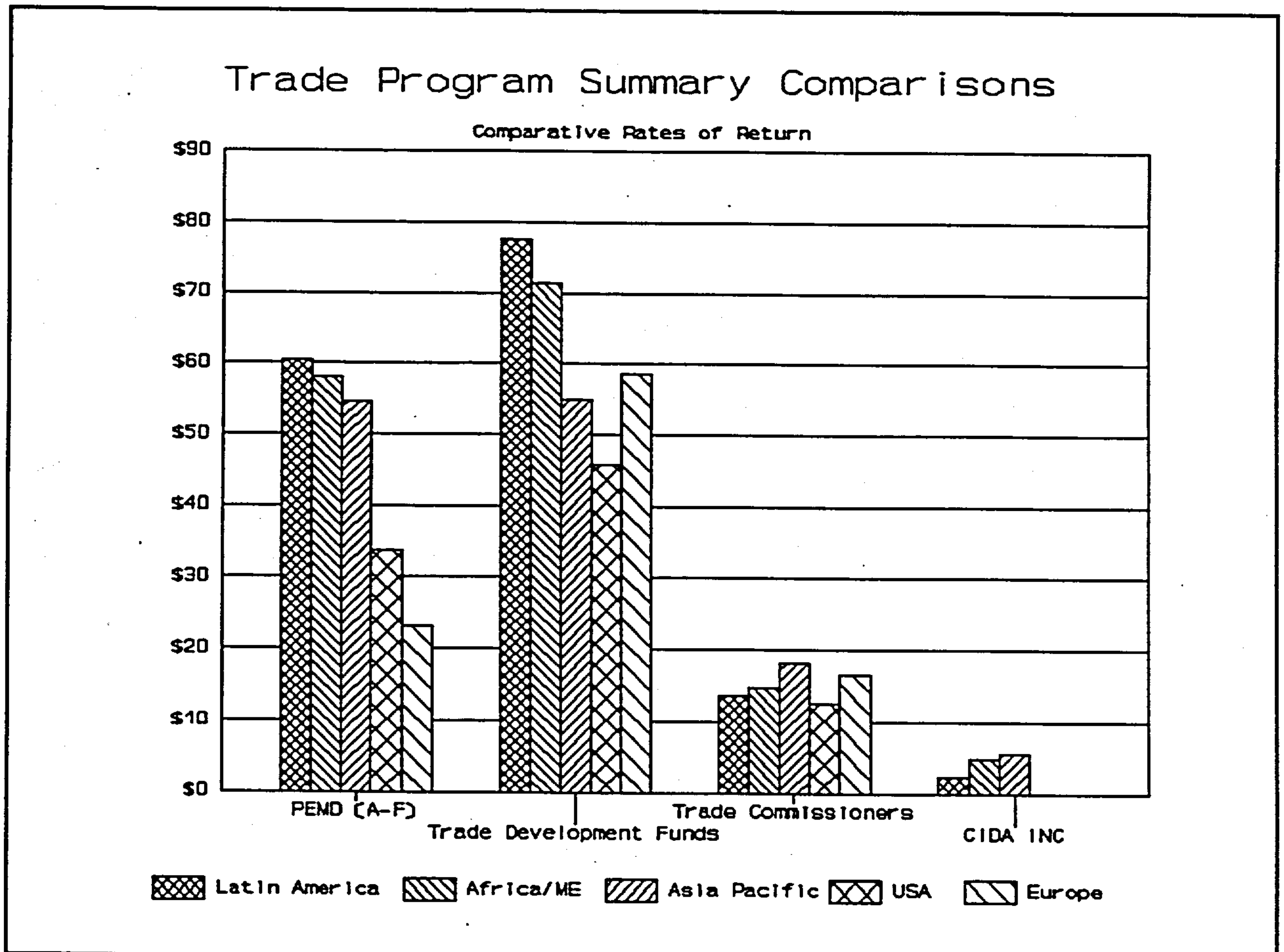

Chart 21

Despite the limitations of available data, this quantitative analysis highlights a number of areas of concern. These do not apply equally to all business clients of the Department; dependency and related concerns apply to the larger, habitual users, universal access and limited selectivity apply to smaller less export-ready companies. In relation to the trade development criteria outlined further, the following tentative conclusions emerge:

- Levels of support and services are comparable to those of Canada's major competitors in developing markets and more generous in OECD markets, given the withdrawal of significant trade development resources from these markets by a number of other countries. Non-concessional financing, concessional financing and tied aid are under-funded in comparison to our European competitors.

- Current services (e.g., trade fair participation, market studies, administrative support) would appear to duplicate private sector alternatives, particularly in some OECD markets. While increased contracting out has led to improved private sector expertise, this has not led to reduced dependency on government programs.

- Programs and services do not discourage habitual use and graduation among some companies (a more 'micro' analysis would be required to determine the extent). The existing cost recovery formula, while promising, does suggest that habitual participants in national stands and trade missions may enjoy an ongoing export subsidy of between 50-75 percent. Full cost recovery for habitual users, particularly in OECD markets, would reduce dependency.

- While a number of recent initiatives (Strategic Ventures, Technology Inflow Programs, Japan long-term market strategies) have been developed to provide greater complementarity to competitiveness objectives, linkages with domestic programs are comparatively few — the International Trade Business Plan will need to become a much more integrated planning document.

- Universal access, high approval rates in support programs and the inability of trade commissioners in the field to direct neophyte exporters to appropriate domestic support or structured new exporter programs — to say no — have resulted in limited selectivity and targeting in both Government and Industry-Initiated PEMD and other trade development programs.

- Productivity differences are significant among regions. The developing markets, requiring more time-intensive services, appear comparatively underfunded and understaffed in relation to OECD markets. Alternatively, OECD markets may be overfunded and overstaffed. Trade development funds, both government and industry-initiated, demonstrate a similar pattern, reflecting the historical bias of the Trade Allocation Formula. Yet rates of return are highest in these developing markets.

In sum, EAITC has set trade development priorities largely on the basis of historical export market share, particularly with respect to Europe and the USA. As a result, trade development resources are concentrated in OECD markets and Asia Pacific. Productivity, leverage and value-added have played a much lesser role in setting priorities. Effective ongoing subsidies to participate in trade fairs and national stands appear to entrench dependence on government support. Moreover, universal access to programs and services would appear to dilute the quality of service provided, given ongoing resource constraints.

Notes

VII. Context of Future Programs

Trade development programs and services have yet to adjust fully to the challenges of globalization and ongoing fiscal restraint. Like all government activities, the tendency is to add new programs and services rather than restricting access and limiting focus. Yet to continue to be effective in this changing global economy, a major re-orientation may be required.

The International Trade Business Plan could become an effective agent of this re-orientation. The plan is a major effort to set priorities, avoid duplication, and manage operations in a coherent and cost-effective manner on a government-wide basis. To meet this objective, the Plan will need to become sharper to address management, program and resource issues. While interdepartmental coordination remains important, the first challenge is within EAITC. Most required changes are internal; many others merely require the Department's leadership to redirect programs and activities.

The challenge is to make TCS an agent of change for a more competitive and internationally active Canadian business community. Existing networking and information brokering skills should expand to include development of technology and investment linkages to trade. The International Business Plan should lead this transition towards a more innovative and relevant trade commissioner service.

Greater Selectivity: The Need for an 'Admission Ticket'

Current corporate culture stresses activities and events over in-depth counselling and follow through. Recruitment pressures — at post, headquarters, other government departments (OGDs) and the provinces — may exceed the supply of truly export-ready companies.[52] Marketplace and Investech are similarly counterproductive by generating new demands for services, often from non-export-ready firms. PEMD funding exacerbates the problem; companies are subsidized to use services. Overzealous recruiting is a disservice to many companies. The opportunity costs for small and medium-sized companies in pursuing export markets are significant. Companies that are not export ready may divert scarce management and financial resources to export activities that could be employed in strengthening their basic competitive position.[53] The limited literature that exists does not indicate that successful exporters were primarily motivated by government incentive programs and exhortations to export.[54]

> *There is no point in having lots of export promotion activities if recruitment is weak.*

Misuse of expensive post resources — export education abroad — is no longer sustainable.[55] Service at post may have become less professional; minimal levels of service are available to all rather than targeted services to committed companies with real potential. Given that existing informal filtration techniques at post may serve to irritate many serious exporters, a more concerted effort within Canada may prove more productive.

> *The client base of the Trade Commissioner Service is medium and smaller enterprises. These firms are probably overworked by, not only trade commissioners, but other government departments, provinces, and ... economic development commissioners at the municipal level. Mostly, they are not yet well positioned in their provincial markets, let alone the Canadian market, but they have been guided by the many trade promoters from governments to hustle themselves off to unknown markets, even while lacking a secure domestic base.*

Latin America Trade Division Memo

Client identification is central to providing effective programs and services. Small and medium-sized companies are justifiable priorities. But not all companies have the management expertise, financial viability and basic competitiveness necessary to export.[56] Support should be limited to companies that meet realistic 'export-ready' criteria. Further differentiation of the level and type of support, depending on company capabilities, may also be required. This differentiation should also be market specific; continuing exporters that require little or no assistance in OECD markets may need considerable help elsewhere.

Export education starts with basic business education. Financial viability and managerial competence are rarely assessed. ISTC domestic programs should play a greater filtration role than they do at present. Formal eligibility criteria are all too often not observed by officers in the International Trade Centres — no one wants to say no. Moreover, regional development criteria further reduce selectivity — it is easier to obtain PEMD in certain regions than others.

FBDB New Exporters Program

- 10 hours a month for 8 months
- Limited enrolment — 30 companies
- Two participants per company
- Keynote presentations every month, followed by practical workshops and discussion groups
- Between session plant visits by an export consultant
- Experience-sharing and networking opportunities

Export education can also be an effective and politically acceptable admission ticket, particularly for companies with regional export marketing potential. Programs such as provided by the FBDB — seminars and workshops spread over an 8-month period — have demonstrated their value in preparing companies for international marketing. By charging a fee (e.g., $ 1,000), there is a pre-selection process in favour of committed firms. This type of structured program would lead naturally to a NEBS or NEXOS mission; rather than indiscriminate recruitment, export education could become an actual requirement for participation in missions and PEMD support.

This approach is particularly relevant to the US market. Most companies expand first to the USA, given its size, opportunities and similar business practices. Trade development programs in the US market consequently are comparatively more targeted towards new exporters than in other regions; approximately 70 percent of companies participating in the US program are new exporters, a percentage that is even higher in the Northeast. The two new exporter programs — NEBS, NEXUS — and the regular fairs and missions program introduce 3 - 4,000 new companies to the US market annually. Given the weaknesses in the Trade Tracking System and WIN Export discussed later, it is difficult to assess how successful these new exporters are. It appears, however, that approximately 50 percent of new exporters return to pursue market opportunities identified through involvement in one of these trade development activities.[57] A closer link between domestic export education programs and participation in these programs should result in a higher 'success' rate. Recent efforts by the US Trade Development Bureau to require more counselling before, during and after participation should also result in a more effective program.

Paradoxically, while government efforts to provide basic export education are extremely limited, more advanced sector and market-specific export education is offered by all geographic branches. The Department does a good job in selling opportunities and identifying market peculiarities and challenges to companies but is not able to guide them through the ABCs of exporting.

The provinces have a special role to play in identifying export-ready firms. They should be equally encouraged to develop programs, in cooperation with the FBDB and other relevant agencies, to bring such companies up to the export-ready stage.[58] Current duplication between the two levels of government in this area could be reduced.

High-technology companies, that 'go global' instantly, will likely require a different approach to export education, focussing on strategic alliances and investment. The IRPP study would appear to overstate the number of potential exporters that fall within this category; we need to ensure, however, that the 'admission ticket' recognizes the particular characteristics of these companies. Entrepreneurial drive will also remain an important subjective criteria in determining a company's export education needs.

Just as we need an 'admission ticket' for government support, we should draw the line where our assistance ends — a 'graduation policy.' This is also market specific as discussed earlier. Over-use of a free good — trade development services — should be discouraged;

provision of good basic market intelligence, export strategy counselling, advocacy and referrals to relevant private sector contacts elsewhere should remain the mandate. To discourage dependency, more stringent 'graduation' rules, including enhanced cost recovery, should be applied to programs such as PEMD, CIDA INC and participation in national stands.

There are benefits in providing administrative support (hotel reservations, airport meets and the like).[59] Such services provide an automatic and easy management tool to keep track of Canadian corporate activity in a territory. However, such activity duplicates private sector alternatives and contributes to dependence on government services. By limiting such support, an additional 'admission ticket' is imposed. While companies may wish to inform trade commissioners of their plans and activities, they are under no obligation to do so. The trade commissioner role is to get them up and running; ongoing market development is largely up to them, particularly in OECD markets.

Market intelligence and counselling capabilities also have limits. For example, in OECD markets trade commissioners should be able to provide a good overview of a sector, its distribution channels, and general market characteristics. This overview should then be followed by a recommendation as to which private sector consultant has the best sector expertise. Serious and committed companies are willing to pay for detailed expertise; trade commissioners should point them in the right direction, not take them there. In other markets, more or less support may be justified. But government should always ask: is it necessary, is the private sector being crowded out, can resources be better used elsewhere?

Trade Development Support Programs

While PEMD, CIDA INC and similar programs are well-liked by industry, it is not clear whether they have been central to the success of export-ready companies. Serious companies would commit the necessary personnel or fiscal resources to international market development in any case.[60] Repayment provisions — rewarding failure rather than success — effectively encourage companies to use them as 'loss leaders', where prospects for success are most limited.

CIDA INC and the Renaissance programs may involve too many cases of consulting or feasibility studies that did not lead to projects or commercial results. The extremely soft reported results of CIDA INC, in particular, suggests that employment generation may have been limited to the consultants themselves. Provision of financial support for environmental requirements and training costs could assist companies submit more competitive bids rather than loss-leader feasibility studies.

These programs appear to subsidize more than stimulate exporters and potential exporters. We may choose to provide such subsidies in new and emerging markets, where business practices are culturally-driven and entry costs high, if we believe that significant medium and long-term potential exists. But should PEMD government and industry-initiated assistance be available in the well-established, albeit competitive, markets of the USA and Western Europe? Companies would likely still pursue opportunities in these markets, given their large size, comparative openness and largely similar business practices. Can we not encourage and assist without providing financial incentives? Over-subscription of PEMD provides a graphic demonstration of why we cannot provide the same level of assistance on a worldwide basis.

Are such subsidies necessary? All countries provide various kinds of export assistance to a greater or lesser extent. The question is which forms of assistance are more efficient and what are the trade-offs among different alternatives. What is more useful: greater personnel resources in the field or subsidies to participate in trade fairs and missions, establish marketing offices, conduct feasibility studies or other related activities? Are there alternative ways to achieve the same objectives more effectively?

Can such programs be made more efficient? Can they become more selective? Can the repayment disincentive to success be removed by requiring repayment if the company is unsuccessful, as do the Swedes? Can the corporate culture be changed and programs no longer become more and more flexible and accessible? Can the 'admission ticket' include tighter eligibility criteria for such programs?

PEMD: Possible Selection Criteria

- Contribution threshold ($ 3-5,000)
- Geographic (Visits ineligible for USA and EC)
- Sector specific
- Marketing plan required
- Export Education required
- Negative incentives — repayment required if unsuccessful

In an ideal world, abolishing all such government support programs — international and domestic — would result in lower corporate tax rates which would be of greater benefit to competitiveness.[61] Yet political realities suggest otherwise: greater selectivity, regional focus and tighter eligibility criteria are more realistic alternatives. PEMD is already moving in this direction with, for example, the requirement that applicants demonstrate that the proposed activities fit into their marketing strategies and tighter eligibility criteria.[62] Fiscal restraint should reduce the bias to approve; more centralized information management systems should flag potential problem cases to reviewing officers.

CIDA INC needs to develop more effective reporting and accounting systems. An independent audit of results is called for; greater transparency and accountability, along the lines of the Trade Tracking System and PEMD, is needed to evaluate just how effective is this program in transferring expertise to developing countries — its publicly stated goal — and developing significant follow-on business for Canadian companies. Repayment provisions should be comparable; current practice amounts to no repayment at all. While this may be difficult — current plans to conduct a performance audit of CIDA INC are being considered by an advisory committee made up of the principal beneficiaries of the program — it would appear increasingly necessary given funding constraints and the need to justify programs.[63]

Should tax incentives be considered rather than discretionary programs? Should tax credits be available to companies opening an offshore marketing office? Should companies be able to carry over marketing expenses, given the lag before the pay-off? Just as R & D receives special tax treatment, the case could be made that sustained implementation of an export marketing plan deserves similar consideration.

Two major problems suggest themselves. First, providing special incentives would further undermine the tax reform package of 1988 which reduced incentives and exemptions in favour of lower general tax rates. Secondly, small, targeted programs are more difficult and costly to administer. It is the latter objection that is more significant — the Department of Finance does not consider amounts in the tens of millions to be significant enough for changes in the tax code. With the possible exception of concessional financing, no trade development program would be of sufficient scale to interest the Finance Department. While a government-wide effort to eliminate <u>all</u> support programs — domestic and export-oriented — would result in savings sufficient to change overall corporate taxation or introduce new tax credits if desired, this is unlikely to occur given the wide range of special corporate interests that would be affected.[64]

Tracking Companies

Considerable investment in the Trade Tracking System, the integrated planning and workload tracking system, and WIN Export, a data base of Canadian exporters, provides the basis for compilation of data to evaluate the effectiveness of trade development programs. The Trade Tracking System is used in preparation of the annual trade and investment development plan. Implementation of the plan is monitored by the system through the submission of quarterly reports. Despite the best efforts of the Department, the major weakness remains the lack of uniformly accepted (and applied) definitions; individual posts may or may not count telephone enquiries as business enquiries, multiple meetings with Canadian business visitors may be counted either as such or as a single visit, and single page 'reports' as reports.[65] Trade development resources are partially dependent on these reports, given the weight attached in the Trade Allocation Formula to the number of Canadian business visitors, Canadian exporter enquiries, local importer enquiries, and priority sector potential identified in the annual trade and investment development plan submitted by post. Planning, resource allocation and monitoring of results are thus increasingly interdependent.

However, this and related systems provide a partial picture of results obtained. The Trade Tracking System may track activities and events rather than ongoing follow-up and attributable results. Reports are counted but not evaluated for any follow-up activity generated. New exporter programs — NEBS, NEXUS and NEXOS — are tracked on the basis of companies participating on a mission and not the number of companies that become viable exporters. CIDA INC tracks the number of feasibility studies and not the number of resulting projects. Detailed evaluation of the effectiveness of government programs is correspondingly hampered.

Integration of the Trade Tracking System (TTS), including use of both government and industry-initiated PEMD, into company histories in WIN Export should result in more effective tracking of company results rather than the current bias towards tracking government-sponsored events and trade commissioner workload. Inclusion in company histories of visits to posts, already tracked in the TTS, is expected to become automatic. This should allow, over time, tracking of how individual companies have used government assistance to develop export markets and, in turn, evaluation of the effectiveness of particular programs and services for specific sectors, markets and size of company. Like all databases, WIN Export requires constant updating to provide useful information; a major weakness is the reluctance on the part of many users to update information on a regular basis. Current equipment and software does not allow multi-tasking — i.e., having both WIN Export and Word Perfect open at the same time. Until this occurs, user resistance is unlikely to fade and the full benefits of the database are unlikely to be realized.

Full and automatic integration of the Trade Tracking System, WIN Export, PEMD, CIDA INC and EDC data should be a long-term goal. Inclusion in company histories of use of CIDA programs and EDC financing facilities is particularly relevant and would have the advantage of being integrated in the 'centre' rather than depending on individual officer input. This is necessary to provide ongoing systematic evaluation of government trade development programs and services and to develop a more effective sourcing and recruitment system. At present, each geographic branch zealously guards its respective list of interested exporters, as do the International Trade Centres, other government departments and the provinces. Limited cross-fertilization occurs. An integrated system would, for example, allow an officer in Mexico to identify companies that have expanded into the US market through participation in trade fairs, missions or use of PEMD funds or EDC services. These companies could then be approached as being export-ready for the Mexican market.

Cost Recovery

The Department, as part of overall government policy to reduce the deficit, has introduced cost sharing and cost recovery. Cost sharing refers to joint-funding, generally by various government departments and the provinces, of trade development events. The Department in effect levers its budget to support a more extensive trade development program. Cost recovery refers to the partial recovery of financial support granted to companies in order to encourage participation in trade fairs, missions or related events. The current cost recovery formula differentiates between regions and the number of times companies have participated in particular trade fairs and national stands. First time participants are assessed the lowest level of cost recovery; the scale increases proportionally for second and third time and habitual users. In general, cost recovery in the developed markets of Europe and the USA is twice as high as in developing markets as indicated in table 2.

Cost Recovery: Percentage of Pro-Rated National Stand Costs

Geographic Area	Participation Frequency First	Second	Third	Subsequent
USA	20	30	40	50
Western Europe	20	30	40	50
Eastern Europe	10	15	20	25
Japan	15	20	25	30
East Asia	15	20	25	30
Asia Pacific South	10	15	20	25
Caribbean	10	15	20	25
Latin America	10	15	20	25
Middle East	10	15	20	25
Africa	10	15	20	25

Table 2

Cost recovery is oriented towards deficit reduction objectives. As a result, there is little incentive for the Department — and individual managers — to apply cost recovery more effectively — all funds recovered are lost to the Consolidated Revenue Fund. Given this, the sophistication of the current cost recovery formula, particularly the differentiation between levels of support required for each geographic region and the number of times individual companies have participated in particular events, is impressive.

While cost sharing with other government departments and the provinces has allowed the Department to provide higher quality national stands and programs than would otherwise be the case, cost recovery has provided the justification for the comparatively high cost of national stands. In the US market, for example, it is estimated that government cost per company in a national stand is twice that of participation as an individual company. The current formula allows up to 50 percent of that cost to be recovered, depending on the number of times the company has participated in the particular event. The end result in some trade fairs is that government may provide an incentive for some companies to participate in a national stand while others, either solely or through PEMD funding, may participate separately in the same trade fair. Does this make sense? Does the higher quality display 'make a difference' in OECD markets, apart from the international trade fairs where national stands are necessary? Or is it the assistance from resident trade commissioners and commercial officers that is of assistance, not the flag-flying of national stands? Should we move towards information booths and encourage companies to co-locate in order to reduce costs?[66] These questions are important; if, as we would argue, overall levels of cost recovery should be increased, particularly in OECD markets and in the case of habitual users, this would likely drive many companies out of the national stand. Unless a national stand provides significant benefits in itself — preferential location and guaranteed space — private participation may be equally effective.

Similarly, the current policy of providing participants in ministerial trade missions with return airfare and charging them a $ 500 'participation' fee also seems incongruous. A ministerial mission provides visibility, profile and political access for participants, invaluable in many emerging and developing markets. Financial support should not be required, particularly for exporters already active in the market.[67]

Established exporters in developed markets should not need a subsidy to participate in trade fairs, national stands and trade missions. A strong 'graduation' policy should be applied; a doubling of cost recovery rates for all markets could be applied to meet this objective.

The Trade Commissioner as Agent of Change

Trade commissioners may have a more significant role improving the competitiveness of Canadian industry. Generalized reporting on competitor country policies for the Prosperity Initiative provides a good example of how some of this energy can be directed toward reporting on how small and medium-sized companies are adapting new product and process technologies to existing and future production and what kind of management and labour training is required to result in significant productivity improvements. This need not only be sector-specific; the generic nature of many production process technologies and training and organizational changes are applicable across a wide-range of industry.

ISTC will be tempted by the competitiveness agenda to develop even more international programs and activities.[68] Current programs to organize visits of small and medium-sized companies to successful Canadian firms, to discuss management challenges, organization change and technology adaptation could, for example, easily be applied to similar visits outside Canada. We should ensure, however, that our assistance to Canadian companies on competitiveness issues is limited to an information role. Excessive hand-holding of small and medium-sized firms can result in increased dependence on government support. International business development should concentrate on companies that are fundamentally competitive; we can and should provide information on process technology, capital equipment utilization and training implications but should not engage in basic industrial education programs.

We need to ensure that the competitiveness agenda is pursued in a forward looking manner. This is already occurring in some markets. High product and quality standards in Japan require Canadian companies to adapt their manufacturing and quality control processes to meet these strict standards. As a result, longer-term trade development strategies, feeding back into domestic restructuring of industry, are required. This is both costly and time-intensive; successful efforts to develop the Japanese market for red meat cost over $ 500,000 from the Department over the last three years.[69] Supply-side weaknesses, particularly the fragmented nature of Canadian industry, further underline the longer-term nature of developing competitiveness linkages. In the automotive sector, the new 'design-in' role of parts suppliers will require a similarly long-term approach.

Australian International Trade Enhancement Scheme (ITES)

- Reward-sharing concept
- Risk-sharing loans for market development
- Funding per project up to $AUS 2.5 million over three years, up to $AUS 5 million over five years for 'exceptional' projects
- 50 percent company funding required
- Three-year grace period, interest 40 percent of bank reference rate
- Companies pay royalties for six years up to double the contribution

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In designing such long-term assistance, however, the need to 'wean-off' companies and industry associations from government financial assistance should be expanded to include more innovative risk and reward sharing programs. Current Treasury Board regulations and the deficit-reduction measures presently preclude programs such as the Australian International Trade Enhancement Scheme but, as for cost recovery discussed earlier, strengthen further the case for greater managerial incentives and flexibility in the development and management of trade development programs.

The integrated approach to trade, technology and investment exemplified by the Strategic Ventures program may also provide a model upon which to build future trade development programs. Trade development programs and services should not pre-judge the nature of linkages that may emerge. Marketing agreements, inward and outward investment, technology transfer are increasingly substitutes for one another.

The basic skills required are similar to those required for trade development. The focus and time frame, however, are different. Networking — within the banking, legal, accounting and business community — is less 'transactional' and more directed to long-term development of contacts. The pay-off from such networking occurs typically three to five years later. This is particularly the case with respect to investment development which is inherently more long-term than trade development.

Service sector exports will require an equally integrated approach. While traditional services such as engineering and project management will continue to be developed as in the past, the new services — e.g., software, insurance — invariably involve the formation of strategic alliances of one form or another. This can range from technology and licensing agreements to investment, takeover, or joint-equity participation.

Outward investment is increasing in importance. This is not controversial in Western Europe, given that this is viewed as securing market access rather than shifting production from Canada. Yet given globalization and disaggregation of production, a more competitive Canadian economy will increasingly rely upon low-cost inputs. The automotive industry is perhaps at the leading edge of this change, with labour intensive sub-system assembly shifting to low-wage countries, particularly Mexico, with higher value-added activities remaining close to the market.

Should companies be encouraged to shift low value-added activities abroad to improve their competitiveness? Should our Embassy in Mexico, for example, advise Canadian companies to establish maquiladoras to serve the North American market? Should our assistance to Canadian companies take into consideration such competitiveness considerations, even if it results in short-term job losses in Canada? Helping Canadian companies in the era of globalization may not necessarily result in increased employment at home in the short-run, but should lead to competitive companies based in Canada and maintaining productive investments in Canada.

Technology linkages are difficult to develop. To be credible, we need to focus on sectors where Canada has particular expertise. The sectoral approach of the Strategic Ventures Program is a good example. S&T agreements on the other hand, to be effective, need considerable financial support. Given fiscal realities, this means concentration on one or two markets in one or two sectors. The space sector has benefitted from such an approach; our early funding for joint projects with the European Space Agency resulted in significant business for Canadian companies. Bilateral agreements should not be entered into unless adequate resources have been identified on both sides.

In order to achieve our goals, we may need to de-emphasize the development of institutional links with government or quasi-government research organizations unless significant funding is available. Rather than reporting on European research initiatives that largely have a European orientation, science and technology counsellors should focus more on private sector technological developments, and their possible application in Canada, as well as on resulting opportunities for joint-ventures and the like.

Alternatively, the comparatively modest scale — in relation to support for space-related S&T programs — of projects funded under the Japan Science and Technology Fund — $350,000 maximum contribution for researcher visits, research exchanges, Japanese language training, infrastructure support, and expanded bilateral research and development projects — may also provide a model for longer-term development of technology linkages.

The separate approach to technology exemplified by the TIP program may not be the answer. In many cases, technology is not the problem, basic managerial skills and organization techniques are. If the experience of the ISTC *Manufacturing Visits Program* is any guide, it is these needs that have to be addressed first. Technological concerns are secondary to the basic competitive position of firms concerned. A government or privatized data base of technological developments may help direct viable Canadian companies to appropriate sources but any more assistance may only increase dependence on government programs rather than decreasing it.

Indirect linkages with competitiveness should be further explored. Existing international marketing of education and training services available in Canada should be expanded, given knowledge and networking benefits. The innovative initiative of Going Global to increase general awareness of the importance of Asia and develop language capabilities may have applications elsewhere. The Department's sponsorship of the Centres for International Business Studies (CIBS) at major business schools should also be seen in this light — development of a more sophisticated and internationally aware Canadian management pool.

These programs are comparatively inexpensive, are appropriate for government and generate long-term benefits. We may wish to consider further encouraging of the CIBS internationally. More frequent academic and student exchanges, joint-programs between Canadian and foreign business schools, and collaborative research projects may all be worthy of support. Similarly, greater support may be warranted at the community college level, to develop the necessary technical expertise in export documentation, transportation techniques and related topics.

Aid-Trade Linkages

Canada's development assistance policy is largely determined by the poverty alleviation objectives outlined in *Sharing our Future*. While these objectives remain applicable in the poorest of the poor countries, the increased differentiation in the developing world may require an equally differentiated approach. In particular, for countries with significant growth or development prospects, an 'economic cooperation' approach may be more effective. Industrial, infrastructure and technical assistance may be more appropriate forms of assistance, especially for the more advanced of the developing countries. Canadian interests should play a greater role in determining the amount and form of economic cooperation and assistance programs. Rather than separating development and commercial objectives, assistance would be broadened to include lines of credit, concessional financing, technical assistance, education and training, and CIDA INC. Other development assistance such as human resource development could also be integrated under this approach; parallel funding could, for example, be used to provide general non-project specific training in a sector of commercial importance.

An economic cooperation approach would bring us more into line with the practice of major competitors. While CIDA has tried to adapt a more economically realistic approach in recent years, the agency largely continues to reflect the humanitarian and development orientation of the 1960s. CIDA INC funding may be significant in relation to PEMD and related trade development programs but is insignificant with respect to CIDA's overall budget. The challenge is less to expand CIDA INC and more to reorient CIDA's bilateral programs to be sensitive to potential commercial linkages.

CIDA bilateral trade development programs have emerged, particularly in Asia Pacific, reflecting the dynamic of trade-led growth. The Enterprise Malaysia Canada was established to promote the transfer of Canadian technology and know-how to Malaysia through joint-ventures and other forms of collaboration. Trade commissioners at the High Commission did not have enough time to provide detailed follow-up to companies pursuing joint-ventures in Malaysia. As a result, CIDA found a niche not covered by the regular trade development program. While trade commissioners concentrated on prospecting — i.e., basic market intelligence and information brokering to introduce new companies to the market — a quasi-private sector agency provided assistance to companies that required more support and detailed information. To this end, offices of Enterprise Malaysia Canada were set-up in both countries to provide an information service, conduct research and analysis, develop and maintain a comprehensive register of firms, advise Canadian and Malaysian enterprises, and coordinate visits by business representatives in cooperation with the High Commission. The offices also assist Canadian companies obtain funding from CIDA INC and administer a corresponding program for Malaysian companies under the $ 4.5 million Financial Assistance Program. Funding for the project is to be gradually phased-down over a five-year period.

Although funding for these programs represents a small fraction of CIDA bilateral programs, it is often greater than that available from Departmental trade development programs. Enterprise Malaysia Canada, for example, has a budget of $ 14.4 million over five years, not including potential use of CIDA INC funding for specific projects. Overall CIDA trade-related funding likely approaches EAITC trade program funding. Yet CIDA programs may be less results-oriented than EAITC trade development programs.

Given this, we need to ensure that this is integrated into our overall trade development strategy. In the particular case cited above, trade commissioners at the High Commission and officials of Enterprise Malaysia Canada have defined their respective roles with minimum overlap. Trade commissioners at other posts also make entrepreneurial use of CIDA INC funding to assist Canadian companies develop in their particular markets. CIDA retains, however, tight control over the approval process for CIDA INC, limiting the value of any input trade commissioners at post may have concerning the commercial viability of projects funded by the program.

Widespread expansion of programs such as Enterprise Malaysia Canada and continued tight control of CIDA INC's approval process by CIDA may run the risk of fragmenting management of international business development programs, the express object of the International Trade Business Plan.

CIDA 'trade' funding — CIDA INC and bilateral — should become more integrated into trade development programs. The significant amounts involved — compounded by budgetary pressures to dispurse — suggest, as an interim step, a formal joint-approval process.

We should also consider whether it would not be more productive to use part of CIDA bilateral program funds towards expansion of concessional financing. Given that major competitors use ODA funds for concessional financing, we should review the comparative benefits — both in developmental terms and spin-offs to the Canadian economy of CIDA bilateral programs and concessional financing. CIDA grant money could also be used to supplement concessional financing, resulting in additional leverage. In emerging economies, concessional financing would appear to provide equivalent development benefits with greater domestic economic benefits than many current CIDA programs.[70] Eligibility criteria will remain necessary — recreation of a CIDA aid-trade fund, partial allocation of the International Assistance Envelope (IAE), or EDC-managed expanded concessional facility would not satisfy current and anticipated demand for concessional financing. As is the case currently with the China facility, any concessional financing should lever commercial financing and initially concentrate on medium-sized transactions — large transactions result in excessively large commitments of funding for long periods of time. Suggested criteria could include:

> **National interest:** What are the long-term political and economic benefits of such support? Is support going to a growing export market with significant potential? Can such support be levered into obtaining additional business? How important is the country politically and economically to Canada?
>
> **Competitiveness:** Is the industry being supported internationally competitive and viable? We should concentrate support on those industries such as urban transit and telecoms that have proven themselves to be able to compete on price and quality and who have demonstrated commitment to the market in question.

While any perceived move away from the poverty alleviation objectives of *Sharing our Future* may appear politically contentious, this may be less so than expected. The recent Decima Survey of Canadian attitudes toward foreign policy revealed a dichotomy between altruism and self-interest; when push came to shove, economic interests were favoured over broader, less direct interests.[71] Moreover, on developmental grounds, greater differentiation of assistance is required to respond to the varied requirements of the developing world. As CIDA is already moving in this direction, the challenge is to ensure greater coherence between CIDA and Departmental trade development objectives.

Delivery Mechanisms

Limited resources, conflicting competencies and client concerns make it necessary to address the question of who should provide what service in what area to what company. The issue is not merely duplication of expensive resources but rather how best to provide the services and expertise needed by the private sector. The International Trade Business Plan could become an important step in this direction.

Delivery mechanisms should be determined on pragmatic grounds. Private sector delivery mechanisms should, however, be favoured when possible. Trade commissioners at post should concentrate on market intelligence and information brokering and not activity or event management. The range of possible services that can be contracted out will of course vary from market to market, recognizing that we have neither the resources nor the ability to implement all programs and provide all services.

For new markets where we consider significant potential exists, greater financial support could be provided. The existing differentiation of the cost recovery formula for trade fairs and national stands could be applied elsewhere. We could provide 75 percent support for organizational support of a trade mission to Viet Nam, for example, while only 25 percent for a mission to Atlanta. Performance criteria would need to be established; we cannot assume that associations inherently would be less selective than other recruiters.

Our 'catalytic' role, as diffuser of information and explorer of opportunities, naturally leads to encouraging private sector associations or organizations to develop international business expertise. This would apply only to associations with a broad membership base; support should not be provided to associations that only provide services to their larger members. Providing entrepreneurial incentives and opportunities — e.g., contracting out to industry associations of NEXOS missions — may well develop not only stronger and more representative private sector organizations but also a growing cadre of international business professionals. Our acquired knowledge, rather than remaining within government, would as a result become more widely spread, thus further facilitating international business development.

Where government funding is required, this should be market and sector specific. Unless strict public <u>and</u> private sector cost sharing criteria is applied, we will have merely shifted dependence on government support from individual companies to industry associations. If an activity is worthwhile for the business community, government cannot be expected to pick-up more than 50 percent of direct costs. A reduction from current levels of support, in the order of 60-80 percent, would appear appropriate.

This reduction is required to reduce dependence of business councils on government funding; the end result is often more the creation of a lobbying group than of a delivery mechanism.[72] The IRPP study notes that the Canadian Exporters Association "was not a relevant factor in the day to day functioning of the typical exporting SME".[73] Such associations should develop deeper roots within the business community as a whole, as represented by Chambers of Commerce across the country, and thus reach both the exporting and non-exporting members. Perhaps in that way, we can encourage the non-exporters to join the exporters.

We also need to move further away from one-shot activity-driven contracting out to more extensive 'partnership' type relations between the federal government and industry associations. This partnership, over three-to-five year periods, should involve a declining scale of government support. More than 50 percent support may be justified in the first year; this should decline to less than 20 percent over the life of the agreement. We should apply the principles of the existing cost recovery formula to 'partnership' agreements.

We may wish to encourage sector associations, supervised by the SAGITs, to become more involved in the formation of the sectoral strategies of the International Trade Business Plan. We should be prepared to go further. We now compete amongst each other, with ISTC and with the provinces in recruitment. Stronger industry associations could be given sectoral mandates for specific geographic regions on a trial basis.

We need to encourage Canadian companies to tap into and use more the private sector services available in OECD markets. The wide variety of publications, the skilled services of freight forwarders, accountants and lawyers and the comprehensive services provided by trade fair organizers make many government activities redundant. We should be complementing their services, not providing free alternatives. This would provide an additional filter, is comparable to practices of other countries, and encourages the development of such services.

Federal-Provincial

Federal-provincial cooperation in international business development, as in so many areas, remains problematic. Fiscal restraint is forcing a number of provinces to scale back their international presence.[74] Quebec, on the other hand, makes international business development the centrepiece of its international affairs policy, and dedicates the requisite resources to it.[75] While we have to recognize that the provinces will always want to participate in the 'glamorous' side of trade, we need to find ways to encourage them to improve their capabilities on the export education side.[76] The International Trade Business Plan should assist this approach.

The provinces are closest to the supply of new companies. We need to refocus their recruitment drives into more formal export education. The Federal Business Development Bank programs are cooperative programs with their provincial counterparts. We need to expand to include development of adjacent regional markets. While our border posts — Buffalo, Cleveland, Detroit, Minneapolis, Seattle — work closely with their provincial counterparts, should we not consider whether it would not be more appropriate for these offices to be staffed and run, at least in part, by the neighbouring provincial government? The condominium arrangement, already in place in a number of overseas missions, may in fact be more appropriate here. The small number of companies from other provinces would not pose a significant problem.

Trade Policy and Trade Development Linkages

Government is policy, not program, driven. Policy — for better or worse — will always set the agenda. To be relevant to both industry and government, trade commissioners need to be able to understand and address trade policy and market access concerns.

Under consolidation, the two solitudes of trade policy and trade development have ironically become more entrenched, reflecting stream management, an ingrown trade policy priesthood and a trade promotion tribalism. Yet the increasing sophistication of international business requires closer coordination between trade policy and trade development. Trade development, closer to the business community, often leads trade policy in dealing with issues such as investment, services and technology. Yet trade policy — e.g., the negotiation and management of issues under GATT and the FTA — provides the enabling environment for trade and investment that affect our competitiveness. To progress further on the trade development side, policy changes often are required.

In an increasingly liberalized and harmonized global economy, trade policy concerns and frictions will set the agenda with our major trading partners. This is already the case with the FTA (e.g. pork and softwood lumber) and is rapidly becoming so with the EC-92 (e.g., forestry). As this trend occurs, we can — in a period of continued government restraint — expect to see more resources dedicated to managing such frictions rather than to trade development. While this will particularly be the case with the USA and Europe, continued liberalization of the Japanese economy may have similar implications as will removal of restrictions on investment, imports and services in the emerging economies. Cultural and linguistic differences may continue to justify trade development activities, but their relative importance will likely decrease in our major markets.

Trade policy and trade development may have different styles. Trade and investment development is entrepreneurial, activity-driven and results oriented. Trade policy is bureaucratic, process driven and incremental. Yet this distinction is becoming less relevant as the requirements of our business clientele become more sophisticated. Trade development, particularly in OECD markets, requires 'applied' trade policy; our market intelligence and advocacy roles are more and more required to deal with market access and related trade policy issues than before. Trade development is no longer trade promotion — organizing trade fairs and missions, identifying distribution and marketing channels — but must, as more and more trade commissioners realize, address institutional and other barriers that have traditionally been considered the preserve of trade policy practitioners.

All of these considerations — admission tickets and graduation policies, more focussed and limited support programs, enhanced competitiveness linkages, tracking companies and not activities, devolved delivery mechanisms, improved federal-provincial cooperation, a stronger trade policy trade development interface — should underlie future programs and services. These will need to be applied differently in each market; what is necessary and appropriate in Korea may not be so in the USA. What may be required in Teheran may not be in London. General application of these considerations is covered under the geographic profiles attached as Annex B.

VIII. Recruitment, Training, Career Development

While the information brokering and organization function of trade development remains largely unchanged, Canadian companies now require more sophisticated and diverse information to pursue international business opportunities. Trade commissioners are no longer merely 'salesmen' but will be increasingly expected to act as international business consultants. The traditional advocacy and networking role will thus need to be supplemented, particularly in OECD countries, with greater investment, technology and investment expertise.[77] Given the ongoing nature of globalization, trade commissioners will be required to be even more flexible and adaptable.

Training requirements have become more sophisticated; trade commissioners, both upon recruitment and at various stages during their career, will need constant skills upgrading in order to be able to provide more professional services to the Canadian business community. This needs to be integrated into general management training; as programs, services and delivery channels become more varied and sophisticated, the management challenges will correspondingly be greater. The Foreign Service Institute, planned to be operational for 1992/93, will be the prime focus for this ongoing training requirement. As noted earlier, surveys indicate considerable dissatisfaction with the current knowledge and capabilities of trade commissioners.

Geographic specialization — language training, longer duration postings, and return postings — is an increased requirement in developing markets. The business community complains in survey after survey that trade commissioners should have longer postings, to take full advantage of their extensive expertise on business practices, culture and environment.[78] The Department has commendably increased its commitment to language training and has made the first tentative steps towards extending the length of hardship postings. While promotions will likely continue to be awarded on the basis of generalist rather than specialist skills, there may be room for additional Foreign Service Directive (FSD) bonuses to regional specialists.[79] The foreign language bonus, while derisory in amount, did provide such recognition and we should reconsider increasing the existing premiums for severe hardships posts (levels III through V) and premiums for extensions. Return postings should similarly be awarded.

Specialization, however, should not be absolute; there is benefit from regional 'cross-fertilization', to ensure that officers are suitably challenged and motivated.

Trade commissioners — and local commercial officers — will also require greater technical competence. While a number of sectoral experts in OECD markets are required — e.g., food products in Tokyo, oil and gas in Dallas — this is likely to be limited. In Canada, this expertise can be provided through suitable data bases; at post, through secondments from other government departments (i.e., Agriculture Canada, NRC), hiring of local commercial officers or consultants, as required, in OECD markets. Trade commissioners do need, however, a good lay knowledge of industry capabilities and sectoral characteristics in order to be able to best assess the distribution channels, key procurement factors, and appropriateness of marketing strategies.

Trade commissioners, however, may need to develop a sense of the sectoral 'corporate culture' to enhance their access and credibility. This need can perhaps best be met by a mixture of short-term training courses and short-term secondments to other government departments and an enhanced interchange program with the private sector and industry associations. To develop competitiveness linkages, sectoral knowledge will need to be supplemented by generic knowledge of production process technologies and associated technology adaptation and training issues.

The increased importance of investment and technology in international business requires that trade commissioners develop greater expertise, from a marketing or business development perspective, on the interlinkages between trade, technology and investment. Trade commissioners need to be able to broker information in these linkages; in order to do so, they need to understand the nature of these linkages and how they can be used to assist Canadian companies in becoming more competitive and integrated into the global economy.[80]

Trade commissioners also need to become better managers of consultants and consortia. Contracting out will increase in importance and trade commissioners need the expertise to select, manage and control consultants and industry associations that are executing projects on behalf of the Department. Given the trend, most clearly seen in the US Trade Development Bureau's activities, towards co-financed and co-sponsored activities, further management and networking skills will also need to be taught.

The current bias of the appraisal system in favour of generalists, headquarters assignments and 'initiativitis' may need to be revisited. Given that the business community, our major client, has no direct input into appraisals, it is not surprising that bureaucratic requirements are given increased importance by many officers. As a result, secondments, interchange with the private sector and assignments to the International Trade Centres are effectively discouraged. Without a formal requirement for assignments outside the Department, the tendency to devalue outside experience is likely to increase.

IX. Business Links: Are There Better Ways to Achieve Our Objectives?

Institutional links with the private sector are strong. While the focus — based upon membership and interests — of the International Trade Advisory Committee (ITAC) and the Sector Advisory Groups on International Trade (SAGIT) is trade policy, industry associations, largely funded by the Department, have a greater trade development orientation (e.g., the CEA, the various country and regional business councils). While the international trading community may number between three to seven thousand companies, the restricted membership in these organizations often means that the consultation process tends to be circular and limited. Yet given the number of companies exporting, institutionalization may be inevitable; our concern, however, should focus on how to ensure that consultation and outreach is not limited to companies already well-plugged into government programs, services and policies.

While many trade commissioners lament the loss of one-on-one contact with the business community at headquarters, the reality of program management and bureaucratic requirements is unlikely to change. While event and activity management also hampers sustained one-on-one contact with Canadian companies, trade commissioners at post are providing a direct service to Canadian business. Yet at headquarters, it remains more efficient to work through these institutional channels — direct contact, while preferable, is simply too time consuming.

We also need to recognize that we are now a large organization that can no longer operate on the basis of informal guidelines. Our expanded corporate client base, our larger numbers and our more diverse backgrounds make formal definition of minimal levels of service necessary. These should be established in consultation with the business community in order to ensure that the private sector has a greater appreciation of the constraints under which we operate and how government priorities and standards are set.

Where we do need to consider change is the multiplication of contact points and competitive recruiting that is endemic inside and outside the Department. While we may only be able to lead and coordinate outside activity, we do need to develop more coordinated recruitment from within the Department. Canadian exporters are concentrated yet number in the thousands. However, we seem to unduly call upon a much more limited group of companies time and time again. Our regular clientele is likely comparable to that of the EDC — 600 companies. Combine this with parallel ITC, provincial and industry association recruitment, and it can be readily appreciated why the demands upon this limited pool of firms often conflict and overlap. We need both to coordinate our recruitment and expand the pool of export-ready companies.

The suggestion of a corporate client model for EAITC, similar to the banking system, would provide one contact point per company and one-stop shopping of the full range of department programs and activities.[81] To be effective, however, one-stop shopping would have to cover the full range of departmental programs and activities — PEMD, trade commissioners, EDC, CCC, CIDA INC among others. A domestic trade commissioner service, based within the international trade centres, could filter out companies that were not export ready by referring them to domestic export education and basic business programs. Companies that were export ready would be introduced to trade development programs and services as required. Such a domestic service — International Business Advisors (IBAs) — would thus require training in domestic and international business practices and programs. A stronger domestic and international focus for ISTC and the international trade centres would result, and appropriate secondment and interchange agreements could be developed with the provinces, trade associations and OGDs to further the goal of coordinated trade development programs in the International Trade Business Plan.

The current executive interchange program has not been successful in furthering one-on-one contact between trade commissioners and industry. The program has been limited to large companies which generally use trade commissioners in a government relations capacity. While private sector participants improve their knowledge of government, they are inherently less productive given the bureaucratic learning curve. As a result, recent participants in the interchange program have tended to be from other levels of government rather than the private sector, largely defeating the purpose of the program.

What may be needed is the opportunity for a pilot-project of short-term exchanges, project-based, which could be applied to a wider range of companies. Do trade commissioners have the knowledge and experience to provide short-term consulting services to competitive companies identified as export-ready? Could trade commissioners provide in-depth and detailed advice to senior company officials? While trade commissioners are not able to advise on the mechanics of exporting, trade commissioners, with appropriate short-term training, should be able to assist companies develop an international marketing strategy in terms of resources required, priority requirements, and an action plan. Retired trade commissioners and retired business executives could be used in similar roles in order to bridge the gap between general advice and export education provided through the IBA and implementing an international marketing plan. To be effective, trade commissioners would need full access to company senior management during this period. Government could pick up 50 percent of the cost of these services as part of intermediate export education.[82] The 'consultants' would likely be based in the international trade centres in major cities.

X. Organization: Some Options

Our objective should be an organizational structure that is flexible, responsive and committed to meeting the changing needs of Canadian companies in all markets, industrialized and developing. We need a structure that allows us to reassert our leading role, not by providing all services to all clients, but rather by ensuring that we are able to 'make a difference' through the provision of quality assistance and information. An ideal organizational structure does not exist; each alternative has strengths and weaknesses.

Should trade development remain within government? Government is inherently bureaucratic, rigid and unresponsive. A special operating agency arrangement, similar to the Passport Office, could be much less hamstrung by Treasury Board and Public Service Commission regulations and administrative requirements.[83] Multi-year funding, real incentives for cost recovery through revolving funds, greater flexibility in personnel policies, could provide greater capability to reallocate and redeploy resources much more quickly, positioning Canada to take advantage of emerging market opportunities. With reduced bureaucratic requirements, trade development could become more entrepreneurial and responsive. By grouping all government trade development programs under one roof — EAITC, OGDs, EDC, CIDA (INC and bilateral) — business might only have to deal with one organization rather than many. Programs and activities could be rationalized through more sharply differentiated cost recovery and cost sharing policies. Tracking of programs could become based more upon results rather than activities. Over time, government support to such an agency could be limited to a basic operating grant and a concessional financing or crédit-mixte facility.

> *... an organization (TCS) that has no authoritative direction cannot survive in the long-term. Presently TCS is given (little and different from region to region) operational direction by the {geographic} fiefdoms, personnel direction (little, along with everyone else) by personnel, admin direction (again lumped together) by another group, and inspirational direction by TFB {Chief Trade Commissioner}. Where on earth is the leadership supposed to come from in this kind of structure where no one has control over the service organization. If a service organization ... is to be relevant it needs to be structured under management group who believe it is relevant and who have power to control and enhance the operations of that service.*

Canadian Trade Commissioner in Latin America

Would Canadian companies support the creation of an integrated trade development agency, given the long-term implication of greater cost-recovery and more targeted programs?

Does the business community believe that such a change would result in a more responsive, more innovative and more focussed trade development program? Would business be willing to pay a universal levy on export sales in order to contribute to such an agency, as German firms contribute to their network of international branches of the Chamber of Commerce?

Are in fact these advantages exaggerated? EDC may have greater flexibility than mainline departments but is hardly entrepreneurial or innovative. Moreover, in many developing countries, our leverage and access is directly related to our being an integral part of broader Canadian foreign policy. This may work against us in OECD markets but elsewhere, it is a major asset. Yet even in OECD markets, the focus is shifting away from trade promotion activities towards market access issues. These issues are inherently handled on a government-to-government basis; an operating agency would have even less influence and lobbying power than does the Canadian government. This market access role cannot be effectively handled by a non-governmental trade development agency. Australia and the Netherlands have separated trade development from the trade policy/market access functions with the result that their trade development organizations have largely withdrawn from OECD markets, letting line departments deal with market access and trade policy issues.

Are trade development and trade policy condemned to be the two solitudes? Should they remain the two solitudes? Or should we ensure greater linkages between the two, to ensure more pragmatic trade policy and more sophisticated trade development? Separation of trade development through the creation of a special operating agency would reinforce the dichotomy, rather than reduce it.

Given the need for "strategic planning, strategic resources and the ability to shift and chop," can government become more flexible in resource allocation and redeployment? Stream management and ADM fiefdoms limit flexibility within EAITC. Similar constraints apply in other government departments. We cannot, for example, shift resources from US posts to open up a satellite office in Monterrey, Mexico without a major bureaucratic battle. Given the resource crunch, however, the need to set priorities among the geographics can no longer be avoided. Senior management will have to take a more active approach to redeploying and reallocating resources. Otherwise global coverage will become irrelevant as quality of service declines.

But more fundamentally, can the advantages of a special operating agency be incorporated within the current structure? Can Treasury Board provide more entrepreneurial scope for revolving funds for PEMD-type programs? Are more flexible long-term contracts for locally-engaged staff abroad possible, such as five-year contracts for commercial officers? Can Departmental corporate culture reward more frequent exchanges with the private sector? Can the Department provide greater coordination and focus to government-wide trade development programs through the International Trade Business Plan? The greater the degree of flexibility within the existing organizational structure, the weaker the case for the alternative of a special operating agency.

If a departmental structure remains the preferred option, can trade be more integrated into the mandate of External Affairs or would reorganization into a 'super' economic ministry make more sense? No matter how important economic relations and trade have become in determining the international agenda, trade development, in contrast to trade policy and framework setting, is still perceived as 'low' politics. Many within and outside the Department do not share this perception, including senior management, but it nevertheless remains ingrained in the corporate culture.

EAITC encourages geographic specialization; a 'super' economics ministry would encourage sectoral specialization and would be more closely linked with Canadian supply-side capabilities. It would not, however, be a simple matter of rejoining a reinvigorated ISTC. ISTC has lost its industry sector specialists and is groping for both an international and domestic mandate.[84] It would rather involve creating a new department, incorporating elements of ISTC, CCA and EAITC. This would have a number of advantages. Trade, innovation and competition policies would become more integrated, ideally on a more forward-looking basis. The greater focus and coherence on the policy side could be matched on the program side, to ensure that domestic and international programs would be complementary and mutually-reinforcing. It would have greater clout in representing the interests of companies in inter-departmental discussions, e.g., on concessional financing with Finance.

US State Department Bill of Rights for Business

First, to have your views heard and considered on foreign policy issues that affect your interest;

Second, to be assured that the ground rules for the conduct of international trade are fair and nondiscriminatory;

Third, to receive assistance from well-trained and knowledgeable trade specialists in each overseas mission;

Fourth, to receive sound professional advice and analysis on the local political and business environment;

Fifth, to receive assistance in contacts with key public and private-sector decision makers;

Sixth, to the active promotion of U.S. firms in international bids, and where more than one U.S. firm is involved, even-handed support for all interested firms; and

Seventh, to receive assistance in achieving amicable settlement of investment and trade disputes, and in cases of expropriation or similar action, to obtain prompt, adequate and effective compensation.

US Deputy Secretary of State November 30, 1989

Before looking backward to the 'good old days' of ITC or forward to the new world of a 'Department of Industry and Trade', we need to identify our sectoral expertise requirements.

We need to know which Canadian companies can supply which product, service or technology on a competitive basis. These are sourcing needs, needs that can either be accommodated by government officials or a private data base or directory. We do not need to be sectoral experts but rather have sufficient expertise to recognize and identify requirements, source competitive Canadian suppliers, and then provide the matching service. Where sectoral expertise is required, secondments from other government departments, expanded executive interchange programs, or contracted expertise should be sufficient. We also require the value-added commentary on Canadian companies provided by the Trade Enquiries Section of ISTC.[85]

Our immediate priority should be to make more effective use of the existing organizational structure. The geographic focus of EAITC can work to our advantage in ensuring that broad political objectives support and reinforce trade and economic objectives. We need to ensure, for example, that concerns over human rights and other good governance objectives are not pursued unilaterally to the disadvantage of trade opportunities. We should press for greater integration of CIDA programs, particularly CIDA INC, into general trade development activities. Moreover, given that economic issues are increasingly the focus of foreign policy, we are in a stronger position within EAITC to ensure that these issues reflect Canadian interests and capabilities.[86]

A strong case can be made for geographic expertise rather than sectoral. Trade commissioners are expected to provide a sophisticated understanding of local business practices, distribution/representation channels and relevant cultural factors. In OECD markets, we are increasingly required to provide an equally sophisticated understanding of market access barriers, existing and anticipated. Integration of trade policy and trade development functions within the geographics is increasing but needs further encouragement. This geographic focus may be best accommodated within EAITC, notwithstanding the difficulties of bureaucratization and corporate dislike for the 'low' politics of trade relations.

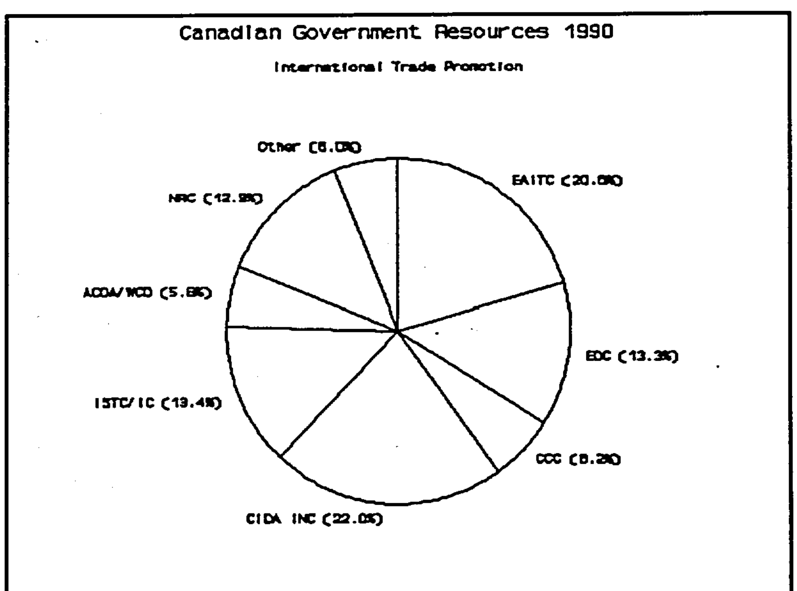


Chart 22 Source: International Trade Business Plan

The ongoing problem of duplication of resources among government departments may be exaggerated. As the chart indicates, EAITC does control most program funding, given that

EDC, CCC and CIDA fall under its mandate.[87] The International Trade Business Plan provides the mechanism to eliminate overlap and reduce duplication among government departments. This process needs to be strengthened, starting with EAITC and ISTC (Investment Canada to a lesser extent). A more integrated planning process on the part of both departments, matching Canadian supply capabilities with international business opportunities, is needed. ISTC needs to focus more on their domestic role while EAITC should continue to lead on the international linkages, both forward and backward, with the Canadian economy.

We should recognize, however, that a certain amount of overlap can provide flexibility and room for innovation. The goal of the Plan should be to lead and coordinate rather than control. An overly 'dirigiste' approach would be counterproductive, given the inability of government to pick 'winners' and the limited chance of success in imposing a single, unified strategy on all government departments. The Plan can serve as a useful restraining and unifying force on government trade development activities, one that will hopefully result in a clearer definition of roles both in government and among private sector clients.

It is trade policy that will determine the wealth of this country; and it is our wealth, combined with our national will, that allows us to participate in the shaping of international affairs. Those who wish Canada's role in international affairs to be motivated by altruism instead of national interests should remember that a Canada which is divided, or a Canada which is poor, will have little influence on world events.

Gordon Osbaldeston, Policy Options July 1987

No perfect organization model for the trade portfolio exists. Each alternative presented has strengths and weaknesses. Reorganization would not address the central points discussed throughout this paper, most of which can be implemented within the existing departmental structure. Yet given the high transition costs of reorganization — in terms of direct fiscal and personnel resources and more significant opportunity costs of a lengthy implementation period — our immediate goal should be to concentrate our efforts on addressing fundamental issues relating to the effectiveness and quality of trade development programs and services.

Notes

XI. Setting Priorities

Reducing duplication and overlap, combined with greater managerial and administrative flexibility, should free up additional resources for trade development. Yet the ongoing nature of the fiscal crunch will continue to force us to become more selective and focussed. We can no longer afford to be all things to all people; universality is no longer viable and sustainable.

> *All that holds us back from conquering markets is a haphazard government export policy and the private sector's timid approach to trade.*

Globe and Mail ROB Magazine April 1992

We also need to acknowledge that our fundamental problem is the shortage of competitive Canadian companies, not trade development resources. Given this, and the fact that "export promotion programs probably offer only marginal and incremental benefits"[88], we have to ensure that our resources are used and targeted appropriately. While the private sector will instinctively push for global coverage and universal access to support programs, higher quality services and more effective programs should place the necessary trade-offs in an understandable and acceptable context.[89]

A more sophisticated and differentiated approach towards markets will be required. Traditional trade development activities in OECD markets will need to be phased out in favour of managing trade policy/market access issues and development of new technology and investment linkages. As developing markets liberalize further, a similar albeit gradual shift should also occur. Tighter eligibility criteria for support programs and enhanced export education and counselling services will need to be developed to support a reorientation towards providing greater value-added than that available from private sector alternatives. Given that overall levels of support to programs such as PEMD and CIDA INC will decline, low success and repayment rates will no longer be acceptable. Greater leverage of government funding will be expected. Cost recovery should be strengthened, particularly for habitual participants in OECD markets. Graduation policies will need to be developed. Aid-trade linkages will need to be made comparable to the practice of major competitors.

Regional and individual countries strategies will need to become more focussed and specific. The all-important USA market will remain the training ground for the vast majority of Canadian companies. Domestic export education should be integrated into the US trade development program, with sustained follow-up and evaluation. Leading-edge sectors will continue to benefit from government assistance. An expanding European Community will require Canadian companies to position themselves increasingly within the Community through outward investment, strategic alliances and joint-ventures. The longer-term potential of Central and

Eastern Europe and the former Soviet Union will require a mixture of traditional trade development and expanded technical assistance and other aid-trade instruments. Trade development programs should be reoriented accordingly. In Asia Pacific, traditional trade development in emerging economies will need to be matched in markets such as Japan by longer-term strategies linked to domestic restructuring. The dramatic changes occurring in Latin America suggest a more aggressive approach to a unique opportunity. The Middle East, particulary Iran and Saudi Arabia, and the Magreb countries are significant markets where traditional forms of government assistance is needed and effective.

Trade commissioners should become less event-driven, given contracting out possibilities, in favour of providing more effective and focussed market intelligence and advocacy services. The current emphasis of the Trade Planning and Tracking System to event management and activity measurement needs to be reviewed and reoriented towards tracking the progress of companies. More sophisticated and professional training is now more needed than ever before to provide such improved services.

A more flexible approach to resource deployment and reallocation will be required. Geographic and functional fiefdoms should no longer be allowed to set the agenda. Senior management will be required to arbitrate between regions and functions, and make the tough decisions imposed by tight resources. This applies not only within EAITC but also within ISTC, to ensure that domestic and international roles are mutually reinforcing and clearly delineated. Consideration of a special operating agency, for all or part of trade development, may be required. This flexibility should not be confused with 'initiativitis'. We must ensure that programs and activities are properly implemented and followed through and evaluated.

We need to ensure that we manage the growing demand on our services in a strategic and well-planned manner. A strategic approach — e.g., the International Trade Business Plan — will be taken seriously only if it is seen to have real and visible impact on resource allocation. Moreover, with international competition becoming increasingly intense, countries with a strategically focussed export promotion system (i.e., a comprehensive and programmatic approach) may be able to offer more effective export promotion support to the business community.

Our resource constraints are real. The overall resource base of the Department is shrinking. The significant resources already devoted to trade development cannot be expected to escape this trend. EAITC currently expends close to 25 percent of its budget on trade development. Close to one-third of personnel are devoted to trade development programs. Over 500 trade commissioners serve the business community and the government at home and abroad.[90] The increased funding derived from the National Trade Strategy and Going Global is unlikely to be matched by new initiatives — funding for trade development has increased by 85 percent in the last five years. While there may be an opportunity to reorient development assistance towards our commercial interests, this would be targeted at project support rather than trade development activities.

Our criteria — necessity, reduced dependency, competitive practices, complementarity, selectivity and productivity — lead to the following operational requirements:

- Strengthen existing differentiated levels of program support and cost recovery on a regional and frequency-of-use basis;
- Link export education to program and service eligibility criteria;
- Impose minimum ($ 3,000 - $ 5,000 depending on region) threshold for PEMD and other contributions, consider a reverse repayment system that rewards success and not failure;
- Redirect CIDA INC funding towards concessional financing and/or PEMD (funds would remain earmarked for developing countries), increase transparency and accountability of current activities and implement credible repayment provisions;
- Develop comparable aid-trade links to that of major competitors, including use of the bilateral programs, press for access to the International Assistance Envelope for concessional financing;
- Reorient Trade Tracking System to track the progress of companies through government programs and services to enhance sourcing capabilities of WIN Export;
- Encourage greater use of private sector delivery mechanisms, with long-term view to transfer expertise and responsibility to other players;
- Establish regional and sectoral priorities based upon where government support provides greatest value-added;
- Shift resources within OECD markets towards integrating trade, technology and investment development, managing market access/trade policy issues;
- Enhance training and career development of trade commissioners, increase posting length for trade commissioners and investment counsellors;
- Review role of S & T counsellors, develop more focussed approach to S & T agreements; and

- Develop more effective one-stop shopping for Department services.

These recommendations are only the beginning of what will be a major process of becoming more focussed and effective, to provide professional timely services at a price government can afford.

The challenge is simple and straightforward: use our contracting resource base more efficiently through careful targeting and leveraging of government support. We have a shortage of competitive companies, not government resources. A tighter, leaner more focussed trade commissioner service, linked to an equivalent domestic service, should contribute towards making Canada a nation of traders, not merely a trading nation.

Notes

Annex A: Trade Program Resources Fiscal Year 1992/93[91]

	Headquarters	Europe	Asia/Pacific	USA	Africa Mid-East	Latin America	TOTAL ($,000)
PEMD-GI (Proposed)	450 Reserve	2,924	2,242	4,701	618	1,346	12,281
PEMD-II (Proj. 91/92)		6,308	3,443	7,384	1,791	975	19,900
WORLD MARKET DEVELOPMENT	1,325 DMT Reserve	1,510	1,199	5,530	331	675	10,571
WIN EXPORTS	700	200	150	250	40	100	1,440
INTERNATIONAL TRADE CENTRES	1,260						1,260
INVESTMENT DEVELOPMENT	640	340	210	520	50		1,760
TECHNOLOGY INFLOW (Proposed)	639	200	75	60	10		984
NATIONAL TRADE STRATEGY			4,140	4,140			8,280
POST INITIATED PROJECTS (US)				552			552
<u>GOING GLOBAL</u> INVESTMENT	148	505	135				788
OPERATING		3,241	4,718				7,959
CONTRIBUTION		270	6,927				7,197
OTHER TRADE PROMOTION (Vote 10)	1,190		2,268		435		3,893
EAST EUROPE RENAISSANCE		14,000 (91/92)					14,000
ECON/TRADE POL (Vote 10)	20,040						20,040
TOTALS	26,392	29,498	25,507	23,137	3,275	3,096	110,905

The United States

> *When you are so close you can speak to your neighbour from your own doorstep it is not necessary to have an expensive organization ... I have always taken the ground that the facilities for intercourse, and the information and knowledge so easily passing backwards and forwards between Canada and the United States, render it unnecessary for us to incur a heavy expense in establishing trade commissionships in that country.*
>
> Sir George Eulas Foster, Minister of Trade and Commerce 1911-1921)[92]

The United States is our major trade and investment partner, accounting for approximately 70 percent of trade and investment flows. In contrast to trade with other markets, manufactured goods, particularly in the transportation sector, account for nearly half of our exports. Yet Canadian trade with the United States is concentrated in the Northeast.

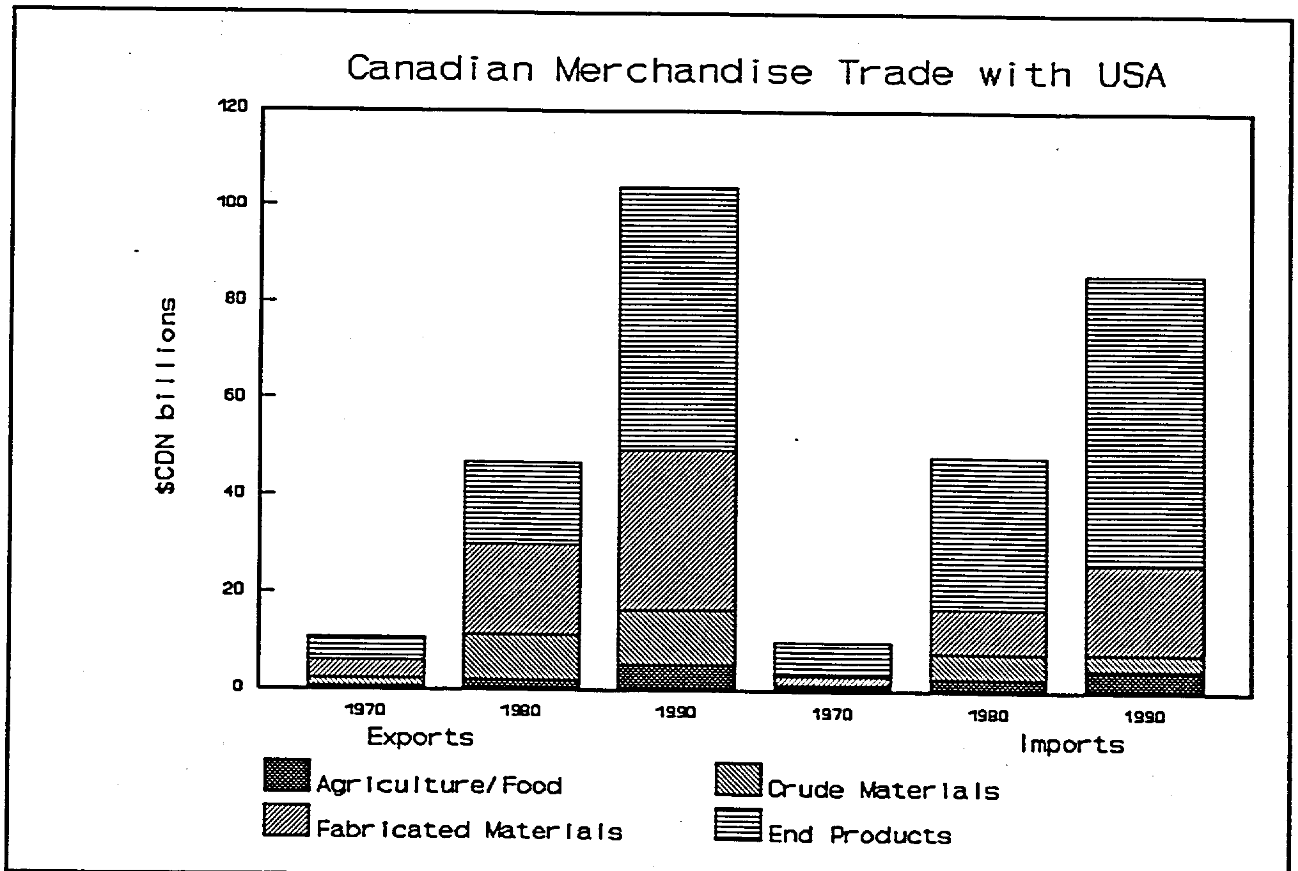


Chart 23

Source: EAITC/CPE (Cansim data)

Approximately 40 percent of trade is intra-corporate, with perhaps an additional 30 percent between related parties.

The USA is a much more competitive environment than Canada, but shares similar business practices, culture and language. A wide variety of private sector services, including freight forwarders, trade fair organizers, consulting firms and others is available to assist companies to penetrate the market. Private sector associations and organizations are able to provide cost-effective program delivery.

Given this, the Department has begun to focus its efforts in areas where the private sector is not well placed to provide services. Traditional sectors such as agricultural and mining equipment have been down-played. US border posts have taken on an important role in export education through the NEBS program. National stands at a number of the major trade shows — e.g., Comdex, Offshore Technology Conference — are aimed to interest both US and international buyers. The corporate liaison program encourages the maintenance and expansion of US investment in Canada.

> *We must stop relying on a handful of very large companies for the bulk of export earnings, and propel a legion of smaller firms onto international markets, beginning with the United States... There is ... no easy formula that will turn a host of firms nurtured on the domestic market into world-scale exporters. But we would move closer to that goal is we identified Canadian business as continental business.*

Globe and Mail ROB Magazine April 1992

The FTA provides the basis for managing both minor and major trade disputes. Market access concerns play an increasingly important role to ensure maximum benefits from the FTA.

Chart 24 illustrates the degree to which Canadian companies, largely new exporters, look to the US Northeast. The export education mandate in the US market needs to re-evaluated - NEBS and NEXUS introduce companies but without evaluation of success and retention rates. Given the importance of the US market, greater preparation in Canada is required (this is partially being addressed through formal requirement for interviews prior, during and after participation). We may also wish to consider whether border posts require a resident presence in order to achieve this role. Could the ITC in Toronto not dedicate resources to lead NEBS missions to Buffalo and Cleveland? Alternatively, should we not ask whether it would not be more appropriate for provincial governments to assume this role, including staffing of trade positions within the border consulates? With full implementation of the FTA only 6 years away, an Ontario company trading in New York should not require more assistance and support than as one trading in Alberta. If government assistance is to be provided, it should be done at the level of government closest to emerging export-ready companies — the provinces.

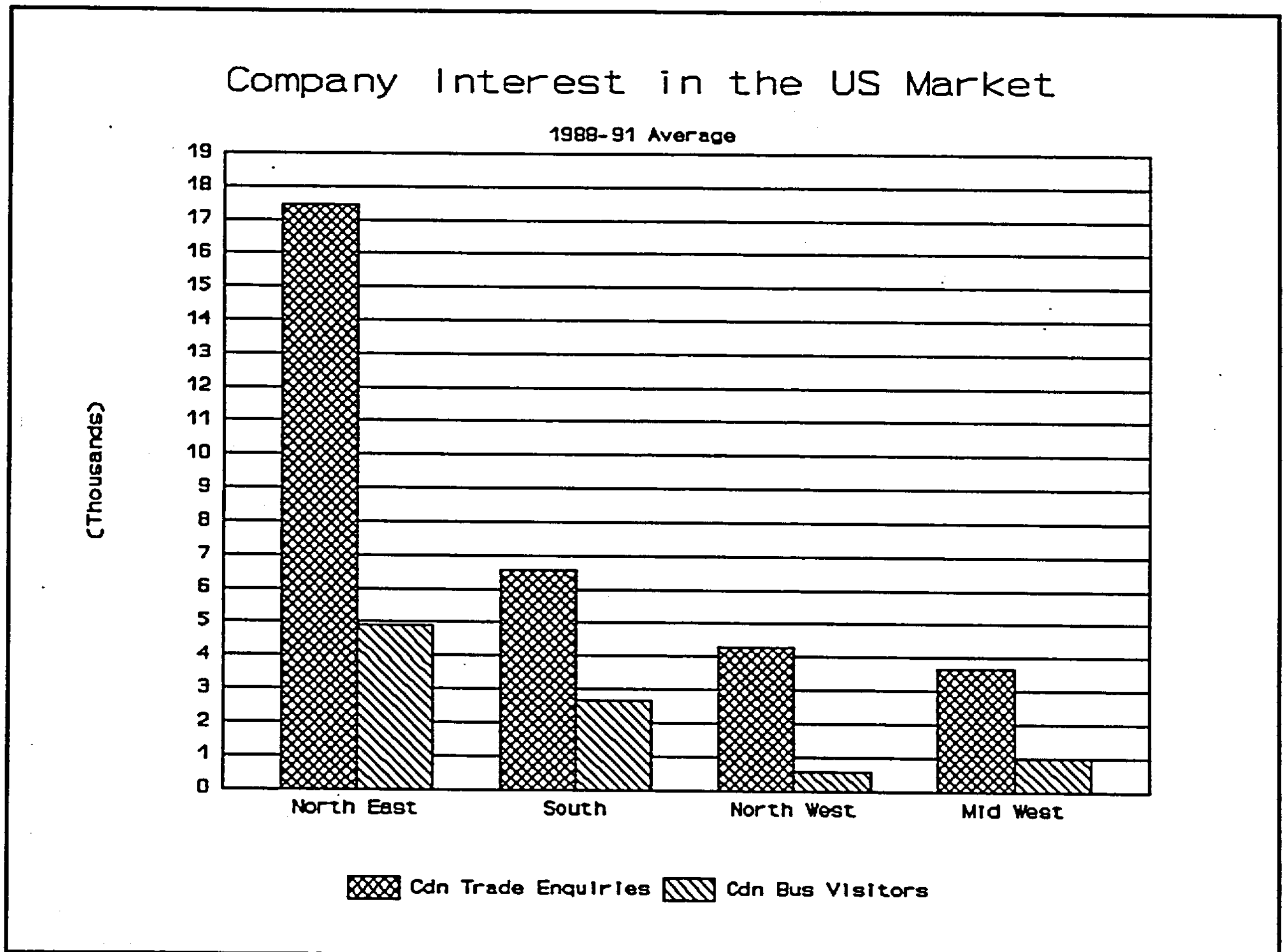


Chart 24

Source: EAITC Trade Tracking System

We may need to focus our efforts even further. While we are addressing the concerns of large multinational investors through the corporate liaison program, efforts to promote smaller scale investment or linkages with Canada are less certain. Efforts to develop the trade, technology and investment interface, or 'teaming', have generated additional business opportunities for Canadian companies. Given the narrow niche nature of these linkages, greater use of private consultants will likely be required. With access to the Canadian market guaranteed by the FTA, small and medium-sized US companies will only be interested in 'teaming' with Canada if there are factor advantages unique to the industry or very specialized technology.[93]

For the time being, political sensitivities virtually preclude us from promoting outward investment to the USA for competitive reasons — we may only be able to do so for market access reasons when these are widely known and accepted (e.g., urban transit).

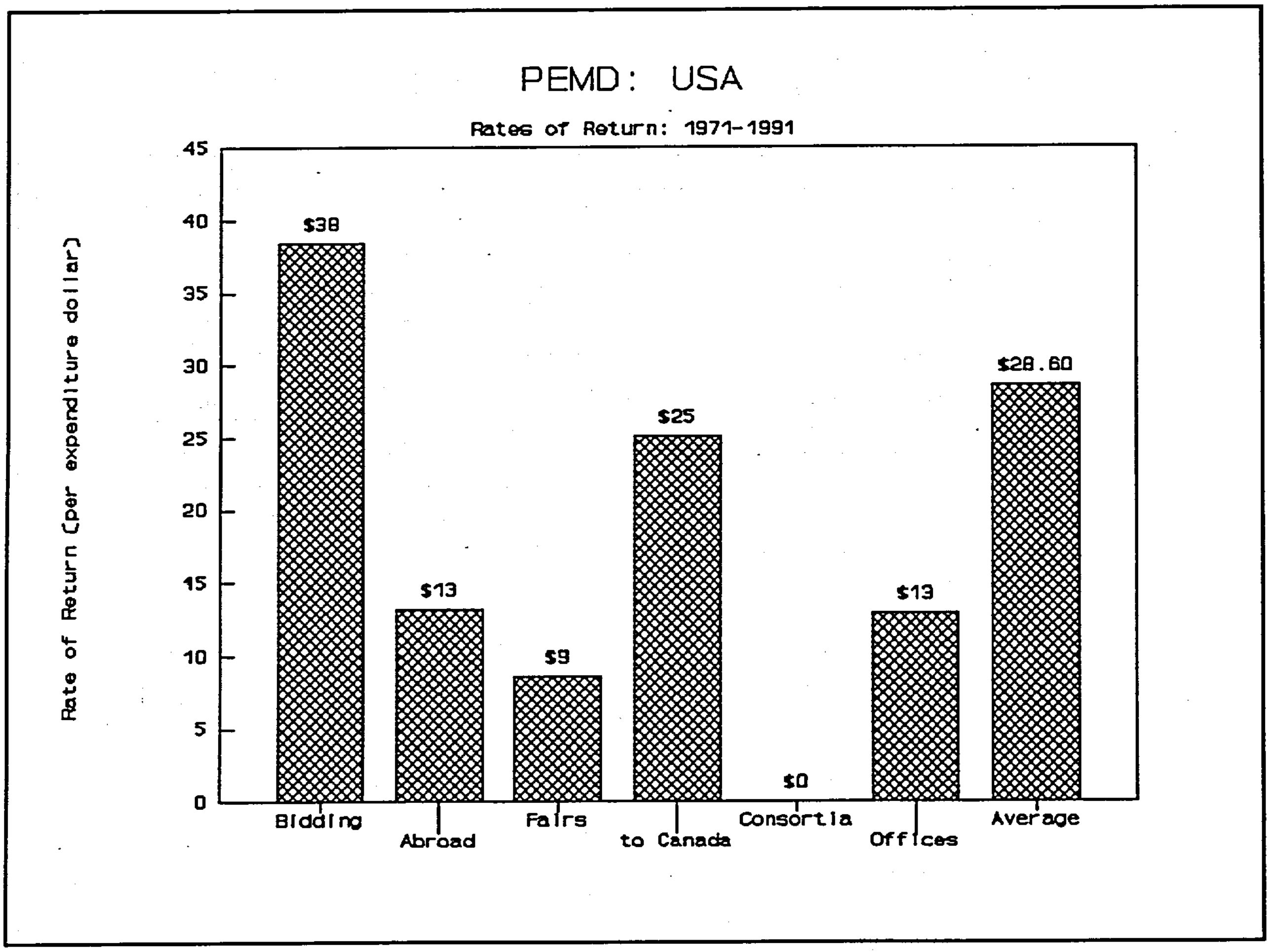


Chart 25

Government resources are heavily concentrated in the US market. The USA obtains almost 40 percent of trade development funding.[94] It is only second to Europe in person-years. Operating costs in the USA are, however, relatively low. Given ongoing fiscal restraint and widespread private sector alternatives, the US market should be accorded a lower priority than markets where government support is necessary to success.

As a mature market, the low rate of return on PEMD is unsurprising. PEMD support should be limited given that export-ready companies do not need support in the US market for missions, visits, and incoming visitors. To wean companies away from PEMD, a minimum threshold of a $5,000 contribution could be applied. This should also discourage non-export ready companies. The USA generated comparatively strong rates of return for project bidding.

Government initiated trade support programs and events in the USA should increase the degree of cost recovery. Government financial support should account for no more than 25 percent of company costs (excluding overhead and personnel) associated with the event, with full cost recovery of habitual participants in trade fairs and national stands. If this results in more information booths, with co-location of Canadian companies, and fewer national stands, significant cost savings could be achieved, savings that might be better deployed in export education. Unless the 'national' identity conferred by a national stand can justify the extra cost incurred through greater rates of return, or by guaranteeing space availability, the US trade development program should move towards more information booths. Canadian companies interested in co-location can be directed towards a private-sector one-stop shopping service.

Western Europe

> *... we do not know — indeed Europe does not know — how far or how fast its experiment in integration will take it, or what form it will assume on arrival... Canada is not seeking preferential treatment or special advantage ... but only a guarantee of fair treatment at the hands of an economic unit rapidly becoming the most powerful in the world.*
>
> Pierre Elliot Trudeau, Mansion House, London, March 1975

Western Europe is our third largest export market. Over the past 20 years, the proportion of exports composed of end products has steadily increased. Our natural resource exports are increasingly vulnerable to environmental restrictions. As Europe continues its integration process, Canadian companies will need to know whether their products and services can be sold on an EC-wide basis or whether national markets remain paramount. A strong role in monitoring EC regulations and market access concerns, particularly at the Commission and major capitals (e.g., Bonn for environmental standards and regulations), will thus be essential.

Despite integration, business practices, culture and language will continue to vary from country to country. Such differences, however, are those of degree and do not pose insuperable barriers. Moreover, an active and well-developed private sector caters to the needs of both the local and foreign exporting community. Trade fair organizers, particularly in Germany but also in France and the UK, are able to provide a complete package, including direct mailings to sector specific local contacts. Canada is a well-known supplier, market, and production base to many British and German companies.

Traditional trade development should continue to be de-emphasized in favour of programs such as Strategic Ventures. Our trade should become more investment and technology driven, to improve Canadian competitiveness more directly and increase the value-added of Canadian exports to EC markets. Under the FTA, Canada can 'sell' itself to European companies as a North American base. Our reputation as a less competitive market than the USA ironically serves us well as the initial springboard. By concentrating on knowledge-intensive sectors, Canada is viewed as a competitive base. It is less problematic to promote Canadian outward investment to Europe, given that such investment is more for market access than competitiveness reasons.

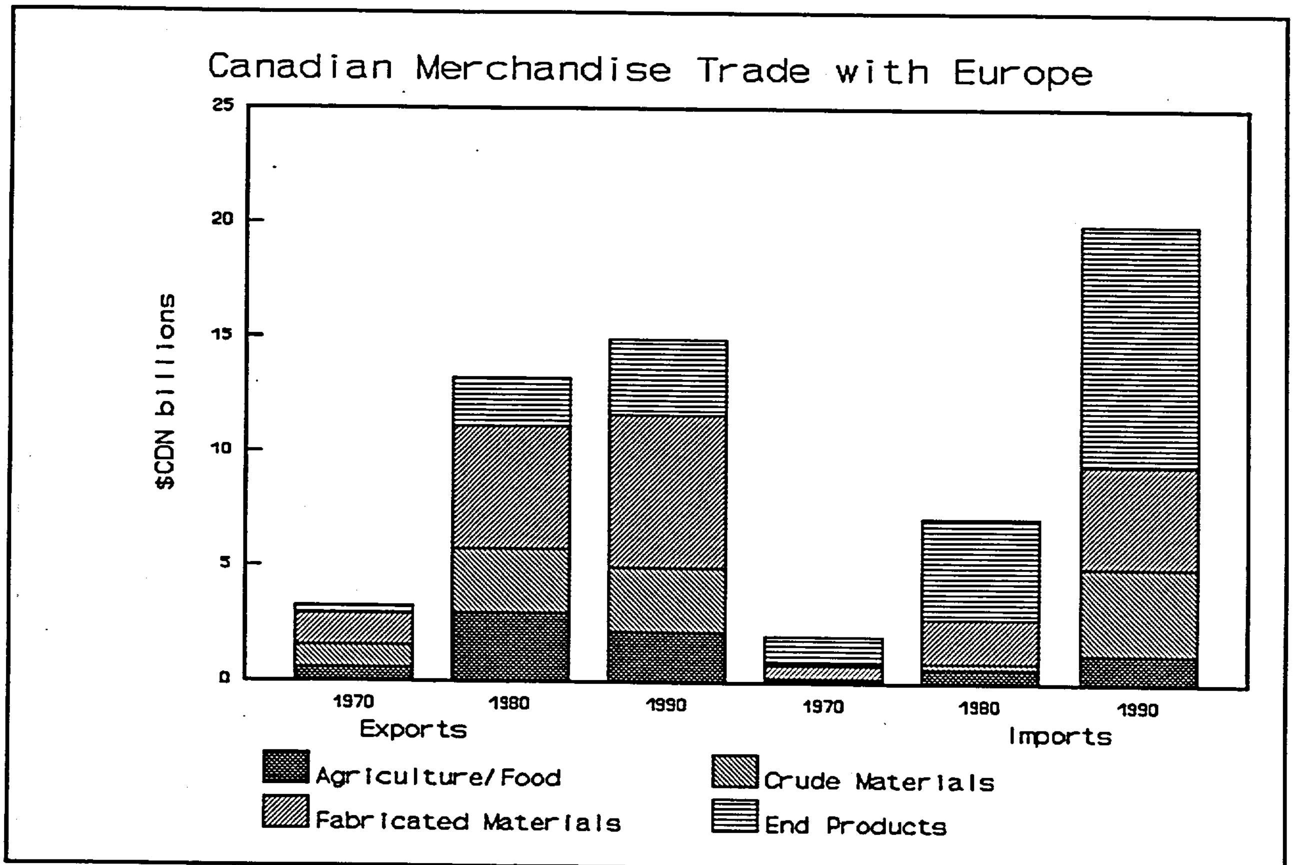


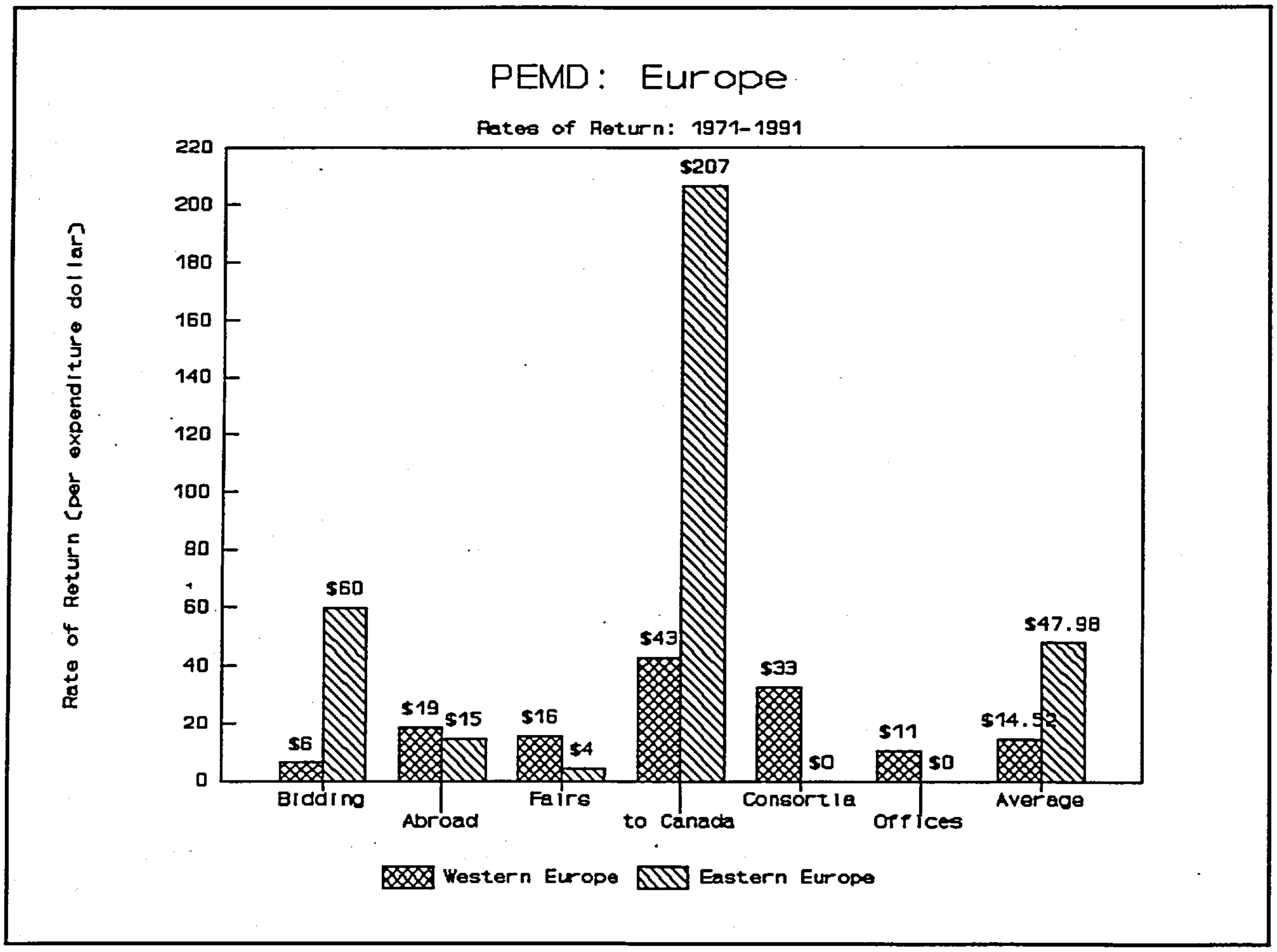
Chart 26

Source: EAITC/CPE (Cansim data)

Trade development resources are also heavily concentrated in Europe. Europe obtains almost 40 percent of trade development funding.[95] Europe has the highest number of person-years. Operating costs are the highest. Given ongoing fiscal restraint and widespread private sector alternatives in Western Europe, Europe may also be a good candidate for lower priority than markets where government support would provide greater value-added for Canadian companies. As European implementation of a single market proceeds, our trade development resources would be better deployed to manage market access and related issues.

Europe scores last on overall PEMD rates of return. It is above average only in visits abroad and export consortia. Given that it shares — from a trade development perspective — characteristics similar to the US market, PEMD support for Western Europe should also be limited. Again a minimum threshold of $5,000 might be applied.

Government initiated trade support programs and events should increase the degree of cost recovery. Government financial support should account for no more than 25 percent of costs



(excluding overhead and personnel) associated with the event; full cost recovery for habitual trade fair and national stand participants should be applied.

Eastern Europe and the former USSR

Eastern Europe and the former USSR should be considered, from a trade development perspective, as developing, long-term markets. Given the economic and political transition towards market-based economies, government support in identifying opportunities and decision makers is particularly appropriate. Only the largest Canadian companies will be able to explore the technology and investment link with trade. While conversion of military industries will provide considerable work for consultants, think tanks and seminar organizers, private sector opportunities are likely to be limited given that many of these industries will simply have to be abandoned.

Eastern Europe and the former USSR are in the throes of change. Any incremental resources required should be met by redeploying resources from Western Europe. Past experience is unlikely to serve as a guide in evaluating program effectiveness. Yet it would appear that small-scale PEMD grants are unlikely to be sufficient to 'make a difference' and a minimum PEMD threshold should apply ($3,000). Tapping into CIDA INC funding would make possible the funding of major pre-positioning feasibility studies. Alternatively, the reward-sharing approach, exemplified by the Australian International Trade Enhancement Scheme, may be particularly appropriate. Cost-recovery, in the order of 50 percent, would be appropriate. Doubling of the current cost recovery formula would be equally appropriate.

Japan and Asia Pacific

> *{Mr. Marler} believes, and many Canadians share his confidences, that Canada's trade with Japan and China is destined to develop rapidly. Japan already ranks fourth among Canada's overseas customers, and it is not at all unlikely that within a brief span of years our Pacific ports will rival those on the Atlantic seaboard in volume of shipping.*

Winnipeg Evening Tribune
May 21, 1931

Asia Pacific is developing into 5 principal sub-regions: Japan, the major capital exporter and investor; Taiwan, Hong Kong and Singapore as dynamic exporters with growing capital markets; Thailand, Malaysia, the Philippines and Indonesia as manufacturing exporters with large competitive labour forces; India with longer-term development potential and China slowly becoming a part of the world trading system. Canadian exports to Asia Pacific exceed exports to all other regions apart from the USA. Asia Pacific continues to maintain the highest growth rate in the world.

The imbalance between our natural resource exports and our manufactured imports is greatest in Asia, particularly Japan. We are hewers of wood and drawers of water, increasingly subject to competition from alternate suppliers. While a number of Canadian manufacturers have been successful, they are the exception that proves the rule. Inward investment, particularly in the automotive and resource sectors, is increasingly driving our trade. Japan remains Canada's largest overseas market and our third largest source of direct investment.

Japan is a difficult market. Business practices are culturally-driven and distribution channels tightly controlled. The regulatory labyrinth continues to place major market access barriers despite recent liberalization measures. Language and culture pose similar barriers. Moreover, stringent quality control requirements and product standards often require significant product and production modifications. Exporting to Japan requires an unique degree of corporate commitment, often including domestic restructuring. Japan is an OECD market with a difference. While private sector services are emerging, these are expensive, given the general cost structure and the long-term nature of developing the Japanese market.

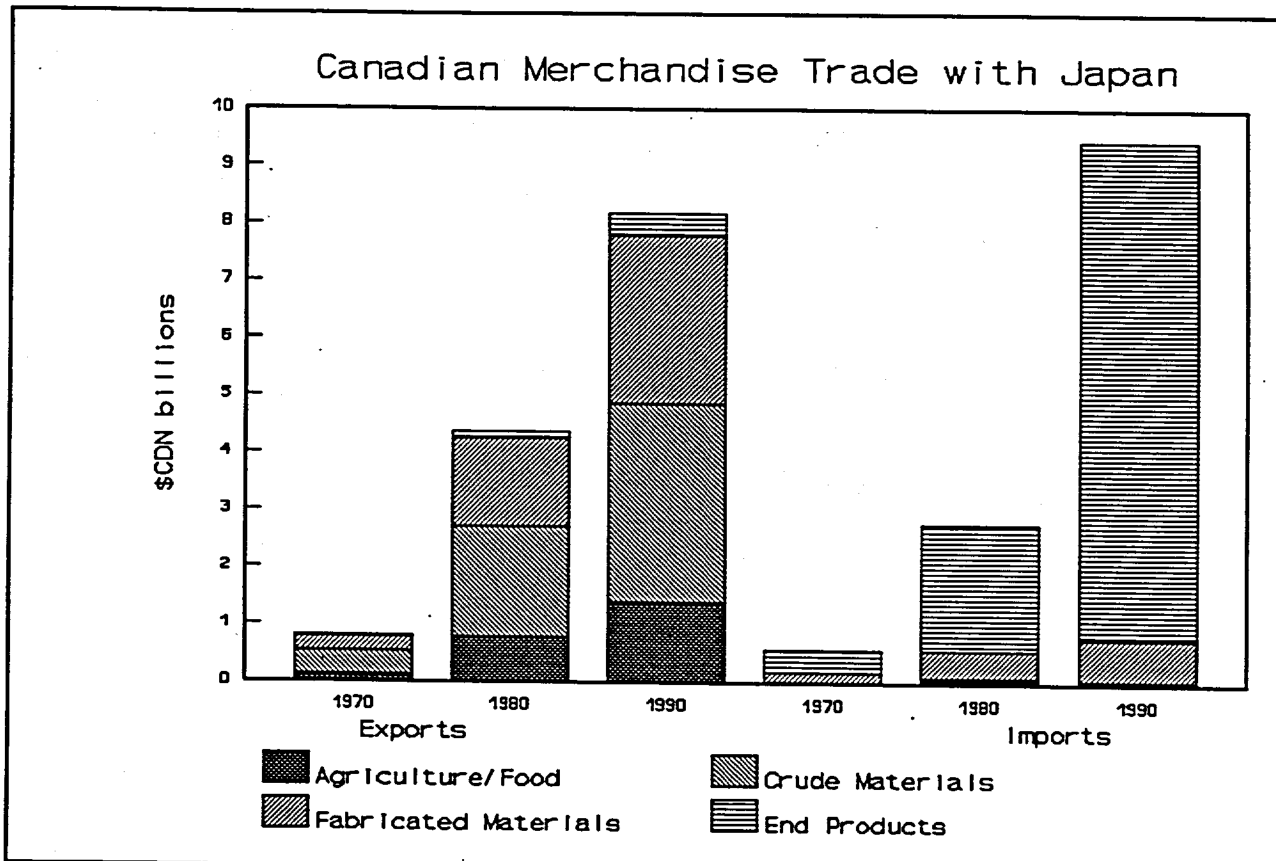


Chart 28

Source: EAITC/CPE (Cansim data)

Continued support for trade and investment development activities thus would appear justified. At the same time, we need to be developing the trade, technology and investment interface more effectively, given Japan's dominance in a number of technologies and as the world's leading creditor nation.[96] Longer-term support, similar to that of the red meat strategy, is required. Yet to enhance graduation, efforts should be made to make such support reward as well risk-sharing. Strategic venture-type programs would appear particularly relevant, given the need in Canada for both technology and capital. The network of satellite offices in Japan may be well-placed to develop interest among medium-sized Japanese companies in alliances with Canadian companies. As in the case of Europe, Canada may provide an attractive North American base despite increasing US protectionism.

While we have not broken down separately resources in Japan from other Asian countries, Japan, as an OECD market with a difference, would appear to argue for significant resources. The move away from national stands in favour of information booths with company co-location may serve as a model to other OECD markets in some cases (the Embassy solo exhibition facility, however, provides the Japan trade program with unique flexibility in this regard). Self-financing incoming missions — the Embassy provides groups of incoming Japanese businessmen with the services of an accompanying commercial officer rather than assuming their airfares and related costs — may also be transferable to OECD markets. The longer-term trade development programs should be supplemented with greater efforts to develop technology linkages through Strategic Ventures type programs, although the S&T program in Japan has a strong industry orientation.

Japanese language training and the extensive use of MBA students may generate significant long-term results, given the creation of a pool of qualified and internationally-oriented managers.

First-time entrants could be granted cost-sharing of 50 percent, repeat performers should be expected to pick up a greater share. The current cost recovery formula for Japan appears low; it should gradually approach the level of Europe and Western Europe. PEMD support should be limited to trade fairs and sales offices. Airline tickets and hotel accommodation may be expensive but it is the cost of doing business in one of the world's major markets.

Asia

Trade and investment relations with the Asian 'tigers' — Hong Kong, Korea, Singapore and Taiwan — are approaching European and Japanese levels of sophistication. The increasing integration of trade with investment, the attractiveness of Canada as a North American manufacturing base and the benefits to Canadian competitiveness of outward investment and/or sourcing in these countries will continue to mark the importance of these economies to Canada's economic development.

While different business practices, language and culture provide a role for trade development, this role, particularly in Korea and Taiwan, may diminish as their economies are liberalized. Market access concerns and advocacy will continue to grow in importance.

Trade, technology and investment will then need to be developed in a more integrated manner. Given that these economies have limited indigenous technological capability, there may be considerable potential for more strategic alliances with Canadian firms. The Norpak/Samsung alliance, whereby Norpak provides the videotext software and technology and Samsung the manufacturing expertise, may be a model of such alliances.

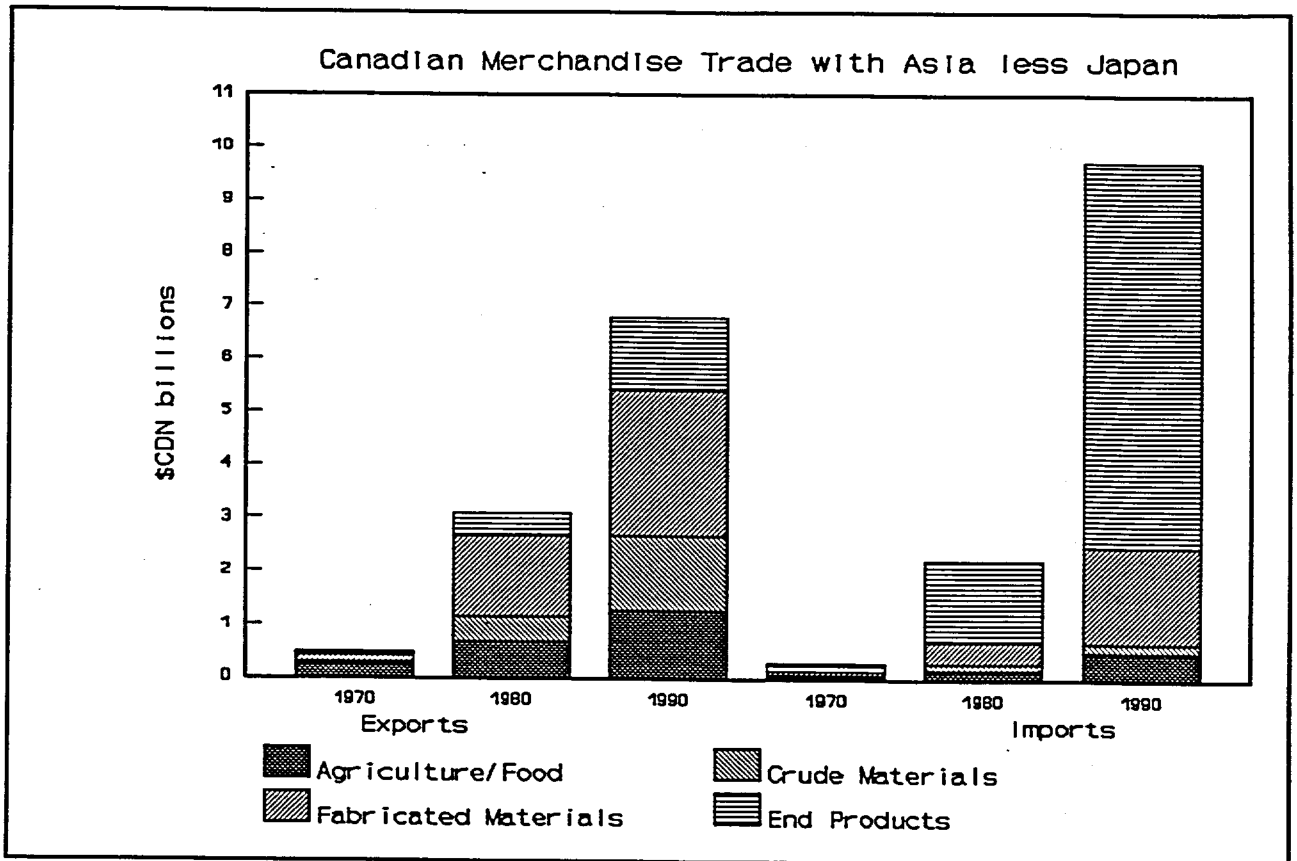
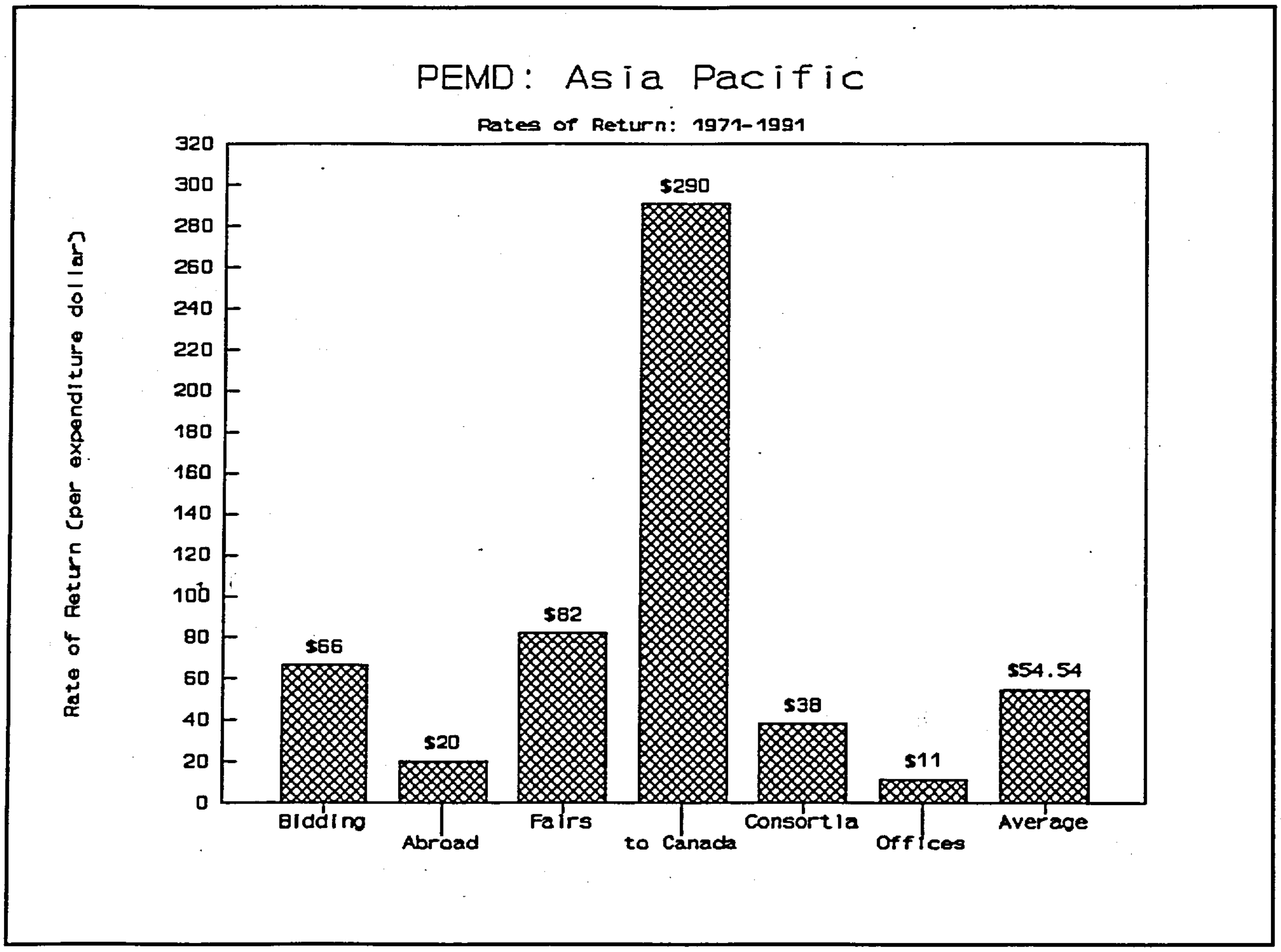


Chart 29

Source: EAITC/CPE (Cansim data)

While China is well-embarked on economic liberalization, India has only made the first tentative steps towards dismantling the interventionist legacy of the Nehru years. Traditional trade development support and expanded concessional financing and other aid-trade links will continue to be required in both markets.

Asia Pacific (including Japan) has been granted the second highest level of funding after the USA. In terms of person years, it trails Europe and the USA. It has benefitted well from PEMD where it is well-ahead of Europe. PEMD generates considerably more results in Asia Pacific than in North America and Europe.



Existing 50 percent cost sharing arrangements should remain. PEMD support for visits, incoming and outgoing, should be withdrawn given application of the $ 5,000 threshold. The cost recovery formula should also approach the level of Western Europe and the USA.

Emerging Economies of Latin America

Liberalization, deregulation and privatization in Latin America provides an historic opportunity for Canada to assume a role in the Americas.[97] The NAFTA negotiations with the USA and Mexico mark only the first stage of what could become a hemispheric free trade area. Mexico and Chile are approaching Asian countries in the sophistication of trade, technology and investment. Argentina and possibly Brazil may follow. Liberalization may not reduce market access issues, given that the success of such programs will expand trade and investment, possibly creating additional irritants that will need to be addressed. The difference is that they will be addressed within a rule-based framework and promote the stability and predictability that is so essential to long-term trade and economic relations.

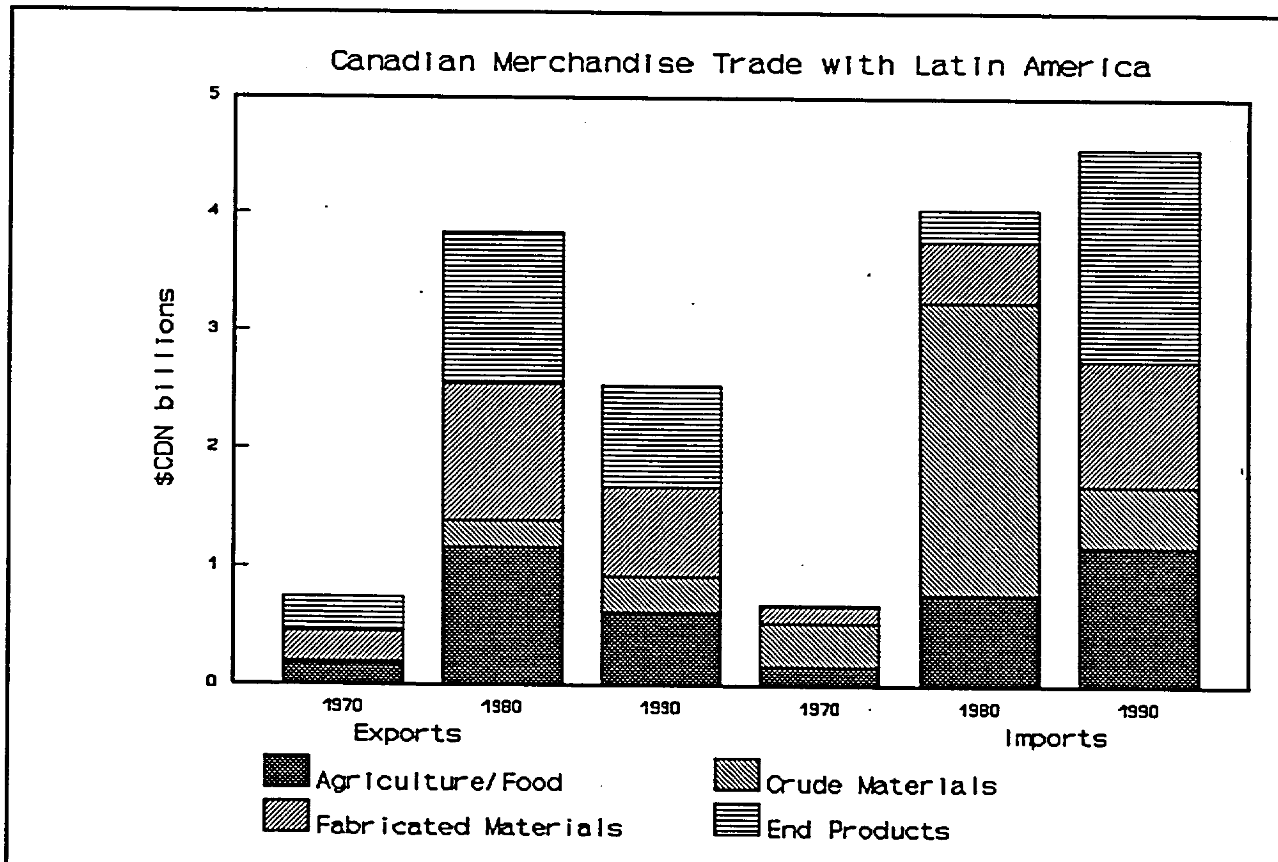
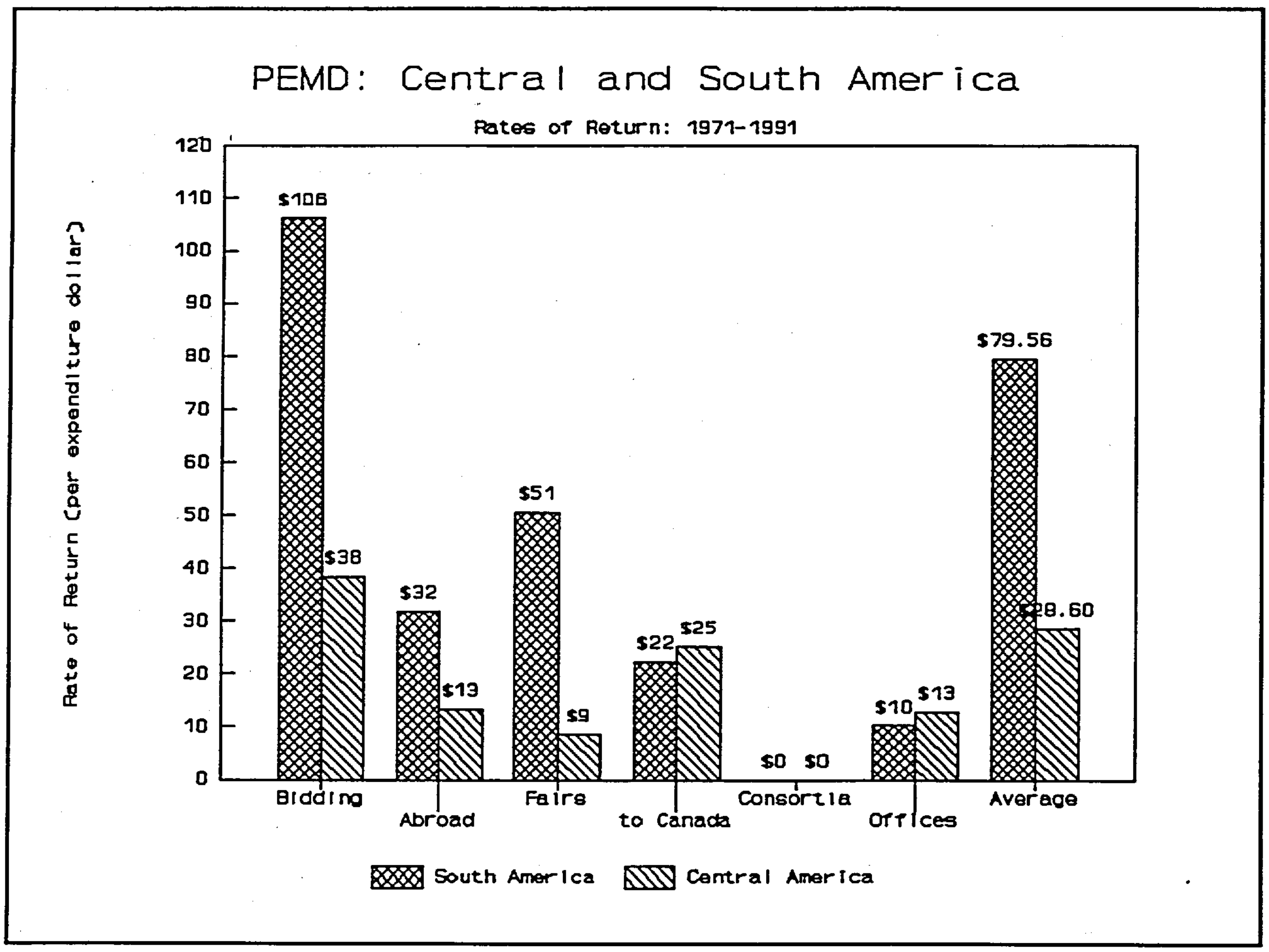


Chart 31

Source: EAITC/CPE (Cansim data)

Direct investment allows Canadian companies to concentrate low value-added manufacturing and assembly operations in Mexico to improve the competitiveness of the high value-added production and services centred in Canada. Politically, it may be difficult to encourage such investment; yet, given promotion of investment by a number of Latin American countries, notably Mexico, only limited assistance — on a responsive basis — may be required.

Latin American business practices are different but are becoming less so as liberalization proceeds. Cultural and linguistic barriers are limited. Yet given the lack of knowledge of Canada and Canadian capabilities, trade development will be needed to ensure that Canadian companies are able to take advantage of the opportunities arising from a new liberalized trade and general economic environment. Greater ministerial travel would also appear to be called for.



South America is the star performer of PEMD. Project bidding, visits abroad and trade fair support generate good rates of return. Given the transition that Latin America is undergoing, it would again appear difficult to pre-judge the effectiveness of future programs. Given the low public profile of Latin America among the public and the business community, a threshold of only $3,000 may be justified to encourage activity.

It would also appear that Latin America could benefit from increased resources. The need to open a satellite office in Monterrey is a case in point. As liberalization continues, existing trade development funds should be maintained and possibly increased. Increased cost recovery, moving towards a 50 percent basis, should stretch scarce resources.

Middle East and Africa

The Middle East, particularly Saudi Arabia and Iran, are significant markets for Canadian exporters. Trade with Saudi Arabia and the Gulf States, the cash-rich markets of the region, is understated in statistical data given the importance of trade in services.[98] Iran has emerged as a major market for Canadian engineering and heavy manufacturing companies as it rebuilds from the Iran-Iraq war. While financing required is on commercial terms, the success of Canadian firms in obtaining major contracts is stretching current exposure guidelines. The Magreb countries remain important markets for services, agricultural commodities and industrial goods, albeit with increased concessional and non-concessional financing requirements. Sub-Saharan Africa, with the exception of a new integrated South Africa, will require more targeted aid-trade linkages to support Canadian companies.

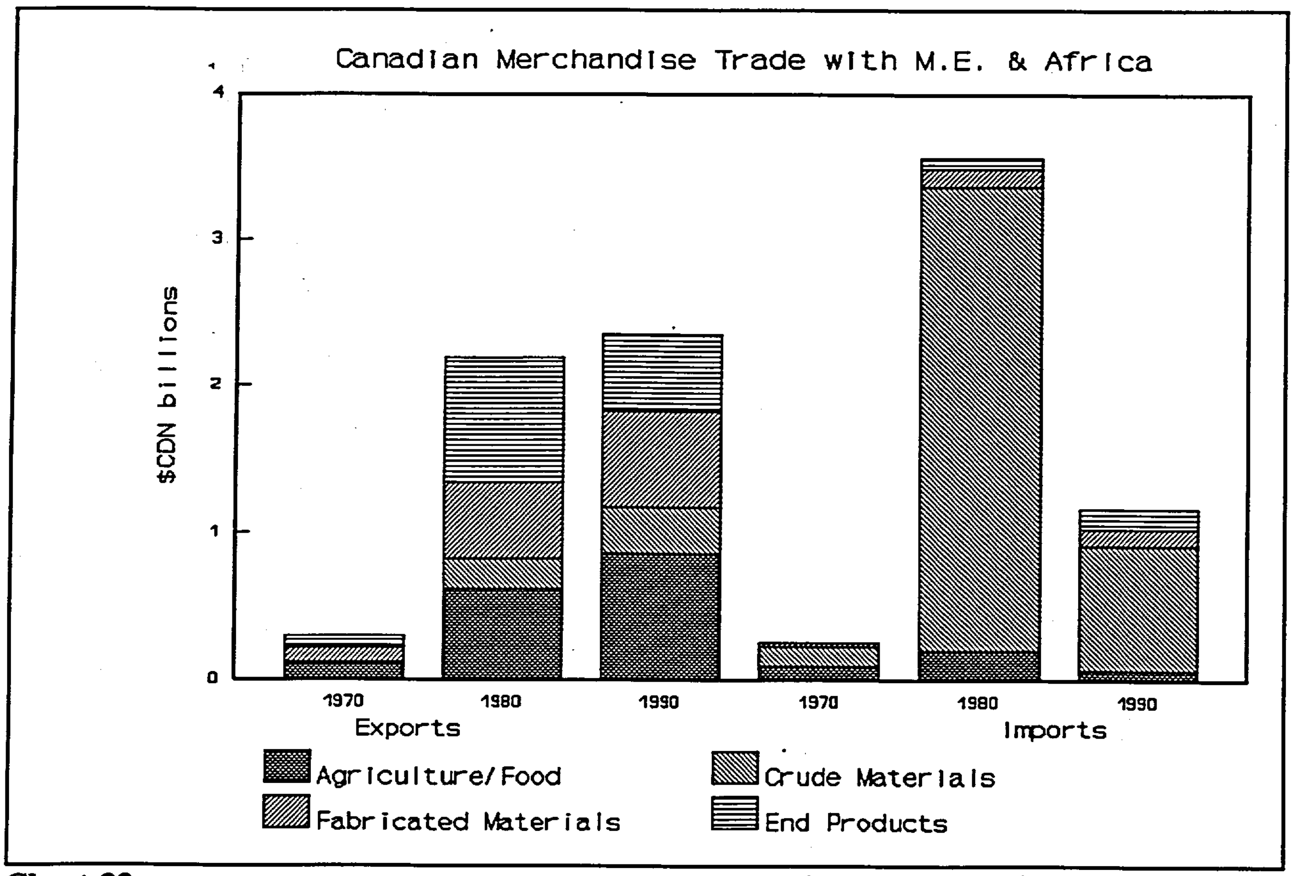
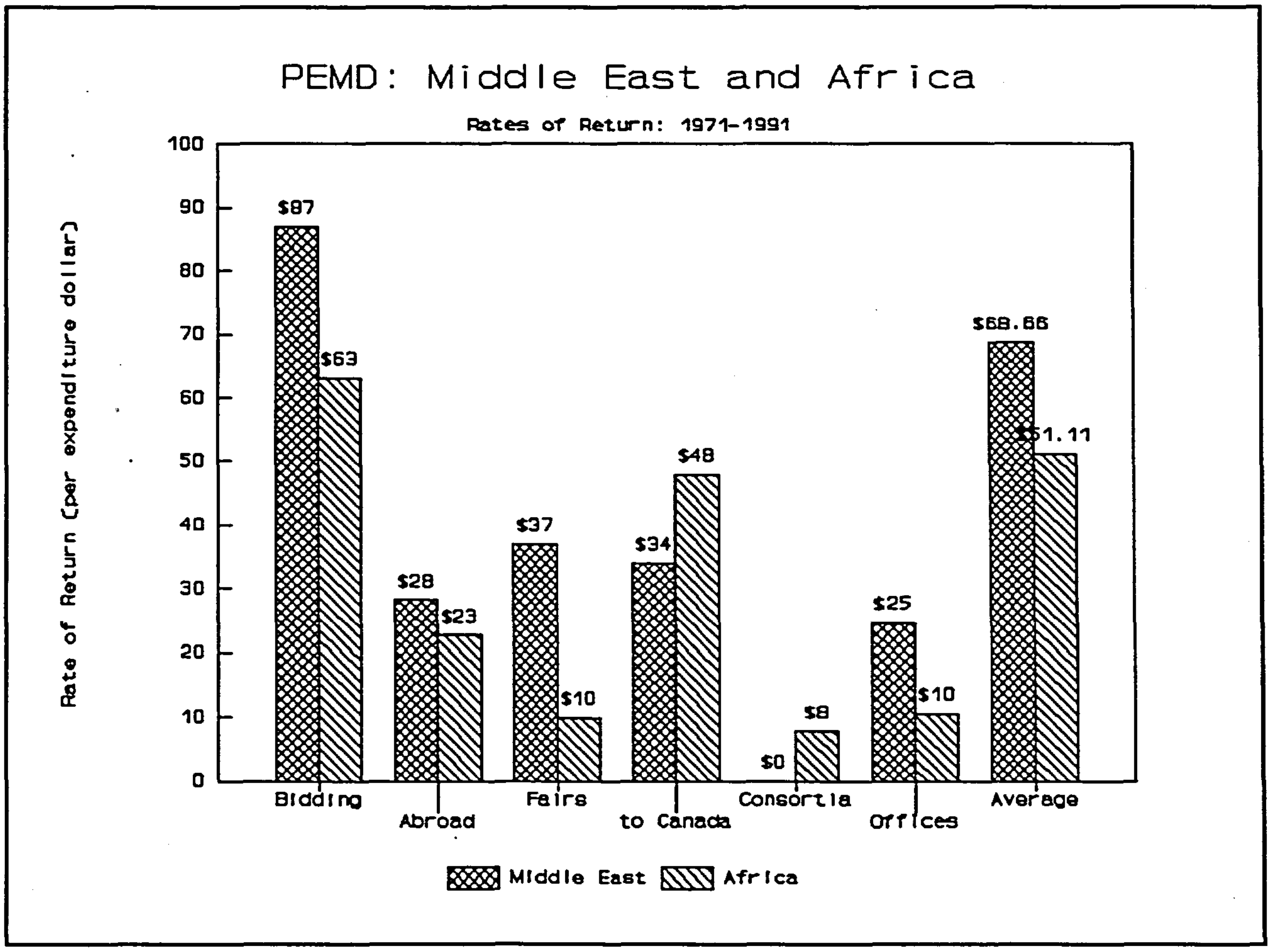


Chart 33 Source: EAITC/CPE (Cansim data)

The twin forces of economic liberalization and democratization are largely absent in the Middle East but are reaching Africa, given pressures of the donor community. As a result, government support to companies pursuing market opportunities remains necessary, given the high degree of government intervention, obscure business practices and linguistic and cultural barriers. These markets are still trade and not investment led.

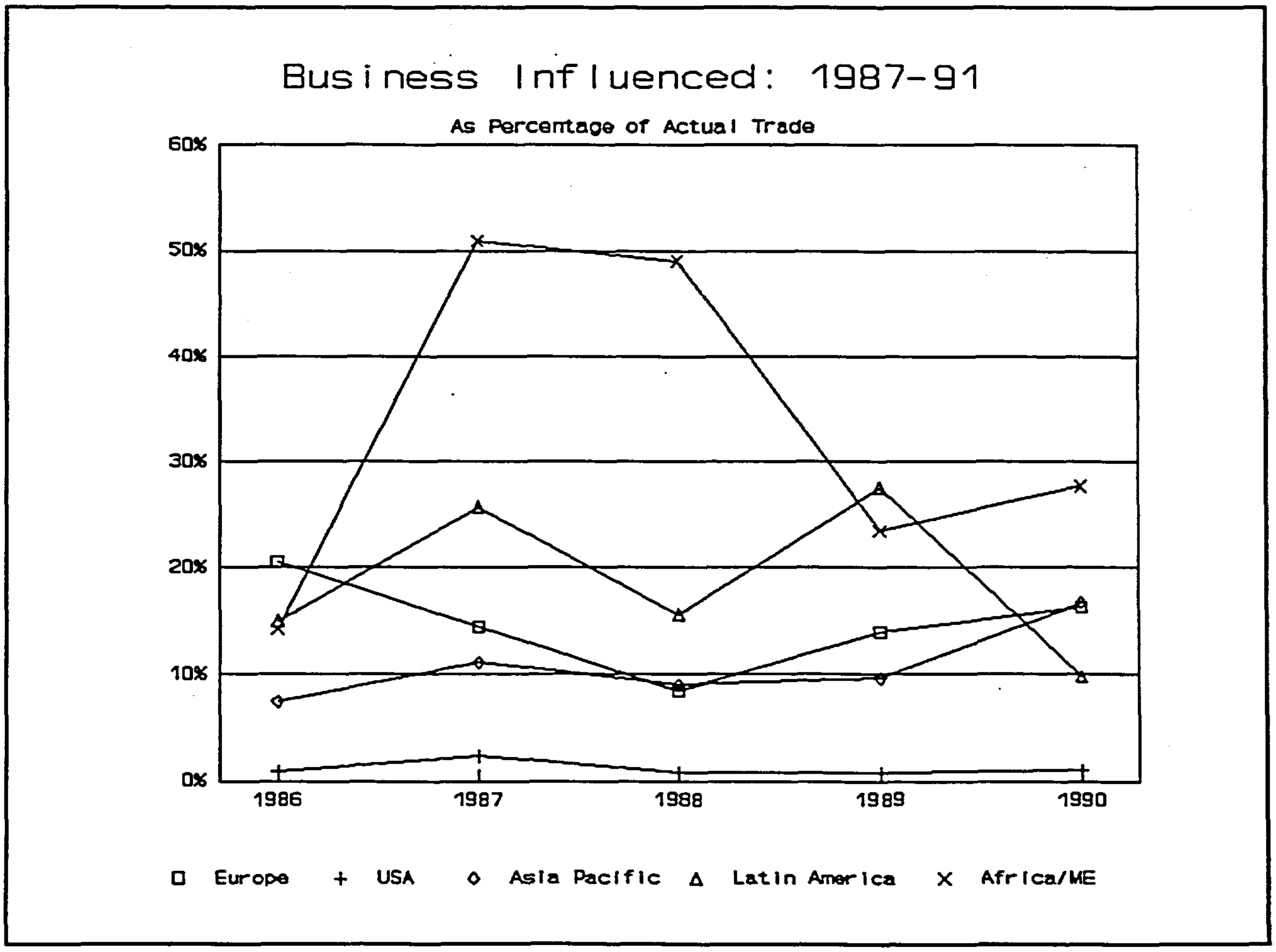
Canadian government assistance in providing access to local decision-makers becomes that much more important. Time-intensive traditional support — trade missions, market intelligence, lobbying — makes the difference in many cases between companies being awarded contracts or not. These markets are inherently labour and resource intensive as shown in earlier graphs. Yet rates of return would appear high. Canadian business needs the services provided in order to succeed. Cutbacks in funding and resources should be resisted for these reasons.



PEMD generates comparatively good results in Africa and the Middle East. A threshold of $ 3,000 remains a relevant filter, however, and 50 percent cost recovery — double current levels — reasonable. In exceptional cases — e.g., the first few years of new posts — higher levels of support could be considered.

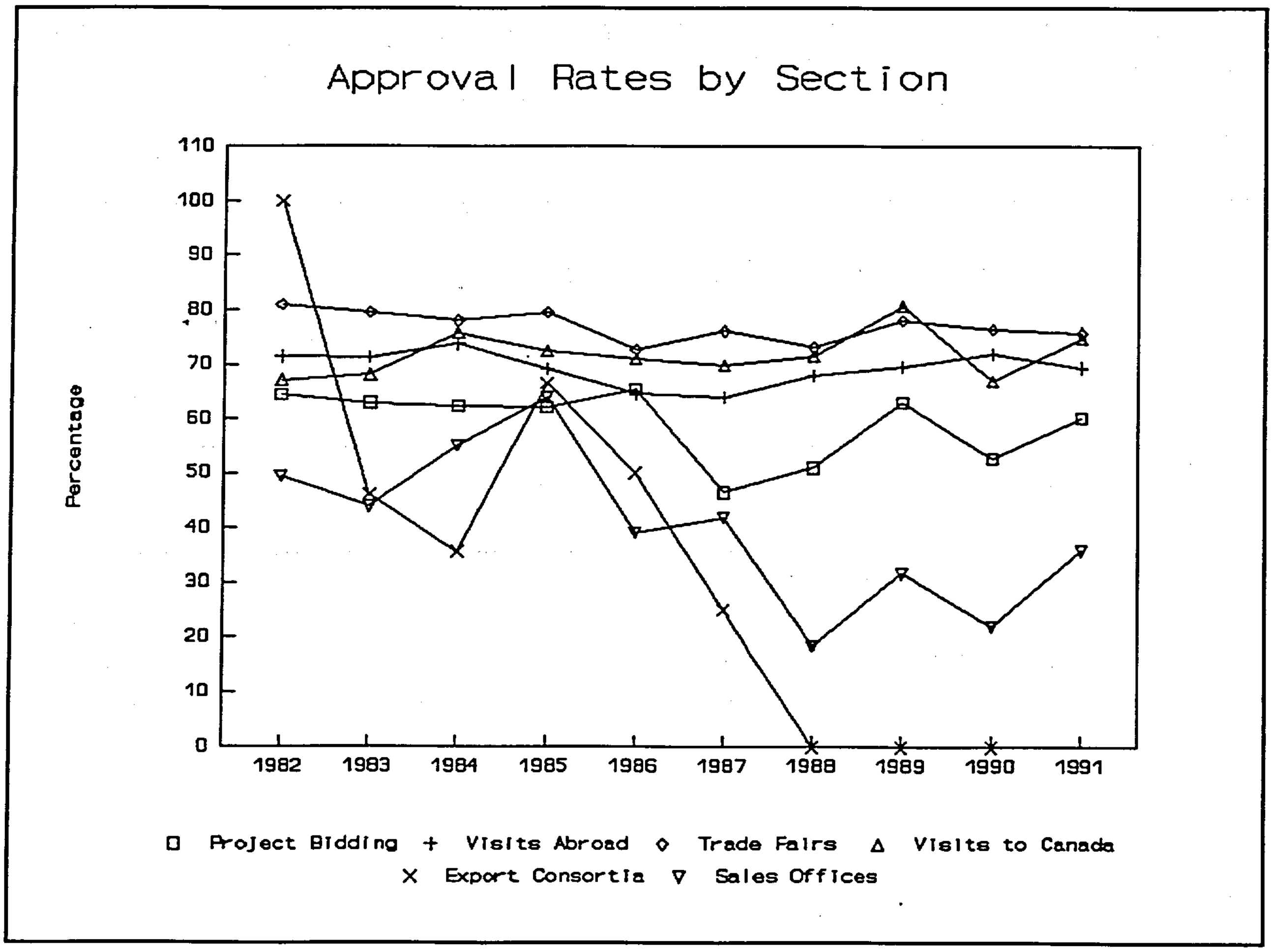
Annex C: Business Influenced in Relation to Actual Exports

The following graph compares business influenced with actual trade figures. These figures are crude and are not adjusted. However, given the comparative stability of business influenced reports and trade figures, the time lag factor should not be significant. European and US figures, however, may be somewhat overstated given that trade figures do not include investment influenced reports. Developing countries may suffer a similar bias given that services, again not included in trade figures, comprise a considerable portion of our trade and invariably involve some form of trade development support and/or service.



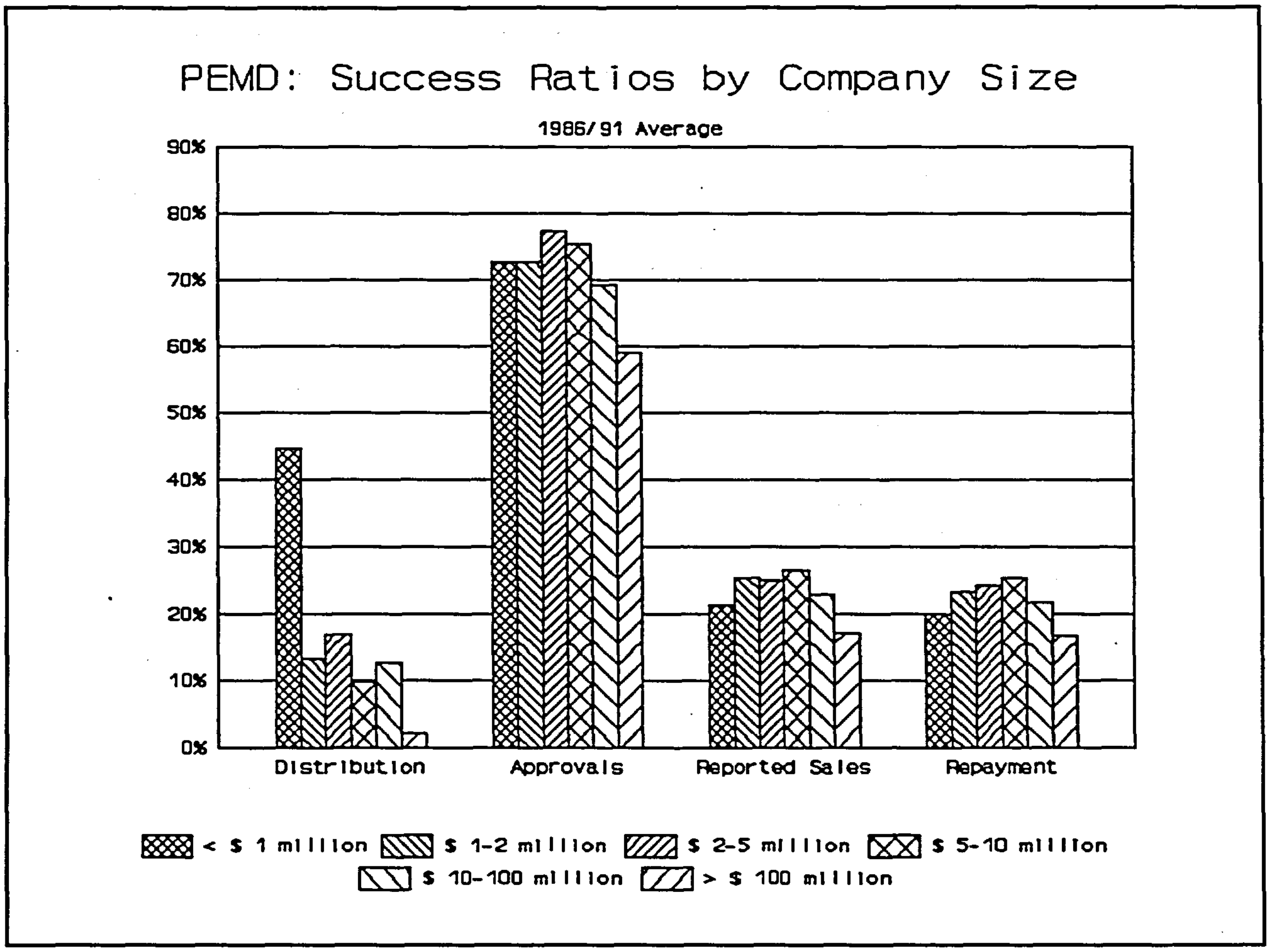
Annex D: PEMD Approval Rates Over Time

PEMD approval rates are remarkably consistent over time, with the exception of export consortia (effectively abandoned by PEMD) and sales offices (tighter eligibility criteria and/or funding constraints).

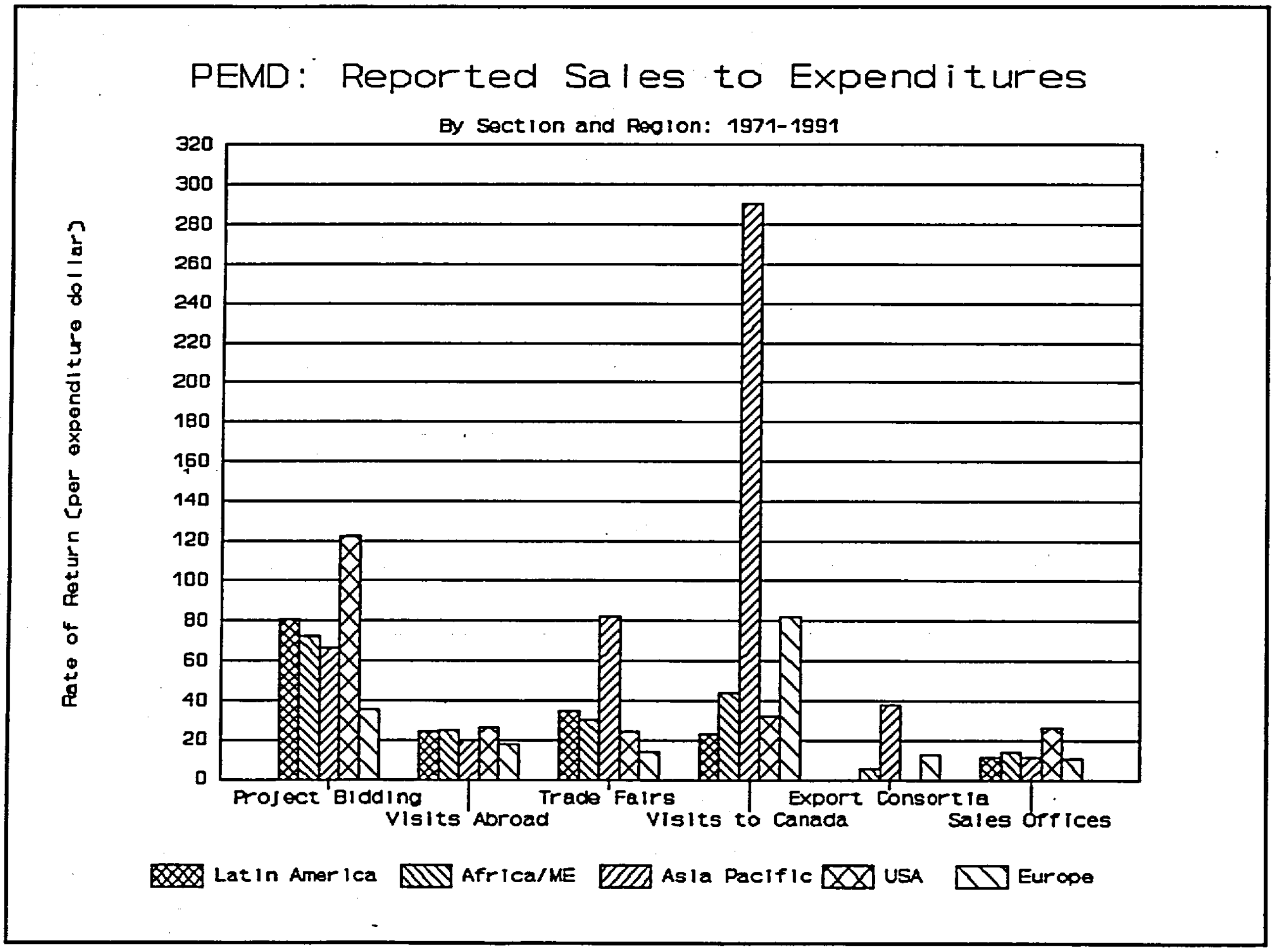


Annex E: PEMD Success Ratios by Company Size

The following chart shows the distribution of approved projects by company size, approval, success and repayment ratios. Please note that the approval ratio is not broken down separately for companies with annual sales less than \$ 1 million and companies with annual sales of between \$ 1 and 2 million.



Annex F: PEMD Rates of Return by Section and Region



Annex G: Ministerial Missions

Minister for International Trade

9-12 February 1982	Kenya, Zimbabwe, Swaziland	Trade Mission
16-19 March 1982	Japan	Trade Mission
10 May 1982	United States	Trade Policy (Quads)
3-13 January 1983	Hungary, Saudi Arabia, Kuwait, Oman	Trade Mission
28 February 1983	United States (Washington)	Trade Policy
22-25 June 1983	Britain	Trade Mission/JEC
3-19 May 1983	Hong Kong, Indonesia, Philippines, Malaysia, Singapore, Thailand	Trade Mission
29-30 May 1983	France (Paris air show)	Trade Mission
31 May - 3 June 1983	USSR	Trade Mission/JEC
14-17 July 1983	Britain	Trade Policy (Quads), Conference
7 November 1983	Germany (West)	Trade Mission
9-19 November 1983	Australia, New Zealand	Trade Mission
1 December 1983	United States (New York)	Trade Policy
5-7 December 1983	Mexico	Trade Mission
26 January - 2 February 1984	Switzerland (Davos)	Trade Mission
2-4 February 1984	United States	Trade Policy (Quads)
17 February 1984	United States (Washington)	Trade Policy
20-27 February 1984	Hong Kong, Malaysia, Brunei, India	Trade Mission
28-29 June 1984	Germany (West)	Trade Policy (Quads)
1 October 1984	United States (Washington)	Trade Mission (International Public Transit Show)
12-19 November 1984	Britain, Hungary, Yugoslavia	Trade Mission
4-7 December 1984	France, Germany	Trade Mission
3-11 February 1985	Korea, Japan	Trade Mission and Trade Policy (Quads)
1-3 March 1985	Germany (West)	Trade Policy
6-13 June 1985	France, Sweden, USSR	Trade Mission/JEC (USSR)
19-20 June 1985	United States (Washington)	Trade Policy
1-9 November 1985	Australia, New Zealand	Trade Mission
11 December 1985	United States (New York)	Trade Policy
16-18 January 1986	United States (San Diego)	Trade Policy (Quads)
9-10 February 1986	Britain	Trade Mission
11-22 February 1986	Singapore, Indonesia, Malaysia, Thailand, Hong Kong	Trade Mission
4-8 March 1986	Italy	Trade Mission
17-18 April 1986	Paris (OECD)	Trade Policy
27 May - 6 June 1986	Japan, Korea, China	Trade Mission, Trade Policy (World Trade Ministers, Seoul)

4-7 September 1986	Portugal	Trade Policy (Quads)
15-20 September 1986	Uruguay	Trade Policy (GATT Uruguay Round)
22-28 November 1986	Japan	Trade Mission
27 January - 2 February 1987	Switzerland (Davos)	Trade Mission
22-28 March 1987	Australia, New Zealand	Trade Policy (Cairns Group)
24-30 April 1987	Japan, Hong Kong	Trade Policy (Quads - Japan), Trade Mission (Hong Kong)
11 May 1987	Brussels (EC)	Trade Policy
12-13 May 1987	Paris (OECD)	Trade Policy
2-4 June 1987	United States (Washington)	Trade Policy (FTA)
29-30 November 1987	Geneva (GATT)	Trade Policy
8-12 January 1988	Indonesia	Trade Mission, Trade Policy (MTN meeting)
12 April 1988	United States (Washington)	Trade Policy (FTA)
18-19 May 1988	Paris (OECD)	Trade Policy
22-24 June 1988	United States (Gull Lake, Minnesota)	Trade Policy (Quads)
20-22 July 1988	Geneva (GATT)	Trade Policy
27 January - 3 February 1989	UK, Italy, Switzerland	Trade Policy, Trade Mission (Davos)
17-25 March 1989	New Zealand	Trade Policy (Cairns Group), Trade Mission
30 April - 1 May 1989	United States (Houston)	Trade Mission (Offshore Technology Conference)
31 May - 2 June 1989	Paris (OECD), Brussels (EC)	Trade Policy
2-4 June 1989	Netherlands	Trade Policy (Quads)
4-8 June 1989	Spain	Trade Mission
12-20 October 1989	UK, France, Germany (West)	Trade Policy (fisheries), Trade Mission (JEC/France, Anuga Food Fair/Germany)
6-8 September 1989	United States (Boston)	Trade Mission (Boston Seafood Show)
17-24 September 1989	Hong Kong, Korea	Trade Mission
5-23 November 1989	Australia, Japan, Thailand	Trade Policy (Informal Trade Ministers Meeting, APEC, Quads, Cairns Group)
23 January - 2 February 1990	United States (Washington, San Diego, Miami, San Juan, San Francisco)	Trade Mission
20-22 March 1990	United States (Boston)	Trade Mission (Boston Seafood Show)
3 April 1990	Brussels (EC)	Trade Policy (fisheries)
9-12 April 1990	Bonn (CSCE), Geneva (GATT)	Trade Policy
19-24 April 1990	Mexico	Trade Policy (Informal), Trade Mission
2-4 May 1990	United States (San Francisco)	Trade Policy (Quads)
26-29 May 1990	Finland	Trade Mission
4-9 July 1990	Chile	Trade Policy (Cairns Group), Trade Mission

30-31 July 1990	Singapore (APEC)	Trade Policy
30-31 May 1990	Paris (OECD)	Trade Policy
20-28 October 1990	USSR	Trade Mission
29-30 November 1990	Brussels (EC)	Trade Policy (fisheries)
6-23 January 1991	Malaysia, Viet Nam, Thailand, Indonesia	Trade Mission (Cancelled)
20-25 March 1991	Portugal	Trade Policy (fisheries), Trade Mission
10-11 April 1991	United States (New York)	Trade Mission
1-8 May 1991	Kuwait, UAE, Saudi Arabia	Trade Mission
3-5 June 1991	Paris (OECD)	Trade Policy
11-12 July 1991	Brussels (EC)	Trade Policy
12-16 July 1991	Spain	Trade Mission
18-20 August 1991	Seattle	Trade Policy (NAFTA)
2-4 September 1991	Baltic States	Trade Mission
12-14 September 1991	France	Trade Policy (Quads)
15-16 September 1991	Iran	Trade Mission
5-14 November 1991	Japan, Korea	Trade Mission, Trade Policy (APEC with SSEA in Korea)
25-26 November 1991	Mexico	Trade Mission/JEC
27 November 1991	Geneva (GATT)	Trade Policy (supply management)

Secretary of State for External Affairs

7-13 February 1982	Brazil	Trade Mission/JEC
28-30 April 1982	Cameroun	Trade Mission/JEC
26 January - 2 February 1983	Belgium, Switzerland (Davos)	Trade Mission/JEC
9 May 1983	Paris (OECD)	Trade Policy
17-18 May 1984	Paris (OECD)	Trade Policy
11-12 April 1985	Paris (OECD)	Trade Policy
9-22 July 1985	Malaysia, Thailand and Indonesia	Trade Mission, Trade Policy (ASEAN)
19-22 December 1985	India, Pakistan	Trade Mission
3-4 March 1986	Mexico	Trade Mission/JEC
8-12 September 1986	Venezuela, Argentina	Trade Mission
1-11 February 1987	India, Bangladesh	Trade Mission
3-9 May 1987	Poland, Germany (East), Hungary	Trade Mission
28 June - 9 July 1988	Japan, Thailand	Trade Mission, Trade Policy (ASEAN)
18-20 September 1990	Korea	Trade Mission

Minister for External Relations

8-16 February 1982	Tunisia, Morocco	Trade Mission/JEC
19-21 April 1982	Algeria	Trade Mission/JEC
3-11 October 1982	Senegal, Gabon, Togo	Trade Mission
12-15 November 1982	Iraq	Trade Mission
18-20 November 1982	Algeria	Trade Mission
18-30 March 1983	Guinea, Mali, Cameroun, Nigeria	Trade Mission/JEC
4-6 May 1983	Morocco	Trade Mission
26-29 April 1986	Algeria	Trade Mission

Other Ministers

16-27 May 1986	Forestry	Finland, Sweden, Norway	Trade Mission
28 November 1986	Regional Industrial Expansion	France	Trade Mission
21 January - 4 February 1988	Transport	Turkey, Nepal, India, Thailand	Trade Mission
15-24 June 1988	Treasury Board	Japan, China, Hong Kong	Trade Mission
30 June - 11 July 1988	Deputy PM	Australia, New Zealand	Trade Mission
11-16 November 1990	Small Business	Korea, Australia	Trade Mission

Methodology

There is no central registry of ministerial travel. This chart was derived from departmental press releases dating from the consolidation of the Trade Commissioner Service into External Affairs and International Trade Canada. As such, the data presented may be incomplete; frequent travel by the Minister for International Trade during the FTA and ongoing NAFTA negotiations is unreported. In compiling the data, we have allowed for double counting where appropriate; for example, MINT travel to Europe recently has included both a trade development component (i.e., a trade mission to particular countries) and a trade policy component (i.e., plurilateral and multilateral meetings such as the Quadrilaterals, OECD, EC-Canada bilateral negotiations, APEC and the GATT). We have not, however, counted SSEA participation in such meetings; we have only counted SSEA visits where the SSEA was accompanied by business visitors and/or headed the Canadian delegation to a joint bilateral economic commission. The SSEA trade policy role was only counted when unaccompanied by MINT. The same rule was applied to the Minister of State for External Relations and other ministers.

Annex H: CIDA INC Support to Institutions and Organizations

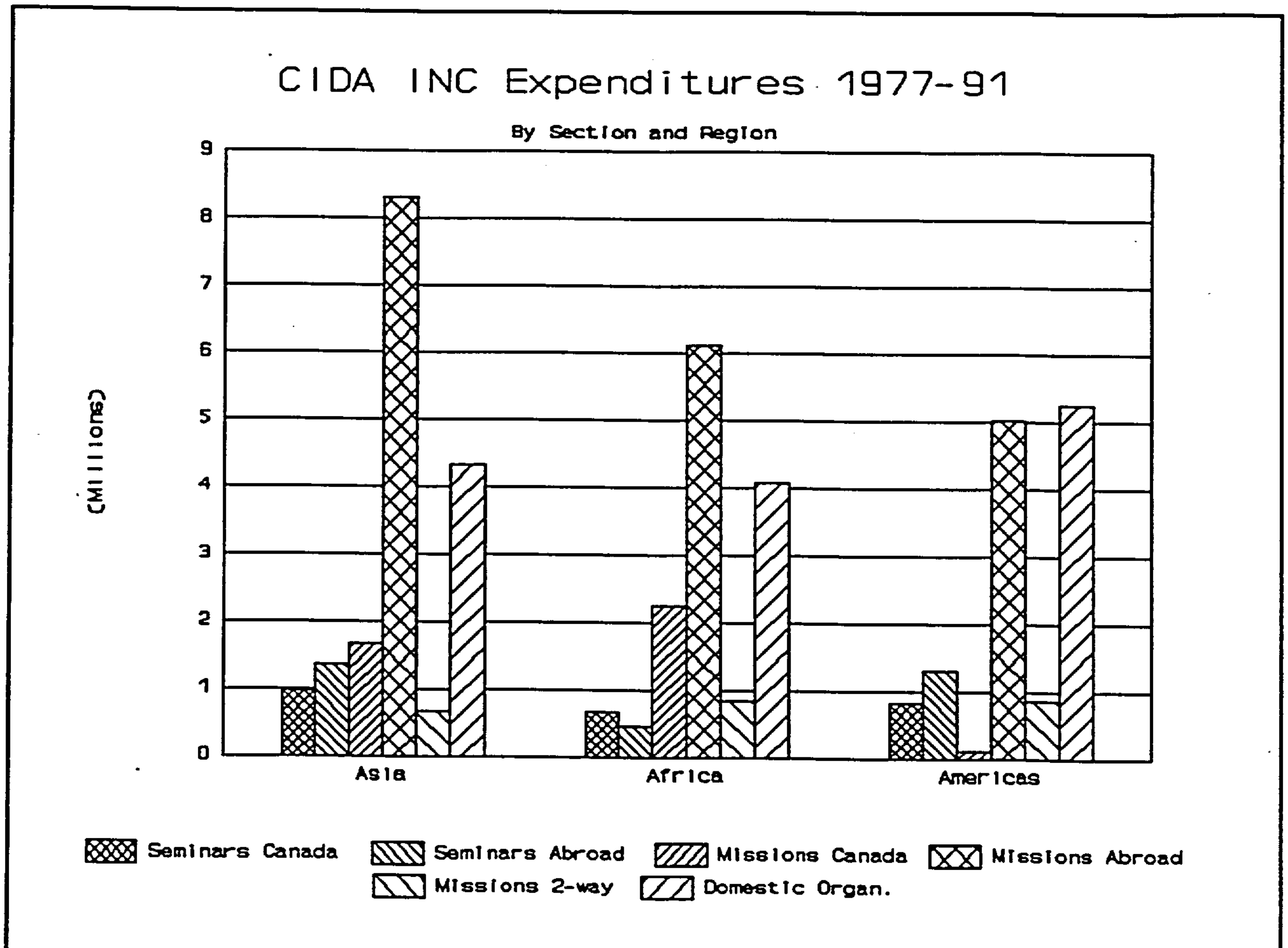


Chart 39

Source: CIDA INC

Notes

Glossary

Advocacy	Representations by Canadian Trade Commissioners to foreign government and business in support of Canadian companies.
ACOA	Atlantic Canada Opportunities Agency. Regional development programs for Atlantic Canada that were spun-off when the Department of Regional and Industrial Expansion became ISTC.
APEC	Asia-Pacific Economic Conference. Loose regional grouping of countries, including Canada, that provides opportunities for ministers and officials to discuss economic issues and trends.
Canadian Commercial Corporation (CCC)	Federal crown corporation which acted as the prime contractor when foreign governments and international agencies wished to purchase good and services from Canadian sources on a government-to-government basis (now folded into Supply and Services Canada).
CEA	Canadian Exporters Association. Business association that presents the concerns and interests of major Canadian exporters.
CIBS	Centres for International Business Studies. EAITC helps to fund these centres at Canadian universities with a view to encourage teaching and research on Canadian trade and international business issues.
CIDA INC	See Industrial Co-operation Program.
CITM	Canadian International Trade Month. Every October, EAITC sponsors a series of programs and events to raise export awareness among Canadians, including the annual Export Awards dinner.
Concessional Financing	Government financing provided at less than market rates for projects involving companies from that nation as a means of helping them obtain contracts in a developing country market, often known as crédit-mixte.
Cost Recovery Formula	Formula used to recover part of financial support granted to companies participating in trade fairs, missions or related events as part of government deficit reduction measures.
Crédit-mixte	See Concessional Financing.
Defence Production Sharing Arrangements (DPSA)	A set of administrative arrangements between the United States and Canada dating back to the 1941 Hyde Park arrangement providing for free trade in defence materiel and encouraging shared production of such materiel.

EC or EEC	European Economic Community (EEC), a common market established by the Treaty of Rome in 1958 and now comprising Belgium, Denmark, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain and the UK. The term European Communities (EC) refers collectively to the EC, as well as the European Coal and Steel Community and the European Atomic Community.
EC-92	A program of legislative and other activities adapted by the European Communities in 1985 aimed at creating a more unified and integrated market in Europe by the end of 1992.
EFTA	European Free Trade Agreement, comprising Austria, Finland, Iceland, Norway, Sweden and Switzerland, most of whom are either planning or considering joining the EC.
European Economic Community	see EC.
European Free Trade Agreement	See EFTA.
Export and Import Permits Act	Canadian legislation which provides the mechanism (licensing) by which exports from Canada and imports into Canada can be controlled.
Export Consortia	An association of several business companies with the intent of enhancing export possibilities by combining their respective strengths and resources.
Export Development Corporation (EDC)	Federal crown corporation providing a full range of financing, insurance and guarantee services to Canadian exporters.
Export Readiness	When a firm has sufficient productive capacity, personnel and financial resources to investigate and develop foreign markets.
Export Subsidies	Government payments or other financially quantifiable benefits provided to domestic producers or exporters contingent on the export of their goods or services.
FBDB	Federal Business Development Bank, providing financing, consulting and training services to small and medium size Canadian business.
FIRA	Foreign Investment Review Agency. See Investment Canada.
Free Trade Area	An arrangement among two or more nations that agree to remove substantially all tariff and non-tariff barriers to trade between them, while each maintains its differing schedule of tariff and other barriers applying to all other nations. GATT Article XXIV provides a framework of rules for the negotiation of free-trade areas such as the Canada-US FTA.
FTA	Free Trade Agreement. In North America, usually refers to the Canada-US Free Trade Agreement that entered into force on January 1, 1989.

GATT	General Agreement on Tariffs and Trade, a multilateral treaty which delineates rules for international trade, subscribed to by 108 countries which together account for more than four-fifths of world trade. The primary objective of GATT is to liberalize world trade and place it on a secure basis, thereby contributing to global economic growth and development. GATT is the primary agreement governing our trading relations with countries other than the USA.
Going Global	Five-year, $93.6 million federal government three pronged strategy to increase Canada's trade with crucial regional markets: US Opportunities, Pacific 2000, and Europe 1992. It emphasizes technology, investment and marketing linkages and partnerships as foreign market penetration techniques, in addition to institution building and language training.
Government Procurement	Purchases of goods and services by official government agencies. Procurement preferences refer to discriminatory purchases from domestic suppliers, even when imported goods are more competitive, and are a major non-tariff barrier to trade.
IAE	International Assistance Envelope. Canadian government financial 'envelope' for development assistance and assistance to Central and Eastern Europe and the former Soviet Union. See also ODA.
International Trade Business Plan	A federal government project aimed at establishing a consistent, coherent and more open approach to federal international market development efforts by developing market development strategies, establishing geographic and sectoral priorities, and publicizing a coordinated list of government funded activities.
International Trade Centre (ITC)	EAITC offices in fourteen cities across Canada, co-located with ISTC regional offices, that deliver international trade and economic advise to new and experienced exporters.
Industrial Co-operation Program (INC)	CIDA program assisting Canadian firms to seek opportunities for investment, joint ventures and transfers of proven technology in Asia, Latin America, the Caribbean, Africa and the Middle East.
Investech	EAITC program which outlines the benefits of foreign investment and technology to Canadian companies by bringing Canadian technological development and investment officers working overseas to Canada to meet with them.
Investment Canada	Agency established by the Canadian federal government in 1984 to promote and monitor incoming foreign direct investment with a view to ensuring that Canada benefits to the greatest extent possible from such investment. It replaced the Foreign Investment Review Agency (FIRA) which had a mandate to screen foreign direct investment and determine the extent to which each proposed investment would be of net benefit to Canada. Investment Canada jointly-funds the Strategic Ventures Program with EAITC and ISTC.
Investment Development Program	EAITC program encouraging targeted foreign corporations and other potential investors to bring new capital and technology into Canada. The program also promotes joint ventures and strategic partnerships between Canadian and foreign firms.

ISTC	Industry, Science and Technology Canada. Successor department to Industry, Trade and Commerce (ITC) and Industrial and Regional Development (DRIE).
ITAC	International Trade Advisory Committee. A committee of private sector leaders that advises the Canadian government primarily on trade negotiations. See also SAGITs.
ITC	See International Trade Centres.
LDC	Less-developed country.
Licensing Agreement	Contract whereby a firm obtains the right to use another firm's trademarks, manufacturing processes, patents, or other inputs to manufacture or assemble a product or service in exchange for royalties.
Market Access	Openness of a national market to exporting countries, i.e., reflecting a government's willingness to permit imports to compete relatively unimpeded with similar domestically produced goods.
Market Failure	Term used by economists to denote situations where regular functioning of the market produces a less than optimum result.
Market Intelligence	Information on the activities and strategies of competing firms in a particular market.
Marketplace	EAITC programme which brings trade commissioners working in sectoral overseas markets back to Canada to provide advice to exporting or export ready companies.
NAFTA	North American Free Trade Agreement involving Canada, the United States and Mexico, the negotiation of which started in June of 1991.
National Stands	Participation of groups of companies by country in trade fairs, generally with government financial support. See also Trade Fairs.
New Exporters to Border States (NEBS)	EAITC program in US border states to introduce Canadian companies which have not previously exported to the US market.
New Exporters to Overseas (NEXOS)	EAITC program to introduce exporters new to Western Europe to the potential, practices and pitfalls of doing business there.
New Exporters to the US South (NEXUS)	EAITC program, usually in the southern USA, for companies that have traditionally exported to only one US regional market.
ODA	Official Development Assistance. See also International Assistance Envelope (IAE).
OECD	Organization for Economic Cooperation and Development. Paris-based organization of industrialized countries responsible for study and cooperation on a broad range of economic, trade, scientific and educational issues.

OGD	Other government department.
PEMD	See Program for Export Market Development.
Productivity	A way of expressing changes in the value of economic activity; total factor productivity measures the amount of production obtained from combined units of effort, capital and technology. For economists, growth in productivity is an important indicator that an economy is making the best use of available factors of production.
Prosperity Initiative	Federal government sponsored, broadly-based national consensus-building process to identify long term goals necessary for continued Canadian prosperity.
Program for Export Market Development (PEMD)	PEMD is an EAITC program divided into government and industry initiated sections. The former largely funds national stands in trade fairs and trade missions and is allocated to the geographic bureaus based upon the Trade Allocation Formula. The latter provides direct assistance, on a cost sharing basis, to industry marketing initiatives, including: project bidding, market identification visits, participation in trade fairs, visits by foreign buyers to Canada, establishing permanent sales offices abroad (not funded at present), and other innovative marketing initiatives.
Rate of Return	Term used to denote estimated income, sales or other financial returns as a result of a given investment.
Renaissance Eastern Europe	Trade and industrial development program to develop joint-ventures and related business relationships between Canadian companies in Central and Eastern Europe and the former Soviet Union. Analogous to CIDA INC in long-term orientation.
S & T Agreement	Science and Technology Agreement. Agreement signed on a government-to-government level to encourage collaborative research activities between countries.
SAGITs	Sectoral Advisory Groups on International Trade established to provide the Canadian federal government with advice on trade policy and related issues from a sectoral perspective. See also ITAC.
Services	Economic activities the result of which is the provision of services rather than goods. Includes such diverse activities as transportation, communications, insurance, banking, advertising, consulting, distribution, engineering, medicine, education, etc. It is the fastest growing area of economic activity in Canada and most industrialized countries. Trade in services takes place when a service is exported from a supplier nation to another nation, such as an international air flight, or the extension of credit, or a software package, or the design of a bridge.
SME	Small and Medium-Sized Enterprises.
Strategic Alliance	An arrangement between two or more firms to join forces in research, production and/or marketing in order to develop new product lines, markets or other areas of activity.

Strategic Ventures Program	Federal trade program, jointly-funded by EAITC, ISTC and Investment Canada, which promotes strategic ventures in Europe by matching Canadian firms with potential European partners.
TCS	Trade Commissioner Service. Since 1894, the federal government has deployed specialists in Canadian trade at strategic locations abroad to promote and develop Canadian exports. Today, at more than a hundred posts around the world as well as at headquarters in Ottawa and twelve regional offices across the country, Canada's trade commissioner service, combining both Canadian and local experience and expertise, helps Canadian firms to find new markets, explore investment opportunities and find strategic partners.
Technology Inflow Program (TIP)	EAITC program targeted at small and medium-sized Canadian firms to assist them to acquire foreign technology to develop new Canadian products, processes or services.
Trade Allocation Formula	Formula for allocating trade program funding to geographic regions based on historical information on Canadian exporter interest and estimated market potential.
Trade Fairs	An event in which firms, generally grouped by industry, can display their products or services to potential buyers. The larger trade fairs attract international buyers. See also National Stands.
Trade Investment Planning System (TIPPS)	Management system using foreign post input to determine priority sectors and activities for funding in the upcoming year.
Trade Missions	A visit to a foreign market, generally with government assistance, by a group of companies to learn about sales opportunities and local business practices and to develop local business connections.
Trade Tracking System (TTS)	System of recording trade commissioner workload in order to be able to compare planned with actual activities and results.
Transfer of Technology	The movement of modern or scientific methods of production or distribution from one enterprise, institution or country to another, as through foreign investment, international trade licensing of patent rights, technical assistance or training.
WCD	Western Canada Diversification. Regional development programs for Atlantic Canada that were spun-off when the Department of Regional and Industrial Expansion became ISTC.
WEFA	Wharton Economic Forecast Agency. Econometric model used in the Trade Allocation Formula.

Endnotes

1. DIPP's role has changed over the years, becoming more responsive to industrial development concerns rather than export orientation per se.

2. This point of view is still not understood by many in the Department. The latest example is the Statute of Westminster Conference, December 10-11, 1991, sponsored by EAITC. The conference made virtually no reference to the economic, trade or immigration dimension of EAITC. Given that the theme was "Has Canada Made a Difference", this is an almost scandalous oversight of our role in the creation and subsequent development of the Bretton Woods institutions. The recent return of the immigration function to CEIC may represent, however, a move away from consolidation.

3. It is questionable, for example, whether CIDA's efforts at decentralization, already on hold, will not be rolled back for similar reasons.

4. It is perhaps symbolic that the name change from External Affairs to External Affairs and International Trade only occurred six years after consolidation and that neither the legal name nor the nameplate in front of the building have changed — it is not engraved in stone!

5. This is reflected in the informal speaker series offered by the Professional Association of Foreign Service Officers (PAFSO). While PAFSO makes an effort to arrange speakers on economic and trade topics, these are generally poorly attended, a recent example being the Executive Vice-President of the Royal Bank speaking on the challenges facing Canadian companies in the new Europe. No one attended from the Europe Branch from general relations, economic relations or even trade development.

6. This was heavily driven by the various budget-cutting exercises and the fact that new program funding brought few new PYs.

7. F.H. Rolf Seringhaus and Philip J. Rosson, *Government Export Promotion: A Global Perspective* (London: Routledge 1990) virtually ignore the more sophisticated programs and activities being developed for international business development.

8. O. Mary Hill, *Canada's Salesman to the World: The Department of Trade and Commerce 1892-1939* (Montreal: McGill-Queen's University Press, 1977), p. 272.

9. This was particularly the case with the West Indies, as described in O. Mary Hill, *Canada's Salesman to the World*, p. 278.

10. The tension between External Affairs and Trade and Commerce is long standing as was the belief that they served two different masters. In a response to a complaint of not being involved in trade negotiations by Frederick Hudd, Trade Commissioner to London in 1939, the then Director of the Service, Dana Wilgress, stated that "officers ... should not become involved too much in work entailed in drafting despatches for other departments." O. Mary Hill, p. 336-37.

11. Trade commissioners were, until recently, salesmen and not salespeople.

12. Government procurement will, however, remain an important industrial and regional development tool. Single sourcing procurement will account for over 25 percent of 1992 government spending of $ 7 billion.

13. Overall market opportunities are evaluated by DRI/McGraw-Hill by considering Canadian imports, world imports, GDP/GNP, investment and technology. See *Divisional Overviews: Ranking Market Opportunities* (Toronto: DRI Canada, October 1989), a report prepared for the Ontario Ministry of Industry, Trade and Technology. DRI/McGraw-Hill has also carried out a more sophisticated version of this analysis on a sectoral basis. Market volume and market growth, current and projected, are contrasted with the particular country's import share, also current and growth, itself compared with cohort import share, current and projected (cohort refers to suppliers with similar cost structure and technology). See *Ranking Market Opportunities* (Toronto: DRI Canada, January 1992).

14. One senior trade commissioner described the danger as follows:

> *Trade Commissioners often lack realism as to the capacity of Canadian small and medium sized enterprises to share their enthusiasm for export marketing. Bottom line considerations generally require that firms cannot market the world as soon as they open their doors. If they are to be successful they need to be selective.... The fact that the business community does not always respond to the agenda of Trade Commissioners is not surprising. If businesses did so, they would all be bankrupt having splurged all of their income on the impulsivity of overseas adventures.*

15. The US Foreign Commercial Service currently focusses efforts on new-to-market exporters.

16. McKinsey suggested that services should be more specifically tailored to client needs. Large experienced companies may need on-going special services in difficult markets. Smaller, high-potential exporters may need quite different services such as counselling, training, mission participation, and data on market opportunities.

17. This is not to suggest that government should try to influence or shift trade from major markets to secondary markets but rather a realization of whether government programs can 'make a difference'.

18. A case can be made for including programs with comparatively low rates of returns for diversification or other objectives. In the government context, political factors can be viewed as playing a particularly important role. An expanded presence in the US market following the FTA to assist Canadian companies to adapt to the competitive challenges of North American competition can be justified on these grounds.

19. Seringhaus and Rosson, *Government Export Promotion*, pp. 35, 86-91

20. See Diddy R. M. Hitchins, *Canadian Trade Promotion Policies in Comparative Perspective* (Anchorage: University of Alaska, November 1991 draft). Her main source of information is a report of the US and Foreign Commercial Service of the International Trade Administration, *Export Promotion Activities of Major Competitor Nations*, September 1988 (although formally unpublished, it is available in the public domain). However, the comparative statistical basis for such studies is open to question. Moreover, the narrow basis used — identified trade development programs in the recognized 'lead' government agency or department — may understate or not include programs in other government departments. These can be significant but apply to most governments (e.g., agricultural subsidies, defence and industrial development subsidies). Despite these caveats, Canadian support programs do not appear overstated by an order of magnitude. For Canada, we have used MCBA estimates of 1987 Departmental expenditures rather than the figures cited in the study. This removes the overstating of the US report yet indicates that overall levels of funding are broadly comparable to our competitors. We have pro-rated provincial expenditures on the basis that the US study overstated them to the same extent as federal expenditures. We have not included estimated expenditures of other government departments.

21. The McKinsey Review of our Australian counterpart, Austrade, is particularly enlightening in this respect. See also Seringhaus and Rosson, *Government Export Promotion*, pp. 166-7. Following the McKinsey review, Austrade closed offices in San Francisco, Chicago, Vancouver, and Miami (latter to be relocated to Brazil or Argentina). Los Angeles becomes Austrade regional HQ for the Americas (*International Business Chronicle,* August 5-18, 1991, Miami).

22. While academic literature on trade development programs and services is limited, the government-wide trend towards focus groups and "client" user studies has resulted in a more objective awareness of how trade development programs and services are perceived outside of the traditional export community. Of particular note are: John A. Chenier and Michael J. Prince, *Aid for Small Business Exporting Firms: The Role of Governments and Information Networks* (Halifax: The Institute for Research on Public Policy, 1990) and Michael Grant, *The Trade*

Commissioner Service in the Year 2000 (Ottawa: The Conference Board of Canada, 1990 Preliminary Draft). See also endnotes 22 and 23.

23. We recognize that this kind of comparative analysis is problematic. Moreover, interpretation of rates of return and ratios is least questionable in the case of a time series of a single measure as it does not compare different markets, industries or companies. However, a single measure is of limited value given that it does not consider opportunity cost, risk factors or hidden costs — i.e., it does not make comparisons. Comparability is valid in a clearly defined context. Resource allocation decisions, based upon marginal rates of return, can compare markets, industries and companies with intrinsically different rates of return in order to assess opportunity costs. This is particularly valid with trade development programs given the role of the trade commissioner in vetting PEMD applications and in the trade planning and tracking process — i.e., government support is largely under the control of the persons providing the service and measuring the results.

24. This is a result of the weight attached to Canadian business visitors, trade enquiries and industry-initiated PEMD applications results in Latin America and Africa/Middle East, in addition to estimates of future potential.

25. Developed markets can suffer from anomalies or sensitivities to econometric models. The current model forecast Canadian exports to Asia Pacific increasing from $ 18.5 billion in 1991 to $ 26.2 billion in 1995 using 1989/90 data. Yet using 1990/91 data, Canadian exports to Asia Pacific were projected to decline from $ 12.52 billion in 1992 to $ 5.05 billion in 1996. The end result was a 21 percent decrease in PEMD-Government Initiated funding for Asia Pacific ($ 1.15 million).

26. Trade development funds (Vote 1) include fairs and missions, investment development, Going Global, World Market Trade Fund, National Trade Strategy, European Renaissance, Technology Inflow and the Post Initiative program. While European Renaissance funding could be considered comparable in purpose to CIDA INC, given longer-term development goals, it has been included given that it is administered by the Department (in any case, it only accounts for $ 1 million of the $ 9.139 million in trade development funds for Europe in 1991/92 MCBA data). Grants and contributions to support language training initiatives and institutions/organizations are not included.

27. Michael E. Porter, Canada at the Crossroads: The Reality of a New Competitive Environment (Ottawa: Business Council on National Issues and the Minister of Supply and Services, 1991), pp. 318-21. Treatment of the government role in trade development is given limited treatment in Porter and it is clear that Porter considers Canada's framework economic policies as far more fundamental to Canada's competitiveness. Comments on the effectiveness of trade commissioners were largely based upon interviews with senior CEA officials.

28. Survey of Canadian Exporters, Canadian Facts (Ottawa: CB785 DH/MSOH August 1991), p. 15.

29. Ibid. See particularly Chenier and Prince, Chapter 6.

30. Trade commissioners at post are increasingly frustrated by the demands of neophyte exporters. This has resulted in the development of such filtration systems. Senior trade commissioners in Europe and Asia have raised these concerns in recent meetings with the Minister for International Trade.

31. Sector Associates, *Commentary on the Trade Commissioner Service*, July 1990.

32. Chenier and Prince, p. 122-3.

33. We have not used sub-regional divisions for ease in manipulating data and given that we are looking for overall trends and patterns. The imprecise nature of business influenced reports, in particular, makes us cautious of taking a more "micro" approach. This may induce some distortions in Europe, given the radically different nature of West and East European markets and Asia Pacific, given the inclusion of the developed markets of Australia and Japan. However, cursory examination of sub-regional data did not appear to indicate major variations and this macro approach was adopted.

34. This effect should not be exaggerated. In 1990/91, PEMD Government-Initiated supported 1,710 participants and PEMD Industry-Initiated supported perhaps another 3,500. Total business visitors supported by government funding may only account for about 15 percent of the close to 33,000 business visitors that year (EAITC/TPE data).

35. We have only used a three year series for reports, given that we anticipated greater workload in the USA post-FTA and in Europe pre-1992.

36. In making these comparisons, we have only included Vote 1 Program Funding and the imputed trade development portion of post operating budgets. We have not included Vote 10 funding, given that the Trade Tracking System does not capture its activities and results. Moreover, we have excluded Eastern European Renaissance from the European trade development budget given that it has a longer-term orientation more akin to CIDA INC.

37. For illustrative purposes, we have compared business influenced per dollar of trade development funds expended and millions of dollars of business influenced per trade commissioners and total personnel.

38. A number of US trade fairs are similarly global in scope. The International Public Transit Show, the Houston Offshore Technology Conference (oil and gas), Comdex (computers), the

Boston Seafood Show and the International Hardware Show are perhaps the best examples. While historical data regarding participants was not available, US Trade, Tourism and Investment Development Bureau officials believe that Canadian participation would demonstrate similar patterns as that shown by the European shows.

39. Chenier and Prince, p. 132. This is not intended as a critique of business practices. Companies are fully within their right to obtain full benefits from government programs and services; our concern, from a policy perspective, is are we stimulating new activity or subsidizing ongoing activity. Available studies and data suggest that this may indeed be the case for a number of regular users of government programs.

40. This has been changed recently from two percent on four years' sales. Original repayment provisions were one percent over seven years.

41. We have analyzed the amounts approved in relation to the amounts expended by region in order to see whether the analysis understates success rates (significant variations could indicate that successful companies have not bothered to file for support). It would appear, with the notable exception of export consortia and sales offices, no significant variations exists among regions. The following table shows actual expenditures as a percentage of amounts approved:

Region	A	B	C	D	E	F	Average
Africa	64.5%	66.8%	60.1%	50.9%	107.4%	58.7%	65.0%
North America	66.4%	70.9%	77.2%	55.0%	77.0%	52.3%	69.6%
Central America	57.4%	65.7%	75.4%	44.0%	52.0%	36.1%	59.0%
South America	54.4%	68.5%	65.1%	49.4%	210.9%	18.6%	55.9%
Asia Pacific	55.5%	72.8%	75.6%	61.2%	126.2%	61.0%	63.0%
Western Europe	63.4%	70.5%	70.1%	61.4%	63.3%	42.6%	63.6%
Eastern Europe	54.2%	68.9%	74.3%	49.2%	136.7%	103.0%	58.4%
Middle East	58.5%	63.4%	77.2%	36.5%	67.2%	37.2%	59.3%

42. Internal memorandum.

43. A summary check by each geographic region over the past two years revealed broadly comparable approval rates. Eastern Europe had the lowest approval rate (59.4 percent) followed by Africa (62.7 percent), North America (73.4 percent), Western Europe (72.4 percent), Asia Pacific (71.6 percent) and South America (71.5 percent). Central America (64.6 percent) and the Middle East (67.3 percent) complete the picture of a comparatively automatic approval process.

44. The consulting services sector is, understandably, pleased with the support provided by CIDA INC. Mr. Ray Gladieu, Chairman, Development and Aid Committee, Canadian Exporters Association, and President of the engineering firm INC, stated before the Standing Committee on External Affairs and International Trade on February 17, 1992 that "We're very satisfied with the way the industrial co-operation program has been going." and noted that "We are here to work with CIDA. It's not an adversary process. We think we can achieve things by working together in co-operation".

45. For company confidentiality reasons, a more detailed breakdown cannot be provided of the information obtained from a CIDA INC computer printout of February 25, 1992.

46. Strategic Management Review, Le Groupe SECOR (Montreal: October 9, 1991), p. 101/1. This report was commissioned by CIDA to review current management procedures and practices.

47. The contrast between EDC and Ex-In Bank of the USA is particularly striking. Apart from aircraft financing, Ex-In provides virtually no services to OECD markets whereas Western Europe and the Caribbean total over 50 percent of short-term insurance provided. This likely reflects the conservative nature of Canadian companies and banks rather than EDC providing an unnecessary service.

48. EDC financing of aircraft sales to OECD markets would, however be an exception, as most aircraft sales involve government-backing of one form or another.

49. Concessional Financing Discussion Paper, EAITC/Financial and Business Services Division (TPF), 17 September 1991.

50. Unfortunately it is not yet possible, given current database systems, to carry out such an analysis.

51. PEMD rates of return reflect reported results per amounts expended, trade development funds reflect business influenced reports per Vote 1 trade development funds, trade commissioners reflect business influenced reports ($ millions) and CIDA INC reflects proposed and potential results per CIDA INC contributions.

52. It has been questioned how effective is recruiting "*... it is as yet uncertain whether export stimulation measures encourage exporting among non-exporters*", see Stanley Reid, "Export Research in Crisis" in Michael R. Czinkota, Editor, *Export Promotion: The Public and Private Sector Interaction* (New York: Praeger, 1983), p. 141, see also p. 132, indicating that no compelling evidence exists that supply-oriented policies encourage exporting among non-exporters. Seringhaus and Rosson argue that Canadian government programs and activities have

over-sponsored first-time exporters to trade fairs rather than missions, another example of counterproductive recruiting (p. 238).

53. A recent survey of 10,000 companies listed in WIN Export revealed that 47 percent were no longer in business. While the recession may have contributed to the high figure, it nevertheless suggests that limited selectivity was exercised. Fortunately, periodic culls of WIN Export alleviate this concern.

54. Analysis of why companies export is extensively discussed in both Seringhaus and Rosson, and Chenier and Prince. In neither case does government exhortation appear significant; in the case of Chenier and Prince, general government publications on exporting were found to be largely unread (pp. 107-8).

55. This point has been repeatedly raised, most recently in meetings between MINT and senior trade commissioners in Munich and Tokyo.

56. Seringhaus and Rosson have devised the following classification system:

Potential new-exporters: Companies that are considered to have export potential, given managerial competence, product quality and design, and financial viability.

First-time exporters: Companies that are committed to developing international business and have dedicated the necessary financial and personnel resources to do so.

Failed exporters: Companies that have previously tried to export without success and have retreated to the domestic market.

Expanding exporters: Companies that are active (and successful) in one or more export markets and are committed to further expansion.

Continuing exporters: Companies that are successful in many export markets.

57. It is not possible to know how successful these companies really are. Conventional measures — on-site sales, 12 month expected sales — suggest, particularly in the case of NEBS, that the new exporter programs do not result in successful exporters. In 1989/90, 663 NEBS participants generated a total of $ 53,500 in on-site and 12 month expected sales, in 1990/91, 826 companies generated no sales, either on-site or expected. NEXUS appears more successful, largely reflecting a more sophisticated group of participating companies (NEXUS eligibility criteria require some exporting experience). As a result, in 1989/90, 197 NEXUS participants generated $ 40,000 in on-site sales and $ 1,820,000 in 12 month expected sales. In 1990/91, 209 companies generated $ 120,000 in on-site sales and $ 14,700,000 in 12 month expected sales.

The 12 month expected sales are estimates and, like business influenced reports, may err on the generous side.

58. Interview with CEA President Jim Taylor, 27 September 1991. An encouraging sign is the proposal to launch a joint federal-provincial initiative in export education to increase the supply of "export ready" firms and, by implication, reduce the workload at post. We would argue, however, that this needs to be tied into program eligibility criteria to become an effective filter.

59. Levels of service can sometimes extend to ridiculous extent. Until recently, Canadian business visitors were often met at the airport in Bangkok by the Embassy rather than taking a taxi to downtown hotels. If tourists can manage their way through airports, surely export-ready business visitors can. Exception should be made for business visitors travelling with samples to certain countries where Embassy assistance can be invaluable in clearing customs.

60. While *The Export Edge: Advice from Successful Companies* (EAITC October 1990) notes that PEMD was praised by Canada Export Award winners, it underlines the point that it is fundamentally management commitment, translated into financial and personnel resources, that is central to success in exporting. Other literature — e.g., Seringhaus and Rosson, Chenier and Prince — implicitly draw the same conclusion.

61. At a recent ITAC session, one business participant suggested that he would happily accept the elimination of all government programs aimed at business in return for a simpler tax system more geared to rewarding success at home and abroad.

62. These tighter PEMD Industry-Initiated criteria make an encouraging start. They may not, however, go far enough and overly rely upon less 'flexible' administration by the International Trade Centres. For example, minimum contributions would appear to be too low to be effective deterrents to non-export ready companies as are minimum sales levels ($250,000). Yet given that success and repayment ratios do not appear to be a function of company size, this minimal threshold may be justifiable. Direct links to export education programs may prove more effective. Companies not meeting these criteria could be accorded PEMD in exceptional circumstances to allow some flexibility.

63. Non-governmental members include: the Canadian Exporters Association, the Association of Consulting Engineers of Canada, the Canadian Manufacturers Association, CODE, and the Conference Board of Canada.

64. Discretionary programs are felt to be more efficient for targeted incentives. It is not clear that the R&D tax credits, among the most generous in the OECD, have increased significantly the amount of R&D carried out by the private sector in this country. Given similar credits among competitor countries, these credits may be necessary to maintain the existing R&D base

but do not by themselves "lever" additional R&D in Canada (the net cost of the R&D incentives is approximately $ 2 billion annually). While discretionary programs of "targeted" incentives (e.g., DIPP) may appear less costly, the success of such programs in picking winners and later weaning them off government support remains questionable.

65. This scepticism is perhaps most eloquently stated by one senior trade commissioner:

> *... Trade Tracking System is flimsy basis for policy decisions of any kind ... While there may be a degree of consistency creeping into the TTS reporting in the last year or so, it is difficult not to believe that there is still a great deal of variance between the regions and posts of the world regarding data used in preparing this report {From a Trading Nation to a Nation of Traders}... the more funds a post has the more activity it generates and the more the TTS numbers go up... the time and effort involved in collecting information, in particular business influenced information, may be (an) indication of the level of service a post is able to offer business clients which in turn is a reflection, not only of quantity but quality, of the resources posts have at their disposal. Need not go into the degree of fudging inherent in these unaudited reports ... Suffice it to say that the program manager is reluctant to be seen to be doing any less than the person who came before, let alone the year before.*

We nevertheless maintain that the tracking system is as valid as any other available measure over time to measure workloads across regions. It is unlikely that the degree of informal estimation or inflation should vary significantly over the five-year period of time used in our analysis. However, given resource applications, greater quality control is necessary to preserve the integrity of the system. As suggested in the same telex, technology should allow this to be done largely automatically.

66. The Japan trade program has moved in this direction, given that the Embassy display facilities provide lower cost alternatives. Yet a recent review of traditional national stand participation in Foodex resulted in a decision to reduce participation to an information booth with interested companies encouraged to co-locate. While a number of participants may be obtaining PEMD support, the end result, forced by financial constraints, was a net cost of approximately $ 100,000 and not $ 7-800,000 as previously.

67. The Minister for International Trade-led mission to China in April 1992 is a case in point. Virtually all participants were established exporters and medium-to-large sized companies that benefitted highly from the visibility and profile provided by the Minister. Financial support was unnecessary and the participation fee likely cost the government more to collect and process than the $ 500 remitted to the consolidated revenue fund.

68. An indication of ISTC's thinking on competitiveness can be seen in an early draft of the "portfolio constellation", a diagram depicting the various responsibilities of the Minister of ISTC and International Trade. Under the trade sub-title, import substitution was listed as an objective rather than development of a more competitive Canadian economy.

69. This strategy applied a graduation and matching fund policy as shown below:

Year	Government (Vote 10)	Government (Vote 1)	Industry
1990/91	$ 200,000	$ 100,000	$ 200,000
1991/92	$ 100,000	$ 93,000	$ 100,000
1992/93	$ 50,000		$ 50,000
TOTAL	**$ 350,000**	**$ 193,000**	**$ 350,000**

70. While a number of administrative changes to current management of the Canada Account would provide greater flexibility, the fundamental requirement is for additional funding, a requirement that can only be met through the International Assistance Envelope.

71. The 1991 Decima Investigation of Canadian's Attitudes Toward International Affairs poll revealed that 41 percent of Canadians believed the effect on Canada's economy should be the most important consideration when making foreign policy decisions, significantly ahead of the cost to Canadian taxpayers, impact on the environment, human rights, Canada's reputation and what our allies are doing. Moreover, placing more emphasis on economic and trade power as a method to increase Canadian influence was favoured by 61 percent of Canadians surveyed. The public may have more support than the Department itself for a revalorized International Trade element within EAITC.

72. A more systematic review of business councils and other specialized groups would likely demonstrate this. Ironic situations often result; the director of one business council, heavily dependent on government funding for ongoing operations and special activities, heavily criticized the government for not devoting sufficient personnel and resources to the region at a seminar funded by EAITC!

73. Chenier and Prince, p. 137.

74. See the leading article in the *Globe and Mail* of April 20, 1992 by Ross Howard, "Trade offices face cuts".

75. *Le Québec et l'interdépendance: Le monde pour horizon*, Gouvernement du Québec, Ministère des Affaires internationales, 1991.

76. The McKinsey review of Austrade suggested such a division of labour. The federal government would be responsible for overseas market intelligence and program delivery, the provinces would be responsible for export education and domestic programs.

77. This discussion on training needs is largely drawn from a working paper by the Trade Competitiveness Policy Division (EMP) of EAITC entitled *Death of the Salesman.*

78. The Conference Board and McKinsey studies reiterate this point time and time again. Individual business visitors invariably express regret when trade commissioners are cross-posted — just "when they are starting to become useful".

79. Similar logic would apply to political officers who would also benefit from greater geographic specialization and an appropriate incentive via the FSDs.

80. The Department has started to offer a short course on investment promotion to interested officers developed by University of Waterloo.

81. This suggestion has been raised a number of times, most formally by the West European Trade Division which proposed a system of International Business Advisors (IBAs) to provide a one-stop shopping and advisory service (RWT3331 7 October 1991). It would also have the additional advantage of acting as a filter for non-export ready companies.

82. Sweden has a program of contributing 50 percent of the cost of engaging the services of former export managers by small and medium-sized companies to assist these companies develop and implement an export marketing strategy.

83. The McKinsey review of Austrade concluded that it was over-managed, over administered and too centralized in Canberra. On a related note, Frank Petrie, former CEA President and Director of Overseas Projects at ITC in the 1970s commented on the change and increased bureaucratization by noting how he used to be able to advise his Deputy Minister that he was unable to attend a meeting given a prior engagement with private sector representatives. "Businessmen came first" he wryly noted. The same cannot be said today.

84. Regionalization of ISTC operations in the 1980s resulted in the loss of specialized sector knowledge. Efforts to recreate this at both headquarters and regionally have been less than successful except in a few sectors — e.g., automotive. At the same time, reduced program funding and related spin-off of regional development functions to ACOA and WCD have further diminished the role and importance of ISTC. While we may question the purported benefits of program funding, it does provide an incentive for the private sector to maintain close links with government, thus contributing to the government's knowledge base and sectoral expertise.

85. Richard Larose of the Trade Enquiries Section has over the years provided invaluable assistance to trade commissioners wishing to know the bona fides of Canadian companies requesting their assistance. A short response time and informative nature of his reports make level of service decisions much easier.

86. We often become engaged in policy dialogue for the sake of policy dialogue. Our pursuit of the Third Option and Framework Agreement with the EC have arguably led to little more than high level visits without real and meaningful follow-up. Canadian trade interests have not been materially advanced through these policies. Similarly, we have sometimes become so caught up in the internal processes of the GATT that we have lost sight of the aims of our participation — improving market access for Canadian companies. Participation in emerging Asian institutions and fora could, if proper focus is not maintained, suffer from similar diversion.

87. We have excluded DIPP funding from ISTC's trade development programs given that it is essentially a domestic industrial development program, albeit in sectors that export.

88. Seringhaus and Rosson, *Government Export Promotion*, p. 216.

89. The private sector would appear no better than the public sector in setting priorities. Moreover, the private sector shares the firm Canadian belief in universality and, it would appear, lets government make the hard choices. See Michael Grant's Conference Board Study, *Trade Commissioner 2000*.

90. No separate breakdown on trade development resources exists. These figures have been developed from resources devoted to trade and economic activities; we have tried to separate out personnel and related resources devoted to trade and economic policy. Data used predates the 'deconsolidation' of the social affairs stream from the Department.

91. Numbers selected in bold are allocated by formula. Going Global Communications Funds not included. Actual allocations are adjusted by the Deputy Minister for International Trade based upon requirements. Source: EAITC/TPE.

92. O. Mary Hill, *Canada's Salesman to the World*, p. 94. TCS considered US offices less important than elsewhere up until World War II. Chicago and San Francisco were closed in favour of opening two posts in China.

93. Anecdotal accounts of Canadian companies moving south would tend to suggest this view. Most manufacturers relocating in the USA are relatively "mid-tech" that do not require specialized labour or inputs. Relocation is thus made on a direct cost comparison.

94. This applies to both government and industry-initiated funding. The US obtained 36.1 percent of trade development funds (including PEMD government-initiated) in 1991-92 and 37 percent of industry-initiated PEMD funding over the program's history (1971-91). The US accounted for 23.2 percent of CBS and 27.9 percent of LES Trade development in 1991-92.

95. This applies to both government and industry-initiated funding. Europe obtained 25.4 percent of trade development funds (including PEMD government-initiated) in 1991-92 and 14.1 percent of industry-initiated PEMD funding over the program's history (1971-91), behind the USA and Asia. However, the high cost of post operations in Europe made Europe the most expensive geographic region in which to operate. Europe accounted for 30.0 percent of CBS and 28.9 percent of LES Trade development in 1991-92, the highest of all regions.

96. Trade commissioners in Japan have argued that:

The enormous focus on capital investment directed at development suggests that niche market high tech industries may well consider choosing to collaborate with Japanese rather than traditional USA companies to develop products or in fundamental R&D. This, it may be argued, is less a matter of strategy and more a matter of survival (if Japanese industry will dominate [the] world market in that field). Some companies like Lumonics have already made that decision in linking with Sumitomo Heavy Industry.

97. See Michael Hart, *Canada Discovers its Vocation as a Nation of the Americas*, in Fen Osler Hampson and Christopher J. Maule, editors, *Canada Among Nations 1990-91* (Ottawa: Carleton University Press 1991).

98. One of the largest contracts ever awarded to a Canadian company never showed up on trade data. Bell Canada International was awarded two successive multi-billion dollar five-year contracts to manage the modernization of Saudi Arabia's telephone system. Given that resulting equipment sales were minimal (Ericcson and Philips provided the central office switches), Statistics Canada did not capture the value of the contracts (post and branch briefing notes, however, certainly did!).

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