

## **Quebec and the Asia Pacific Gateway: Interests and Perspectives**

A consultation organized by the Asia Pacific Foundation of Canada, Board of Trade of Metropolitan Montréal, Ministère du Développement économique, de l'Innovation et de l'Exportation and Ministère des Relations internationales

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Yuen Pau Woo, President and Co-CEO of the Asia Pacific Foundation (APF Canada), challenged participants to 'think big' and be imaginative about the possibilities that come with gateways. He highlighted some findings from an opinion poll commissioned by APF Canada and *The Globe and Mail*:

- Some 47% of respondents thought Asia's share in Canada's total trade is between 25-50%. However, the actual figure is only 12%, so only a quarter of Canadians are aware of the magnitude of trade with Asia.
- 42% of respondents believed that China holds the most potential for Canada's exports and investments, while only 29% of respondents selected the US.
- 50% of Quebec respondents saw the growing importance of China as an economic power as more of a threat to Canada than it is an opportunity. The average in other provinces was 34% and the national average was 38%.
- 48% of respondents felt that Canada should place more emphasis on China in terms of economic and political relations. Only 26% of respondents selected Japan, which sends a signal that corporate Canada may be neglecting the richest and most technologically-advanced economy in Asia.

Woo urged participants to assess where we are now and what action ought to be taken to reach where we want to be in the future. He emphasized that the Gateway concept extends well beyond transportation and supply chains to include investment, education, business and cultural relations.

### **Transportation and Supply Chain Management**

Jacques Rochon, of Transport Canada, introduced the Asia-Pacific Gateway and Corridor Initiative in which the federal government committed \$591 million to a variety of projects based on five core elements: 1) strategic infrastructure, 2) private investment and innovation, 3) security and border efficiency, 4) governance and 5) policy renewal. Rochon emphasized that the flow of freight from BC to the rest of Canada is important as at least 50% of incoming freight via BC is destined for the Greater Toronto Area and the Greater Montreal Area. A national policy framework is being considered to integrate road, marine and rail assets with various emerging geographic areas.

James Cherry, of Aéroports de Montréal, agreed that the recent Gateway infrastructure investments are important. However, he emphasized that a 'Gateway thinking' mentality, which goes beyond hard infrastructure, is important for long-term success. Cherry explained that Montreal airport, despite being the third largest in Canada, has had limited engagement with Asia. He pointed to recent interest from Japanese airlines as a sign of emerging tourism from Japan to Quebec. Further, Air China and China Eastern Airlines have recently expressed interest in flying to Montreal. There is also increasing interest in Eastern Canada

for flights to China among charter operators like Air Transat. Cherry emphasized that tourism is the first priority for the airport.

Richard Corfe, of the St. Lawrence Seaway Management Corp., said the Seaway is part of the Canada-Asia trade corridor via the Atlantic Ocean into the Great Lakes. He noted that the current 3-4 million TEUs of containers coming to Canada each year will triple by 2015. With this rate of increase and West Coast congestion, Corfe pointed to the possibility of diverting some of this growth through the East Coast. Due to the development of ultra-large container vessels, deepwater ports like Halifax become more important. The Seaway has training relationships with 21 ports in China, notably Shanghai and those along the Yangtze River, which are witnessing growth as manufacturing migrates to cheaper inland regions. Corfe explained that the Seaway can feed into the US using the Port of Montreal as a transshipment point. Further, marine traffic on the Seaway can help reduce congestion and emissions from truck traffic. However, there are new security challenges to the bi-national clearance process that has existed since 1959.

Robert Masson, of the Montreal Port Authority, pointed to specific trade data to show that the port serves primarily the North Atlantic market. With its four container terminals, the port handles about 1.25 million TEUs annually, with the North Atlantic market taking a 96% share. Ten of the world's top 15 shipping lines include Montreal in their port of calls. The Asian market represents a small share of the port's business. There are currently five lines offering services to and from Asia. Masson expects the port's Asian business to grow as it has developed links with transshipment ports (Port of Gioia Tauro and Freeport Bahamas) based on trade routes that traverse the Suez and Panama Canals.

Among points made during discussion:

- Unlike many North American ports, the Port of Montreal does not suffer from the backhaul problem of empty containers or imbalanced import/export traffic. The balanced traffic translates into significant cost advantage for users of the port.
- A logistics centre in Montreal where value-added activities can take place in a tax-free zone would create a considerable trading platform. There is significant land around the old Mirabel airport available for development. A logistics centre would use airport, port and rail traffic to bring-in inputs, add value and send out products. The placement of such a logistics centre, similar to free-trade zones in Asia, could take advantage of the rail corridor from Montreal into the large consumer markets of the US Mid-west. Regulatory and jurisdictional issues were cited as concerns. Also, some participants emphasized the services and high-tech focus of the province.

## **Advanced Manufacturing and Innovation Industries**

Elliot Lifson, of Vêtements Peerless Clothing and the Board of Trade of Metropolitan Montreal, underscored the need to understand links to Asia by focusing on niche areas. He said Peerless Clothing's factory in Montreal employs 3,000 people producing garments targeting the low-end market. 95% of Peerless Clothing's business is in the US. China is not the lowest-cost producer, he emphasized. He pointed to how Peerless Clothing's production evolved rapidly from 100% domestic production in 2004 to 50% domestic/50% imports in 2006 as an example of maximizing on a niche opportunity. Immigration is a large source of skilled labour and Lifson argued that local market growth depends on a healthy attitude

toward immigration. He highlighted the need for future policy dealing with Asia to be in-sync with industrial policy, particularly on fostering international trade without leading to domestic plant closures and loss of industrial know-how.

Roger Miller, of École Polytechnique Montréal, addressed the role of government and competition based on his research on innovation and competitiveness in 150 case studies. In the face of strong government-led managed development and low-cost labour in China, Canada must focus on innovation, value-creation and sectoral advantages, he argued. Finland, for example, adopted a sectoral focus to boost the competitiveness of its pulp and paper industries which has resulted in value-creation. Miller urged investment in research and development, particularly in cooperative research that places Canadian players in global networks. Such linkages ensure Canadian players are on top of the rapid pace of changes affecting competition. Government trade policy, Miller argued, must be designed to support overall trade objectives and not allow provincial policies to put up fences. There is also a lack of awareness among industry about government programs (e.g. by CIDA) designed to support them in China. Miller emphasized that federal and provincial government should support industry strategy and the realities of outsourcing. Miller suggested that Canada cannot compete on wages and should focus on technological know-how. He also proposed the idea of a forum for three-way 'coop-petition,' combining cooperation and competition, among the government, academic community and private sector.

Among the points made during discussion:

- Outsourcing is a contentious issue as the advantages and costs incurred are not always balanced. Outsourcing to low-cost economies is often associated with plant closures and job losses to people in Quebec. It is simply impossible to compete against low wages, so calls for protectionist measures are often heard. Plant closures may mean that industrial know-how is lost. The Quebec International Trade Policy, released in 2006, emphasized the need for core business activities and know-how to stay in Quebec. The policy points to the use of education as economic leverage. Some participants argued that firms should not manufacture in Quebec if the advantage of production is somewhere else. Participants pointed to numerous garment firms in Quebec that focus on branding and design domestically and manufacturing in China.

### **Quebec's Asia Pacific Strategy: Implications for Gateway**

François Bouilhac, Assistant Deputy Minister for Investment and Export Promotion of the Quebec Ministry of Economic Development, Innovation and Exports, noted that unprecedented trade flows with Asia has meant that Quebec's prosperity has become increasingly tied to Asia compared to a decade ago. Currently, Asia represents 5.3% of Quebec's total exports with an annual growth rate of 15.7% from 1999-2004. Trade between Quebec and key Asian economies in 2005 was:

|             |        |
|-------------|--------|
| Japan       | \$1.2B |
| China       | \$809M |
| Australia   | \$317M |
| South Korea | \$275M |
| India       | \$200M |

Quebec's trade with China recorded growth of 74% from 2000-2004. The government is taking a sector- and region- specific approach to expanding the relationship: for example, Shandong province in China is a partner region. Quebec sent a trade mission to India in January 2006, with another in November 2006 focused on information technology.

The Quebec International Trade Policy 2006 laid out a series of action plans that apply across all government departments and agencies. The plan will see a redeployment of resources abroad, with the opening of an office in Mumbai and reinforcing the presence in Tokyo, Beijing and Shanghai. There will also be a reorganization of services with a focus on the biotech, energy, life sciences and information technology sectors. The government will also conduct reviews of the tools and methods for international investment. Lastly, the plan identifies 100 short-term measures for implementation.

Japan remains the key market of interest because of numerous Quebec sectoral interests – information and communications technologies, housing, biotech and agri-food. China and India are emerging huge markets with current demand for engineering services, infrastructure, urban planning and agri-services. Bouilhac cited the excellent reputation of Quebec in China as a way to facilitate entry into other activities. He noted the future depends on tying Quebec industries closer to Asian production networks. He urged participants to think in new ways in strengthening public and private sector ties with Asia.

### **Services and the Gateway: Asian Opportunities**

Claude-Jean Dumas, of the Royal Bank Global Transaction Solutions, highlighted the importance of Asia Pacific in the bank's international strategy. Asia is currently ranked first in value and first in growth, with the focus increasingly on wealth and asset management services. The bank has onshore Chinese brokers serving the Chinese market. He cited regulatory complexities as one of the many challenges to accessing the Asian market.

H. Trung Nguyen, of the Caisse centrale Desjardins, raised the need to help small to medium enterprises (SMEs) understand the tremendous changes both in Asia Pacific and Canada. He remarked that there is a lack of sense of urgency over helping SMEs cope with changes in Asia. Nguyen stressed the need to communicate to SMEs on policies such as Asia Pacific Gateway and Corridor Initiative because far too often SMEs wonder why the government is facilitating the competition to 'invade' the local market. The resulting protectionist backlash, Nguyen asserted, can be avoided if SMEs see the longer-term opportunities. He suggested an integrated outreach approach to educate SMEs on tapping into Asia for the long-term and capitalizing on access to the US market.

Mathieu Ouellet, of Taktik-China (a member of SECOR), identified new ways to benefit from the growth of China which has increased competition in SECOR's consulting business. Taktik-China is a consulting business of Canadian and Chinese nationals in both Montreal and China. Ouellet agreed with Nguyen that SMEs often perceive China as a threat and are unable to see the opportunities. He also believed that SMEs underestimate their competitors in China and fail to conduct competitive research. Ouellet noted high staff turnover and cultural relations as key challenges to operating in the Chinese market.

Patrick Paradis, of Giolong International, advised that for Canadian firms to remain competitive, they must identify and focus on a niche market. Paradis said many businesses

need to convert to niche markets and maintain high-end manufacturing in Canada. For mass production and low-value manufacturing, he advised businesses to transfer processes to China or other low-cost production sites. Paradis also outlined a list of business challenges in China that included regulatory issues, cultural barriers, human resources, taxation and intellectual property risks.

Pierre Turcotte, of CGI Quebec, identified the near-shore, off-shore and on-shore activities related to CGI's delivery of information technology services. CGI has six centres of excellence, two of which are in Mumbai and Bangalore with combined staff of 400 people, which provide low-cost, global information technology services. He noted that there is strong demand from Canadian enterprises for low-cost services, which will increase CGI's outsourcing resources in India. Turcotte highlighted the importance of keeping jobs requiring on-site human interaction to high-level positions. Meanwhile, programming jobs have been seen as commodity positions that can become 'modules' and moved globally. He emphasized that in order to keep Japan and South Korea on the radar screen, there will be increased focus on leveraging the ethnic immigrant community to build linkages.

### **Human Dimensions of Gateway: Education, Tourism, Arts and Culture**

Charles-Mathieu Brunelle, of TOHU - la Cité des arts du cirque, stressed the importance of cultural diplomacy in relations with Asia. TOHU is a \$73 million non-profit project to create a circus arts city in Montreal by offering a permanent space for stage exchanges. TOHU has a long-term relationship with Shanghai and has previously featured Chinese acrobatic performers. Brunelle emphasized that cultural exchanges build confidence and webs of people that are essential to long-term business relations. But this takes time. As the current focus of relations with Asia is trade and investment, Brunelle urged participants to approach the relationship with a dual focus on industrial and cultural sectors.

Luc Danielse, Faculty of Tourism Management at Champlain St-Lambert CEGEP, noted that tourism training at his school focuses on the physical and human geography, marketing, hospitality, technology and other aspects of travel. Danielse pointed out that although Approved Destination Status with China would boost tourism, the process is far from complete. He felt that it is somewhat stretching to identify Montreal as part of the Asia-Pacific Gateway as the city is closer to India. Further, he believed that the Gateway is missing a focus on human connections that are key to trade and commerce.

Jacques Frémont, of the Université de Montréal, pointed out that China is currently spending more on research and development than Canada at the higher education level. One strategy is to become part of Chinese research agendas by organizing joint programs. He also mentioned that because scientific publications are in English, Chinese researchers can publish in English while benefiting from the Francophone character at his university.

Peter Todd, of McGill University, stated that the university has a long history working on projects in China and has 10 agreements with Chinese institutions in agriculture, law, medicine, food security and water management. McGill currently has 1,200 Asian students, mostly from China, South Korea, India and Japan. There has been a resurgence of demand from Japan for research and development collaboration in biotech. There is also interest in running MBA programs in Japan. However, Todd argued that the world is moving much faster than Canada which means that the university needs a long-term, highly focused

approach to win. The university also needs to rethink its pricing, admissions and administrative structure to become responsive to market realities. Further, Todd emphasized the need for universities to partner to establish stronger linkages with the private sector.

Among the points made during discussion:

- Culture is the first real contact for future business relations. More work on possible cultural diplomacy is needed to reshape the mentality of Canadian relations with Asia.
- Education programs and activities focused on the building of people networks have a long-term sustained effect on business.

## **Concluding Remarks**

Yuen Pau Woo reminded participants that the Gateway's transformation potential is on the scale similar to those of the St. Lawrence Seaway or the Canadian Pacific Railway.

Woo urged participants to "think big, think nationally and think comprehensively". He identified ten challenges for participants to consider:

1. Expanding the scope and scale of infrastructure investment.
2. Broadening and deepening private sector involvement.
3. Lack of preparedness for doing business in Asia.
4. Labour and skills shortage and longer-term human resource development.
5. Meeting the continental challenges.
6. Improving perceptions abroad.
7. Raising public awareness in Canada.
8. Addressing community concerns.
9. Improving mechanisms for governance and coordination.
10. Connecting Gateway with other policy priorities of federal and provincial governments.