

Evaluation  
of the International Business Development  
Program in  
China, Hong Kong and Taiwan

***Final Report***

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## **LIST of ACRONYMS**

AAFC	Agriculture and Agri-Food Canada
CBS	Canadian Based Staff
CCBC	Canada China Business Council
CFIA	Canadian Food Inspection Agency
CME	Canadian Manufacturers and Exporters
EDC	Export Development Canada
FAC	Foreign Affairs Canada
FDI	Foreign Direct Investment
IBD	International Business Development
IIT	Investment, Science and Technology Branch
IPR	Intellectual Property Rights
IRAP	Industrial Research Assistance Program
ITCan	International Trade Canada
LES	Locally Engaged Staff
MOU	Memorandum of Understanding
NRC	National Research Council
NRCan	Natural Resources Canada
OGD	Other Government Department
PCM	China and Mongolia Division
PKE	Korea and Oceania Division
R&D	Research and Development
S&T	Science and Technology
SME	Small and Medium Enterprises
STC	Senior Trade Commissioner
TCI	Team Canada Inc.
TCS	Trade Commissioner Service
TPM	Trade Program Manager
VTC	Virtual Trade Commissioner
WIN Exports	World Information Network for Exports
WMM	World Markets Branch
ZIE	Evaluation Division

## **EXECUTIVE SUMMARY**

### **Scope and Objectives**

This report presents the findings, conclusions and recommendations of the formative evaluation of the International Business Development Program (IBD) in China, Hong Kong and Taiwan. The program is delivered by the six Canadian missions located in China, Hong Kong and Taiwan and by the Canada China Business Council which provides services on behalf of the Trade Commissioner Service at four locations in China. Support to the programme is provided by International Trade Canada's regional offices in Canada and various divisions at Headquarters. The evaluation assessed the overall design, management and delivery of the IBD program in determining its ongoing relevance, success and cost effectiveness. Specific objectives of the evaluation were to provide senior managers with a structured assessment of the processes and systems used to plan, resource, coordinate, implement and report on program performance, to profile, analyse and document the progress made in the achievement of program objectives and expected results, and to identify best practices and lessons learned.

The evaluation was conducted during the period February to June 2005 and included an extensive document, file and database review, interviews with key stakeholders across Canada, a three week field mission to China, Hong Kong and Taiwan, and a survey of Canadian exporters.

### **Context**

The IBD program focusses on three lines of business: trade promotion, investment attraction and science and technology development. The Trade Commissioner Service (TCS) is the backbone of the IBD program. Located at missions abroad, at ITCan's Regional Offices in Canada and within a broader network of government programs, the TCS's role is to promote Canada's economic interests in global markets. The overall goals of the IBD program are:

- To support the expansion of the Canadian exporter community and the diversification of export products;
- To stimulate and retain foreign investment or re-investment in Canada;
- To foster science and technology exchanges between Canada and other countries;
- To advocate and protect the interests of Canadian business and industry abroad; and

- To provide market access advice and assistance.

China has emerged as a global economic powerhouse rivalled only by the United States, the European Union and Japan. With the fastest growing economy in the world, China is the second largest market after the United States and Canada's third largest trading partner. China has traditionally been a growing market for raw materials, industrial goods, capital equipment, and consumer products, but is now engaged as a global financial power, a holder of debt and a target and source of foreign investment. Manufacturing everything from textiles and consumer products to sophisticated electronic equipment, software, and high end value added products, China has been described as the "the factory of the world". China is now a vital link in many of the global value chains that have emerged as global companies seek production efficiencies and strategic regional positioning to remain competitive worldwide.

Within the context of China's growth, Canada is a small but respected partner for China, accounting for 1.36% of its imports and 1.39% of its exports. Overall, Canada's exports to China have grown significantly but have not kept pace with imports and have not grown at rates comparable to other countries' exports to China. Canada's share of China's import market has fallen from 2 per cent 10 years ago. Last year, Canada was the 18<sup>th</sup> largest exporter to China, behind Saudi Arabia, Brazil and the Philippines and has lost ground to the United States, Europe, Japan, and Australia, all of whom have seen their exports grow more rapidly. Imports from China to Canada, on the other hand, have increased from \$4.6 billion in 1993 to \$24.1 billion in 2004 which has increased our trade deficit with China to \$17.5 billion. Nearly two-thirds of Canada's imports from China are in computers, electronics, textiles, clothing, dolls, games and toys whereas Canada's exports to China are primarily pulp and paper products, chemicals, mining and transportation equipment.

## **Findings and Conclusions**

### **Relevance**

The evaluation concluded that the China IBD program is consistent with ITCan and Government of Canada priorities. Deepening of the bilateral relationship with China, both in terms of trade and across the spectrum of international relations has been identified as a high priority for the Canadian government. China's emergence as a global economic powerhouse has serious implications for the Canadian economy. With the rapid expansion of low cost production capacity in China, Canadian companies are losing market share for their products here in Canada, in the United States and in other countries to Chinese imports. At the same time, opportunities exist within the Chinese market for Canadian companies to realize production gains, supply chain efficiencies, and profit margins by outsourcing some or all of their production to China. Along with

China's growth, comes its demand for raw materials which is driving up the price of commodities from lumber and coal to scrap metal and chemicals - a boon to exporters of these resources but a drain on profit margins for Canadian manufacturers who must use these resources in production. China, therefore, will be a significant factor shaping the future of the Canadian economy as well as the economies in the rest of the world and will influence the types of jobs that will remain in these countries. New business strategies are needed to address the challenges and opportunities that Canadian companies face in light of China's growth. The Canadian Government and specifically the Trade Commissioner Service will need to adapt its model of assistance (i.e. the six core services) to the Canadian business community to better meet their needs in the global marketplace.

The evaluation found that the IBD program in China, Hong Kong and Taiwan is being delivered according to the mandate and objectives of the Trade Commissioner Service to promote Canada's economic interests in global markets. The current business model of the Trade Commissioner Service is contributing to the IBD's program objectives of increasing exports and diversifying export products. However, the evaluation found little evidence of a comprehensive and strategic approach to China that recognizes new requirements for enterprises to work globally and yet be able to reap the highest economic returns for Canadians. Three elements were found missing or lacking sufficient attention in the current approach: the coordination and integration of the efforts of other government departments, the provinces, municipalities, business associations and other partners that would enable a 'whole of Canada' approach to China; the identification of Canadian capabilities, interests and capacities, and matching these to opportunities found in the Chinese, Hong Kong and Taiwanese markets; and the interlinking of export, investment and science and technology promotion services with trade policies, market access, international development assistance and trade financing activities to meet new requirements of global enterprises to enter into and succeed in these markets.

## **Governance**

The governance structure of the IBD program in China, Hong Kong, and Taiwan is organized along the lines of the model found in Canadian missions around the world whereby trade programs at each mission are led by a Trade Program Manager who is supported by his/her team of Trade Commissioners and Trade Commissioner Assistants. Each Trade Program Manager (Senior Trade Commissioner) reports directly to his/her Head of Mission who is responsible in a multiple mission country such as China for coordinating and reporting on mission activities to the Ambassador. The evaluation found that the current accountability framework limits the ability of the China missions to coordinate the IBD program effectively. No one position is accountable for the results of the China IBD program, and a comprehensive strategic plan which draws

in and provides an umbrella for business planning at each post does not exist. The lack of an accountable position for China and of a comprehensive plan to establish priorities and expected results has resulted in the tendency to establish more sectors as priority sectors than are feasible with the resources available. Another consequence is that opportunities are being missed and synergies between programs at different missions are not being realized. Other countries have organized their trade programs in China around a Regional Manager or Country Director and found that it helps them to build the coherence and coordination between their programs that can better assist their companies succeed in these markets. The establishment of a Regional Program Manager or Country Director would be responsible for strategic planning, the allocation of resources between missions and the reporting of program results for Canada's international business development program in China.

The development of a new accountability framework for China, Hong Kong, and Taiwan should take into account the need for increased programming in the areas of Investment and Science and Technology. The evaluation found that there was inadequate support and training of Trade Commissioners to deliver anticipated results in investment promotion and science and technology development activities. Further, investment and S&T programs, with the exception of Taipei, have not been integrated into an overall plan for the region. The creation of two positions, a Regional Investment Manager and a Regional S&T manager, would provide the appropriate guidance, training and support to Trade Commissioners serving at China posts and create the impetus to mainstream investment and S&T into the work and responsibilities of sector officers.

ITCan HQ needs to play a major leadership role in providing strategic direction and vision for the IBD program at posts, in developing a consistent department-wide plan for performance measurement and management and to ensure that there is a coherent and coordinated approach to China among other federal departments, the provinces and territories, municipalities and other stakeholders. Effort should all be focussed on redefining the roles and responsibilities of headquarters staff and ITCan staff at Regional Offices. There is an urgent need to strengthen the in-Canada network in order to better define Canadian capabilities, interests and capacities that can be matched to specific opportunities in the Chinese market. Many Canadian companies are inadequately prepared to enter the Chinese market or are not aggressive enough to succeed once there. ITCan HQ and the Regional Offices have a leadership role to play in building up knowledge of China among Canadian companies and identifying Canadian firms that could succeed in these markets.



## **Results**

The logic model for the IBD program world wide identifies short and medium term outcomes for four areas, two of which are focussed on internal results and the remaining two on external results with partners and clients. For business clients, the short term outcome is to ensure that they acquire the information, contacts and other forms of support to actively pursue international business opportunities. This will then lead to the medium term result of Canadian business clients better positioned to expand and/or diversify their international business operations in the target market. Missions in China, Hong Kong and Taiwan track their performance by a number of indicators including business successes, the number of qualified trade leads, the number of investment leads; and the number of core services provided to new and established clients.

Based on the survey of Canadian exporters and interviews with clients at all six missions, the evaluation found that the IBD program in China, Hong Kong, and Taiwan is achieving short term results for Canadian exporters by preparing them for entry into the market, identifying key contacts, providing leads on specific business opportunities, and by troubleshooting for and advocating on behalf of Canadian clients. Part of the difficulty in attributing the services provided to medium term results is that the assistance provided by the missions is seen as a contributing factor for generating revenue in the target market, but rarely are sales seen as a direct result of the services provided. The markets in China, Hong Kong and Taiwan are complex in nature which makes “fast sales” difficult if almost impossible to achieve. Those achieving success in these markets are investing their own time and resources to develop contacts in order to make sales and as a result companies do not always perceive TCS services as contributing to these increased sales and revenues. This is illustrated by the following responses from the survey of Canadian exports. 42% of companies responding to the survey stated that they were certain or very likely to have achieved the same results in the Chinese, Hong Kong and Taiwanese markets without the assistance of the Trade Commissioner Service. A further 32% indicated that they would be somewhat likely to have achieved the same financial results without the TCS. Less than a quarter (24%) of Canadian exporters who were surveyed stated that they would not have achieved (or were unlikely to have achieved) the same financial results without the assistance and services offered by the Trade Commissioner Service.

Results from the investments made in IBD programs have been difficult to capture because a) the Department is still building its capacity to move from an activity-based model for performance reporting to a results-based model, b) a proper baseline from which to identify performance targets has not been established, and c) the attribution of services provided by the Trade Commissioner Services to business success of companies active in world markets is difficult to measure given the number of variables

affecting a company's performance in any given market. Nevertheless, over time, the IBD program should be able to demonstrate its contribution to Canada's productivity and prosperity by the increase in the value and market share of exports, two-way investment and science and technology activities in foreign markets such as China, Hong Kong, and Taiwan.

Overall, client satisfaction rates are lower than expected indicating a need to improve service delivery processes and strengthen capacity. While clients expressed satisfaction with the timeliness of acknowledging the request, overall experience and overall quality of assistance, they were much less satisfied with the staff's knowledge of the company, the information on products and services available to the company and the ability of Trade Commissioners to refer their clients to an appropriate source of assistance when they were unable to respond to a request. A level of dissatisfaction was echoed in our interviews with clients at missions who voiced concerns about accessibility of Trade Commissioners and the high turnover of personnel especially among CBS officers. Resource limitations, an increased demand on trade officer's time to provide services for the constant flow of incoming missions and high level visitors and a lack of appropriate business planning and priority setting are factors that contribute to lower than expected satisfaction levels among clients. Our analysis suggests that there is a need to increase the volume and quality of market intelligence and contacts within these markets to meet growing client expectations and demands. At the same time, missions need to increase their capacity in order to influence Chinese trade and economic policies and regulations that will maximise the benefits to Canada of China's growth. These two needs will have to met while balancing the resource intensive yet necessary requirements demanded by high level missions from Canada to China.

Through our discussions with business clients and partners, the evaluation concluded that the six core services model will need to be adapted to the Chinese, Hong Kong and Taiwanese markets. In particular, clients expressed a need for assistance in sourcing and in direct investment support. These service offerings, although having significant resource implications, will improve the conceptual coherence of the IBD program in China, Hong Kong, and Taiwan. Investment promotion and science and technology development activities are currently underdeveloped. A strategic approach will need to be taken to achieve intended results.

### **Program Management (Cost-effectiveness)**

The evaluation assessed the cost-effectiveness of the IBD program in China, Hong Kong and Taiwan by examining the adequacy of resources, business planning processes at missions, the implementation of results-based management and performance measurement, and communications within and between missions.

A discussion on the adequacy of resources needs to take into account the macro-economic context of the country in question, the opportunities present in the market, the legal and administrative environment that would facilitate market success, the comparative advantage of Canadian companies, and the demand for services from Canadian clients. Equally important is an examination of how, when and where resources are deployed to meet current and future demand in order to maintain Canada's competitive position and improve results in targeted sectors.

Over the past decade, China's economy has grown by 9% or more each year. Most of this growth has been fuelled by China's rapid integration into global manufacturing supply chains. China's entry into the World Trade Organization in 2001 has accelerated the pace of market reforms resulting in a rapidly growing private sector seeking opportunities for investments and partnerships with international businesses. The major state owned enterprises will continue to benefit from government support as they become national and global champions in their sectors. The past decade of growth has been concentrated in the eastern coastal regions where Shanghai is the main business centre of the Yangtze River Delta, Guangzhou and Shenzhen are the economic powerhouses of the Pearl River Delta and Beijing is the political capital and centre for R & D and Information and Communication Technologies. However, China is also home to 53 metropolitan regions each numbering more than 1 million inhabitants. These regions represent 29% of the population or 370 million inhabitants and account for 53% of the country's gross domestic product. Concerned about reducing the economic imbalance between the major cities and the regions, the Chinese government is driving an infrastructure boom that is creating opportunities and growth in these second-tier cities. Other trends include a burgeoning middle class numbering 250 million today but expected to reach 400 million by 2010 and an emphasis on education exemplified by the number of university graduates (2.8 million in 2004) entering the workforce each year.

In comparison to the presence sustained by Canada's major competitors, Canada is under-resourced in China. Other nations are significantly building up their programs and capacity and expanding their reach into sub regional markets. Australia has been steadily building up its cadre of trade officers at its four missions in China. In addition, they have expanded their footprint in China to include 9 regional offices and have contracted business consultants to act as trade correspondents at 12 additional locations. The United Kingdom is in the process of increasing its staff by 40% and the USA just announced the opening of trade offices in 14 new locations across China. Canada currently employs 80 FTEs at the six missions in China, Hong Kong and Taiwan. This represents an increase in staff of less than 10% since 2002. During the same period, the missions in China, Hong Kong and Taiwan have reported an increase of nearly 80% in services delivered to Canadian clients. The evaluation field visit to the six missions in China, Hong Kong and Taiwan found that two missions were

significantly under resourced to meet their current mandate and demand for services, one mission seemed to have more than enough resources and the remaining three missions appear to have sufficient resources but would benefit from a re-configuration of current staff (i.e. the ratio of CBS to LES, the ratio of assistants to Trade Commissioners and/or the addition of one CBS to share representational duties). Personnel at two missions reported that duties related to non-commercial files because of a lack of FAC resources at their missions reduced officers' availability for their trade responsibilities. With a number of missions operating at full capacity, they are finding it harder to cope with the increasing number of high level missions, special events and visits to their respective region.

The China Trade Program operates an alternative service delivery model in which the Canada China Business Council has been contracted to deliver Trade Commissioner core services at four locations. The model was established in order to test an economical way to expand Canada's footprint into second tier Chinese cities which would otherwise have no official presence. Although service delivery and client interaction reports indicate that there is sufficient client demand to justify a service delivery presence in secondary markets within China, the evaluation found several factors which limit the effectiveness and efficiency of delivering core services through the Canada China Business Council. These factors included competing priorities of the TCS and the CCBC, budget constraints resulting in less than optimal office locations, short term contracts for staff, lack of access to ITCan's information systems, complicated management and supervision systems, and a perception among ITCan stakeholders that the CCBC is being unfairly subsidized. While most of the factors could be addressed within the present contractual arrangement, the effectiveness and efficiency of contracting out representation in cities which otherwise would not have an ITCan presence would not be expected to match that of an ITCan presence in that city. ITCan would achieve more value for money by placing its own two person LES teams in selected markets. Such an office would be able to respond to client service requests and be proactive in identifying and disseminating actionable market intelligence and information of the type valued by Canadian business. It would be a low cost intermediate step between no presence in a market and a full-fledged Consulate or Consulate General.

The evaluation concluded that IBD program resources remain inadequate to respond to the growing demand for services from Canadian firms, organizations and partner clients. However, throwing more resources into the mix will not by itself achieve better results. There is a need to first rationalize and organize existing resources. This includes a reallocation of resources between and within missions, the implementation of appropriate business planning and priority setting to ensure existing resources are being used to maximum effect, and better coordination and coherence among partner organizations and ITCan stakeholders in order to synchronize divergent organizational

strategies for greater effect. There is then a need to increase resources over the medium and long term to keep pace with Canada's competition in both first and second tiered markets and to respond to the recommended expansion of service offerings in sourcing, two-way investment and science and technology promotion activities.

Business planning and priority setting processes have improved considerably over the past couple of years. The introduction of ITCan's Strategic Framework has helped to sharpen the focus on expected results and priorities of the department and the Government of Canada. However, business plans are still activity based, are operational for only one year, are mission specific and are not guided by an overall strategic plan. There is a need to develop a comprehensive overview of the priority sectors across China, Hong Kong and Taiwan in order to articulate the challenges and opportunities for trade, investment and science and technology collaboration. Matched with an in-depth analysis of Canadian capabilities in these sectors, short, medium and longer term results for the IBD program in China, Hong Kong and Taiwan should then be established. Operational plans will then detail the specific activities and events that will help achieve intended results for the program. A well documented strategic plan will improve the coherence and consistency of the China Trade Program at all posts. It will also provide a framework to balance the pressures currently faced in providing client services, hosting missions, and influencing trade and economic policies and regulations. Other critical elements that need to be included in an overall plan are an integrated training plan for all employees, workload measurement systems, and clear instructions for the assignment of responsibilities.

Managing for results is being integrated through the annual business planning exercise using the planning and reporting templates of the Client Service Fund. Each mission has articulated the key departmental results they hope to achieve through the activities and events planned for the coming year. However, as most business plans are still activity based, the evaluation found that there was little understanding and buy-in by trade officers and some program managers to what it means to manage their portfolios for results. Short term results have not been linked to medium and longer term outcomes. The results based management system in place only addresses the last component of the IBD logic model "Serving Business Clients", and ignores the other three components: "Improvement of Service Delivery", "Improvement of Skills, Contacts, Information and Systems", and "Improved Effectiveness of Partners Supporting Business Clients". These are the necessary elements in helping Canadian clients better position themselves to expand and/or diversify in their targeted market. Most results reporting is still activity and output based. The performance measurement system in place is being inconsistently applied across missions. It is unclear how the indicators established for measuring performance are helping managers make decisions concerning priority setting, resource allocation, and strategic planning. A

review of WIN data at specific missions indicates that the integrity of data being entered into the system is questionable.

Communications between IBD staff at individual missions is generally good. The IBD program could improve how it communicates on strategic issues and on information related to sourcing, investment and S&T programming issues. A lack of communication between missions and regional offices and between missions in China, Hong Kong and Taiwan and partners in Canada has resulted in less than adequate support for each others' programs and events.

## Recommendations

**Recommendation 1:** *ITCan Headquarters, in particular the World Markets Branch, should play a greater leadership role in providing strategic direction and vision for the IBD program at posts, in promoting a consistent department-wide plan for performance measurement and management to be used at posts, and to ensure that there is a coherent and coordinated approach to China among other federal departments, the provinces and territories, municipalities and other stakeholders.*

**Recommendation 2:** *World Markets Branch (WMM) should conduct a review of the present accountability structure governing the IBD program in China, Hong Kong, and Taiwan. As part of this review, WMM should consider*

- a) the establishment of a Regional Program Manager or Country Director for China, Hong Kong and Taiwan who would be responsible for strategic planning, resource allocation among missions, and the reporting of program results;*
- b) the creation of a Regional Investment Manager and a Regional S&T Manager who would drive their respective programs and be a focal point for support and training of Trade Commissioners to deliver intended results;*

- Recommendation 3:** *ITCan, in conjunction with its partner departments and other stakeholders, should develop a comprehensive national strategy towards China that builds a “whole of Canada” approach. Canada’s China strategy should include:*
- a) a detailed plan for strengthening the domestic network to identify Canadian capabilities and prepare Canadian companies for entry or expansion in China, and,*
  - b) a short and medium term plan for expansion of our resources in China in order to build our capacity and extend our footprint into sub-regional markets.*
- Recommendation 4:** *TCS should consider revising the service offering in emerging markets to respond to the growing needs of business clients to be assisted with their sourcing requirements, with Canadian direct investment support, and with troubleshooting and advocacy.*
- Recommendation 5:** *TCS should undertake a study to delineate the policy implications of sourcing, particularly with respect to the future competitiveness of Canadian companies in light of the emergence of global value chains. TCS should clarify its role so that officers have better guidance on how to handle the growing volume of enquiries with respect to sourcing. The missions can then take appropriate actions (for instance, the development of a list of qualified third party service providers) and provide consistent messaging to clients.*
- Recommendation 6:** *ITCan should expand into China’s sub-regional markets with its own personnel and its own offices.*

**Recommendation 7:** *As part of the mandate for the Regional Program Manager, a comprehensive, integrated, multi-year and results based business plan should be developed that is based on a solid analysis of Canadian capabilities, interests and capacities and matched to specific needs and opportunities identified in China, Hong Kong, and Taiwan. Investment promotion and Science and Technology development activities should form an integral part of this plan.*

**Recommendation 8:** *TCS should ensure that results reporting and performance measurement address short, medium and long term results expected from the program. As part of performance measurement, TCS should develop a strategy to ensure that WIN and other systems (e.g. TRIO) entries are as accurate as possible. Clear guidelines and instructions should be issued and TPMs and The RPM should be held accountable for enforcing them.*



## **1.0 INTRODUCTION**

This report presents the findings of the formative evaluation of the International Business Development (IBD) Program delivered by Canadian missions in China, Hong Kong and Taiwan. The evaluation is the second in a series of comprehensive assessments of country trade programs. The evaluation of the IBD program in Mexico was completed in 2004. A formative evaluation emphasises the assessment of the overall design, management and delivery of a program, whereas a summative evaluation assesses the level of attribution for observable results obtained.

This evaluation was proposed during the annual consultations with the Assistant Deputy Minister, International Business and Chief Trade Commissioner as well as the Assistant Deputy Minister - Asia Pacific and suggested during the last audit of the missions in China, Hong Kong and Taiwan. Subsequently, the relevance, utility and feasibility of undertaking this evaluation was confirmed with IBD staff at Headquarters and the respective missions abroad.

The evaluation covered the operations of the Commercial Section within the Embassy in Beijing, services delivered by the Consulates General in Hong Kong, Shanghai, Guangzhou, the Consulate in Chongqing and the Canadian Trade Office in Taiwan. The evaluation also considered the services provided on behalf of the Trade Commissioner Service by the Canada China Business Council in Shenyang, Qingdao, Shenzhen and Chengdu as well as support provided by the various divisions at Headquarters and at ITCan Regional Offices across Canada.

The report is structured as follows:

**Section 1.0** introduces the report, provides an overview of the program and the context for this evaluation including the purpose and objectives of the evaluation;

**Section 2.0** describes the methodology and approach to the evaluation and discusses its limitations and rigour;

**Section 3.0** discusses the key findings of the evaluation in terms of the continued relevance of the IBD program in China, Hong Kong and Taiwan, results achieved for clients and partners, and the effectiveness of program management;

**Section 4.0** presents the conclusions and recommendations of the study.

## **1.1 Description of the IBD Program**

### **1.1.1 Program Overview**

The IBD program focusses on three areas of programming: trade promotion, investment attraction and science and technology development. The Trade Commissioner Service (TCS) is the backbone of IBD programming. Its role is to promote Canada's economic interests in global markets. The TCS works at the mission level and in Canada at International Trade Canada's (ITCan) Regional Offices and within a broader network of government programs under the auspices of Team Canada Inc. (TCI). TCI is a virtual agency of 16 federal departments and agencies providing various forms of support to Canadian exporters. The Investment, Science and Technology Branch (IIT) at ITCan is the lead on investment and science and technology development activities within the department and is responsible for promoting and facilitating foreign direct investment (FDI) into Canada. IIT provides a one-stop service window on attracting FDI. It guides and supports missions on investment promotion by working with them to develop strategies and action plans. The support to building science and technology linkages forms the third area of IBD programming and is aimed at developing greater collaboration between Canadian and foreign innovators.

The overall goals of IBD programming are:

- To support the expansion of the Canadian exporter community and the diversification of export products, in particular in knowledge-based industries and in new and emerging markets;
- To stimulate and retain foreign investment or re-investment in Canada;
- To foster science and technology exchanges between Canada and other countries;
- To advocate and protect the interests of Canadian business and industry abroad; and
- To provide market access advice and assistance.

The delivery of the six core services and complimentary areas of programming in the field involved, but are not limited to the following types of activities:

- On-going gathering of market information and intelligence;
- Responding to inquiries about the market and providing market advice and guidance to new entrants;

- Identifying trade, investment and technology leads and putting them forward for matching with partners in Canada;
- Supporting business missions to and from Canada sponsored by ITCan, FAC, Other Government Departments (OGDs) or provinces; and,
- Following market access issues, resolution of trade irritants, facilitation of the understanding of trade regulations and trade-related legal matters.

Investment promotion has adapted the six core services model to assist missions in implementing investment strategies and delivering investment activities in the market.

Potential investors into Canada progress from a “target” (i.e. being a key local contact identified as having the potential for investing abroad or being a facilitator towards an eventual outward investment) to a “lead” (identified as having the desire and capacity to expand or diversify through investment abroad) to a “prospect” (a company that has expressed an interest in investing and has specified Canada or placed Canada on the destination short-list).

### **1.1.2 Target Clients and Partners**

IBD services are provided to two primary groups. The first group are the Canadian Exporter Firms, which are companies registered in Canada. These companies are primarily small and medium sized enterprises (SMEs). A priority is also placed on new business groups such as Canadian youth, aboriginal and women entrepreneurs. Foreign subsidiaries and persons representing such companies can also be included. Firms in this group should have already researched and selected their target markets before receiving assistance at the missions (i.e. be export ready).

The missions also provide services to co-delivery agents or partners involved in influencing the primary target clients to adopt new approaches or change their behaviour in foreign markets. The IBD Program refers to this second group as partner-clients. While these organizations may receive services from IBD staff, they are viewed as intermediaries rather than ‘clients’ per se. The partners assist and/or complement ITCan’s efforts to stimulate changes among commercial operators in Canada and overseas. The support provided to partners is targeted at increasing the organizations’ results with the client firms with whom they interact.

IIT works as the leader of a broad investment partnership that includes the missions overseas, ITCan’s regional offices across Canada, Other Government Departments, provinces and territories and the approximately thirty-five municipalities that have strong investment promotion teams and capabilities. The ultimate aim of investment promotion is to enhance Canadian prosperity through foreign investment. The

Department views the provinces, territories and municipalities as its clients rather than the investor because that is where investment occurs.

### **1.1.3 Intended Results**

The logic model is also a flow chart logically sequencing internal and external results of the IBD program to provide the following medium term outcomes for its business clients:

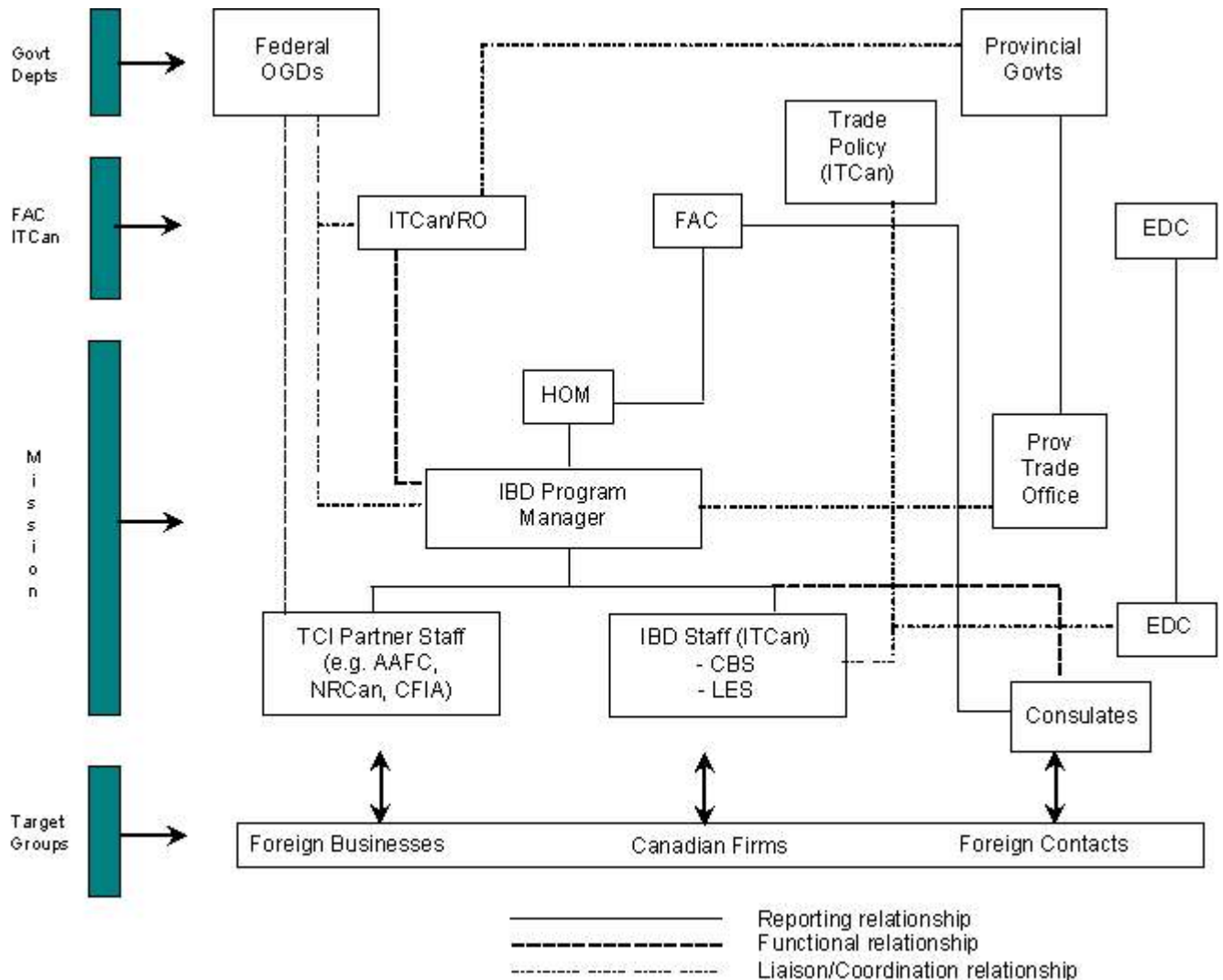
- Increased visibility and interest in Canadian capabilities and advantages, and
- Expanded base of Canadian businesses active in world markets.

### **1.1.4 Organizational Structure**

The IBD Program in China, Hong Kong and Taiwan comprises operations at the Embassy in Beijing, the Consulates General in Hong Kong, Guangzhou, and Shanghai, the Consulate in Chongqing and the Canadian Trade Office in Taipei. In addition, the Canada China Business Council is contracted to provide services on behalf of the Trade Commissioner Service at its offices in four second tier markets in China: Shenyang, Qingdao, Shenzhen and Chengdu. The China and Mongolia Division (PCM) and the Korean and Oceania Division (PKE) in Ottawa have also provided vital support to the program. Duties of these two divisions are in the process of being assimilated as part of the restructuring of the two Departments (FAC and ITCan). **Figure 1** on the next page provides an overview of the complex structure in which the IBD program operates.

Of particular note is the direct reporting relationship between the IBD Program Manager and the Head of Mission to Foreign Affairs Canada. The IBD Program Managers at the Consulate and Consulates General in China and the Canadian Trade Office in Taipei also have a direct reporting relationship through their Head of Mission to Foreign Affairs Canada. There is no direct reporting relationship between the IBD program at missions and International Trade Canada at Headquarters. Rather, a functional relationship exists as it does between the missions in China, Hong Kong and Taiwan. The linkages of the IBD program from ITCan and its Regional Offices to FAC, other federal departments such as AAFC, NRCan, NRC, EDC and Industry Canada, as well as a number of provincial government departments, trade associations and Canadian, Chinese and Taiwanese businesses create a complex web of relationships and challenging governance and accountability structures.

Figure 1: IBD Structure



### 1.1.5 Resources

The China and Mongolia Division (PCM) is responsible for supporting the five diplomatic missions in China (including Hong Kong) whereas the Korea and Oceania Division (PKE) is responsible for supporting the Canadian Trade Office in Taiwan. These divisions are also responsible for taking the lead within FAC and ITCan together with federal-provincial and other partners (e.g. the Canada-China Business Council) to advance Canada's national interests in China and Taiwan. The trade units within both PCM and PKE are planned to be assimilated into one division within the World Markets Branch in ITCan. Once this branch is operationalized, it will perform essentially the

same support duties as PCM/PKE. The human, financial and program resources available to the IBD program in China, Hong Kong and Taiwan are summarized in **Figure 2**.

**Figure 2: Overview of the Missions in China, Hong Kong and Taiwan**

Item	Category of Staff	Beijing	Hong Kong	Shanghai	Guangzhou	Chongqing	Taiwan
<b># of IBD staff</b>	CBS Trade Commissioners	9	2	3	2	1	4
	LES Trade Commissioners	10	8	4	5	3	5
	LES Trade Commissioner Assistants	2	8	4	2	1	4
<b># of OGD funded staff at mission</b>	AAFC CBS	1					
	AAFC LES		2	3			
	CFIA CBS	1					
<b># of Partners co-located at mission</b>	Québec CBS	1		1			
	Québec LES	1		2			2
	Alberta CBS	1					
	Alberta LES	6					2
	Ontario CBS			1			
	Ontario LES			1			
	EDC CBS	1					
	EDC LES	1					

Item	Category of Staff	Beijing	Hong Kong	Shanghai	Guangzhou	Chongqing	Taiwan
CSF funds		\$60,843 (2004)	\$77,000 (2004)	\$63,650 (2004)	\$20,913 (2004)	\$7,360 (2004)	\$72,900 (2004)
O & M funds		\$113,000 (2004)	\$49,000 (2004)	\$27,000 (2004)	\$28,457 (2004)		\$56,960 (2004)
AAFC Funds				\$47,000			\$124,500

## 1.2 Evaluation Context

### 1.2.1 Overview

China has become the world's newest economic powerhouse. With the fastest growing economy in the world, China is the second largest market after the USA and Canada's third largest trading partner. Not only is it a growing market for raw materials, industrial goods, capital equipment, and consumer products, China is now emerging as a global financial power, a holder of debt and a target and source of foreign investment. China has become the "factory of the world" manufacturing everything from textiles and consumer products to sophisticated electronic equipment, software, and high end value added products. China is now a vital link in many of the global value chains that have emerged as global companies seek production efficiencies and strategic regional positioning to remain competitive worldwide.

The evaluation of Canada's International Business Development Program in China, Hong Kong and Taiwan comes at an opportune time as government, business, and others struggle to quickly develop a China strategy. The lessons gleaned from this study will not only feed into how Canada approaches IBD in the greater China region but also how the IBD program operates in the rest of the world. The evaluation was conducted during the months of March, April and May 2005.

### **1.2.2 Objectives of the Evaluation**

The objectives of the evaluation were as follows:

- To provide senior departmental managers with a structured assessment of the processes and systems used to plan, resource, coordinate, implement and report on program performance within the IBD program in China, Hong Kong and Taiwan;
- To profile, analyse and document the progress made in the achievement of program objectives and expected results;
- To identify best practices and lessons learned which can eventually be replicated in other locations.

### **1.2.3 Evaluation Issues and Questions**

The evaluation addressed the issues of relevance, success and cost effectiveness. It also looked at program governance/management processes and questions of specific relevance to the IBD program in China, Hong Kong and Taiwan. The evaluation covered the period from January 2003 to March 2005.

#### **Relevance**

The issue of relevance addresses the continued rationale and on-going need for the IBD program at missions. Relevance issues question if the program still makes sense and whether the vision, guiding principles and themes remain relevant.

#### **Success**

Success addresses the extent to which the program is meeting its objectives and targeted results.

#### **Cost Effectiveness**

Cost effectiveness addresses the extent to which the most appropriate and efficient means are being used to achieve the objectives, relative to alternative delivery approaches.

In order to address the above evaluation issues and questions, the evaluation team was guided by the IBD logic model. The use of this analytical tool facilitates a systematic and rigorous assessment of IBD programming, including an assessment of cause-and-effect relationships along the continuum of results.



## **2.0 EVALUATION METHODOLOGY**

### **2.1 Description of the Evaluation Methodology**

The Evaluation was led by personnel from the Evaluation Division (ZIE) supported by personnel from the Trade Branch and the Investment, Science and Technology Branch of ITCan. The main lines of inquiry for the review were:

- Determining the needs of Canadian businesses targeting the Chinese, Hong Kong and Taiwanese markets and the barriers to their business success and how well the New Approach and the core services are responding to these needs;
- Determining the appropriateness and usefulness of the support from the IBD program for Canadian companies as well as other government departments and levels of government in the effective coordination of export, investment and science and technology efforts within foreign markets;
- From the perspective of Chinese and Taiwanese organizations and Canadian companies with offices, agents, or representatives in China and Taiwan, determining the profile and image of Canadian suppliers, investment opportunities and science and technology development activities;
- Reviewing, with mission personnel as well as personnel at Headquarters, the strategies, systems, capacities, and barriers to fulfilling the needs of their clients; and
- Documenting to the extent possible the tangible outcomes of ITCan support for exporters and partners in terms of expanding and diversifying export sales, attracting foreign investors, and pursuing S & T opportunities.

To accomplish this, the evaluation team undertook a series of investigations.

#### **2.1.1 Document, File and Database Review**

A review was conducted of the volume of activities conducted at the six Missions, in terms of core services offered, clients served, as well as additional services not tracked in ITCan's World Information Network for Exports (WIN Exports) such as market reports and Client Service Fund (CSF) projects. Additionally, other documents and files were reviewed including planning documents, mission visits, strategy papers, success stories, letters of appreciation from clients, performance reports and other information provided by the six missions and at Headquarters. A brief literature review was

conducted to identify markets trends and potential for Canada to increase its share of the export and investment market in China.

### **2.1.2 Key Stakeholder Interviews**

Interviews were conducted with FAC and ITCan staff at Headquarters, at ITCan Regional Offices across Canada, with officials from partner Government Departments in Canada, officers of industry and bilateral associations, and with provincial government representatives involved in trade and investment. In person interviews were held in Ottawa, Toronto and Vancouver. Those outside these areas were interviewed by phone.

### **2.1.3 Field Mission to China, Hong Kong and Taiwan**

The evaluation team after an initial briefing in Beijing by the Ambassador and the Trade Program Manager divided into three groups of two evaluators each to conduct a three week field mission to the 6 missions in China, Hong Kong and Taiwan. Each group visited 2 missions and conducted extensive interviews with IBD staff, personnel from partner departments and provincial governments co-located at the mission, and personnel from other sections of the embassy.

Interviews were also conducted with Canadian client companies and Chinese and Taiwanese companies who were identified as local contacts of the missions. In Beijing, Shanghai, and Hong Kong, the evaluation teams met with representatives from the trade sections of other OECD countries, in particular Australia, the United Kingdom and the United States. The purpose of these interviews was to understand the structure and support of their trade development and investment programs in Greater China. A follow-up questionnaire was sent to seven OECD countries.

Finally, three of the four Canada China Business Council offices (Shenyang, Shenzhen and Chengdu) under contract from ITCan to provide core services to Canadian client companies in sub regional markets were visited. Canadian clients and local contacts of the CCBC were also interviewed in these sub-regional markets to provide their perspective on the level and quality of services offered by the CCBC.

### **2.1.4 Survey of Canadian Exporters**

A telephone survey was conducted of Canadian business clients who received services from the six missions between the period January 2003 to March 2005. The sample consisted of all corporate clients listed on ITCan's WIN Exports computerized database as having received services for that period. This represented 1870 companies of which 200 completed the questionnaire providing a margin of error of +/- 7.5%. The purpose

of the survey was to determine the importance, satisfaction with and impact of the services received by Canadian company clients at each of the missions and to help ascertain the influence of the Trade Commissioner Service in helping Canadian companies achieve results in the Chinese, Hong Kong and Taiwanese markets.

## **2.2 Limitations of the Evaluation**

The major limitation faced by the evaluation team was in the analysis of data from the WIN database. After careful review by the evaluation team, it was determined that the integrity of the data in the WIN system is suspect and, therefore, a proper analysis of each mission by its WIN entries could not be conducted.

A second limitation was the scope of the evaluation which involved field visits to 6 missions and 9 cities and interviews with over 100 stakeholders in Canada and at field locations. To cover the breadth of the evaluation, the evaluators formed 3 teams of 2 evaluators each to conduct the interviews and field visits. As a consequence, the evaluation team recognizes that a degree of variance can enter into the information collected as each evaluator has his/her own style and method for conducting interviews. To minimize the amount of variance entering into the data collected, the evaluation team developed interviews protocols for each stakeholder group and held frequent team meetings to discuss the results of the interviews.

A third limitation encountered by the evaluation was in the selection of Canadian clients and Chinese/Taiwanese contacts who were interviewed at each mission in China, Hong Kong and Taiwan. The evaluators were dependent on each post to identify the appropriate interlocutors according to defined criteria provided by the evaluation team. Each mission was requested to provide a list of clients and partners from which the evaluators identified a number of likely candidates for interviews. The post then arranged the itinerary with these clients/contacts for the evaluators. Although every effort was made to assure that the clients/contacts identified for interviews were selected without bias, the evaluators accepted a degree of uncertainty in this regard in favour of more efficient planning of the field exercise.

Finally, the evaluation employed a methodology which emphasized to a great extent an internal examination of the products and services offered by the Trade Commissioner Service. A more in-depth analysis of the market characteristics, the character of the Canadian client and an analysis of the range of complex issues facing exporters, investors, and science and technology proponents would have helped the evaluators develop a baseline within which to situate the results being achieved by the IBD program in China, Hong Kong and Taiwan.

## **2.3 Rigour of the Evaluation**

The evaluation team undertook a comprehensive review of documents, databases, files, and reports which was complemented by a survey of Canadian exporters and structured interviews with a wide cross section of stakeholders involved in the China, Hong Kong and Taiwan IBD programs. Results of the interviews with mission staff were compared to the results of interviews from partners, clients and other stakeholders at the missions and in Canada. Findings and conclusions were based on these multiple lines of evidence. A comparison of Canada's trade program in China with that of other like-minded nations was conducted through interviews and a follow-up questionnaire.

## 3.0 KEY FINDINGS

### 3.1 Continued Relevance of the IBD Program

*“...China should be Canada’s top priority. Not only did we hear this from government officials and the Trade Minister, but there was widespread agreement across businesses and associations that, while economic opportunities may exist around the world, China was in a class of its own.”*

*"Elements of an Emerging Markets Strategy for Canada"*

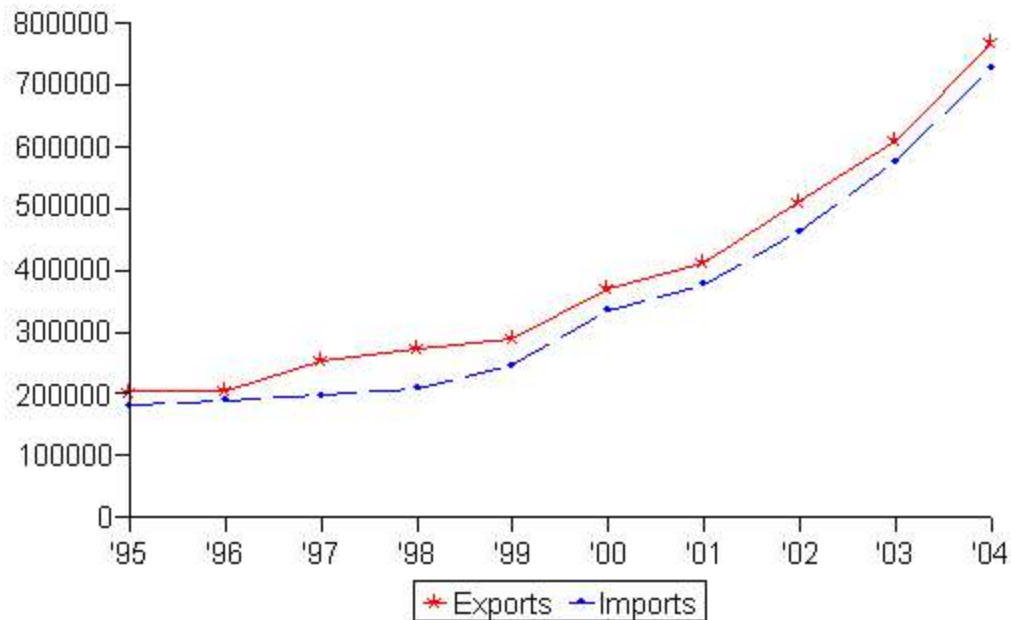
*Standing Committee on Foreign Affairs and International Trade, June 2005*

**Finding 1:** *The evaluation confirmed the relevance of maintaining and even expanding Canada’s trade presence in Greater China. The size of the Chinese economy and the pace at which it continues to grow is expected to generate significant opportunities for trade, two-way investment and science and technology activities for Canadian companies in the foreseeable future. Deepening of the bilateral relationship with China, not only in trade but across the spectrum of international relations is consistent with Canada’s foreign policy goals, objectives and priorities. Moreover, the positioning of Canadian business strategically in key emerging economies is the second most important priority of International Trade Canada after securing and enhancing commercial ties in North America.*

China is a very different market today than it was 10 years ago and the pace of change is staggering. China has emerged as a global economic powerhouse rivalled only by the US, the EU and Japan. It has become one of the world’s largest trading nations as an importer of commodities and an exporter of manufactured goods to North America, Japan and the EU. Chinese imports (mostly from Asia) have increased 324% over the last 10 years.

China’s accession to the World Trade Organization in 2001 paved the way for the liberalization and reform of the centrally planned economy. Since 1995, China’s total trade has quadrupled from US\$280 billion to over US\$1.1 trillion in 2004, and has doubled since its entry into the WTO. China is now the third largest importer after the US and Germany. By 2008, China will be the world’s third-largest exporter and by the end of the decade its economy will be larger than France’s or the U.K’s. **Figure 3** below shows the growth of China’s merchandise trade with the world since 1995.

**Figure 3: China's Merchandise Trade (Billions Cdn\$)**

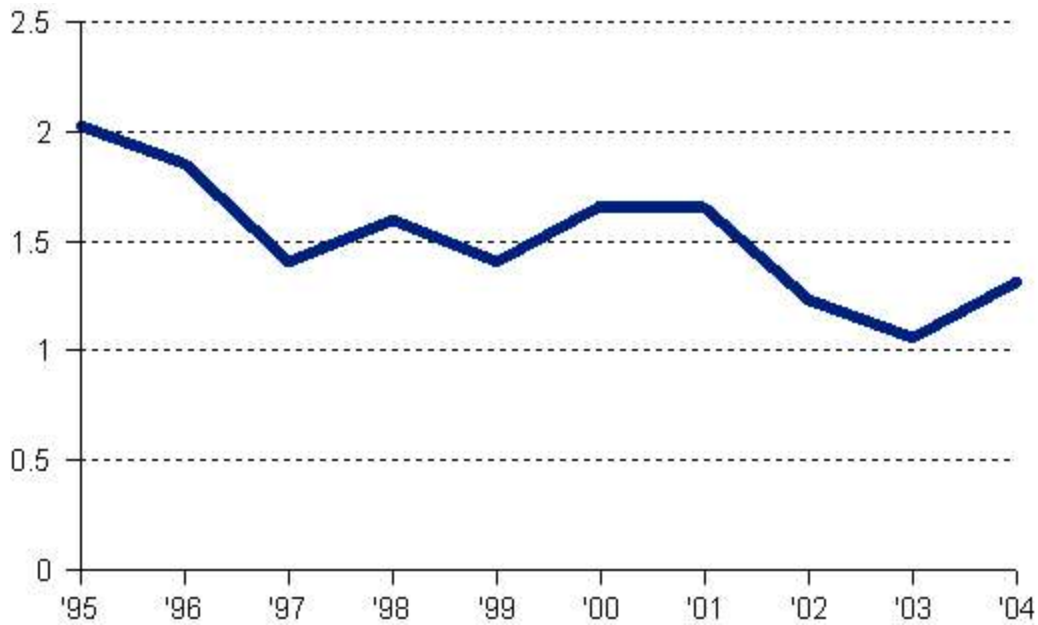


Data: World Trade Atlas

Within this context of growth, Canada is a small but respected partner for China, accounting for just 1.36% of its imports and 1.39% of its exports. Overall, Canada's exports to China have grown significantly but have not kept pace with imports and have not grown at rates comparable to other countries' exports to China. Canada's exports to China increased 157% over the last decade from \$3.7 billion in 1995 to \$9.5 billion in 2004. However, as shown in Figure 4, Canada's share of China's import market has fallen from 2 per cent ten years ago to 1.3% in 2004. Last year, Canada was the 18<sup>th</sup> largest exporter to China, behind Saudi Arabia, Brazil and the Philippines and has lost ground to the United States, Europe, Japan and Australia, all of whom have seen their exports grow more rapidly. Imports from China rose 29.7% to nearly \$24 billion. It is encouraging to note that during the last year, Canada was one of few nations whose growth in exports to China actually surpassed the growth in imports.

An internal departmental analysis calculated that an increase of 0.5% in Canada's share of imports into China by 2010 would have the effect of creating roughly 65,000 net new jobs and contributing about \$6 billion to the Canadian economy.

**Figure 4: Canada's Share of Chinese Imports (%)**



Data: World Trade Atlas

China is the second largest recipient of Foreign Direct Investment (FDI) inflows in the world accounting for US \$1 billion per week. FDI stocks in China surged after 1992. In 2004, China had US\$245 billion worth of FDI stocks. China is now the 11<sup>th</sup> most important destination for FDI in the world. Canadian direct investment in China has shown a consistent increase in recent years, rising from \$419 million in 1997 to \$647 million in 2004. This is considered a very low amount given the size and growth of China's economy. In comparison, Canadian investment in Brazil has reached over \$6 billion. Direct Chinese investment in Canada reached \$422 million in 2003 and is shifting from small family-controlled enterprises to the more sophisticated operations of multinational companies. This rise in investment, however, is tiny when compared to the more than US\$50 billion China is currently investing around the world.

The impact of doubling Chinese foreign direct investment in Canada from its 2003 level of \$422 million to \$844 million by 2010 and sustaining that investment would contribute 27,000 net new jobs to the Canadian economy.

The demand for support from Canadian companies and institutional partners is not expected to wane in the foreseeable future. China was ranked second overall in the 2004 Client Survey among foreign markets where clients of the Trade Commissioner Service (TCS) are currently active. A total of 26% of all respondents (n=1,340) said

that they were active in China. According to a recent study by Canadian Manufacturers and Exporters (CME), China will be the most significant factor determining the long-term future of manufacturing in Canada. Over 40% of manufacturers responding to the CME survey stated that the opportunities and challenges posed by China will fundamentally reshape the nature of their business over the next five years. 43% already reported losing market share to Chinese competition within Canada. China, however, is also a source for dynamic market growth and for manufacturers a means of cutting production costs, improving supply chain efficiencies, buoying up profits and lowering prices for customers. Nearly 35% of companies report that they are already part of a supply chain or business network that includes Chinese companies. A further 19% see opportunities for selling into the Chinese market and 29% see the potential for increasing their sourcing activities.

Given these factors, the evaluation found a strong rationale for maintaining and even expanding Canada's trade office representation in Greater China. Deepening of the bilateral relationship, not only in trade but across the spectrum of international relations is consistent with Canada's foreign policy goals, objectives and priorities. More specifically, the "positioning of Canadian business strategically in key emerging economies" is the second most important priority of International Trade Canada after "securing and enhancing commercial ties in North America".

The size of the Chinese economy and the pace at which it continues to grow is expected to generate significant business development opportunities in the foreseeable future. As well, China's capacity in research and development and science and technology (S&T) writ large is increasing rapidly in scope and complexity. China has been identified as a priority for S&T cooperation by the National Research Council (NRC) and other government departments. The relationship with Taipei (mostly on the technology side) is already well established.

**Finding 2:** *The evaluation found that the IBD program in China, Hong Kong and Taiwan is being delivered according to the mandate and objectives of the Trade Commissioner Service to promote Canada's economic interests in global markets. However, there is little evidence of a comprehensive and strategic approach to China that recognizes new requirements for Canadian enterprises to succeed globally and be able to reap the highest economic returns for Canadians.*

It has been extensively written and argued elsewhere, that the major consequences of China's growth and global integration on Canada are expected to be:

- substantial net benefits for both Canada and the global economy;



- a major, and growing, new market for Canadian goods and services;
- lower costs of a broad range of manufactured goods for Canadians;
- significant structural changes for the Canadian economy;
- growing demand for Canadian commodities and skill-intensive goods and services; and
- pressure on low-skill, labour intensive sectors subject to international competition.

The benefits and challenges of China's new and growing status as a key player in the global economy are expected to be markedly greater than the opportunities and challenges posed by the growth of any other contemporary economy. China's emergence is a unique, powerful and transformative event in the world economy.

While the business model of the Trade Commissioner Service is contributing to the IBD's program objectives of increasing exports and diversifying export products, three elements were found missing or lacking sufficient attention in the current approach:

- the coordination and integration of the efforts of other government departments, provinces, municipalities, business associations and other partners that would enable a 'whole of Canada' approach to China;
- the identification of Canadian capabilities, interests and capacities, and matching these to opportunities found in the Chinese, Hong Kong and Taiwanese markets; and
- the coalescence of export, investment and science and technology promotion services with trade policy, market access, international development assistance and trade financing activities to meet new requirements of global enterprises to enter into and succeed in these markets.

A key strategic result of International Trade Canada is to enhance the participation of Canadian businesses, other stakeholders, and the general public in the development of Canada's international commercial agenda. A major part of this work is in aligning representation abroad with Canadian Government priorities to ensure the effective integration of ITCan's strategy with those of its partners and other stakeholders. While collaboration and coordination of activities occur at the mission level and for specific events, the evaluation found that the integration of activities at the strategic level to develop a 'whole of Canada' approach is inadequate.

Comments from both partners and mission personnel identified a number of times when partners and ITCan officials, unaware of the other's agenda, were meeting with

the same resources within a short period of time, when Chinese officials perceived that Canada was giving different messages to their Chinese counterparts and when high-level visits appeared to be un-coordinated. Partners stated that they needed better planning and coordination with ITCan and the IBD missions in China, Hong Kong and Taiwan in order to jointly identify priorities for action in the next business cycle. Some felt just sharing of information was not enough; there needs to be a creation of synergy with all Canadian elements involved in China. Staff at posts reported that they are inundated with visiting missions from partner organizations. If these missions were better coordinated, they would be more effective and would save time and resources. In Canada, partners and regional trade officers voiced concern about the number of general and unfocussed missions coming from China. They suggested that if these missions were more sector oriented and focussed on the specifics of how Canadian companies can compete in the Chinese market, they would be better able to recruit Canadian companies for meetings and seminars.

In comparison to the presence sustained by our major competitors, namely the US, UK, Japan and other OECD member nations, Canada is falling behind. Many countries have comprehensive strategic policies in place to deal with the opportunities and challenges related to China. They are significantly building up their programs and capacity and have begun to expand their local presence into sub-regional markets (second and third-tier cities). Some competitors have strengthened their planning, reporting and accountability by appointing a country or regional program manager. Canada, as yet, has not taken similar measures of any significance.

Any plan that is developed needs to be rooted in a solid analysis of Canadian capabilities, interests and capacities matched to specific needs and opportunities in China as well as our comparative advantage relative to competing export nations. This analysis of Canadian capability can only come from a well functioning domestic network within Canada. Matching capability to opportunities in China will also require a strong network in China that includes an effective presence in China's emerging second tier cities.

The current IBD model needs to move beyond a model in which Canadian companies are viewed as simply exporting to, importing from or investing in global markets. As the requirements of companies engaged in global enterprise change, there is a need to capture the highest available return to Canada from global supply chains and business networks that conduct their business activities concurrently in any number of countries. The integration of TCS promotional services for trade, investment and science and technology exchange with activities related to trade policy, market access, international development assistance and trade financing will help ease entry and promote success in global markets for Canadian enterprises. It will ensure that trade rules are enforced,

health, safety and environmental standards are improved and access to markets are open and secure.

In summary, a comprehensive Canadian strategy for China will need to bring together a whole of Canada approach, a reinvigorated and strengthened in-Canada network working coherently with an expanded and focussed in-China network and the integration of services and activities to meet the requirements of global enterprises to enter into and succeed in China.

### 3.2 Governance

**Finding 3:** *There is no one position accountable for the IBD Program in China. The current accountability framework limits the ability of the program to develop a long term strategic plan for all of China. There is a need to restructure the governance of the China program in order to facilitate the coordination and integration of the strategies, plans, activities and resources of all missions in the Greater China region.*

The governance structure of the IBD program in China, Hong Kong, and Taiwan is organized along the lines of the model found in Canadian missions around the world whereby trade programs at each mission are led by a Trade Program Manager who is supported by his/her team of Trade Commissioners and Trade Commissioner Assistants. Each Trade Program Manager reports directly to his/her Head of Mission who is responsible in a multiple mission country such as China for coordinating and reporting on mission activities to the Ambassador. The table in **Figure 5** identifies the current governance structure at each of the missions in China, Hong Kong and Taiwan and identifies the number of priority sectors, the number of sector teams and level of responsibility attached to investment and science and technology activities.

**Figure 5: Governance Structure at China, Hong Kong and Taipei missions**

	Beijing	Shanghai	Hong Kong	Guangzhou	Chongqing	Taipei
Head of Mission	Ambassador	Consul Gen.	Consul Gen.	Consul & STC	Consul & STC	Ex. Dir.
Trade Program Manager	Minister (Counsellor)	STC	STC	Consul & STC	Consul & STC	STC
# of Program Teams reporting to the TPM	3	1	1	1	1	3
# of Priority Sectors (04-05/05-06)*	22/14	11/11	10/12	8/16	8/8	12/13
Senior Officer leading Investment	Yes	No	Yes	No	No	No
Dedicated Investment Officer	No	Yes	No	Yes*	No	Yes*
Senior Officer leading S & T	No	No	Yes	No	No	No
Dedicated Science & Technology Officer	No	No	No	Yes*	No	Yes*

\*as identified in the IBD Business Planning and Reporting Template

\*\* Same officer is handling both the investment and S&T files

The evaluation found that the current accountability framework limits the ability of the China missions to coordinate the IBD program effectively. Trade Program Managers (TPM) at individual missions indicated that they are not sufficiently consulted on overarching issues until after the fact. As each TPM is responsible for his/her own region, business plans are being developed in the absence of an overall strategic plan for China. One of the consequences of the lack of a comprehensive plan is the tendency to establish more sectors as priority sectors than are feasible with the resources available. This is particularly acute in Beijing, where the workload for both priority and non-priority sectors is high and made even more difficult with the support being given for the increasing number of high level visits to Beijing.

**Figure 6** shows the priority sectors for each post as identified in the IBD Business Planning and Templates for the fiscal years 2004/05 and 2005/06. Priority sectors are areas where officers need to be proactive in their work and will include areas where there are important trade policy issues and can cover the full business spectrum (i.e. investment and S& T activities). They should be selected where there are opportunities

in the local market matched with Canadian capabilities and Canadian interest. When there are too many priority sectors, effectively there are none. As illustrated in Figure 6, Beijing had identified 22 priority sectors in 2004/05. They have since whittled this number down to 14 priority sectors for 2005/06. Guangzhou, on the other hand, increased the number of priority sectors from 8 to 16 although they maintain that they are really only working on six sectors in a proactive manner. The effectiveness of the IBD program is directly proportional to the level of analysis conducted of Canadian capabilities and interests matched to opportunities and the prioritization of an officer's time so that he/she is working in areas that can make a difference for Canadian clients.

**Figure 6: Priority Sectors at each Post as identified in the IBD Business Planning Templates**

	Beijing		Shanghai		Guangzhou		Chongqing		Hong Kong		Taipei	
	04/05	05/06	04/05	05/06	04/05	05/06	04/05	05/06	04/05	05/06	04/05	05/06
Advanced Manufacturing Tech.										✓		✓
Aerospace and Defence	✓	✓	✓	✓		✓					✓	✓
Agriculture Technology & Equip.	✓		✓	✓		✓	✓					
Agriculture Food and Beverages	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Arts and Cultural Industries	✓									✓	✓	
Automotive	✓	✓	✓	✓								✓
Bio-Industries						✓				✓	✓	✓
Building Products	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Chemicals	✓											
Consumer Products	✓											
Elect. Power Equip. & Services	✓	✓				✓						

Evaluation of the IBD Program in China, Hong Kong and Taiwan

	Beijing		Shanghai		Guangzhou		Chongqing		Hong Kong		Taipei	
	04/05	05/06	04/05	05/06	04/05	05/06	04/05	05/06	04/05	05/06	04/05	05/06
Environmental Industries	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Fish and Seafood Products	✓	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓
Forest Industries	✓		✓	✓		✓						✓
Health Industries	✓	✓			✓	✓			✓	✓	✓	✓
Info. & Communication Tech.	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Metals, Minerals, & Related Equip., Services & Technology	✓	✓					✓	✓				
Oil & Gas Equipment & Services	✓					✓						
Plastics	✓					✓					✓	✓
Rail and Urban Transit	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Services Indust. & Capital Projects	✓	✓	✓			✓			✓	✓		
Education Marketing	✓	✓			✓	✓	✓		✓	✓	✓	
Space	✓											
Tourism	✓	✓		✓				✓	✓			

Another consequence of the absence of coordination between missions is that opportunities are being missed and synergies between programs are not being realised. The evaluation team found instances where clients at one mission would have benefited from programs initiated at other posts, but were not able to because of a lack of information and coordination. While the evaluation found evidence that sector business plans were shared among posts and that virtual sector teams were functioning extremely well, for instance among the southern China posts, these efforts are not

being anchored within a coherent and strategic vision for what the China program hopes to achieve.

An area that would benefit from an improved accountability framework is the reallocation and re-profiling of resources within and among Greater China missions. The evaluation noted that there is significant scope for re-profiling among missions. Currently, imbalances are not being addressed in an effective manner. Each mission makes a business case for additional resources in isolation from the resource needs of the whole China region. Stakeholders have a tendency to protect their existing resources and are not inclined to consider the larger corporate interest.

Other countries have organized their trade programs in China around a Regional Manager or Country Director and found that it helps them to build the coherence and coordination between their programs that can better assist their companies succeed in these markets. Canada should consider doing likewise. For Canada, a Regional Program Manager or Country Director would be responsible for strategic planning, the allocation of resources between missions and the reporting of program results. The restructuring of the governance and accountability framework for the China program would enable ITCan to rationalize and organize existing priorities and resources to maximum effect before considering the expansion of the program.

This position could be assumed by the Minister (Counsellor) located in Beijing. The Beijing office is currently structured along sector lines and organized into two groups each reporting to a Senior Trade Commissioner at an EX-01 level. The current structure for reporting and decision-making appears cumbersome as it creates too many layers for the number of staff and has developed unclear lines of accountability. The evaluation noted that both LES and CBS employees were reporting to their STC and at times to the Minister (Counsellor) directly. Under a new accountability framework, the two STCs could assume the responsibilities for the IBD program in Beijing allowing the Minister (Counsellor) to concentrate on the whole China program.

**Finding 4:** *The Investment and Science and Technology programs have not been made an integral part of the IBD approach in China. There is a need to develop a strategy to capitalize on the opportunities that are present in this market and to ensure that the appropriate guidance, training and support are provided to Trade Commissioners so that investment and S&T becomes an integral part of their work and anticipated results.*

The development of a new accountability framework for China, Hong Kong, and Taiwan should take into account the need for increased programming in the areas of Investment and Science and Technology. The evaluation found that there was inadequate support and training of Trade Commissioners to deliver anticipated results

in investment promotion and science and technology development activities. As illustrated in Figure 5 above, only 2 missions have identified a senior officer to lead the investment file. There are only three out of the six missions with a dedicated investment officer. Science and Technology programming has lagged further behind. Only one mission has a senior officer leading this file and two missions have appointed a dedicated officer who is also responsible for the investment file. With the exception of Taipei, investment and S&T programs have not been integrated into an overall plan for the region. There is a need to develop a strategy to address the opportunities that could be explored and developed in terms of investment and S&T programs in China especially in light of the amount available for outward investment in China and the new funding becoming available for S&T programs.

The evaluation noted that these two areas are just getting off the ground. In Beijing, a two person investment team headed by one of the two senior STC's has been established and has developed a well rounded investment strategy with a targeted list of outcalls. In just under a year, 6 companies have been identified on the Prospect Tracking Report. The structuring of the investment team and its relations with the individual sector teams at the mission have created some friction that could be addressed by providing more responsibility for investment to sector specialists with the investment team providing value added support. The evaluation concluded that across China, there needs to be more emphasis placed on the investment and S&T files. This could be accomplished through the creation of two positions, a Regional Investment Manager and a Regional S&T manager, which would provide the appropriate guidance, training and support to Trade Commissioners serving at China posts and create the impetus to mainstream investment and S&T into the work and responsibilities of sectoral officers.

**Finding 5:** *The roles and responsibilities of Headquarters staff have been weakened by the uncertainties generated by the transition brought about by the separation of FAC and ITCan. There is a need to strengthen the roles and responsibilities of Headquarters staff and staff at ITCan regional offices in building up knowledge of China and Canadian capabilities for entering this market. ITCan HQ needs to play a major leadership role to ensure that there is a coherent and coordinated approach to China required among other federal departments, the provinces and territories, municipalities and other stakeholders.*

In developing a new accountability framework, effort should be focussed on defining the roles and responsibilities of headquarters staff and ITCan staff at Regional Offices. As indicated previously there is an urgent need to strengthen our in-Canada network in order to better define Canadian capabilities, interests and capacities that can be matched to specific opportunities in the Chinese, Hong Kong and Taiwanese markets.



Many Canadian companies are inadequately prepared to enter these markets or they tend not to be sufficiently aggressive to be successful once there. There is a role for ITCan and the Regional Offices to play in building up knowledge of China, Hong Kong and Taiwan and Canadian capabilities for entering these markets. There is also a need to develop a coherent and integrated approach to China among other federal departments, provinces, municipalities and other stakeholders. The geographic bureaux responsible for China and Taiwan have been insufficiently equipped to provide the support that posts need in implementing their programs. Both officers at posts and partners indicated that the geographic bureaux are not very involved in on-going files and do not provide a lot of value-added coordination and support. Part of this is the result of the uncertainties generated by the transition brought about by the separation of FAC and ITCan. With the creation of the World Markets Branch (WMM), roles and responsibilities can be established to provide support for the strengthening of the in-Canada network and to develop an integrated approach to China among ITCan's partners and clients. WMM will need to play a major leadership role in providing the strategic direction and vision for the IBD programs at posts. It will also need to promote consistency in how performance is measured and managed.

### **3.3 Results for Clients and Partners**

There are essentially two primary target groups for IBD programming: Canadian Exporter Firms and partners. Partners include federal, provincial and municipal governments, business and industry associations, educational and research institutions, and economic development and other agencies. For each of these groups, three levels of results were reviewed: the level of direct impact of services; the degree to which benefits were seen by the firms; and the outcomes which had been experienced by the firms in terms of sales and other specific indicators.

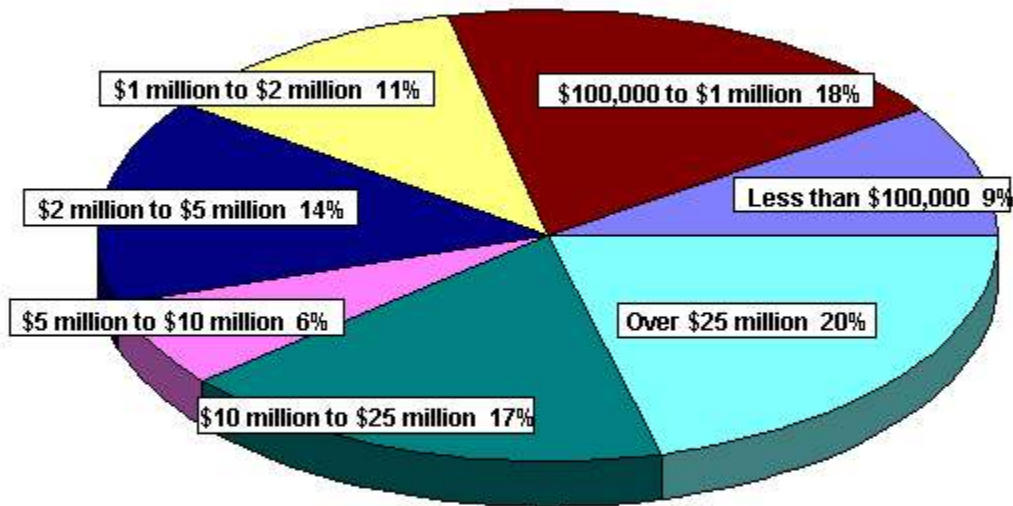
#### **3.3.1 Canadian Exporter Firms**

**Finding 6:** *The evaluation confirmed that the majority of firms accessing IBD services in China, Hong Kong and Taiwan are SME's from across Canada whose primary interest in the market is for the export of Canadian goods and services.*

A priority of IBD programming is the provision of support to small and medium enterprises (SMEs). In particular, assisting SME's to gain access to new markets has been a consistent priority for the Government of Canada overall. The information from the evaluation survey indicates that over 52% of the Canadian firms receiving services from missions in China, Hong Kong and Taipei since January 2003 had total annual revenues of less than \$5 million. At the same time, 20% of TCS clients are some of the

largest firms. **Figure 7** outlines the annual revenues earned in the last business year for the respondents.

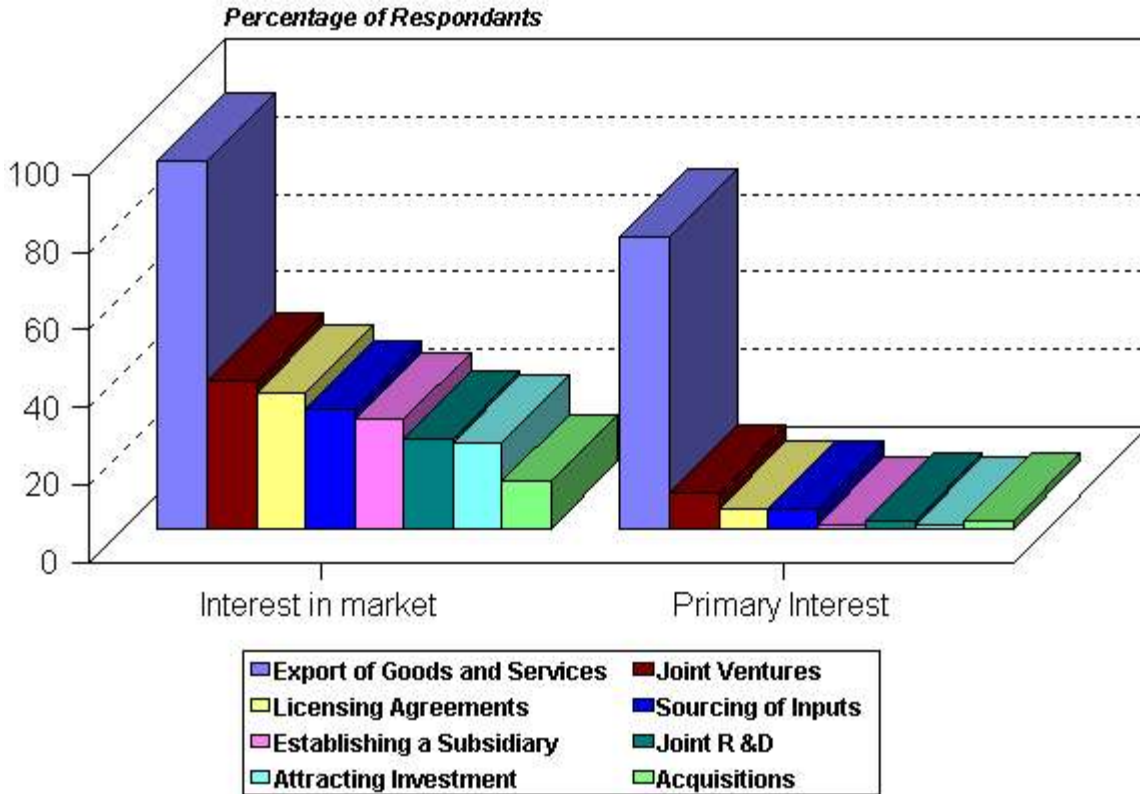
**Figure 7: Average Annual Revenue of Firms Accessing IBD Services**



Source: Survey of Canadian Exporters

Of the 197 respondents to the survey, 58% were already exporting to China, Hong Kong and Taiwan prior to January 2003. For all firms receiving IBD services their primary interest in these markets was for the export of Canadian goods and services. However other interests included joint ventures or equity investments (38%), licensing agreements (35%) and sourcing of inputs (31%). **Figure 8** shows Canadian's firms' interest in China, Hong Kong, and Taiwan and their primary interest.

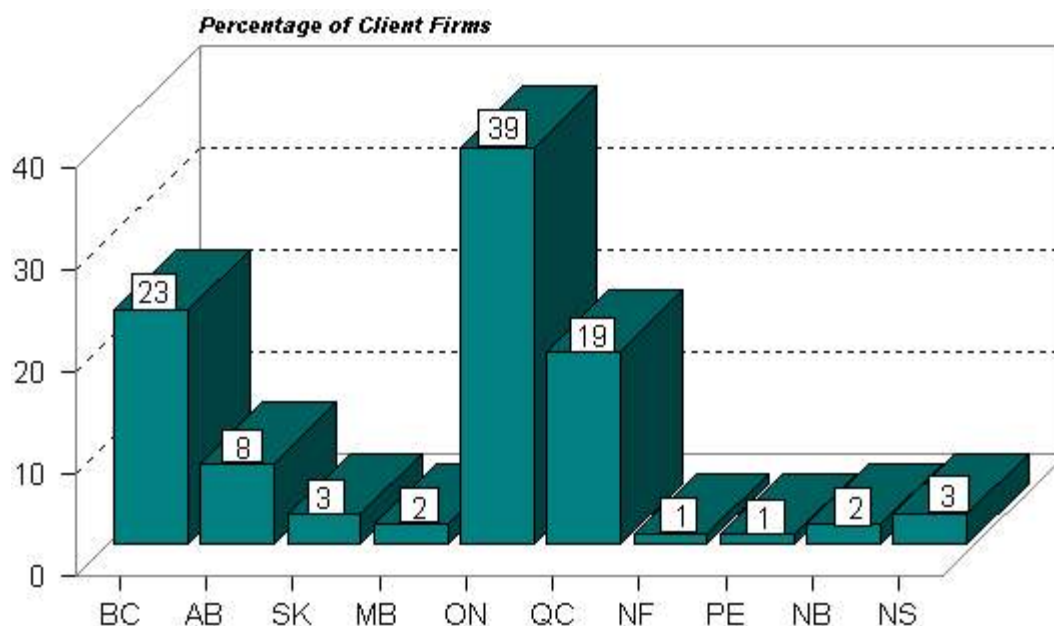
**Figure 8: Canadian Client's Interest and Primary Interest in the Market**



Source: Survey of Canadian Exporters

One of the other priorities of the IBD program is ensure that firms from all across Canada are accessing opportunities within China, Hong Kong and Taiwan. As shown in **Figure 9**, firms assisted indeed come from across the country. The largest concentration of firms is from Ontario (39%), followed by British Columbia (23%) and Quebec (19%).

**Figure 9: Geographic Distribution of Exporters**



Source: Survey of Canadian Exporters

**Finding 7:** *The IBD Program in China, Hong Kong, and Taiwan is achieving its targeted short term results, namely, to assist Canadian companies to acquire the information, contacts and other support necessary to actively pursue international business opportunities in these markets.*

Each of the missions track a number of performance indicators so that they can report on results. **Figure 10** provides a listing of some of these performance indicators for the six missions. Each mission tracks their performance differently. Business success is defined as new partnerships or customer relationships established, contracts signed, business barriers removed or market access issues resolved.

**Figure 10: Performance Indicators**

	Beijing 03-04	Shanghai 04-05	Hong Kong 03-04	Guangzhou 04-05	Chongqing	Taipei 03-04/ 04-05
Business Successes	71	58	47	N/A	N/A	37/85
Qualified Trade Leads	140	149	270	N/A	N/A	261/161
Qualified Investment Leads	12	8	16	N/A	N/A	19/25
Core Services to Established Clients	79	1134	N/A	920	N/A	398/363
Core Services to New Clients	387	571	401	179	N/A	315/270

Some missions also track the number of market reports published, VTC registrants, the number of qualified communications, the number of outcalls made, and the number of Infoexport hits. These indicators provide a sense of the volume of throughput at each mission (i.e. core service transactions, events, missions, etc). However, they can not tell the whole performance story.

A series of questions were asked in the evaluation survey of Canadian clients regarding results which could be attributed as a direct or indirect consequence of the assistance provided by the six Missions. Three levels of results were reviewed. First, clients were asked about the importance to the company of the services received. Second, they were asked to identify whether these services had an impact on their business success in China, Hong Kong and Taiwan and the degree to which benefits were seen by the firm. And third, clients were asked about the outcomes experienced by the company in terms of sales and other specific indicators. As identified in the IBD logic model, targeted short term results relate to whether companies have acquired the information, contacts and other support necessary to actively pursue international business opportunities. Acquiring the latter should lead subsequently to the medium term result of Canadian firms positioning themselves to expand or diversify their international business operations in target markets.

**Figure 11** shows the priority ranking by Canadian firms of the services offered by the missions. For markets such as China, Hong Kong, and Taiwan, troubleshooting assistance ranked as the most important service among respondents who used this service. 76% of respondents stated that this service was a critical or a very important service being offered. Identification of key contacts followed with 74% of which 37%

stated that this was a critical service. Other important services being offered were leads on business opportunities (69%), information on local companies (65%) and face to face briefings (64%). It is interesting to note that two of the six core services, market prospect assessment and visit information, ranked lower in importance than other services offered (51% and 37% respectively).

**Figure 11: Importance of Services Received to Company (ranked by critical and very important)**

	Critical	Very Important	Somewhat Important	Not Very Important	Not at all Important
Troubleshooting	28%	48%	20%	3%	3%
Identification of key contacts	37%	37%	18%	5%	3%
Leads on business opportunities	24%	45%	14%	16%	0%
Information on local companies	20%	45%	20%	8%	4%
Face to face briefings	17%	47%	24%	5%	4%
Matchmaking	17%	40%	30%	11%	2%
Facilitation of business missions	17%	39%	30%	10%	3%
Referrals to other service providers	12%	39%	33%	13%	2%
Market prospect assessment	13%	38%	28%	16%	3%
Market reports and studies	7%	35%	47%	10%	1%
Virtual Trade Commissioner website	16%	23%	41%	9%	10%
Visit Information	8%	29%	38%	19%	5%

The highest perceived impact of IBD services on business success in China, Hong Kong and Taiwan was the identification of key contacts (36% saying this service had a high impact). This was followed by information on local companies (33%), face to face briefings (29%) and troubleshooting assistance (28%). **Figure 12** shows the breakdown of responses to the question of perceived impact of IBD services on business success.

**Figure 12: Perceived Impact of IBD Services on Commercial Success in China, Hong Kong and Taiwan**

	High Impact	Moderate Impact	Little or No Impact
Identification of key contacts	36%	46%	23%
Information on local companies	33%	46%	17%
Face to face briefings	29%	58%	12%
Troubleshooting assistance	28%	55%	18%
Leads on business opportunities	26%	54%	20%
Matchmaking	23%	59%	17%
Facilitation of business missions	23%	58%	20%
Market prospect assessment	19%	56%	23%
Visit information	19%	52%	28%
Referrals to other service providers	18%	51%	31%
Market reports and studies	17%	59%	24%
Virtual Trade Commissioner website	14%	60%	25%

Canadian client companies were also asked to state the impact of benefits to firms from services provided by the IBD missions in China, Hong Kong, and Taiwan. The results are shown in **Figure 13** below. In terms of positive impact, the benefits accrued to Canadian firms were in areas such as ‘improved decision-making ability regarding the market’; ‘helped to improve the company’s image and credibility which comes from having a connection with the Canadian missions’; ‘led to new contact(s) with a potential buyer/partner’; and ‘identified new market opportunities. These results specifically support the short term targeted results of the IBD program: namely to assist companies in establishing the contact and information necessary to pursue business opportunities.

**Figure 13: Benefits to Firms from Services Provided by the IBD missions in China, Hong Kong and Taiwan**

	Positive Impact	No Impact	Negative Impact
Improved decision-making ability regarding market	61%	38%	1%
Helped to improve company's image and credibility	57%	41%	1%
Led to new contact(s) with a potential buyer/partner	53%	45%	1%
Identified new market opportunities	49%	49%	2%
Increased efficiency in our marketing activities	41%	57%	1%
Provided access to new distribution channels	34%	63%	2%
Sales to a new client	34%	62%	2%
Avoidance of red tape and bureaucratic barriers	33%	62%	4%
Export sales to China, HK and Taiwan increased	31%	65%	3%
First-time sale in China, HK or Taiwan	27%	69%	2%
Sales of new products or services	27%	68%	3%

**Finding 8:** *It is less clear whether the IBD program is achieving its targeted medium term result of assisting Canadian firms to position themselves to expand and diversify their international business operations in China, Hong Kong and Taiwan. A majority of Canadian firms did not perceive that the services provided by the missions had a positive impact on sales nor did they attribute their financial results in these markets to the efforts of the IBD program to assist them. Concerns about the IBD's staff knowledge of the company requesting a service, their ability to refer a company to the most appropriate source of assistance, and their capacity to provide information on services/products available to the company suggests a need to increase the volume and quality of market intelligence and contacts within these markets to meet growing client expectations and needs.*

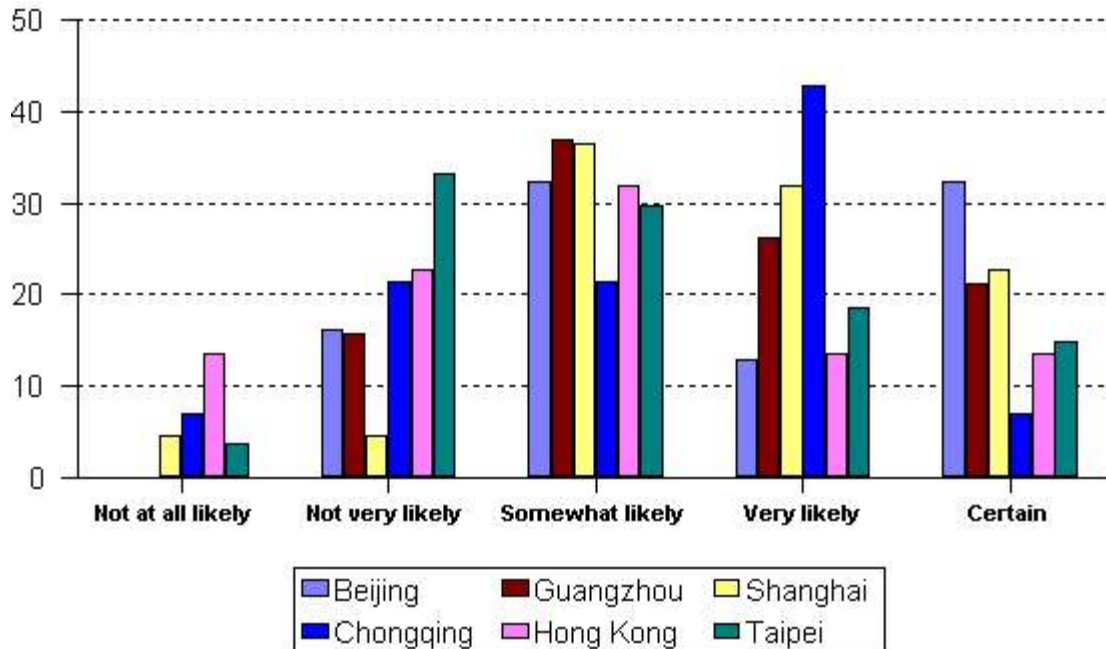
An indicator for achieving the medium term outcome of the IBD program (Canadian business clients are better positioned to expand and/or diversify their international business operations in the target market) is in terms of sales. According to the evaluation survey, less than one third of Canadian clients perceived a positive impact on sales (whether it is an increase in export sales, first time sales, sales to a new client



or sales of a new product or service) as a result of services provided by the missions. Of the 57% who stated they experienced some sort of outcome as a result of the service provided to them, 45% said they were still in negotiations; 25% indicated they had identified a sourcing or supply arrangement, 20% had formed a distributorship for their products, and 12% had entered into a technology transfer agreement or joint research and development activities.

**Figure 14** shows a Canadian firm's likelihood of achieving the same financial results without TCS assistance. Only 24% of firms generating revenue in these markets stated that they were not at all likely or not very likely to have achieved the same financial results without the services provided by Canadian missions. Shanghai, Beijing and Guangzhou recorded the lowest responses with 9%, 16% and 16% respectively while Taipei, Hong Kong and Chongqing had the highest responses at 37%, 36% and 29%. Overall, 32% indicated that they would be somewhat likely to have achieved the same financial results, but more than 42% stated they were certain or very likely to have achieved the same financial results without the assistance of the Trade Commissioner Service. Shanghai recorded the most responses for this category at 55% followed by Chongqing at 50%, Guangzhou (47%) and Beijing (45%). Taipei and Hong Kong recorded the lowest responses at 33% and 27% respectively.

**Figure 14: Likelihood of Achieving Same Results without TCS**



Source: Survey of Canadian Exporters

Part of the difficulty in attributing results to the services provided is that the assistance provided by the missions is seen as a contributing factor for generating revenue in the target market. Rarely are sales seen as a direct result of the services provided. The markets in China, Hong Kong and Taiwan are complex in nature which makes “fast sales” difficult if almost impossible to achieve. Those achieving success in these markets are investing their own time and resources to develop contacts in order to make sales and, as a result, companies do not always perceive TCS services as contributing to these increased sales and revenues. 66% of respondents to the survey stated that they have established a permanent presence in the region whether through local business partners, agents, distributors or the establishment of a local office.

Results from the investments made in IBD programs have been difficult to capture because a) the Department is still building its capacity to move from an activity-based model for performance reporting to a results-based model; b) a proper baseline from which to identify performance targets has not been established; and c) the attribution of services provided by the Trade Commissioner Services to business success of companies active in world markets is difficult to measure given the number of variables affecting a company’s performance in any given market. Nevertheless, over time, the

IBD program should be able to demonstrate its contribution to Canada's productivity and prosperity by the increase in the value and market share of exports, two-way investment and science and technology activities in foreign markets such as China, Hong Kong, and Taiwan.

Another way of measuring performance and effectiveness is to look at the satisfaction levels of clients receiving services from the TCS. The evaluation survey asked Canadian exporter firms about their satisfaction with various elements of the services they received. The results are presented in **Figure 15** below.

**Figure 15: Satisfaction levels with IBD Services**

	Satisfied	Neither satisfied nor dissatisfied	Not Satisfied
Timeliness of acknowledging request	72%	20%	6%
Overall experience with assistance received	68%	22%	8%
Overall quality of assistance	66%	24%	8%
Turnaround time to deliver service	66%	22%	7%
Appropriateness of information received	61%	29%	7%
Accuracy of information provided	60%	27%	6%
Staff's knowledge on subject requested	57%	28%	9%
Consistency of service provided in relation to experience with TCS in other markets	50%	23%	8%
Information on services/products available to the company	47%	36%	10%
Ability to refer to most appropriate source of assistance if unable to respond to request	39%	34%	12%
Staff's knowledge of company	39%	35%	19%

While clients expressed satisfaction with the timeliness of acknowledging the request, overall experience with the assistance received and the overall quality of assistance, they were much less satisfied with the staff's knowledge of the company, their ability to refer clients to an appropriate source of assistance when they were unable to respond to the request, and the information on services/products available to the company. A level of dissatisfaction was echoed in our interviews with clients who voiced concerns about accessibility of Trade Commissioners and the high turnover of personnel

especially among CBS officers. This was most apparent in Beijing which scored consistently lower than the other five missions in the client's satisfaction of the services provided and received. **Figure 16** provides the satisfaction levels across all China, Hong Kong and Taiwan missions. Except for the larger firms with offices in China, many clients expressed that it was difficult to reach and maintain contact with the Beijing mission. They also expressed dissatisfaction with the rotation of CBS Trade Commissioners. With the lack of a strong LES cadre to be able to provide continuity of service, many firms expressed frustration in having to explain their firm, products and needs to incoming Trade Commissioners every two or three years. In some cases, contact between the client and mission completely stopped upon the departure of the CBS Trade Commissioner.

**Figure 16: Satisfaction with TCS Services; All China Posts**

	All China Posts	Beijing	Shanghai	Guangzhou	Chongqing	Hong Kong	Taipei
Timeliness in acknowledging request	72%	64%	78%	69%	57%	78%	83%
Overall experience with assistance rec'd	68%	50%	75%	65%	61%	76%	83%
Overall quality of assistance	66%	48%	78%	65%	65%	68%	77%
Turnaround time to deliver service	66%	55%	66%	62%	48%	73%	89%
Appropriateness of information provided	61%	57%	69%	62%	57%	57%	66%
Accuracy of information provided	60%	55%	66%	55%	57%	60%	71%
Staff's knowledge on subject requested	57%	50%	63%	65%	52%	54%	60%
Consistency of service	50%	39%	47%	58%	30%	57%	69%
Info on services/products available	47%	32%	47%	50%	48%	54%	57%
Ability to refer to most appropriate source	39%	27%	38%	39%	44%	43%	49%
Staff's knowledge of company	39%	30%	50%	35%	44%	46%	34%

In Shanghai, as in Hong Kong and Taipei, Canadian clients were more satisfied with the services received than the other missions in China, Hong Kong and Taiwan. However, concerns were expressed that Canada lacked the necessary resources in Shanghai to truly compete in this market. They found that the program was more reactive than proactive, their work was spread too thin and that the staff needed to know more. A common refrain was that the larger companies established in the market could continue to succeed but that the smaller companies needed more support to establish themselves in the market.

The IBD program in Guangzhou and Chongqing scored lower than the average of their counterparts across all Canada posts. Although the IBD program in Guangzhou appears to be meeting the needs of its clients particularly in identifying business opportunities and enhancing clients' image and credibility with potential buyers and business partners, the mission was considered to be weak in terms of being "easy to reach", and "delivering the service within the agreed time frame".

The above analysis suggests that there is a need to increase the volume and quality of market intelligence and contacts within these markets to meet growing client expectations and needs. Factors limiting the IBD program's ability to achieve better results include resource limitations which involves how resources are organized and managed, the number of high level missions to the region which distract officers from providing regular client services, and the number of priority sectors assigned officers which may result in limited in-depth knowledge of any single sector.

### 3.3.2 Partners

**Finding 9:** *The IBD program in China, Hong Kong and Taiwan is achieving to some extent its targeted results for partners by enhancing the capacity and effectiveness of partners to support IBD programming and in supporting Canadian business clients through programs, services or events co-delivered by partners. Effectiveness of these results can be improved through better coordination and integration of partner strategies and activities as well as by making more strategic links to sector specific initiatives that are led by Canadian company capabilities.*

Partners of IBD missions are intermediaries rather than clients of IBD services. Partners assist or complement the efforts of the IBD missions to support trade and the establishment of on-going relationships. The support provided to partners is meant to increase their results with the ultimate client firms. A wide range of groups are considered partners:

- Federal, provincial, territorial and municipal governments;
- Business and industry associations;
- Educational and research institutions; and
- Economic development and other agencies (e.g. Western Economic Diversification, Atlantic Canada Opportunities Agency)

Some of these partners, mostly federal and provincial governments, are co-located at the missions or are funding trade commissioner positions at the embassy or consulate. Others, such as provinces and industry associations, have established offices in mission cities but outside the embassy or consulate. However the majority rely on the Trade Commissioner Service to assist them in better meeting their needs with their client group of companies. The analysis of information and interviews identified three areas that describe the IBD's interaction with partners. First, the primary interaction tends to be around coordination and complementarity of services offered to clients. This usually involves missions to and from Canada, trade fairs or other specific events. Second, events such as high level missions and Ministerial trips require interaction between partners and the posts to provide support in planning and implementing these events. And third, the provision of support services to the partner organizations themselves in order to help them understand the market context, provide them with contact lists and market information or help them pursue joint activities with Chinese, Hong Kong or Taiwanese counterparts.

Overall, interviews with partners in Canada and in China, Hong Kong and Taiwan indicated that partners were pleased with the support received by the IBD program. In particular, partners who were co-located at missions felt that they were part of the IBD team and integrated into all aspects of the program. In Canada, partners praised the team in place at missions, the support they provided when organizing high level missions to China and the provision of key contacts for their clients when details were provided for why each contact was selected. These comments from partners indicate that the IBD program is achieving to some extent its short term and medium term results in supporting partners:

- The capacity and/or effectiveness of partners to support IBD programming has been enhanced; and
- Canadian business clients are better supported by the programs, services or events co-delivered by partners.

A number of key concerns and suggestions by Partners include:

- The Six Core Services model for China is insufficient. A greater advocacy role is needed and staff should concentrate on providing greater market intelligence.
- Mandarin speaking Trade Commissioners with multiple postings in the region are effective intermediaries for providing services to partners and clients. Consideration should be given to longer postings so that relationships developed can be maintained for longer periods.
- LES to CBS ratios should be adjusted and LES should be provided greater exposure to Canadian business realities.
- The capabilities of Canadian companies should be driving the IBD Program at missions. Partners in Canada felt that when the Trade Commissioners defined the focus of the mission, it too often resulted in missions that did not match Canadian interests and capabilities.

### 3.3.3 Investment

**Finding 10:** *Investment programming, already well established in Taiwan, is just beginning to be developed at missions in China. The evaluation found positive signs of an increased focus on investment promotion that can tap into the enormous potential for inward investment that China offers. Nevertheless, there is a need and scope for strengthening the investment function across all Canadian missions in China and Hong Kong and to mainstream investment into the work of the Trade Commissioner Service.*

In 2003, China passed the USA to become the top destination for foreign direct investment. In recent years, China has also started to become a notable investor abroad, investing US\$3.6 billion in 2004, an increase of 27% over the previous year. Cumulative overseas investments now exceed US\$37 billion. In 2004, according to the Chinese Ministry of Commerce, nearly half of Chinese investment went to Latin America, and some 40% to Asia, mainly in the fields of mining, commercial services, manufacturing, and sales. In March 2004, the Investment Partnership Branch, now called the Investment, Science and Technology Branch identified the need to develop a Federal Investment Strategy for China for which there is a draft in progress.

In our discussions with other countries present in China, we found that most of our competitors are in the process of intensifying their investment program. There is a need for Canada to do the same. At present, the Canadian investment program in China, Hong Kong and Taiwan is largely reactive. That being said, two posts, Beijing and Taipei have developed and are implementing well thought-out strategies with a

targeted list of outcalls. Their efforts have resulted in the identification of 6 companies each on the Prospect Tracking Report which indicates the seriousness of the Company's interest in Canada as a potential investment site. Beijing is the only post besides Hong Kong which has appointed a senior manager as director of investment to be responsible for the coordination of the investment function at the mission. Taipei has a well-functioning unit supporting investment and has developed a separate website for this function. The other four missions are largely reactive although they have each developed an investment plan. Guangzhou, Hong Kong and Shanghai each has one company on the Prospect Tracking Report. Chongqing has only recently developed its plan and has yet to identify a company as a major prospect for investment in Canada.

The evaluation identified a need to strengthen the investment promotion function at missions and to support the integration of investment promotion into the work of the Trade Commissioner Service. The movement of Investment Partnerships from Industry Canada to the new ITCan and the creation of the Investment, Science and Technology Branch signals the importance of this function and the need for its integration into the services offered by Trade Commissioners abroad. Nevertheless there is a clear need to retool the TCS and equip trade commissioners with the resources and knowledge to implement the investment mandate. In our discussions with Trade Commissioners at missions, both CBS and LES officers cited a need for further training on investment and on how to integrate investment into their regular sector activities. The IIT branch recently held an investment seminar in Hong Kong for Trade Commissioners which is an excellent first step in meeting this need. However, more thought needs to be given to an accountability structure that can drive and optimize the investment program in China so that intended results are achieved. Whether through the appointment of a Regional Investment Manager or creation of specialized investment units at each mission, there exists a need to ensure that the appropriate guidance, training and support is provided to Trade Commissioners in all China missions so that investment is mainstreamed into their regular responsibilities and workload.

### 3.3.4 Science and Technology

**Finding 11:** *With the exception of Taipei where the S&T program is relatively well established, missions in China and Hong Kong have only recently begun to address S & T opportunities and issues. Faced with a profusion of Canadian players who are largely uncoordinated, IBD staff at China missions lack the capacity and knowledge to manage Canada's growing S & T relationship with China. There is a need to revisit how missions in China deliver S & T programs. Clear roles and responsibilities need to be established in order to drive S & T development activities and to ensure*



*that the appropriate guidance, support and training is provided to Trade Commissioners at posts.*

Science and Technology (S&T) development activities in China and Hong Kong are relatively new but are rapidly increasing in scope and complexity. China was recently identified as a priority by the National Research Council and other Science-based departments and agencies are becoming increasingly active with some having their own Memoranda of Understanding (MOUs) in place with the Chinese government. China is currently ranked third in the world as a S & T producer and second in terms of the number of engineers.

The S & T relationship with Taiwan is already well established. There have been over 35 collaborative research projects under a bilateral MOU which dates back to 1997. On the mainland, numerous S&T collaboration agreements have been concluded between Canada's science-based departments and their Chinese counterparts. Currently, the National Research Council (NRC) has nine active MOUs. Most of the interaction over the last seven years has involved technology partnerships and conducting missions with technology SMEs through the Industrial Research Assistance Program (IRAP). Recently NRC IRAP opened an office in Beijing to deliver on a joint Sino-Canadian Research and Commercialization Program.

Canada has organized numerous S&T related missions to China to brand Canada's technological excellence as well as to achieve some of the objectives set out in a number of fields: advanced materials, nanotechnology, composite materials and structures, and biotechnology. A wide range of Canadian companies have developed partnerships in China that include technology transfer. These include AECL, NORTEL, Bombardier, and dozens of other firms. Increasingly, Canadian companies are investing in R&D capacity in China.

Until now, institutional MOUs have proven worthwhile for both Canada and China in pursuing bilateral S&T issues. Recently, high level discussions have taken place on considering a comprehensive bilateral S&T collaboration agreement with China. One area of risk for Canada and Canadian companies alike is the protection of Intellectual Property Rights (IPR). Chinese counterparts recognize that the proper enforcement and protection of IPR in China is a major issue that must be addressed before collaborative research and technology transfers can be concluded. Canada has recently announced \$20 million over 5 years in the fiscal framework to support new international S&T initiatives. \$1.5 million per year is targeted for China.

In Canada, there are many different players promoting the S&T agenda. The National Research Council and its IRAP, the National Science Advisor, Industry Canada, and the Science and Technology Division of the Investment, Science and Technology

Branch at ITCan, are the major partners. Other science-based departments are also involved including AAFC, CIHR, and NRCan. In order for Canada to succeed in China, strategic decisions need to be made, and a whole of government approach taken in order to design a well targeted response to emerging opportunities in the S&T field. From our interviews in Canada and in China, the evaluation found that Canada's approach to science and technology development activities in China is largely uncoordinated. Various departments are trying to take the lead on promoting Canada's S&T agenda in China which results in mixed messages to Chinese counterparts. On the domestic side, there remains a lot of work to be done in terms of policy direction and effective coordination. On the China side, there is a need to ensure that there is adequate capacity to manage the S&T relationship. The major S&T players, key sectors and other program imperatives in China remain somewhat elusive and most IBD staff are unsure how to proceed. In addition to S&T promotion and facilitation, and ensuring due diligence, the IBD programs could be doing more with respect to S&T intelligence gathering and policy analysis. Currently IBD staff get all of their information second-hand. This points to a need to restructure how S&T development activities are being delivered at missions in China. Clear roles and responsibilities need to be established in order to drive S&T development activities and to ensure that the appropriate guidance, support and training is provided to Trade Commissioners at posts.

## **3.4 Program Management**

### **3.4.1 Introduction**

This section of the report provides an overview of the management practices, the effectiveness of the organizational structure, and the systems and tools in place to manage the program. Within China, the biggest impact on management practices has been the overwhelming number of official and high level missions that have involved IBD staff especially in Beijing and Shanghai. This has placed a heavy burden on IBD staff in terms of time and resource requirements. The discussion below identifies areas for improvement as well as best practices adopted in China, Hong Kong, and Taiwan that may be applied elsewhere. The evaluation assessed the cost-effectiveness of the IBD program in China, Hong Kong and Taiwan by examining business planning processes at missions, the implementation of results based management, communications within and between missions, and the adequacy of resources.

### **3.4.2 Planning Processes**

**Finding 12:** *Although each mission in China, Hong Kong and Taiwan has taken steps to formalize the business planning process, most plans remain activity based, are operational for only one year, and are not derived from an*

*overall strategic plan because none exists. A formal documented strategic plan for the entire China Trade Program would improve the coherence and consistency of the Program at all China posts.*

The planning process for missions in China, Hong Kong and Taiwan are mission specific and generally entail the following elements:

- The development of strategic objectives of the IBD program related to key departmental results and program priorities of the individual missions such as the need to ensure service excellence, enhance market intelligence, promote market access, raise Canada's visibility in the marketplace, and select high priority sectors for proactive activities;
- The development of operational plans for each strategic priority and priority sector identifying market opportunities for Canadian clients and designing specific initiatives to respond to these opportunities; and
- The development of workload projections, performance management indicators, and results measurement in order to be able to track services provided and results obtained.

The review of the planning processes undertaken in the China, Hong Kong and Taiwan programs found that although all missions have taken great strides in formalizing the planning process and linking together sector opportunities with planned objectives and initiatives, additional effort is required to develop a more dynamic and better integrated overall plan. As it currently operates, each Mission selects priority sectors based on their analysis of the opportunities present in the market and their perception of Canadian firms' capabilities and demands in these sectors. The quality of the documentation, rationale, and opportunities that are identified in business plans vary from mission to mission and among priority sectors. Most plans are still activity based, are operational for only one year, and are not based on or guided by a strategic overall plan because none exists.

There is a need to first develop a comprehensive overview of the priority sectors across China, their challenges and opportunities followed by an in-depth analysis of Canadian capabilities and interests in these sectors. Drawing from this analysis, the short, medium and longer term goals that the IBD program hopes to achieve should be identified. Once an overall strategic plan which includes an analysis of key sectors has been developed, operational plans can be completed to detail how specific activities and events will lead to the intended results.

A better documented and strategic overall plan would improve the coherence and consistency of the China trade program at all posts. It would also provide a framework

to manage the pressures of providing client services, hosting missions and influencing trade and economic policies and regulations. Finally, it would facilitate communication among the six posts (including Taiwan) as well as with partners and stakeholders as they work together to identify priority sectors and business opportunities for Canadian clients at the strategic level over a 3-5 year time horizon. Other critical elements to be included in the overall plan are an integrated training plan for all CBS and LES, workload measurement systems, and clear instructions for the assignment of responsibilities.

### 3.4.3 Results-based Management and Performance Measurement

**Finding 13:** *Although a results based management system is currently in place at each mission, a lack of understanding of RBM principles among staff and the absence of any linkage between the short term results achieved to the medium and long term outcomes envisioned for the IBD program makes it difficult for managers to manage their programs for results.*

Managing for results is being integrated through the annual business planning exercise and the IBD business planning and reporting templates for the Client Service Fund. Each mission has identified the key departmental results related to IBD that they hope to achieve through their activities during the fiscal year. Among the six missions, these results have generally included the following:

- Effective delivery of IBD services to Canadians;
- Better market intelligence and greater market opportunities;
- Increased visibility of Canadian products and services;
- Expanded base of Canadian businesses active in world markets;
- Effective management of trade and other disputes.

All six missions have interpreted these key departmental results differently. For some, it means describing the activities and events that will help them achieve their key results. For others, it means describing the expected results in more detail such as 'expanded base of clients in six priority sectors'. What is lacking in the approach to managing for results at the missions in China, Hong Kong and Taiwan is the linking of these appropriately described short term results to the medium and long term outcomes intended for IBD programs delivered overseas. The four components as described in the logic model have ascribed results in program management (improvement of service delivery) capacity building (improvement of skills, contacts, information and systems), supporting partners (improved effectiveness of partners supporting business clients) and serving business clients (Canadian business clients are better positioned to expand

and/or diversify in the targeted market). Only the last component, Serving Business Clients, appears to be addressed in the results-based management system established for posts in China. According to the logic model for IBD programs delivered overseas, each component logically flows from one component to the other. The evaluation found that although results-based management is gaining a foothold in the IBD program delivered overseas, RBM principles remain poorly understood which is making it difficult for managers to manage their programs for results.

**Finding 14:** *The performance measurement system in place for the IBD program in China, Hong Kong and Taiwan is being inconsistently applied across missions. It is unclear how the indicators established for measuring performance are helping managers make decisions concerning priority setting, resource allocation and strategic planning.*

The IBD program in China has established a performance measurement system for all posts to be able to report on results. The posts have identified the following indicators that they are tracking from year to year:

- Business successes (defined as new partnerships or customer relationships established, contracts signed, business barriers removed or market access issues resolved);
- Qualified trade leads to business and partner clients;
- New business clients active in China;
- New Chinese investment/partnerships in Canada;
- Core services provided to established Canadian clients;
- Core services provided to new Canadian clients;
- Client use of InfoExport information; and
- New local contacts developed.

Each mission has developed its own method for tracking these indicators and each will use a different list according to its own needs. For instance, Beijing tracks four indicators. Guangzhou also tracks four indicators, however three are different from the ones Beijing tracks. Shanghai reports on eight indicators and Hong Kong uses three. It is unclear how these indicators inform decision-making at the post in terms of priority setting, resource allocation, and/or strategic planning. For some posts, the data is collected but there is uncertainty around the tabulation and the vetting of results. Furthermore, these indicators do not address results being achieved with partners, with building capacity and in improving program management.

Most results reporting is still activity and output based. Stating that companies and local contacts attended a seminar is an essential element in detailing the accomplishments of a post in a given year. However, we do not know whether this has helped to position the Canadian client to expand and/or diversify in the target market or whether using resources in a different way would better position the Canadian client to be successful in the particular market. This is the essence of managing for results: to determine the best means for achieving medium and long term results. Although the posts in China, Hong Kong and Taiwan have begun integrating a results based management regime for the IBD program, more work is needed to use the information and data that is being gathered in order to inform strategic as well as day to day decision making.

**Finding 15:** *The integrity of data being entered into the WIN system is at risk due to over and under reporting of core services delivered at missions abroad.*

One of the difficulties that has been noted is the tracking of core services delivered in the WIN system. Two missions claim to be under-reporting client interactions because they do not have sufficient time to do so. A major complaint was the difficulty in using WIN at the missions. On the other hand, the evaluation found that other missions had a tendency to overstate their client interactions. This was determined based on our review of a random sample of WIN entries. This points to a broader issue with respect to the integrity of WIN data, a vital source of corporate information for a service organization. The Trade Commissioner Service needs to develop a strategy to ensure that WIN entries are as accurate as possible. Clear guidelines and instructions should be issued and Trade Program Managers and the Regional Program Manager should be held accountable for enforcing them.

#### **3.4.4 Communications**

**Finding 16:** *The IBD program must improve how it communicates on strategic issues and on information related to sourcing and investment and S&T programming issues. There is also a lack of communication between the China posts and the regional offices as well as with partners resulting in less than adequate support for each others' programs and events.*

Communication between IBD staff at individual missions is generally good. Posts reported that they hold weekly staff meetings and officers felt that they were part of the planning process and well informed of post activities. Inter mission communication has been formalized at two levels: the Ambassador holds a Monday morning conference call with the other China HOMs; and Virtual Sector Teams established for the ICT, Transportation, Energy and Education sectors, hold a quarterly conference call and meet annually. Informally, officers in every China post reported frequent interaction

with officers at other posts including the exchanging of e-mails, joint planning of seminars and working together to deliver programs for incoming missions and visits. However, in the absence of an overall plan, there appears to be a communications gap, both formal and informal, on strategic issues affecting the program. Beijing usually shares its plans and strategic thinking but usually after the fact. There is no real input from the other posts. Investment promotion and S&T development activities are other areas where communication is lacking. Most officers felt that they were not always in the loop and therefore did not know how to handle investment, S&T or sourcing enquiries.

A major breakdown in communications is evident between the posts and regional offices and with partner departments and agencies in Canada. Both officers at posts and at regional offices complained of being bombarded with 'non-priority' requests, were informed too late of upcoming events and were not kept abreast of the plans and priorities for the posts and regional offices. This has resulted in a breakdown of communications and a growing frustration exhibited by both posts and regional offices at the lack of understanding and knowledge of each office's role and ability to support each other in achieving jointly mandated results.

Communications with partner departments and agencies in Canada also need to be improved. Many departments undertake missions, surveys, and respond to client enquiries without effective communication and coordination with posts. This has resulted in disorganized, unfocussed and overlapping visits to China which makes it difficult for either the posts or HQ to adequately respond to the mission participants. Likewise, partners noted that in some cases they are not adequately informed of upcoming missions and events nor are they consulted or informed of the overall plans for events in the upcoming year. In some cases, a more formalized and timely process of consultation is required well in advance of proposed missions to and from China and for specific events. Communications with partners co-located at missions were seen by mission staff and partner staff alike as excellent.

### **3.4.5 Adequacy of Resources**

A discussion on the adequacy of resources needs to take into account the macro-economic context of the country in question, the opportunities present in the market, the legal and administrative environment that would facilitate market success, the comparative advantage of Canadian companies, and the demand for services from Canadian clients. Equally important is an examination of how, when and where resources are deployed to meet current and future demand in order to maintain Canada's competitive position and improve results in targeted sectors.

## Macro-economic context

**Finding 17:** *China's booming economy presents opportunities for Canada and the Canadian economy through the promotion of trade, investment and innovation. Adequate resources will need to be available to identify these opportunities in the major centres as well as sub regional markets and to match them to Canadian capabilities and interest.*

As mentioned previously, China's economy has grown by 9% or more each year. Most of this growth has been fuelled by China's rapid integration into global manufacturing supply chains. China's entry into the World Trade Organization in 2001 has accelerated the pace of market reforms resulting in a rapidly growing private sector seeking opportunities for investments and partnerships with international businesses. China ranks fairly high in international competitiveness (31st out of 60 countries and regions ranked by the IMD World Competitiveness Yearbook). China's main strengths are its levels of total employment, the size of its labour force, its market size and its R&D sector. Its main weaknesses are its lack of infrastructure especially in terms of the number of telephones, computers, and internet usage, its overall productivity and the low level of educational achievement in the population as a whole. These weaknesses are rapidly being addressed by new trends: a burgeoning middle class numbering 250 million today but expected to reach 400 million by 2010 and an emphasis on education exemplified by the number of university graduates (2.8 million in 2004) entering the workforce each year.

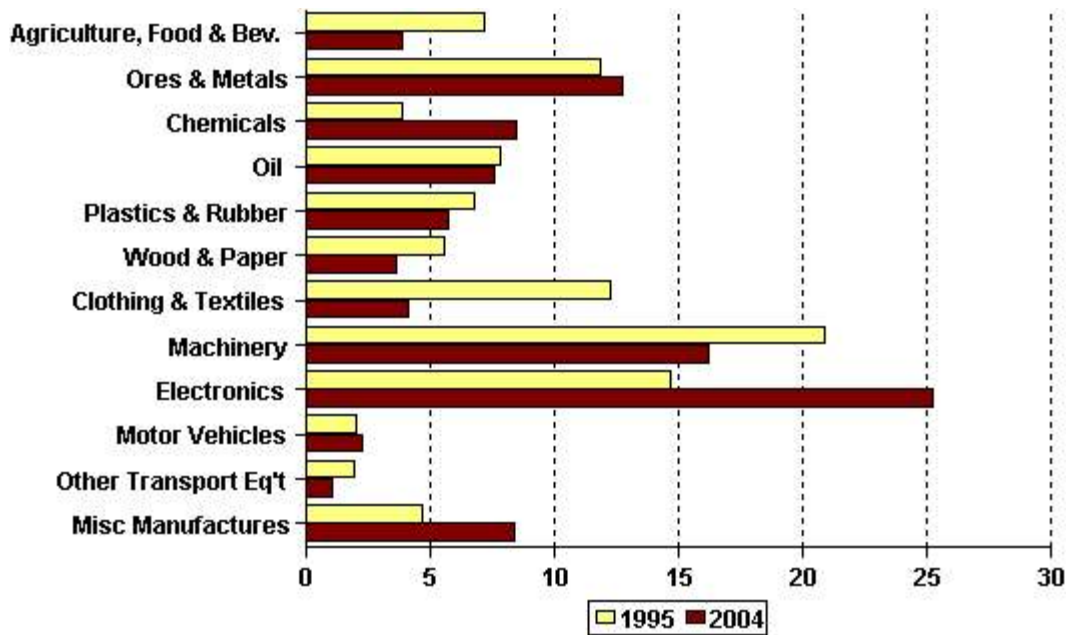
The past decade of growth has been concentrated in the eastern coastal regions where Shanghai is the main business centre of the Yangtze River Delta, Guangzhou and Shenzhen are the economic powerhouses of the Pearl River Delta and Beijing is the political capital and centre for R & D and Information and Communication Technologies. The East and South East regions account for 83.5% of Chinese total imports and 81.2% of Foreign Direct Investment. However, China is also home to 53 metropolitan regions numbering more than 1 million inhabitants. These regions represent 29% of the population or 370 million inhabitants and account for 53% of the country's gross domestic product. Concerned about reducing the economic imbalance between the major cities and the regions, the Chinese government is driving an infrastructure boom that is creating opportunities and growth in these second-tier cities.

The majority of China's imports are intermediate inputs with the largest import being electronic integrated circuits at 10.9% of total imports. Oil, crude and non-crude combined, account for 7.7% of imports. **Figure 17** shows the sectors and their share of the total of Chinese imports from the world for 1995 and 2004. Electronics now account for the largest share of Chinese imports accounting for 25% of the total increasing from 14.7% in 1995. Miscellaneous Manufactures and Chemicals have also



increased in share of imports, whereas Agricultural Products, Wood and Paper, and Clothing and Textiles have all decreased in share of imports.

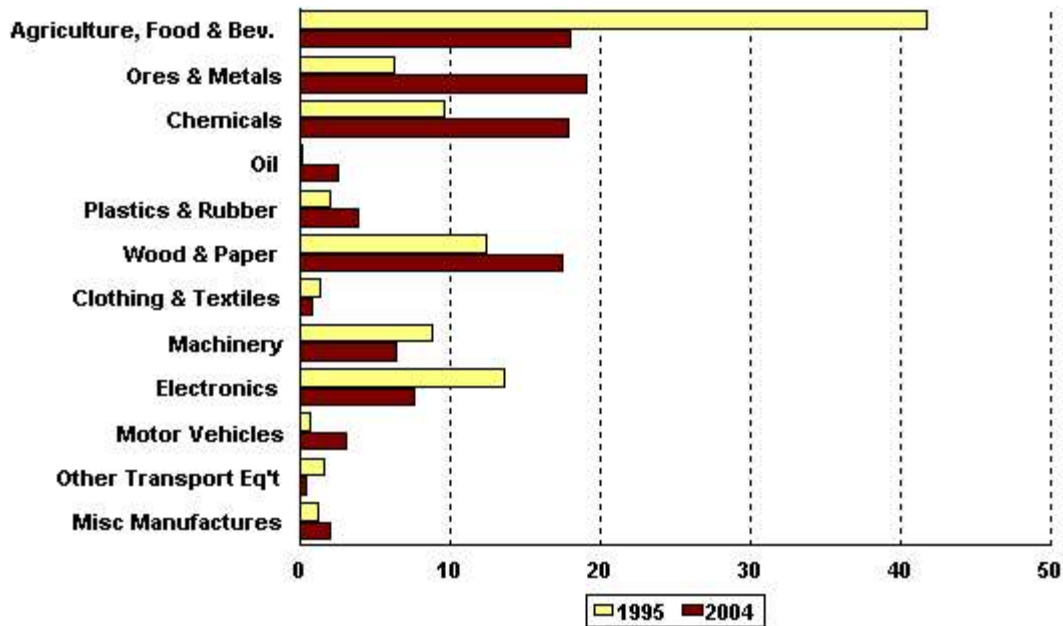
**Figure 17:** China's Imports from the World (% of Total)



Source: World Trade Atlas

Canada's exports to China are primarily pulp and paper products, chemicals, mining and transportation equipment. **Figure 18** shows the percentage of Canada's total exports to China for 1995 and 2004. Canada's exports to China have diversified away from Agricultural, Food and Beverage Products but are still dominated by natural resources. Acyclic alcohols which are made from olefin and used in the manufacturing of plastics are the largest single product exports from Canada to China accounting for 11.7% of total exports. Wheat, wood pulp, potash, sulfur, iron ore and nickel are the next most important exports and make up 35% of the total. Electronic integrated circuits and automotive parts are ranked as the 9<sup>th</sup> and 10<sup>th</sup> largest single product exports to China and combined account for 5.7% of total exports.

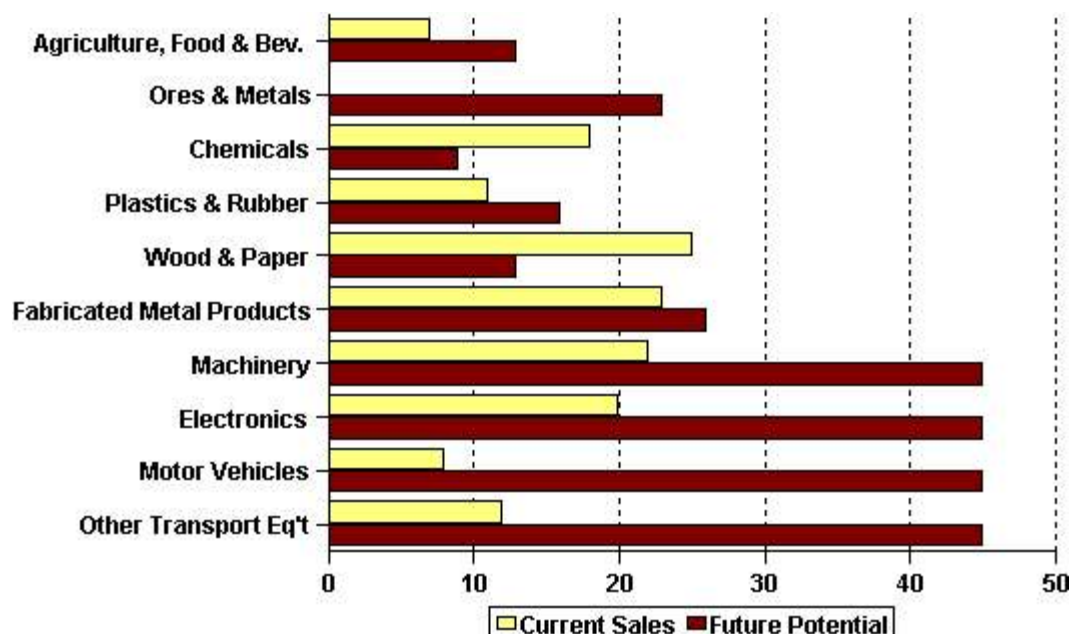
**Figure 18:** Canada's Exports to China (% of Total)



Source: World Trade Atlas

A recent survey conducted by the CME asked Canadian manufacturers in which sectors they believe there is future potential for their firms. **Figure 19** contrasts the percentage of firms with current sales in certain sectors with the percentage of firms responding that they perceive future potential in their trade with China. Over 40% of respondents perceived future potential in the areas of electronics, machinery, auto parts and transportation equipment doubling the amount who responded they had current sales in these sectors. Fabricated metal products and ores and metals were perceived as having future potential by over 20% of respondents. Chemicals and Wood and Paper Products were perceived by less than 10% and 15% of respondents respectively as having future potential which is lower than the percentage of firms responding that they have current sales in these sectors.

**Figure 19:** Canadian firms with sales to China and those who perceive future potential (% of firms responding to CME survey)



Source: Canadian Manufacturers and Exporters

The analysis above illustrates the potential for increased trade, investment and science and technology collaboration with China. Adequate resources will need to be made available to identify these opportunities and to respond to Canadian capabilities and interests in both the major centres as well as sub regional markets.

**Finding 18:** *Although reforms since the late 1970's have gradually opened up China to foreign direct investment and trade, China still retains many features of a centrally planned economy. The legal and administrative environment requires greater effort on the part of Trade Commissioners to assist Canadian companies in navigating bureaucratic hurdles. There is also an increased demand for services from clients for assistance with their investment and sourcing initiatives that are not being met by the current resource base at missions.*

In China, government plays a large and important role. It is a policy maker and regulator, a customer and business partner, as well as a potential competitor. Since the country's accession to the WTO, the Chinese government has made great strides in implementing its commitments. Nevertheless, adoption of the rule-of-law and the building of a system of transparent rules and regulations in China is ongoing. China is

currently ranked 78 out of 158 countries on Transparency International's perceived corruption index. Protection of intellectual property remains a vital concern for Canadian firms operating and considering their entry into the Chinese market. 26% of companies responding to the CME survey are concerned about unfair trade practices on the part of Chinese companies. More than 20% of those responding to the same survey cited concerns over the protection of intellectual property rights in China.

The major state owned enterprises will continue to benefit from government support as they become national and global champions in their sectors. The number of state-owned enterprises has been reduced by more than 50% since 1998 from 64,737 to 31,750 in 2004. Reforms have also been introduced to increase efficiency resulting in a four-fold increase in productivity and a reduction in the number of enterprises experiencing losses from 41% of the total in 1998 to 35% in 2004. However, they still remain an important component of production and employment in China and are subject to political influence.

A recent study by the World Bank ranked 155 countries by various indicators on the ease of doing business. Overall China ranked 91<sup>st</sup> out of the 155 and ranked poorly in starting a business, dealing with licences and obtaining credit. **Figure 20** shows the World Bank ranking of doing business for China, Canada, India and Brazil.

**Figure 20:** World Bank Ease of Doing Business Ranking (out of 155 countries)

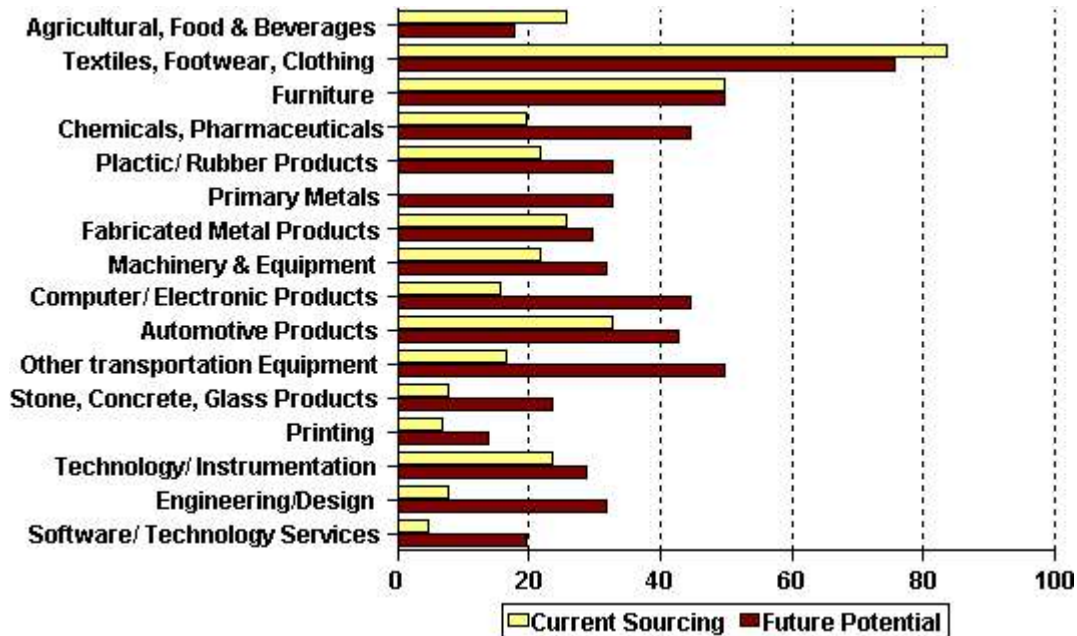
	Canada	China	India	Brazil
Ease of Doing Business	4	91	116	119
Starting a Business	1	126	90	98
Dealing with Licenses	21	136	124	115
Hiring and Firing	24	87	116	144
Registering Property	27	24	101	105
Getting Credit	10	113	84	80

Source: World Bank

Decision making in China remains highly centralized and vertically stove piped. Therefore, the Canadian Trade Program places a major emphasis on trade policy and market access issues. This includes multilateral, regional and bilateral trade negotiations, domestic and international trade rules, trade remedies, and foreign investment policy and approvals. Servicing the demand for advocacy and troubleshooting with the Chinese government on behalf of Canadian companies consumes a significant percentage of IBD program time particularly in the capital, Beijing. Representation by the Government of Canada is extremely important in China as it brings legitimacy to the concerns brought forward.

To be successful in China, Canadian businesses regardless of their size or sector are required to make significant managerial and resource commitments and these commitments will increasingly need to include direct investment. Canadian clients of the Trade Commissioner Service have increased their demand for market intelligence that reflects extensive local knowledge of business conditions (including the regulatory environment) and for local contacts in a wide range of sectors. Canadian missions are also receiving a growing number of enquiries on sourcing for which they are not sure how to proceed. To remain competitive globally, companies are increasingly looking to outsource part of the chain of production to countries where employment and input costs are the lowest. Increasingly companies, including Canadian firms, are conducting research and development in one location, and their manufacturing, assembly, distribution, sales and service in other locations to find the lowest costs and remain competitive globally. Figure 21 shows the perception of Canadian manufacturing firms responding to the CME survey who have current sourcing arrangements in China and those who perceive China as having future potential for their sourcing requirements.

**Figure 21:** Canadian firms with current sourcing in China and those who perceive future potential (% of firms responding to the CME survey)



Source: Canadian Manufacturers and Exporters

Missions in China report receiving a growing number of enquiries on sourcing for which they are not sure how to proceed. It is not clear what their role is supposed to be concerning sourcing, and when they do try to assist clients, they find that the information they are expected to find on behalf of clients is very difficult to obtain. There is a need to develop expertise, contacts and delivery capability to support Canadian needs in input sourcing in order to help Canadian companies to develop global value chains that will keep them competitive in their markets.

**Finding 19:** *In comparison to the presence sustained by Canada’s major competitors, Canada is under-resourced in China. Other nations are significantly building up their programs and capacity and expanding their reach into sub regional markets.*

Many of Canada’s competitors for trade, investment and science & technology in China are significantly building up their resources and extending their presence to sub regional markets. **Figure 22** provides the current status of resources for competitor nations in China and Hong Kong.

**Figure 22: Resources at missions in China (excluding Taipei) of selected countries**

Cities	Canada	USA*	Germany	France	UK	Netherlands	Australia
Chongqing	5				9		
Guangzhou	8	12	2	10	17	5	15
Beijing	22	39	14	45	34	10	20
Hong Kong	20	N/A	3	15	23	3	11
Shanghai	12	28	5	25	18	4	19
Other Cities		16	2				18
Total	67	95*	26	95	101	22	83

\* Note: USA total does not include the number of resources in Hong Kong which was not provided

Australia has been steadily building up its cadre of trade officers at its four missions in China. In addition, they have expanded their footprint in China to include 9 regional offices and have contracted business consultants to act as trade correspondents at 12 additional locations. The United Kingdom is in the process of increasing its staff by 40% and the USA just announced the opening of trade offices in 14 new locations across China. Almost all of the countries consulted reported plans for future expansion of their resources to respond to a growing demand for services from their companies. Canada currently employs 80 FTEs at the six missions in China, Hong Kong and Taiwan. This represents an increase in staff of less than 10% since 2002. During the same period, the missions in China, Hong Kong and Taiwan have reported an increase of nearly 80% in services delivered to Canadian clients.

While competitor nations have at their disposal considerably more resources than Canada does, it is not easy to compare them on a straight number basis. For instance, not all countries offer the full range of services that are currently offered by the Trade Commissioner Service. In fact, many countries do not concentrate all their resources and service offerings in one team or even in the same structure. Australia and the UK have separate organizations for trade promotion and investment services. The commercial services of the Americans and the French limit themselves to export promotion services while leaving the responsibility for international investments to more specialized agencies. Trade policy and market access issues are normally dealt with by staff at the respective embassies. A number of Canada's competitors (Australia, USA and France) charge fees for their services. **Figure 23** outlines the types of services offered by competitor nations. It would seem that not only are Canada's

resources lower in number than many competitor nations and concentrated in fewer locations, but our commercial service must cover a wider range of services and issues.

**Figure 23: Services offered by competitor nations**

Country	Points of Service	Services Provided	% of time focussed on services	Services provided by other organizations
Germany	5	<ul style="list-style-type: none"> <li>• Trouble shooting;</li> <li>• Advocacy;</li> <li>• Coordination and organization of visits</li> </ul>	Not provided	8 Provinces have offices in China in addition to the German Chamber of Commerce in Beijing, Shanghai, Guangzhou and Hong Kong
Australia	13	<p>Services provided based on a fee for service but a large portion of the services are provided free of charge.</p> <ul style="list-style-type: none"> <li>• Market research/assessment;</li> <li>• Identification of potential partners;</li> <li>• Organize visit program</li> </ul>	<ul style="list-style-type: none"> <li>• Trade promotion: 70%</li> <li>• Investment: 20%</li> <li>• Trade Policy: 5%</li> <li>• Sourcing: increasing</li> </ul>	12 Trade Correspondents. Also, Australian states are represented and the Australian Chamber of Commerce provides services to source some products.
United States	5 excluding Taiwan	Fee Customised services include: setting appointments, organizing meetings, a market research, list of contacts, etc.	<ul style="list-style-type: none"> <li>• Trade promotion: 50%</li> <li>• Investment: done by State Governments</li> <li>• Trade Policy: 20%</li> <li>• S&amp;T: 15%</li> <li>• Travel arrangements: 15%</li> </ul>	58 offices representing US States and cities
France	5	Payment recovery for services offered. Certain services are offered by contractors.	Not provided	French Chamber of Commerce offers services to companies in Beijing, Shanghai, Guangzhou and Hong Kong



Country	Points of Service	Services Provided	% of time focussed on services	Services provided by other organizations
United Kingdom	5 excluding Kong Kong & Taiwan	<ul style="list-style-type: none"> <li>• Market briefing</li> <li>• Programme arranging</li> <li>• Market research</li> </ul>	<ul style="list-style-type: none"> <li>• Trade promotion: 55%</li> <li>• Investment: 20%</li> <li>• Lobbying: 25%</li> </ul>	CBBC present in 9 cities
Netherlands	10 excluding Taipei	<ul style="list-style-type: none"> <li>• General information;</li> <li>• Market potential for a product/service;</li> <li>• Potential counterparts.</li> </ul> <p>All services are free.</p>	<ul style="list-style-type: none"> <li>• Trade promotion and investment: 75%</li> <li>• Trade policy: 25%</li> </ul>	The City of Rotterdam has an office as well as the Bureau of Tourism

**Finding 20 :** *The China trade program operates an alternative service delivery model in which designated offices of the Canada China Business Council have been contracted to deliver Trade Commissioner core services. At present, this service delivery model operates one person offices in four Chinese cities in which Canada has no other official presence: Chengdu, Shenzhen, Qingdao, and Shenyang.*

The Canada China Business Council (CCBC) is a private sector, non-profit membership organization incorporated in 1978 to facilitate and promote trade and investment between Canada and the People's Republic of China. CCBC provides services in six key areas: event management, facilitation and marketing, consulting, policy, advocacy and mediation, business operation and administrative support, and access to analysed information through its six offices in China (Beijing, Shanghai, Shenyang, Qingdao, Chengdu, and Shenzhen) and 2 offices in Canada (Toronto and Vancouver). Over 350 Canadian and Chinese companies are members in the CCBC and range from small and medium sized enterprises to large multinational companies representing a diversity of sectors.

In 2002, the IBD program contracted the CCBC to provide TCS core services in four second tier cities. The model was established in order to test an economical way to expand Canada's footprint into second tier Chinese cities which have no official presence. Qingdao was the first to open in January, 2002 followed by Chengdu in April 2002, Shenzhen in July 2002 and Shenyang in June 2003. All offices are staffed by one locally hired CCBC officer and are located in either rent free government offices or low cost office space of affiliated companies. The CCBC is contracted to provide two-thirds of the officer's time for the delivery of the six core services to Canadian companies without regard to whether they have membership in the CCBC.

**Finding 21:** *Service delivery and client interaction reports from all four CCBC contract offices substantiate sufficient client demand in these cities to fully justify a service delivery presence.*

**Figure 24** details the performance metrics maintained by each of the four offices. It is interesting to note that Chengdu which reports to the Consulate in Chongqing and Shenzhen which reports to the Consulate General in Guangzhou are receiving an increasing number of missions, providing service to a greater number of companies and are in more frequent contact with the supervising mission than Shenyang and Qingdao which report to Beijing.

**Figure 24:** *CCBC Performance Metrics*

Performance Indicator	CCBC Office	2002	2003	2004	2005 Q1
# of CCBC memberships (total)	Shenyang		6	11	11
	Qingdao	4	5	6	6
	Chengdu	5	8	12	11
	Shenzhen		21	19	19
Embassy Outreaches	Shenyang		1	4	3
	Qingdao	7	4	2	0
	Chengdu	21	30	46	8
	Shenzhen		36	42	6
Business Missions Received	Shenyang		2	5	2
	Qingdao	2	3	1	0
	Chengdu	4	10	22	3
	Shenzhen		18	23	3
Canadian companies serviced	Shenyang		5	24	6
	Qingdao	65	35	22	4
	Chengdu	45	105	149	20
	Shenzhen		57	88	16

**Finding 22:** *The CCBC offices represent an economical way to establish a service delivery point in a city which would otherwise not be served. However, the overall efficiency and effectiveness of the arrangement is limited by a number of factors. These limitations suggest that satellite offices staffed with term ITCan employees might be a more effective model to establish a presence in emerging Chinese cities.*

Despite the volume of services provided by these offices, the evaluation found that a number of factors limited the overall efficiency and effectiveness in delivering TCS services in these second tier Chinese cities.

The contractual arrangement with CCBC has resulted in less than optimal choices. Issued on a non-competitive basis, the initial contract was for one year at a funding level identified as sufficient to support two-thirds of an officer's time in delivering services for Canadian clients on behalf of the TCS. In order to fulfill their obligations, the CCBC needed to hire full time staff and establish offices in locations where they had no prior presence. Offices were established in either rent free government space or low rent shared accommodations with other organizations and were selected more to minimize costs rather than for representational effectiveness. Access to some offices was extremely difficult. Offices had a single staff member, hired for a one year term and at a salary which was below the norms for local professionals in foreign organizations. Although, for the most part, the staff that were hired are exceptional individuals delivering credible services, the approach taken is unlikely to promote staff continuity. Without a contract with ITCan in place, it is doubtful that the CCBC would have sufficient resources to sustain operations in these locations in the future.

The CCBC is a membership organization that is not limited to Canadian companies. It also provides services to its members that go beyond the six core services. This creates a fundamental confusion about who is eligible for which service funded under this contract. In both the client survey and during interviews with local contacts and clients in the respective markets, awareness of the CCBC offices was low. In many instances where there was awareness of the offices, there was a mistaken belief that the client would not be eligible for service because they were not a CCBC member. This was complicated by the fact that each office had specific targets for recruiting CCBC members. While we were assured by the CCBC that recruiting activities would not interfere with client service, evidence from our interviews suggest otherwise. Of those in our interviews who were aware of the CCBC, there was little awareness that the delivery of ITCan services was actually funded by ITCan.

The CCBC offices do not have access to International Trade Canada's information systems, such as SIGNET 3, Virtual Library, departmental email, intranet, the WIN database, and the TRIO eCRM. The inability to access these information systems

made it extremely difficult to deliver actionable intelligence, business leads or other market information of the sort valued by Canadian clients. In practical terms, the offices were only able to deliver services in response to specific client requests. Training of the CCBC staff was limited to what ITCan staff in nearby missions could offer them. In several cases, this was no training at all. Training gaps resulted in service inconsistencies, including services to non-clients and work sometimes being done that should have been referred to third party providers.

Having points of service delivery under arms length contracts, instead of under the direct supervision of International Trade Canada staff complicates management and supervision. The CCBC officer is contractually required to report to and be supervised by the CCBC manager in Beijing. At the same time, each office is reporting to and working directly and closely with the Trade Program Manager at the respective Canadian mission. Tasking in these circumstances can be complicated as ultimately it is the CCBC main office which is responsible for fulfilling its obligations under the contract.

The non-competitive nature of the initial contract has created the perception among some ITCan stakeholders that the CCBC has a special status with International Trade Canada that other associations do not have. A number of stakeholders felt that the arrangement unfairly subsidizes a CCBC presence in Chinese cities without similarly subsidizing their presence.

While most of these limitations could be addressed within the present contractual arrangement, the effectiveness and efficiency of contracting out representation in cities which otherwise would not have an ITCan presence would still not be expected to match that of an ITCan presence in that city. ITCan would achieve more value for money by placing its own two person LES teams in selected markets.

A senior Austrade representative in China informed us that Austrade's experience with small satellite offices staffed with term employees had been more expensive, but markedly more cost effective than their experiences with remote contract service delivery. Their cost for a two person office in a five star hotel in a second tier city was approximately A\$100,000 per annum. This cost is only marginally more expensive than the current contract with CCBC if we consider that we are paying for only two thirds of an officer's time. In real terms, however, it represents about a 60% increase over current costs for having a point of service in these sub regional markets. Nevertheless, the limitations of the contract service delivery model under the CCBC, and Austrade's experience, suggest that satellite offices staffed with term ITCan employees might be a more effective model to establish a presence in emerging Chinese cities.

This model could function along the following lines:

1. A locally engaged officer and a locally engaged assistant be hired through open competition on three year term contracts.
2. A visible and modern office in a key commercial district be set-up on a similar three year lease. The office would get access to ITCan systems, either via remote Signet or a micro-mission solution.
3. A Trade Commissioner based in the nearest mission in China would be responsible for working with the office to help them attain their performance targets. This individual would participate in the hiring of the staff member to work in the office. Sufficient resources would be allocated to ensure regular visits to the office by the Trade Commissioner.
4. Staff hired would be treated as ITCan locally engaged staff for professional training purposes, including new locally engaged staff training in Canada.

Such an office would be able to both respond to client service requests as well as proactively seek out and disseminate actionable market intelligence and information of the type valued by Canadian business. It would also be a low cost intermediate step between no presence in a market and a full-fledged Consulate.

**Finding 23:** *The above findings indicate that IBD program resources for China, Hong Kong and Taiwan are inadequate to respond to the opportunities present in both first tier and sub regional markets and the growing demand for services from Canadian firms, organisations, and partners. However, throwing more resources into the mix will not by itself guarantee better results. The IBD program needs to articulate a clear strategy on priorities to be addressed and results to be achieved so that existing and any additional resources will be used to maximum effect.*

The evaluation field visit to the six missions in China, Hong Kong and Taiwan identified that two missions were significantly under resourced to meet their current mandate and demand for services, one mission had more than enough resources and the remaining three missions appear to have sufficient resources but would benefit from a re-configuration of current staff (i.e. the ratio of CBS to LES, the ratio of assistants to Trade Commissioners and/or the addition of one CBS to share representational duties).

In Beijing, the lack of commercial assistants in the commercial section has resulted in commercial officers being tasked with support functions. This is an inefficient use of their time. At present there are only two commercial assistants for a complement of 22 Trade Commissioners. There is a need to review this ratio to bring it more in line with

the standard of one commercial assistant to three officers. The LES Trade Commissioners are hard working and appear dedicated to their work. Some were hired initially as translators; others won their positions through internal competitions and have come from other sections in the Embassy. With an almost one to one CBS to LES ratio, most sector teams are comprised of one LES reporting to one CBS. While LES Trade Commissioners do handle their own files, it appears that a large amount of their time is spent supporting the work of the CBS Trade Commissioner. The percentage of time differs from officer to officer and is also dependent upon the skills and capabilities of the officer. There is an opportunity now which didn't exist before to hire LES Trade Commissioners who already have the skills and sector specific knowledge to take on the work of a trade commissioner in a more independent fashion. This would diminish the need for such a high CBS-LES ratio in the commercial section.

The trade program staff at the Shanghai mission are experiencing great difficulty keeping up with demand. The lack of sufficient resources translates into less proactive work, less ability to generate business and investment leads, insufficient time to conduct research and produce market intelligence and reports, and no time to expand the program beyond the immediate confines of Shanghai. However, management is very client oriented and staff report that it is difficult to say no to client requests that fall outside the six core services. Priority setting and strategic business planning will help realign the program so that more effort is expended on priorities and results important to the mission. Nevertheless, the general consensus at the post is that Canada is behind the competition. When compared with other countries, Canada's staff complement of 11 lags behind that of the U.K. which has 18 trade program staff, France with 25, Australia with 25 and the US with 28 staff. Most countries reported that they are expanding their presence in Shanghai and elsewhere. At the same time, there is a strong need for a rationalisation of all events within the territory. The numerous missions and visits to this region should be made part of the post's overall strategy and not regarded as additional or stand alone activities.

In Guangzhou, based on current levels of client demand, as well as the anticipated significant increases in new types of business opportunities in this high growth market, there is scope to argue for increased resources to support IBD operations. The mission appears to be operating at full capacity now and gets into trouble when they have special events, high level visits or other activities that have not been anticipated. Part of the difficulty lies in the shortage of commercial assistants to support the officers. The current ratio of 5 officers for 1 support position leads to a situation where valuable officer time is being dedicated to lower value added administrative tasks such as WIN tracking, making logistical arrangements, packaging and transmission of material to clients. There appears to be at least two priority sectors, and possibly others, where officers have difficulty keeping up with requests for assistance from clients and partners. Energy and plastics demands are increasing rapidly and purely reactive

responses are quickly becoming unfeasible. The perception of clients responding to the 2002 TCS survey and echoed by interviews with local contacts is that IBD staff are “difficult to reach and too busy”.

The Chongqing Consulate is constrained by having only one CBS at the mission. Representational duties for both trade and political could be better attended with the addition of a second CBS, thus contributing to the success of the IBD program. Staff members reported that they had sufficient time to complete their tasks, although one staff member reported logging an average 20-30 hrs in overtime per month. Concern was expressed that administrative duties in running the Consulate accounted for up to 25% of an officer’s time and reduced their availability for trade related duties.

The Hong Kong IBD program appears to be more than adequately resourced to deliver all elements of the IBD program in light of the size of its territory, the ease of doing business in Hong Kong and the demand for services. Moreover the high ratio of support staff to officers (virtually one to one) suggests that Hong Kong is overresourced in this area. It is unclear what a 3<sup>rd</sup> CBS position, due to arrive in the summer of 2005, will accomplish. The mission does not appear to have the same level of demand for services as other posts in the Greater China region. Staff reported excellent working conditions, flexible hours and little requirement for overtime. Feedback from clients indicated a rapid turnaround to enquiries. Staff are actively engaged in outreach, networking and other proactive work (e.g. preparation of a ‘Best of Canada profile’). Trade assistants are brought along to some of the outreach calls to assist in their professional development.

Hong Kong is renowned as one of the easiest places to do business in the world due to low transaction costs, the consistent application of the rule of law, relatively few regulations and barriers to doing business, and the ability of Canadian clients to communicate in English. In comparison to other China posts, justification for the current staffing level in Hong Kong is difficult unless one looks beyond Hong Kong, Macau and the New Territories. There are approximately 65,000 companies and over 10 million jobs in mainland China that are controlled by investors/promoters from Hong Kong. It is estimated that 90% of goods are re-exported to or from China. One needs to recognize that a lot of business decisions taken by companies on the mainland are still influenced or controlled from their headquarters in Hong Kong. It may make sense for some Canadian exporters to start in Hong Kong to take advantage of low transaction costs, IP protection, or to use Hong Kong as a launch site or test market for new technologies. Some companies may find it to their advantage to identify a good local partner in Hong Kong and then go into the mainland together. There are also opportunities in the transport and energy sectors that closely link to developments in China. It will be important to develop a Hong Kong strategy that is tightly interwoven into a broader China strategy. Questions on resource allocation between posts and

dual accreditation for officers to provide service in both Hong Kong and China will need to be resolved to fully take advantage of the opportunities presented.

The IBD program in Taipei appears to be adequately resourced given the workload and amount of service requests from Canadian clients. The level of opportunities present in the Taiwanese market and the strong focus on investment and science and technology activities justifies the current level of resources at the Canadian Trade Office in Taipei.

The evaluation concluded that the IBD program resources remain inadequate to respond to the growing demand for services from Canadian firms, organizations and partner clients. However, simply adding more resources to the missions will not guarantee either more or better results. There is a need to first rationalize and organize existing resources. This includes a reallocation of resources between and within missions followed by appropriate business planning and priority setting to ensure existing resources are being used to maximum effect. With better coordination and coherence among partner organizations and ITCan stakeholders, mission and visits to China can be better synchronized and the current divergent organizational strategies of partners can be transformed into a whole of Canada approach. Once these efforts have been made there will still be a need to increase resources over the medium and long term to keep pace with Canada's competition in both first and second tiered markets and to respond to the recommended expansion of service offerings in sourcing, two-way investment and science and technology promotion activities.

**Figure 25** provides suggested adjustments to staffing levels among missions. These adjustments are based on the above analysis of immediate and future resource needs at each mission, recommendations for new positions to be created for driving investment promotion and S&T development activities and for a network expansion to second tier cities involving a two person office in up to 8 cities.



**Figure 25: Suggested Adjustments in Staffing Levels among Missions**

	<b>CBS</b>	<b>LES TC</b>	<b>LES TCA</b>	<b>Total</b>
Beijing	-2	2	4	4
Shanghai	1	4	2	7
Guangzhou	1	1	1	3
Chongqing	1	-	1	2
Hong Kong	-1	-2	-4	-7
Taipei	Same	Same	Same	Same
<b>Sub Total</b>	<b>Same</b>	<b>5</b>	<b>4</b>	<b>9</b>
Regional Investment Manager	1	-	1	2
Regional S&T Manager	1	-	1	2
Representation in Secondary Cities	-	8	8	16
<b>Grand Total</b>	<b>2</b>	<b>13</b>	<b>14</b>	<b>29</b>

## **4.0 CONCLUSIONS AND RECOMMENDATIONS**

### **4.1 Relevance**

Overall, the evaluation concluded that the China IBD program is consistent with ITCan and Government priorities. Deepening of the bilateral relationship with China, both in terms of trade and across the spectrum of international relations is seen as a priority for not only ITCan but for the Canadian Government as a whole. China has emerged as a global economic powerhouse and its presence on the world stage has serious implications for the Canadian economy. With the increasing integration of commerce into regional and global value chains, Canadian companies are facing greater competition.

The IBD program in China, Hong Kong and Taiwan is generally aligned with and contributing to IBD objectives of increasing exports and diversifying export products, is considered important in helping new entrants assess market potential and identify representatives, leads and contacts, and has helped improve the visibility of Canadian products and technology through branding. Nevertheless, the evaluation concluded that Canada is falling behind the competition. Our commercial strategy vis a vis China is not well developed and our coordination with other government departments, provinces, municipalities and other partners remains weak. Although the IBD program is helping to achieve commercial success for exporters, investment promotion is largely reactive, and science and technology development activities have just begun. Many of Canada's competitors have already developed comprehensive strategic policies to deal with the opportunities and challenges related to China, are building up their in-China resources, are expanding their footprint in China to sub-regional markets and have strengthened their domestic networks. Canada needs to adopt a whole of Canada approach to China. As part of its strategic plan, Canada needs to reinvigorate and strengthen its in-Canada network to work coherently and comprehensively with an expanded and focussed in-China network. And it needs to integrate trade, investment and science and technology promotion services and activities with trade policies, market access, international development assistance and trade financing activities to better meet the requirements of Canadian enterprises entering into and succeeding in China.

## **4.2 Governance**

The current accountability framework limits the effective coordination of the trade programs operating in China, Hong Kong and Taiwan. There is no one position responsible for the China trade program. Although the evaluation found evidence that virtual trade teams were effectively coordinating a small number of sector programs across missions, we found that each mission essentially operates its own trade program in a vacuum created by the absence of an overarching strategic plan for China. The evaluation concluded that there is a need for improved coordination and accountability which could be achieved through the establishment of a Regional Program Manager or Country Director. This position would be responsible for strategic planning, the allocation of resources between missions and the reporting of program results. The Regional Program Manager would be accountable to the Assistant Deputy Minister, World Markets Branch for the effective delivery of the IBD program in China, Hong Kong and Taiwan.

The evaluation also concluded that there is a need for increased programming in investment promotion and S&T development activities at the missions in China. These two functions require support for and training of Trade Commissioners to deliver intended results. The creation of two positions, a Regional Investment Manager and a Regional S&T Manager, would ensure that appropriate guidance, training, and support is provided to Trade Commissioners in all China missions so that investment and S&T are mainstreamed into the responsibilities of sectoral officers.

To better align and strengthen the in-Canada network and to build a coherent and coordinated approach among ITCan stakeholders in Canada, the roles and responsibilities of Headquarters staff and staff at ITCan Regional Offices need to be articulated and strengthened. ITCan HQ needs to play a leadership role in providing strategic direction and vision for the IBD program at posts, and in promoting a consistent department-wide plan for performance measurement and management. There is an urgent need to strengthen the in-Canada network in order to better define Canadian capabilities, interests and capacities that can be matched to specific opportunities in the Chinese market. Many Canadian companies are inadequately prepared to enter the Chinese market or are not aggressive enough to succeed once there. ITCan HQ and the Regional Offices have a leadership role to play in building up knowledge of China among Canadian companies and identifying Canadian firms that could succeed in these markets.

### **4.3 Success**

The IBD program in China, Hong Kong, and Taiwan is achieving results for Canadian exporters by preparing them for entry into the market, identifying key contacts, providing leads on specific business opportunities and by troubleshooting for and advocating on behalf of the Canadian client. Overall, client satisfaction rates are lower than expected, pointing to the need to improve service delivery processes and strengthen capacity. The first challenge for IBD success in China is to increase the volume and quality of market intelligence and contacts in order to meet the growing demands and needs of Canadian clients. A second challenge is to increase the capacity to influence Chinese trade and economic policies and regulations in order to maximise the benefits to Canada of China's growth. These two challenges need to be met while balancing the necessary but resource intensive requirements of high level missions to China.

Through our discussions with business clients and partners, the evaluation concluded that the six core services model for China is insufficient. In particular, a greater advocacy and troubleshooting role is needed to assist Canadian clients to establish their businesses in China. Clients also expressed a need for assistance in sourcing and in Canadian direct investment support. These service offerings, although having significant resource implications, will improve the conceptual coherence of the IBD program in China. Investment promotion and science and technology development activities are currently underdeveloped and a strategic approach will need to be taken to achieve intended results.

### **4.4 Program Management**

The IBD programs in China, Hong Kong, and Taiwan have made great strides in formalizing the business planning process, in developing a results based management framework, and in measuring performance for achieving results. However, business plans are still activity based, are operational for only one year, are mission specific and are not guided by an overall strategic plan. There is a need to develop a comprehensive overview of the priority sectors, their challenges and opportunities, and to provide an in-depth analysis of Canadian capabilities and interests in these sectors. Short, medium and longer term results that the IBD program hopes to achieve in China can then be identified from this analysis. A better documented and strategic overall plan would improve the coherence and consistency of the China trade program at all posts. It would also facilitate communication among the 6 posts (including Taiwan) as well as with partners and stakeholders as they work together to identify priority sectors and business opportunities for Canadian clients at the strategic level over a 3-5 year time horizon. The evaluation also concluded that results-based management and performance measurement are making inroads at all six missions, but staff would benefit from further training to build an awareness and understanding of the benefits

from managing their program for results in lieu of the activity based model they are presently using. The review of WIN entries at specific missions indicates that the integrity of WIN data is at risk. As a vital source of corporate information on the delivery of services, there is a need to develop a strategy to ensure entries are as accurate as possible.

Overall, the evaluation concluded that the IBD program resources remain inadequate to respond to the growing demand for services from Canadian business and partner clients. However, throwing more resources into the mix will not by itself achieve better results. There is first a need to rationalize and organize existing resources to achieve maximum effect. Once organized, we need to increase our resources over the medium and long term to keep pace with Canada's competition and to respond to the recommended expansion of our service offerings in sourcing, two-way investment and S&T. There is scope for significant adjustments to be made between posts over the short term which are currently complicated by existing mechanisms for the reallocation of resources.

The evaluation of the alternative service delivery model being experimented through the Canada China Business Council concluded that although the CCBC is a valuable and effective partner and is delivering core services in important second tier cities in China, ITCan would achieve more value for money by placing its own two person LES teams in selected markets. Such an office would be able to respond to client service requests and be proactive in identifying and disseminating actionable market intelligence and information of the type valued by Canadian business. It would also be a low cost intermediate step between no presence in a market and a full-fledged Consulate or Consulate General.

**Recommendation 1:** *ITCan Headquarters, in particular the World Markets Branch, should play a greater leadership role in providing strategic direction and vision for the IBD program at posts, in promoting a consistent department-wide plan for performance measurement and management to be used at posts, and to ensure that there is a coherent and coordinated approach to China among other federal departments, the provinces and territories, municipalities and other stakeholders.*

**Recommendation 2:** *World Markets Branch (WMM) should conduct a review of the present accountability structure governing the IBD program in China, Hong Kong, and Taiwan. As part of this review, WMM should consider*

- a) *the establishment of a Regional Program Manager or Country Director for China, Hong Kong and Taiwan who would be responsible for strategic planning, resource allocation among missions, and the reporting of program results;*
- b) *the creation of a Regional Investment Manager and a Regional S&T Manager who would drive their respective programs and be a focal point for support and training of Trade Commissioners to deliver intended results;*

**Recommendation 3:** *ITCan, in conjunction with its partner departments and other stakeholders, should develop a comprehensive national strategy towards China that builds a “whole of Canada” approach. Canada’s China strategy should include:*

- a) *a detailed plan for strengthening the domestic network to identify Canadian capabilities and prepare Canadian companies for entry or expansion in China, and,*
- b) *a short and medium term plan for expansion of our resources in China in order to build our capacity and extend our footprint into sub-regional markets.*

**Recommendation 4:** *TCS should consider revising the service offering in emerging markets to respond to the growing needs of business clients to be assisted with their sourcing requirements, with Canadian direct investment support, and with troubleshooting and advocacy.*

**Recommendation 5:** *TCS should undertake a study to delineate the policy implications of sourcing, particularly with respect to the future competitiveness of Canadian companies in light of the emergence of global value chains. TCS should clarify its role so that officers have better guidance on how to handle the growing volume of enquiries with respect to sourcing. The missions can then take appropriate actions (for instance, the development of a list of qualified third party service providers) and provide consistent messaging to clients.*

- Recommendation 6:** *ITCan should expand into China's sub-regional markets with its own personnel and its own offices.*
- Recommendation 7:** *As part of the mandate for the Regional Program Manager, a comprehensive, integrated, multi-year and results based business plan should be developed that is based on a solid analysis of Canadian capabilities, interests and capacities and matched to specific needs and opportunities identified in China, Hong Kong, and Taiwan. Investment promotion and Science and Technology development activities should form an integral part of this plan.*
- Recommendation 8:** *TCS should ensure that results reporting and performance measurement address short, medium and long term results expected from the program. As part of performance measurement, TCS should develop a strategy to ensure that WIN and other systems (e.g. TRIO) entries are as accurate as possible. Clear guidelines and instructions should be issued and TPMs and The RPM should be held accountable for enforcing them.*

## **APPENDIX 1- MANAGEMENT RESPONSE**

China's has enjoyed a high level of economic growth over the past two decades. The world has witnessed one of the most rapid economic transformations in history. Moving rapidly away from being a closed economy, China has succeeded in attracting significant foreign direct investment which has transformed it into the "manufacturer to the world". Initially, China focussed the development of its manufacturing sector on light industrial products, but now foreign investment is increasingly directed toward higher value, technically advanced goods. This shift has had repercussions worldwide, including in Canada. Chinese exports to Canada are now four times higher than Canadian exports to China and China's exports are also competing with Canadian goods in our traditional markets such as the United States.

China represents a very important potential for Canadian exporters of goods and services. Many sectors where Canada excels such as transportation, agriculture, environmental protection and energy are precisely those where China has large demand. This potential has attracted the attention of the Canadian business community, other departments and agencies of the Government of Canada and provincial governments. While the role played by these partners is essential to ensuring Canada's success in China, it results in a heavy demand on our resources in China. This leaves less time for proactive work aimed at fulfilling our own commercial objectives in China. It is expected that Canada's Commerce Strategy for China currently being developed, will assist in ensuring optimal coordination of our IBD efforts.

This potential has not gone unnoticed by our competitors who are devoting important resources to China. Canada can only devote a limited amount of resources to one specific market, however promising that market may be. It is therefore important that we utilise the limited resources Canada devotes to IBD (trade and investment promotion, S&T development and trade access) in China in the most efficient manner possible.

In addition to simply looking at China as either a market or a competitor, our IBD effort must also take into account China's new reality. This reality is represented by the rapid development of China's scientific expertise, its increasingly closer integration into global supply chains which are reshaping the world economy and its current capacity and appetite to invest overseas.

The issues raised in this evaluation report are not unique to the China market nor the IBD Program in China. Given the rapidly evolving relationship between Canada and China, this evaluation exercise is, however, most timely as its recommendations will ensure that the TCS addresses several important issues at a critical time.



**Recommendation 1:** *ITCan Headquarters, in particular the World Markets Branch, should play a greater leadership role in providing strategic direction and vision for the IBD program at posts, in promoting a consistent department-wide plan for performance measurement and management to be used at posts, and to ensure that there is a coherent and coordinated approach to China among other federal departments, the provinces and territories, municipalities and other stakeholders.*

Since the fall of 2005, WMM has undertaken the development of a Commerce Strategy for China which will serve as a framework for the activities of our missions in Mainland China, Taiwan and Hong Kong. This exercise is subject to a continuing consultation process with relevant stakeholders. The consultation process provides validation and, as a result, ascertains that the initiatives and activities recommended in our Commerce Strategy are best able to meet the needs and defend the interests of the Government of Canada and of the Canadian business community.

One of the primary objectives of the Commerce Strategy is to ensure better coordination between the actions and initiatives undertaken by DFAIT, its partner departments and the provinces. Such improved coordination will ensure an optimal use of our limited resources devoted to IBD in China. The development and implementation of the Commerce Strategy is well underway. Key priority sectors have been identified in consultation with the private sector and our partners. Partner departments and the private sector, through trade associations are providing comments on detailed sub-sector strategies. Despite resource constraints, activities identified are already being implemented.

**Recommendation 2:** *World Markets Branch (WMM) should conduct a review of the present accountability structure governing the IBD program in China, Hong Kong, and Taiwan. As part of this review, WMM should consider*

- a) the establishment of a Regional Program Manager or Country Director for China, Hong Kong and Taiwan who would be responsible for strategic planning, resource allocation among missions, and the reporting of program results;*
- b) the creation of a Regional Investment Manager and a Regional S&T Manager who would drive their respective programs and be a focal point for support*

*and training of Trade Commissioners to deliver intended results;*

- a) WMM is actively reviewing the possibility of establishing a new reporting structure under which the Senior Trade Commissioners in our missions in Beijing, Shanghai, Guangzhou, Chongqing and Hong Kong would report to the Minister (Commercial/Economic) of the Embassy in Beijing. Under this proposed revised structure, the Minister in Beijing would oversee the IBD programs in our various missions in China and contribute to the development of the STC's Performance Management Agreements. Ultimate responsibility for the delivery of the IBD program in each mission would continue to rest with the HOM.

A network of sectoral team leaders has already been established in our missions in China. Under this network, the officers responsible for each specific sector have increased the amount of information they share and seek to develop jointly promotional or market research activities to ensure optimal use of resources. Closer cooperation also ensures that officers in one post are aware of the environment and business opportunities related to their sector prevailing in the territories of the other China missions. As a result, trade officers are better able to direct Canadian clients toward business opportunities existing in parts of China which are located outside of the territory of their mission.

In order to meet the special challenges Canada faces in relation to the export of Canadian agriculture and agri-food products to China, DFAIT, in collaboration with Agriculture and Agri-food Canada, has put forward a proposal to have one Beijing based position reclassified to a higher level, thus allowing a more experienced officer to fulfill a coordinating role for the agriculture and agri-food program. This will ensure a greater capacity to collect and analyse intelligence and better coordination of the promotional efforts undertaken by Canada.

The Canadian IBD program in Taipei will continue to operate in an autonomous fashion under the authority of a Taipei based Senior Trade Commissioner. This is mostly due to the fact that Taiwan operates in a totally different legal and regulatory environment. While independent, the Taipei IBD program would continue to seek possibilities for synergy and collaboration with the other missions in China.

- b) DFAIT has identified sufficient resources to allow the creation of a Science and Technology Counsellor position at the Canadian Embassy in Beijing as of August 2006. This position will coordinate Canada's effort to develop a closer S&T relationship with China. The creation of this position is very timely given that Canada and China have recently concluded negotiations related to a bilateral

S&T cooperation agreement. We expect this agreement to be officially signed in mid-2006. This position will be responsible for the coordination of Canada's S&T program for China, liaising with Chinese research institutions throughout the country and providing assistance to Canadian companies involved in S&T which are looking for Chinese partners or for opportunities related to the commercialisation of the result of their research effort. This position will also be responsible for the provision of assistance to IBD officers located in China on S&T commercialisation issues.

We continue to review how to enhance our investment program in China in collaboration with the relevant sections of DFAIT.

**Recommendation 3:** *ITCan, in conjunction with its partner departments and other stakeholders, should develop a comprehensive national strategy towards China that builds a "whole of Canada" approach. Canada's China strategy should include:*

- a) a detailed plan for strengthening the domestic network to identify Canadian capabilities and prepare Canadian companies for entry or expansion in China, and,*
- b) a short and medium term plan for expansion of our resources in China in order to build our capacity and extend our footprint into sub-regional markets.*

Since the fall of 2005, DFAIT has been developing a comprehensive Commerce Strategy for China. This Strategy identifies priority sectors and sub-sectors and lists a series of actions which should help Canada meet its proposed objective to double economic exchanges with China by 2010. The initial phase of this strategy has been subject to consultation with DFAIT's partner departments, provincial governments and relevant industry associations. The modalities of a broader, more inclusive, consultation process are currently being developed along with a performance measurement system.

The priority sectors included in the Commerce Strategy were selected in consultations with our missions in China and partner departments on the basis of:

- a) The existence of a potential demand on the part of China for goods and services associated with this sector.
- b) A capacity by Canada to meet this demand.

- c) An interest on the part of Canadian industry to meet this demand.

The Commerce Strategy includes a number of sub-sectoral strategies which provide an outline of specific Canadian industries, their structure, and their strengths and weaknesses. These sub-sectoral strategies also provide information on the major players and partners in both the private and the public sectors. The sub-sectoral strategies also identify a number of events, activities and initiatives which will be undertaken to support Canada's objectives. These activities will be focussed on the following objectives:

- a) Increasing awareness in Canada of the potential existing in China.
- b) Increasing awareness in China of Canada's expertise as well as provide information on the potential offered by Canada for foreign investment.
- c) Ensuring fair and equitable market access to the Chinese market for Canadian exporters and investors.

A list of the required tools and resources required to fulfill these objectives is also included in the Commerce Strategy. The Commerce Strategy includes a proposal to increase Canada's footprint across China to improve services to our clientele and increase our intelligence gathering capacity. The proposal is to add up to twenty additional points of service to our current five. It should be noted that DFAIT currently has an arrangement with the Canada China Business Council (CCBC) whereby the Council provides the TCS core services to our clients in four locations. Pending the allocation of the required resources to allow for the expansion of our footprint in China, the arrangement with the CCBC has been extended. Should resources be allocated to this initiative, it is likely that DFAIT would assume the control and management of these CCBC offices. Other points of service would be added gradually based on our Commerce Strategy.

As mentioned above, an integral element of our Commerce Strategy is increasing the awareness in Canada of the potential existing in China. Elements of our strategies include full participation of the DFAIT Regional Offices across Canada. We are also consulting in each province through the Regional Trade Networks. Finally, we will also be presenting elements of our strategy through industry trade associations. The Regional Offices provide the "account executive" function, are responsible for client acquisition and are the primary face of the Department with our clients.

**Recommendation 4:** *TCS should consider revising the service offering in emerging markets to respond to the growing needs of business clients to be assisted with their sourcing requirements with Canadian direct investment support, and with troubleshooting and advocacy.*

China is by far, the most important emerging market for Canada. China now ranks as our second trading partner, second source of imports and fourth largest market. Total bilateral trade in 2005 amounted to \$36.5 billion with Canadian exports to China totalling \$7.0 billion and imports from China totalling \$29.5 billion. Canada's bilateral relationship with China is not only important but also wide ranging covering trade, investment as well as science & technology. While export promotion is normally associated with advocacy and troubleshooting, our IBD program in China is faced with issues resulting from the new Chinese reality such as sourcing requirements and support to Canadian investment in China.

All our missions in China are currently providing services related to trade promotion, support to Canadian investment, as well as the associated advocacy and troubleshooting. While each mission has a role to play in each of these activities, Beijing devotes an important share of its IBD resources to advocating the position of the Canadian government in relation to important issues, takes necessary actions to defend the interest of Canadian exporters and investors and supports the establishment of cooperation agreements between Canadian firms and their Chinese counterparts. A team, led by a counsellor, is solely dedicated to these tasks in our embassy in Beijing. Much of the work done by this team is targeted at the national authorities and therefore affects the access enjoyed by Canadian firms in all parts of China.

Foreign direct investment in China has helped the country establish its role as the "manufacturer to the world". Lower production costs and large scale production facilities make it attractive for Canadian manufacturers to consider either sourcing goods or moving production related operations to China.

While our embassy in Beijing had given some thought to the possibility of dedicating a LES officer to assist Canadian companies with sourcing inquiries, lack of additional resources has forced it to delay the implementation of this plan. This should allow our embassy in Beijing to await the result of the TCS review of the implications of the provision of assistance related to sourcing inquiries (see our response to recommendation No. 5).

**Recommendation 5:** *TCS should undertake a study to delineate the policy implications of sourcing, particularly with respect to the future competitiveness of Canadian companies in light of the emergence of global value chains. TCS should clarify its role so that officers have better guidance on how to handle the growing volume of enquiries with respect to sourcing. The missions can then take appropriate actions (for instance, the development of a list of qualified third party service providers) and provide consistent messaging to clients.*

The IBD Branch of the Department has already begun an assessment of the implications of providing assistance to Canadian companies looking at sourcing goods overseas. Given the realities of the “new” economy and the ever increasing integration of China into global supply chains and its designation as the “manufacturer to the world”, China is seen by many as an ideal supplier of goods and components. Our missions in China are increasingly requested by Canadian companies to provide such a service and will likely be affected should the TCS extend our services to sourcing inquiries.

The TCS assessment will determine if there is a need to offer this service and the conditions under which it would be offered. Various options related to the provision of services would include direct referral to outside service providers (including the trade/industry ministries of the host countries) and assistance provided by the staff of our missions. The level of assistance provided by our mission would be commensurate with the level of economic benefit derived by Canada from sourcing (e.g., preservation of high quality jobs in Canada, maintenance of the competitive position of Canada in third markets) and be associated with a clear set of guidelines determining when and how services related to sourcing would be provided. If these services are to be provided, it is clear that additional resources will be required.

**Recommendation 6:** *ITCan should expand into China’s sub-regional markets with its own personnel and its own offices.*

An initial proposal to open up to 20 new points of services was included in the Trade Section of the April 2005 International Policy Statement.

In 2002, DFAIT and the Canada China Business Council (CCBC) reached an agreement whereby the CCBC was contracted to provide the TCS core services to ITCan clients in three offices located in the cities of Shenzhen, Qingdao and Chengdu. Since then Qingdao has been dropped and Shenyang and Nanjing added.

A request for funding to allow the opening of points of services in China's second tier cities was included in the Can-Trade Memorandum to Cabinet. Pending funding allocation allowing DFAIT to establish its own network of points of services throughout China, it was decided to extend the contract with the CCBC for a four month period beginning April 1, 2006. It is hoped that this extension will provide DFAIT with sufficient time to secure funding to go ahead with the project to establish its network of points of service in China. The option to extend this period beyond four months has been included in the new contract with CCBC in case DFAIT is unable to secure funding for this initiative by summer 2006.

The Department took note of the recommendations related to the provision of services to Canadian clients in China's second tier cities. In December 2005, the Chief Trade Commissioner visited Beijing to meet with foreign trade representatives to discuss how their respective countries are meeting the challenge of providing services to their clients outside of the major centres such as Beijing and Shanghai. Various models for representation were discussed with representatives from the U.S., U.K., France, Australia and the Netherlands.

Since the fall of 2005, DFAIT has been developing a Commerce Strategy for China. This Strategy contains a list of priority sectors, the latter divided in sub-sectors. The Commerce Strategy will assist DFAIT to identify optimal locations for new points of service as well as to determine which sectors should be the focus of the coverage offered by these points of services. The Strategy will greatly assist in determining the type of knowledge and expertise the staff hired to work in these points of services should have in order to offer the best service to our clientele.

Should resources be identified for this purpose, DFAIT would proceed with a gradual expansion of our network of points of service in China. It is likely that DFAIT would seek to assume the management of the current CCBC offices in Nanjing, Shenzhen, Chengdu and Shenyang. Assuming funding is made available, other offices would be open over the next three years where warranted.

**Recommendation 7:** *As part of the mandate for the Regional Program Manager, a comprehensive, integrated, multi-year and results based business plan should be developed that is based on a solid analysis of Canadian capabilities, interests and capacities and matched to specific needs and opportunities identified in China, Hong Kong, and Taiwan. Investment promotion and Science and Technology development activities should form an integral part of this plan.*

Since the fall of 2005, DFAIT has developed a comprehensive Commerce Strategy for China. This Strategy includes an identification of priority sectors and sub-sectors. These priority sectors were selected on the basis of:

- a) The existence of a potential market in this sector in China.
- b) A capacity by Canada to meet this demand.
- c) An interest on the part of Canadian industry to meet this demand.

The Commerce Strategy includes a number of sub-sectoral strategies which provide an outline of the Canadian industry, its structure, its strengths and its weaknesses. It also provides information on the major players and partners in this industry. The sub-sector strategies also identify a number of events, activities and initiatives which could be undertaken to support Canada's objectives in this particular sectors. The horizon initially set for these activities includes FY 2006-07 and FY 2007-08. These activities will be focussed on the following objectives:

- a) Increasing awareness in Canada of the potential existing in China in a particular sector.
- b) Increasing awareness in China of Canada's expertise in a particular sector as well as offer provide information on the potential offered by Canada for foreign investment.
- c) Ensuring fair and equitable market access to the Chinese market for Canadian exporters and investors.

These sub-sector strategies have been subject to an initial consultation process with key partners and industry associations. DFAIT is currently devising a wider consultation process which should be in place by late spring 2006. A wider and well targeted consultation process should result in these sub-sector strategies and the general Commerce Strategy for China to be validated by the relevant industry and therefore enjoy a high level of credibility and buy-in from the private sector.

DFAIT is currently reviewing how best to measure the performance of the various activities. The deployment of TRIO in China will allow for the collection of data for this purpose. The posts in China have been key players in the development of these strategies. Strategic elements agreed to are reflected in the IBD Business Plans developed at post.



**Recommendation 8:** *TCS should ensure that results reporting and performance measurement address short, medium and long term results expected from the program. As part of performance measurement, TCS should develop a strategy to ensure that WIN and other systems (e.g. TRIO) entries are as accurate as possible. Clear guidelines and instructions should be issued and TPMs and The RPM should be held accountable for enforcing them.*

Various sections of DFAIT are actively working at developing a comprehensive system for the measure of the performance of our various missions overseas. This system will take into account not only quantitative data, such as the number of leads and volume of trade, but qualitative data as well. In the case of an emerging economy such as China, where business is more difficult to conduct than in a developed economy, being able to take into account qualitative data into the performance measurement system will be crucial. The Chinese market, because of its opaque regulatory and legal environment, the larger role still played by the State as well as the complexity of its decision making process, is more likely to necessitate an intervention on the part of our missions to advocate Canada's position and defend the interest of Canadian exporters and investors. As a greater share of our trade resources in China are dedicated to such actions, we shall ensure that these are adequately reflected in the performance measurement system.

With the exception of Taiwan, the deployment of TRIO in Greater China will be completed on April 13, 2006. The deployment of TRIO at headquarters will begin in late spring 2006. It is expected that TRIO stations will then be installed in the geographic divisions. Deployment at headquarters should be completed by the end of 2006. Deployment at headquarters will allow TRIO based interaction between the posts and the geographic division.

The deployment of the new performance measurement system is expected to take place later in FY-2006-07 as TRIO is being deployed. The new measurement system will be associated with a comprehensive training programme and an exhaustive set of guidelines which will allow for the provision of comprehensive and uniform data to headquarters, thus resulting in a coherent and consistent measurement of the performance of our posts.

These measurement initiatives including MARCUS and the Dashboard, are vital components to the continuing measurement of performance and a results based organization.