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Canada's Economic Future

Why China Matters

David Emerson, PC

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I. Introduction

This morning I want to talk about Canada/China relations. And I want to make linkages to Canada's relationship with Hong Kong.

To fully appreciate the China factor today requires a broad global and historical perspective.

China's history goes back thousands of years and it is a history rich in science, art, literature, philosophy, mathematics, astronomy, navigation, international commerce and discovery.

It's a history of world leadership that clearly predates the purported European 'discovery' of the Americas.

Indeed it is now increasingly clear that European explorers such as Columbus, Magellan, Cook,

Vancouver and others explored the Americas more than half a century after the Chinese...and actually used maps previously drawn with incredible accuracy by earlier Chinese explorers and navigators.

If you haven't read Gavin Menzies book '1421,' and the sequel '1434', they make for compelling reading on the extent of Chinese exploration of the world and the spread of knowledge and influence that went with it.

As we reflect on the enormous pace of change taking place in China, we should put it in the context of a country that is some 5000 years old.

As Canadians, we sometimes forget we are part of nation that is a youthful 142 hundred years old.

Think of how we struggle with change in this country, then imagine the massive change the last 30 years have brought to China.

And when we speak of China as an emerging economy...an emerging power...we are really referring to China's re emergence as a global power.

While it's been a dramatic re emergence, it is still only partially to the position of global leadership China enjoyed at some points in the great span of world history.

While Chinese ships visited our Pacific shores nearly 600 years ago, people of Chinese origin have also contributed significantly to the building of Canada since our birth as a nation. Today, over a million Chinese people in all walks of life form a vital part of the great Canadian mosaic.

At the same time, Canadians were contributing to the re emergence of China.

Canadian missionaries gravitated to China in the nineteenth century, but it was the great

humanitarian work of Dr Norman Bethune that earned him, and Canada, an iconic place in Chinese history.

And in 1970, Canada was the first major industrial nation to give diplomatic recognition to China after the cultural revolution.

For several decades Canada enjoyed a reputation, a brand and a relationship with China that was special and unique in the world community.

Unfortunately, that may have been the high water mark. While there has been an ebb and flow to Canada/China relations over the years, both countries would today quietly admit the relationship has not met the lofty expectations of those early years.

II. Falling Short Economically

Mark Mullins of the Fraser Institute has written an excellent monograph on Canada's trade and investment performance with China.

His message is clear.

Whether we look at merchandise trade, services trade, outgoing foreign investment or incoming foreign direct investment, the story is much the same. While economic linkages are growing, they are falling well short of where we could and should be.

Disturbingly, we are also falling behind other trading economies with which we compete, like Australia.

While some 80 per cent of Canadian goods exports go to the US, only about 2 per cent of our merchandise exports go to China, compared to some 14 per cent for Australia, for example.

On the services side only about 1.2 per cent of our exports go to China. When you think of China's needs and the specialized professional skills we have in abundance, results like this are very discouraging.

I believe the most influential driver of global trade and competitive success is direct investment. Yet less than 1 per cent of Canadian foreign direct investment goes to China, and less than 1 percent of Chinese foreign investment comes to Canada.

Investment is how internationally competitive value chains and networks are established. With investment go flows of information, technology, finance, as well as skilled managers and other highly trained people.

Investment is a tangible manifestation of trust, commitment and partnership between two countries and their people.

Unfortunately, there is no shortage of voices who speak negatively of trade with China.

Some say, Canada's trade deficit with China means that China gains more from trade with Canada than we get in return.

It's an outdated mercantilist argument, the inference being that trade with China is inferior to trade with countries with which we run a merchandise surplus (eg. the United States).

Often added for good measure are condemnations of China's environmental record, inadequate protection of intellectual property, human rights abuses and stalled democratic reforms.

I find these arguments unconvincing.

To begin with, mercantilism has long ago and repeatedly been discredited.

Imports are in many ways as important to Canada as exports. In many cases imports are critical inputs to Canadian rooted value chains.

Substantial amounts of electronic and industrial equipment are imported from China, for example, much of which enables Canadians to achieve efficiency and cost savings essential to their personal or business needs.

Switch countries for a moment. We run a trade deficit with Chile because Canada is a dominant investor in their mining industry, and we import substantial amounts of ores and concentrates to support our global supply chain leadership in that sector. Should we condemn our trade relationship with Chile?

Imports also embody technology. Never forget, over 95 % of the world's technological innovations and discoveries are not Canadian. And those numbers aren't likely to swing in our favour anytime soon.

Gaining access to massive international pools of scientific and technological progress is done in part by importing the products (goods and services) that embody these advances.

Protection of Intellectual Property...it is true that China does not have a history of strong intellectual property protection. But those protections are gradually being established and improved.

And make no mistake, China will be a far more prolific creator of intellectual property over the next 30 years than most industrial countries....Canada included.

China now produces, and will continue to produce, scientists, mathematicians and engineers in far greater numbers than most industrial countries.

Every year thousands of Chinese are educated in the world's leading universities, and tens of thousands more are being educated in a Chinese post secondary system that is undergoing a massive expansion and modernization.

The reality is, China now has a powerful and growing interest in protecting its own intellectual property assets.

Let us also remind ourselves that in the eyes of the US, the world's most prodigious producer of intellectual property, Canada is also seen as seriously delinquent in terms of protecting intellectual property rights.

As my mother would have said 'people living in glass houses should not throw stones'.

Of course when all else fails people will attack China's record in terms of human rights and the advancement of democracy.

Yes, we all know China has some distance to go to achieve the standards we enjoy in Canada. But it is equally true that China's liberalizing reforms of the past 30 years have taken more people out of poverty, and enabled more economic progress, than any country in the history of the world.

Would we like reforms to continue? Of course we would. And we need to engage and encourage China to go further. But give credit where it is due.

I would say the same on the environmental front. We need to engage, encourage and demonstrate...demonstrate leadership in what we do and how we do it.

In my experience China is eager to learn and adopt best technologies and practices.

III. Why China Matters

Let's spend a few minutes on why China is strategically important to Canada.

The global geopolitical order is changing in fundamental ways.

Globalization has changed the game. As Thomas Friedman has so thoroughly documented, the 'world is flat' and, in many respects, distance is dying.

Knowledge and information are cheaply and instantly available in virtually every corner of the world.

If knowledge is power then the flat world is an empowered world.

Countries once developmentally stuck are suddenly empowered to get in the global value creation game.

If you talked about BRIC's 15 years ago people would conclude you were referring to a building material.

Today we think Brazil, Russia, India and China...four countries that have become synonymous with game changing, super competitive economies.

15 years ago the G-7 was an exclusive club of the world's leading economies, which together were able to determine the direction of the international community on the big issues. And Canada had the honour of being a member.

Today, the G-20 may not even be broad enough to accommodate the critical players on the world stage.

Even multilateral organizations like the WTO and the UN depend on a much broader, more diverse, consensus to advance the big issues of the day.

The uni polar world of US domination is giving way to a multi polar world of more broadly distributed power and responsibility.

And no country is more on the ascendancy than China.

Chinese modernization and development have changed the entire paradigm of what it takes to be a competitive leader in today's world.

Even in the current economic crisis, where do people turn for a 'white knight'? You guessed it.

China has the cash reserves and liquidity to make or break financial and currency stability.

China is looked to for rapid and substantial economic stimulus that will benefit the rest of the world.

China is looked to help strengthen international financial institutions like the IMF and the World Bank.

And China is seen as a key to resolving the WTO/Doha stalemate.

Few today seriously doubt that China will be a key global player for as far as we can see into the future.

And few would doubt the importance of Canada increasing our engagement with China as part of our trade and foreign policy.

That is why I am so pleased to see Lawrence Cannon and Stockwell Day investing time and political capital in China on behalf of the Government of Canada.

Canada has serious competition to be a senior, respected, middle power in the emerging global order. We more than ever need partners and allies to help support and advance our interests.

China should be an important part of our approach to international relations... diplomatically, politically and economically.

And I believe Canada/China economic interests intersect in compelling ways.

Canada is a huge land and water mass. We are resource rich and technologically advanced...but sparsely populated. We have no hope of continuing to grow our standard of living in the absence of strong linkages to the major and dynamic economies of the world.

Currently, some 80 per cent of our exports go the US under NAFTA. But protectionism and American security issues are creating serious long term strategic risks in North America.

Canada has no choice but to develop additional markets across the Atlantic and Pacific.

No region offers greater potential for the future than the rapidly expanding markets of Asia, particularly China.

We need China's markets for our merchandise. We need mass markets to

commercialize our new technologies, our innovative products, and our specialized service offerings.

And we need an internationally diversified customer base for our energy and natural resource products.

We also need to import the increasingly high quality, cost competitive products China has become so proficient at producing.

And we need to collaborate with China on R and D, or we will be left in the dust as China drives forward with a science agenda that dwarfs anything Canada can do.

But the benefits run both ways. China can benefit from Canada's product and service offerings, as well as our strategic advantages as a highly efficient Gateway into the heart of the North American marketplace.

As we grow and develop Canada's partnership with China our strategy will have to be multifaceted, but diplomatic and political engagement must be right at the top in terms of priority and intensity of effort.

After a strained period in the relationship I do believe we are back on a positive trajectory. The intended visit by our Prime Minister needs to occur soon, and I believe it will set a positive, harmonious tone to build on for the future.

But there is so much more to do.

IV. Hong Kong: A Gateway to China

Realizing opportunities in China, indeed in Southeast Asia more generally, should involve Hong Kong as a key element.

Hong Kong has a substantial Canadian presence, both in terms of people which share Canadian and Hong Kong roots, and in terms of business opportunities and potential partnerships.

Hong Kong has an advanced and familiar common law system as a result of a hundred years of British Colonial rule.

Hong Kong is ranked as the jurisdiction most open and easy to do business of any in the world. It is an entrepreneurial, dynamic and beautiful city where the English language is widely spoken and both Asians and westerners work and enjoy life together.

With a vibrant stock exchange and financial services sector, combined with enhanced empowerment from Beijing, Hong Kong increasingly functions as a financial bridge between the Chinese and international economies.

While Hong Kong is part of China, it is a Special Administrative Region with unique semi autonomous governance arrangements.

As Canada is a Gateway to North America, Hong Kong is a gateway to China. An evolving special trade arrangement, the Closer Economic Partnership, ensures a relatively open border with China.

And the transportation and logistical system rooted in Hong Kong ensures highly competitive connections between China and the global marketplace.

All of this has contributed to Hong Kong becoming a vibrant conduit and staging location for businesses trading with China, investing in China and sourcing products from China.

Low taxes, a reliable, predictable legal system, good living conditions, a strong financial

services sector, and world class transportation and logistics all combine to make Hong Kong an essential part of the China strategy for many businesses.

Dozens of Canadian companies have a presence there, and Canadian direct investment now totals some 6 billion dollars.

Accordingly the Canadian Chamber of Commerce in Hong Kong is the largest, and most active, outside of Canada.

Big global companies can and do operate directly and successfully in mainland China, but they tend to be companies with scale and critical mass. Companies that can afford the soft costs, the patience and the specialized people that it takes to manage in the Chinese marketplace.

China is a complex market. Perhaps more correctly, China is a series of interconnected regional markets, where dealings with national and local government can be complex.

Although smaller companies can and do succeed, it generally requires more extensive language, cultural and other skills than approaching the market through Hong Kong.

In Hong Kong you will find a more familiar business environment, opportunities for partnership and both people and government agencies keen to see you to succeed.

As you know Canada has a great consular service capacity in Hong Kong.

And don't forget, here in Canada we have Hong Kong Economic and Trade Offices in Toronto and Vancouver, as well as the excellent

support offered by the Hong Kong Canada Business Association.

V. Conclusion

Let me wrap up with a few concluding remarks.

We are at a generational watershed.

The international economy is in crisis at a time when the geopolitical global order is itself undergoing fundamental change.

How countries like Canada respond to these changing circumstances will have a profound effect on the health and competitiveness of tomorrow's economy.

I have said elsewhere that we should tackle the crisis by urgently focusing on a comprehensive strategy for competitive success 5 years from now.

That needs to include an aggressive strategy for expansion of trade and containment of protectionism.

The trade component cannot be a long term program. It needs to be seen as something urgently and immediately required now. Execution may take time but intense engagement needs to be now.

Finally, we should apply a competitiveness filter to Canada's stimulus package. Our package should be sculpted to use scarce fiscal resources on acceleration of initiatives that will enhance our competitive position as the economy recovers.

Canada can never spend its way to recovery, but we can ensure that as the global recovery takes hold, Canada is positioned as a competitive leader in the world economy of tomorrow.

On the trade front we have a massive challenge to turn the tide of US protectionism. But even that is not enough.

We need a North American trade offensive. We need a substantially stronger collaborative framework for trade, energy, the environment.

And we need a border security strategy that supports a stronger, more integrated, North American economy while meeting common security needs.

Today I have advocated an energetic engagement with China as a complement to an

enhanced platform of North American economic and security integration.

China and Canada have an enormous opportunity for strategic engagement geopolitically, economically and diplomatically. After a promising start in the 20th century, our relationship has reached a plateau well short of the summit.

It's late in the game and we are overdue for a broad based strategy of engagement.

Hong Kong can play a vital role in such a strategy.

We need Canadian businesses, our Chinese community, our federal and provincial leaders focused and fully engaged.

If we fail now to capitalize on the massive and growing opportunities in China, and if the scourge of US protectionism continues, generations of Canadians will pay a painful price.

The time for engagement is now. Let's get behind it. Let's build the foundation to an economic future we can be proud to pass to future generations.

Thank you.