

Canada-China Economic Relations: Beyond Petroleum by Daniel Poon Researcher,
North South Institute.

Discussant: Dr. David Rothwell, David Rothwell and Associates.

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The CCFS-O's March meeting was held in a new venue at Ottawa City Hall. Seventy six people attended to hear Daniel Poon of the North South Institute www.nsi-ins.ca present his argument on the opportunity and the need for Canada to take action to diversify its economic interests beyond the current "all-eggs-in-the-USA-basket" approach to trade and economic policy.

Mr. Poon presented a detailed analysis trade, economic sector statistics that demonstrated that China's economic growth is not only strong but is clearly moving up the value-added chain both within sectors and between sectors. The Chinese government is making full use of the "flexibilities" available in the WTO rules and state ownership to maximise the potential for Chinese companies to grow and become world leaders in high value added businesses, and they are succeeding.

In this setting Mr. Poon challenged Canada to create a proactive economic development and trade policies that engages China and the Chinese economy in sectors beyond our traditional export of natural resources and energy. He called for a new policy paradigm that would leverage China's technology/industry ambitions in Canada's favour to alleviate our structural constraints and to boost our national bargaining leverage.

Mr. Poon cited prominent policy advisors from opposite ends of the policy spectrum who also support this change of orientation in Government policy. For example Dominic Barton of McKinsey & co has proposed a multi-point strategy for Canada including: selecting 5 to 7 key sectors (infrastructure, financial services, aerospace, education, tourism, natural resources) to develop Canadian "global champions; and, stating that "foreign investment should be designed to support and environment that allows globally competitive Canadian champions to emerge (as opposed to protecting uncompetitive local players from global competition)."

Similarly, Jim Stanford of the Canadian Autoworkers Union has called on Canadian Governments to become more active in its economic policy and to use every policy lever in its toolkit to ensure Canadian firms have favourable access to capital and technology, aligning public training and technology programs, leveraging public procurement to give a head start to Canadian firms in their home market, and strategically promoting Canadian interests through our trade policy.

David Rothwell recounted a number of his experiences negotiating and working with the Chinese government and various firms during his career as a senior public servant and as a private sector entrepreneur. He cautioned that the business environment and “rules of the engagement” are not the same in China as what Canadians expect, and that this can lead to serious adverse consequences for prospective investors and business deals.

Looking to the future, he proposed that the Canadian strategy should move beyond high visibility trade missions with a small number of large Canadian firms. While these larger firms can, and do, make a significant contribution to Canadian growth, it would be a serious mistake to leave smaller and medium sized firms out of the strategy. Dr. Rothwell cited statistics demonstrating that it is the smaller and medium sized firms that generate more employment in Canada and work hard at up-grading the skills of their workers. They create a local Canadian environment that enables other firms to thrive in Canada.

Based on his experience in China he had 3 specific recommendations for government action to support Canadian business seeking to do business in China. First, the Government should develop a system to validate information about Chinese firms (who are they, where are they located, what products do they make, and what markets do they serve) that could be potential business partners with Canadian firms. Small business must have assurance that they are in possession of reliable information on which to base decisions. Second, the rules of business engagement are different in China than Canada and the Government should be providing an interlocutor service that would explain the local rules of the game to small and medium sized Canadian firms considering entering a business arrangement in China or engaging with a Chinese firm. Third, the Canadian government should be acting as a “marriage broker” to link Canadian companies with both “reliable” Chinese firms and “reliable” Chinese individuals. On the latter two points Dr. Rothwell noted that the considerable Chinese expatriate community in Canada could be an invaluable resource.

The evening concluded with the CCFS-O’s traditional tea and sweets and many conversations about policy and options and the “how-to” of investing in China.