Beating Canada to China's Door: Competition Policy Review

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This article is an edited segment of a presentation made earlier this year by Sergio Marchi on behalf of the Canada China Business Council ("CCBC") to the Competition Policy Review Panel in Ottawa. The submission followed consultation with a cross-section of CCBC members, among which are many of Canada's leading corporations. Mr. Marchi is the current president of the CCBC, which is now in its 30th year.

Canada is, and will remain for the foreseeable future, an export-dependent economy. While the NAFTA relationship accounts for almost 80 per cent of Canada's exports today, we cannot overlook tomorrow's economic superpowers.

History teaches us that, as trade winds blow, they sometimes alter course. We cannot rest in the comfort of today's safe harbours. We must constantly be navigating more challenging seas if we are to hand prosperity to succeeding generations.

For Canada today, that means deepening and strengthening our trade and investment connections to one of the economic giants of the future – China.

The Canada-China Relationship

Trade relations between Canada and China are at a critical juncture. While China is already Canada's second-largest trade partner after the U.S., China accounts for only about five per cent of Canada's world trade.

Canadian businesses are sometimes content to remain within the known confines of the Canada-U.S. trade connection. While there is comfort in the familiarity of that market, it is also prudent to look beyond.

Fallout has been dramatic from the relatively rapid rise in the comparative value of our dollar measured against the U.S. dollar. Of greater significance is the fact that the infrastructure supporting Canada's trade with the U.S., whether logistical or political, is nearing capacity and, indeed, Canada's trade volumes with the U.S. are in decline.

Without doubt, the next most opportune target is China. With this belief firmly in mind, CCBC strongly supports government action to enhance Canada-China trade.

To encourage the most positive outcome in the Panel's deliberations, we present the following responses to one of the questions posed for this consultation: "How do Canada's policies impacting direct investment, both inward and outward, affect Canada's competitiveness as a destination for Foreign Direct Investment ('FDI') and as a platform for global growth?"

Canada in the Global Economy

Keeping Canada open for international investment is central to growing our economy, especially in light of the ever-increasing global economic linkages.

Canada's national trade policies, reflected in the regulatory framework, can – indeed, should – play a substantive role in enhancing Canada's global trade. The *Investment Canada Act* ("ICA") should be a catalyst for growth in Canada-China trade.

For Canada – a country whose percentage of exports to gross domestic product ("GDP") is very high and which has a driving ambition to make its economy more competitive globally – maintaining an open investment regime is vital. It is important to recognize that our economy's development to date has benefited tremendously by such an approach.

In fact, as the Department of Foreign Affairs and International Trade ("DFAIT") notes in *Seizing Global Advantage*, two-way trade and investment in Canada is equivalent to more than 70 per cent of Canada's national economy.

So, with regard to both inbound and outbound investment, the federal government must, in close collaboration with provinces and cities – which are increasingly competing globally for labour and investment – have a strategic plan that clearly outlines our priority sectors.

Canada and China

It does not overstate the case to say that increased Canadian trade with China is essential to Canada's future prosperity. As the World Economic Forum acknowledges: "It has become an established fact [that] the rising economies of Asia are poised to equal those of the West, revolutionizing the traditional economic order. Building relationships and understanding between the 'old' and the 'new' economies and business leaders is essential for the future prosperity of both."

More explicitly, connecting the two sides of the Canadian and Chinese trade equation, DFAIT noted in *CanadExport* in March 2007: "As a market for Canadian exports, China is like no other. It is the fourth-largest economy in the world and has a gross domestic product growing at unparalleled rates."

Canada-Chinese FDI

Foreign Direct Investment is a two-way street. There is traditionally greater outbound FDI in Canada than inbound. Both are growing. However, there is a significant and worrisome codicil.

China – the fourth largest economy in the world and Canada's second-largest trading partner, with an economy growing by double-digits annually – did not make the top 10 for FDI either in outbound or inbound investment. DFAIT figures show Canadians invested $1.5 billion in China in 2006, compared to more than $223 billion in the U.S. China invested $1.3 billion in Canada in 2007.

Canada must do better, both as a source for FDI in China and as a target for Chinese FDI. Government must do everything in its power to enhance Canada-China trade. Government does have opportunity in practical terms. The Asia-Pacific Gateway and Corridor Initiative stands as a superb example of government acting as a trade catalyst.

If this country does not substantively increase its efforts to profit by investment in China's meteoric growth and to attract more of the billions of dollars in Chinese investment that is looking for a home, we will fail future generations of Canadians.

Inbound FDI from China

Since 2002, China's government – driven by the need for secure sources of raw materials to feed "the world's factory" and fuelled by massive U.S. dollar-denominated foreign reserves – has encouraged that country's largest corporations, including State-Owned Enterprises, to seek growth abroad. Known as China's "Going Out" strategy, Chinese corporations are seeking to invest offshore. Chinese investors will increasingly target resource companies around the world.

It is also worth noting that China has a need to find a safe harbour for its huge foreign exchange surpluses. China's government has created a $200 billion (U.S.) state investment agency, the China Investment Corp., that is actively seeking FDI opportunities. That agency demonstrated, with purchases such as its US$3 billion investment in the U.S.-based Blackstone Group in 2007, that China is no longer content to sit on its foreign reserves.

These events represent very substantive opportunities for Canada. Canada's stable services sector and our resource companies could – and should – be prime targets for Chinese FDI.

Countries around the world will compete to become the destination for such investments. Canada cannot afford to give up this opportunity. On our own territory, we should have confidence that our laws and regulations will be respected. It is the lowest risk, highest return equation for Canadians. It's vital that we don't lose it.

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Other segments of this presentation were carried by divisions of Canwest Publishing Inc. that noted that Sergio Marchi was a former federal minister of international trade, a former ambassador of Canada to the World Trade Organization ("WTO") and to the Office of the United Nations in Geneva and that he served as Chairman of the WTO General Council.

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