

C H I N A

Notes for presentations: February 8-28, 2001

INTRODUCTION

- Thank you for inviting me to speak to you today.
- During the Great Proletarian Cultural Revolution 35 years ago, I first became interested in China. University studies in Chinese history, contemporary politics, not to speak of the language, described of a country so different from Canada, in every way conceivable, that it seemed both real and the product of imagination. As a student of Canadian foreign policy, it hardly suggested an ideal partner for can-do Canadians.
- I managed to travel to China for first time 20 years ago, 4 years after 3rd Plenum of CCPCC, when Deng Hsiaoping proposed what was to become a radical change of direction, and commitment to a contemporary form of economic development. Even then, in 1982, there was only one new hotel in Beijing, few taxis, bad restaurants, and Marxism-Leninism in rhetoric, if not form;
- From vantage point of Japan, where I lived for 15 years, I watched China's unfinished revolution, with its roots in 19th century, an unfinished revolution, a revolution which continues today, a national

transformation with enduring characteristics that include a determination to achieve broad-based economic development, with enough social justice to preserve domestic peace; sovereignty over its territory; and the determination to make its place in the world.

- Not one of these objectives is a carry-over from China's imperial past; each arises in different ways from the economic and political challenges of the West and Japan and China's rapidly developing neighbours;
- In 1978, Deng and a critical mass of reformers determined a radically different approach for China, one aimed at achieving these national objectives. Among other things, it propounded a loosening to government controls over individual economic activity and private enterprise; re-establishing the priority of education as a national objective; and opening to the outside world. It promoted The Four Modernizations, of industry, agriculture, S&T and defence;
- the need for such modernization, in a country which at the outset was centrally planned, Leninist, and extremely poor may appear self-evident to Canadians, then as now, but they were seen by many millions of Chinese as threatening the very meaning of the revolution, for they put into question other, Maoist objectives, aimed, rhetorically at least, to create a country that was strictly egalitarian, socialist, and generally suspicious when not openly hostile to foreign intercourse -

a word I chose to make sure the audience is still listening!

- let me list some of the changes that had to take place: China's 300mm farming households had to be moved from massive state communes to family farm system based on long term leasing of land and an open market for most agricultural goods; China's State Owned Enterprises, producing 78% of national output in the late 70s, had to be variously privatized or otherwise face domestic and international competition; an entirely new and private services sector had to be created and regulated; a modern, competitive style market based financial system had to be established, essentially from scratch; a market responsive labour force was needed, one that threatened and indeed has wrecked havoc with the pervasive state controls exercised through the work unit and household registry systems;
- this was to be an immensely complex process, but one deemed by China's top leaders as essential to the achievement of China's revolutionary objectives;

CHINA IN THE 21ST

- last summer, 22 years after the launch of the reform movement, I had the privilege of being appointed Ambassador to China. I and my colleagues in Beijing and four other posts in the mainland are representing Canada in a country that, at current exchange rates is

the sixth largest economy in the world; it is the world's 5th largest trading nation; it's GDP this year will surpass US\$1.2 trillion; since the start of the reform movement 24 years ago, China's GDP has averaged an annual 8% growth rate; China attracts more foreign direct investment than any country bar the USA, US\$47 billion in 2001; (Canada attracted \$13 billion); the state's role in the economy remains significant, but is much reduced; less than 29% of industrial output is now produced by the State Owned Enterprises at national and regional levels;

- At the same time, it remains a poor country; it's per capita GDP is \$US840; this is about the same level as Syria, Sri Lanka, or Bolivia;
- But I think we have to look at today's China in absolute as well as comparative terms. It's Purchasing Power Parity standing on a per capita basis may be only one 8th that of the average Canadian - and one thirtyith in US dollar terms - but it has, today, an "Asian level" middle class of 50 million people, projected to rise to 200 million by mid-decade; it has 8 million households with incomes greater than C\$40,000 per year; over 30 million households have assets in excess of C\$100,000. Euromonitor states that 600 million Chinese now have sufficient spending power to become the target of most brand manufacturers; and incomes are on the rise;
- in my view, the rise of this middle class is one of the great untold

- stories of the early 21st century; the middle class is now present in significant numbers; it provides skilled labour and a crucial consumer market; it also contributes to the maintenance of social stability;
- another great, largely untold story is the extent to which Chinese are connected and connecting, nationally and globally, through state of the art technologies; 92% of Chinese have access to television; 90 million households have cable and illegal satellite television probably adds another 15 million; many of these have unsanctioned access to the 22 foreign channels now operating in China;
 - there are 136 million cellphone subscribers in China; 34 million Internet users access 277,000 Chinese web sites;
 - but this is all mostly about domestic connectivity; the Chinese people are connecting internationally as well; despite active and usually effective blocking efforts by the government authorities, foreign sites are widely available; the World Tourism organization says that 10 million Chinese travelled beyond China's borders last year; already, Chinese tourists are among the most numerous in South East Asia; 75,000 tourists and business people came to Canada last year; 130,000 students are now studying abroad and the demand for student visas is increasing exponentially; over 30,000 Chinese firms are now licenced to conduct foreign trade;

- another factor to keep an eye on: the rise of Chinese corporations; Fortune Magazine has developed its list of the 100 largest Chinese firms; it makes interesting reading; they are all State Owned Enterprises, but you can find them on the Chinese and the NY, London and Hong Kong stock exchanges; they have a total market capitalization of over US\$580 billion; Canadians consumers can't purchase too many of their products yet: Qingtao beer perhaps, or Haier refrigerators, but as the efficiencies forced by WTO membership work their way through the system, we will increasingly see these companies for what they are: precursors of the outward internationalization of Chinese corporate players, buyers of our products and services, and suppliers of globally competitive products. Another space to watch.
- These facts, figures and companies and many others that I don't have time to mention are reflective of China today. They speak not only of China as the emerging power of the 21st century, they illustrate that, economically, at least and for all intents and purposes, China has arrived; it is a country in full and dynamic flight;

WORLD TRADING ORGANIZATION

- And that is only part of the story. On December 11 last year, China formally joined the WTO. It is important to appreciate that the WTO is not a club: it is a system of international economic and trade

relations that requires of its members commitments that profoundly affect the nature of their economies, the structure of their industries, and the functioning of their societies.

- The WTO is about openness and transparency. It's about law and rules. It's about predictability and recourse. It's about conduct that centralized economies and many authoritarian governments usually do not find to be in their interest.
- Chinese economic policy and its attendant development, which heretofore had been based largely on experimentation, is now based on something entirely different;
- For the first time, reformers in China have locked in a program of trade and investment liberalization and legal reform that extends five to ten years into the future...and they have enlisted foreign pressure to ensure that it happens.
- ∞ Their gamble is that trade and investment liberalization will increase productivity and China's capacity for long-term growth and, hence, international influence. They also expect that the pressures caused by newfound competition will make further structural reforms in related areas unavoidable (for example, equity markets) or, at least provide a useful excuse for such reforms.

- ∞ If this works, we can all gain from the new opportunities to trade with and invest in China and from the emergence, over time, of a richer, more stable country.

WTO AND CANADIAN INTERESTS

- China's WTO commitments should produce an improved overall climate for Canadians doing business in or with China. This will make it easier to take advantage of existing opportunities. China has also committed to lower tariffs, the elimination of quotas, and provision of greater freedom for foreign service providers to do business in China. This will, there is no doubt, create significant new opportunities.
- This can get pretty esoteric and, primarily, of interest to trade policy wonks, but I think it is important to state that Canada will benefit from a very simple epiphenomenon: the implementation of rules;
- Thanks to its WTO commitments, China must adhere to the general principles of fair treatment of trading partners, nondiscrimination, transparency, predictability, and uniform application of laws and regulations; it has conceded that permission to import into China or to invest in China must not be conditional upon performance requirements or subject to conditions covering the conduct of research, the use of local inputs, or the transfer of technology; it has agreed that only published laws and regulations are to be enforced;

- more easily understood, and delivering immediate and medium term benefit to Canadian companies is the reduction in tariffs, which affect the terms of trade and thus the bottom line; for example,
- motor vehicles and parts -- from an average 21% in 2001 to an average of 11.5% by 2006; this will be of particular interest to GM suppliers in Oshawa shipping to GM Shanghai and to the Canadian parts industry as whole;
- equipment for line telephony -- from an average of 13% in 2001 to 0% by 2004, of particular interest to Nortel and Mitel;
- malt -- the pre-accession tariff of 26% has already been reduced to 10% this serves the interests of Prairie barley growers and processors;
- uncoated kraft paper and paperboard -- from an average of 14% in 2001 to an average of 3.5% by 2004; of interest to the paper industry in B.C., Ontario, and Quebec;
- frozen shrimp -- from 24% in 2001 to 5% in 2003, of particular interest to the Atlantic fishery; I know for a fact that the industry already considers this a major market opening measure;

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- whiskey -- from 56% in 2001 to 10% by 2005; of particular interest to producers in Quebec, Ontario, and Manitoba;
 - polyethylene-- from 16% in 2001 to 6.5% by 2008, significant, for example, for Dow's plants in Alberta and Ontario.
 - frozen beef -- from 39% in 2001 to 12% by 2004; this changes the terms of trade for farmers and processors throughout Canada, but particularly in Alberta;
 - The few remaining import quotas are to be phased out no later than January 1, 2005; tariff rate quotas, of special interest to western Canadian canola producers, will be in place until a 9% tariff is fixed in 2006; and so forth;
 - It's been two months since China joined the WTO, so this audience is right to ask how things have been going. It is important to understand that, depending on the individual sector, and there are hundreds of them, China has obligations that must be undertaken at accession, but others are stretched out to up to 5 years or more;
 - the fact of the matter is that the administrative challenge of revising and repealing hundreds of laws and regulations on time and in the full spirit of WTO openness has proven daunting, and in some cases too great; furthermore, as has been said for millennia, the mountains

are high, and the Emperor lives far away; it is not always obvious that regulatory changes mandated by Beijing have filtered all the way down to the customs officers in Urumqi, Xinjiang, 6,000 kilometers to the West; a massive education campaign, and a subtle cultural adjustment is taking place, but it will take time for the system to catch up;

- still, tariffs on 5,000 items have been lowered, and 400 NTBs phased out; regulations on foreign invested telecommunications firms, banks, insurance companies and securities firms have been issued since the beginning of the year, and already Canadian telecommunications providers, Canadian insurance companies, and Canadian banks are actively engaged in the new regulatory environment, indeed have been preparing for months and even years for this day;
- It is too early to tell whether accession has led to an improvement in the overall climate for doing business. We have, however, started to see regulations being published well in advance of coming into effect (and not on the day of implementation, as was usually the case pre-accession). We have even seen some regulations published in draft form, allowing for a period for public comment (including by foreign companies).

WHERE DO WE GO FROM HERE?

- ∞ We need to be vigilant on Chinese respect for the rules, but we also need to distinguish between difficulties arising out of a lack of capacity and difficulties arising out of a desire to block trade or investment, in other words, compliance vs. slowness vs. non-compliance.

- ∞ We at the Embassy and in Ottawa will do our best to monitor regulatory change and to keep the Canadian business community informed. However, we also rely on you to tell us if the changes are real and if you really are able to take advantage of regulatory reform. We are on the front line with the Chinese government, but you are on the front line in the market;

THAT'S NOT THE WHOLE STORY

- I have chosen to speak to you today about the vast changes that are taking place in the Chinese economy, what has been achieved, and the general direction for the future;

- I am concerned however that these remarks do not tell the whole story of today's China; that a focus on economics leaves society and politics out of the picture; and that you will leave with a very distorted understanding of what is happening in China, as we think about this here in Canada;

- for behind this growth lie immense, intractable problems, some of them brought forth by the very economic expansion we are celebrating; the fact of the matter is that not all Chinese are benefiting from this vast, historic opening to the world by the Middle Kingdom - indeed, far from it, and the excitement generated by the high rises of Shanghai and the fashion shows of Beijing distort other truths;
- let me list a few of the problems that the Chinese people face, every day and as we speak.....
- unemployment: it is hard to say what the rates might be; the government says less than 4%; the OECD says 6.6%; some academics suggest 10%; what these estimates hide is the reality of an urban labour force of well in excess of 300 million; we are speaking, at a minimum, of 10 to 15 million people, perhaps twice that;
- migrant workers: again, numbers vary, from 80 million to 160 million; these workers left unemployment or underemployment in their rural communities; they live a marginal existence in the cities; they are subject to the ministrations of often corrupt and dishonest employment companies; and they have no rights to even minimal social services for themselves, or education for their children;

- rural poverty: the World Bank states that 200 million Chinese live on less than US\$1 per day; as the income gap between urban and rural areas continues to increase, the availability of services - education, health, infrastructure - in rural areas decreases; it is not surprising that one often reads, even in Chinese newspapers, of serious rural discontent and even riots;
- corruption: according to the Chinese government's own statements, the problem is pervasive, and does not spare officials high or low; in addition to the "tax" that corruption imposes on an undefinable swath of economic and government activities, it exercises a corrosive effect on public perceptions of government, and especially, the probity of Chinese Communist Party and its Leaders; as Chen Yun is quoted as saying: not fighting corruption will destroy the country; fighting corruption will destroy the Party; where this will lead is very uncertain;
- human rights and democratic development: it is indisputable that the Chinese people have enjoyed an increasingly large degree of personal and economic freedom in recent since the 1978 reforms; loose forms of civil society organizations are increasingly tolerated, in some cases even encouraged to fill the vacuum as the state retreats from the provision of social services; so, bravo for economic rights;

- but political and civil rights remain, for all intents and purposes, extremely constrained; the rule of law and due process are gaining rhetorical support, but the practice is extremely uneven, judges consider themselves servants of the state, and in any event can only but rarely force implementation of their decisions when these go against the interests of power holders; press freedom is increasing, but many areas remain strictly taboo; writing and publishing critical of the CCP, China's senior leaders, Taiwanese independence, Falun Gong and religions freedom, or ethnic tensions is strictly forbidden and violations can result in lengthy imprisonment;
- Deng Hsiaoping's famous dictum, "wending yadao yiqie" - stability overrides everything - remains at the center of CCP thinking; this will likely continue to define the Party after the 16th Party Congress in October, suggesting that China's leadership is not yet ready to abandon the Leninist orientation of its birth; it may experiment with elections at the village level, conduct livelier selection processes for the delegates at party congresses; consider increasing the scope of independent enquiry and action at the level of provincial and national People's Congresses; open public hearings and have hotlines for callers; conduct public opinion polls and seek the views of non-party intellectuals and even foreigners, but there is no sign that it intends to reduce, in any meaningful way, its monopoly of power;
- so you see that if I had focussed my presentation on social issues

instead of economics, you would leave this hall with a very different and troubling impression of today's China, and how we should interact with it;

- but it's worth making the point that China is an immense country, with a quarter of the globe's population, geographically almost the same size as Canada, a country, as we are constantly reminded, with 5,000 years of historical and cultural baggage; put another way, there is more to all of the issues that I have raised that can be possibly be encompassed in a short speech;

- to think of China only as a proto-power with stunning new cities, Canton pop and sophisticated, English-speaking cadres is a serious error; but to think of the Chinese only as a desperately poor and maligned people fronted by the world's best PR firm is equally misleading; what can be said quite categorically is that, in these early years of the new century, China is positioned, determined and skilled to pursue its rise to power status, and impact very significantly on the world;

- that means us;

- after all of six months in China, but based on a life-time of interest and observation, I have come to the firm conclusion that, in this relentlessly globalizing world, Canada will not achieve its own, full

potential without engaging, connecting and profiting from relations with this 21st century China;

- China is simply going to get bigger and more important; it's economy is already larger than each of its immediate neighbours and it has the potential of rivalling, within another generation, that of Japan; it is the Chinese government's stated intention to become a major economic power and it gives every indication that it will make the sacrifices and the choices necessary to achieve it;
- its geopolitical strategy is more subtle, because China is not now a militarily strong country, and its priorities are currently elsewhere; but it has achieved a significant measure of recognition, whether it is through APEC or the War on Terrorism or the popular endorsement that is the nomination for the 2008 Olympics; Richard Holbrooke recently stated, in a widely commented editorial, that the most important relationship that the USA will have in the coming two decades, perhaps the defining relationship, is that with China;
- I can assert that that reality is one already imposing itself in the Western Pacific, and that any Asia strategy must have a China strategy at its center;
- I am convinced that Canada cannot, will not sit this one out; we have a demonstrated ability to adapt to geopolitical changes, at national as

- well as personal levels; we have to be convinced that China is a key international partner, market and destination, whether we are a business person, a tourist, a government department, an educational institution, or a touring group of artists;
- and we can pursue our corporate or institutional or personal China strategies with significant assets;
 - Canada and Canadians have a good image in China; some of it is historical - Bethune, Trudeau - some is completely contemporary, from Nortel networks and Bombardier's airplanes to Mark Roswell's Da Shan;
 - Canadians of Chinese ancestry now number over a million; these Canadians play a central role in humanizing and facilitating a complex relationship;
 - our political leaders are committed: Prime Minister Chrétien has led two Team Canada missions, and returned twice on other occasions; the top three contemporary Chinese Leaders, President Jiang, Premier Zhu and the National People's Congress's current Chairman, Li Peng have each visited Canada;
 - our companies are making sales: indeed, China is our fourth largest export market in 2000, and third largest source of imports, for a total

- of C\$14 billion, and a probably record of C\$17.5 billion in 2001;
- we have the most active of all of Canada's business associations, through the workings of the CCBC;
 - we have a consuming bilateral agenda: parliamentary relations, human rights, development cooperation, environment;
 - these and innumerable other linkages are the warp and woof of relations between our nations; they are strong and active;
 - but our appreciation of the dynamic that is today's China may need updating; it certainly did for me;
 - the risks of straight line projections duly acknowledged, the Chinese economy will only get bigger; the domestic market will expand; the numbers of consumers with ready disposable incomes will measure in the hundreds of millions;
 - Chinese adjustment to its WTO obligations will not be easy; foreign interests will complain of delays in implementation, or worse; Chinese domestic interests will rail against excessive and costly liberalization; but I am ready to bet that China's leadership will retain its strong commitment to using the WTO as the lever for economic modernization and international integration;

- China will become much more visible. It's Leaders are increasingly confident of their place on the world stage. There is a growing acceptance in capitals and financial centers that China's legitimate interests will have to be respected.
- Chinese companies and their products will follow the example of other Asian suppliers. We will not, tomorrow, fill our homes with recognizable Chinese products, but we most likely will the day after tomorrow.
- China's business travellers and students and tourists will be increasingly visible in every significant global destination;
- We have everything we need in Canada to benefit from the tectonic shifts that will arise from these developments.
- But we have to make a commitment, at the level of governments, businesses, educational and other institutions, and at an individual level, to take their full measure and advantage.
- My hope is that these brief remarks will inspire you to that end.
- Thank you.

