

CHINA IN THE SHORT TERM AND CHINA IN THE LONG

Speech for the APEX Conference

June, 2003

- 1.MY PRESENTATION TODAY WILL MAKE FOUR ASSERTIONS.
- 2.THE SARS EPIDEMIC WILL NOT HAVE AN IMPORTANT IMPACT ON CHINA'S ECONOMIC GROWTH OR NATIONAL GOVERNANCE;
- 3.THE ELEMENTS THAT FAVOUR CONTINUING CHINESE ECONOMIC EXPANSION REMAIN FIRMLY IN PLACE.
- 4.CHINA IS IN TRANSITION FROM MERE SIZE TO GREAT POWER, BUT THIS TRANSFORMATION WILL TAKE TIME.
- 5.CANADA AND CANADIANS MUST BE ALERT TO THE CHALLENGES OF CHINESE EXPANSION, AND TO THE OPPORTUNITIES THAT THIS GROWTH PROVIDES TO ACHIEVING OUR OWN NATIONAL, CORPORATE AND INDIVIDUAL OBJECTIVES.
- 6.LET ME START WITH THE IMPACT OF SARS ON CHINA

IMPACT OF SARS

7. AS OF JUNE 20, THERE HAVE BEEN 347 DEATHS FROM SARS.
8. FAIRLY HORRENDOUS, BUT IN FACT THE MOST DEADLY INFECTIOUS DISEASE IN CHINA IS TUBERCULOSIS. DURING A PERIOD COMPARABLE TO THE EMERGENCE AND SPREAD OF

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- SARS, IN OTHER WORDS, IN A 6 MONTH PERIOD, 75,000 PEOPLE WILL HAVE DIED OF TUBERCULOSIS IN CHINA.
9. APPROXIMATELY 2500 PEOPLE WILL HAVE DIED FROM MINING ACCIDENTS. ROUGHLY 50,000 PEOPLE WILL HAVE DIED IN TRAFFIC ACCIDENTS. AND FOR WE SMOKERS, 14,000 PEOPLE WILL HAVE DIED OF LUNG CANCER.
 10. COMPARATIVELY SPEAKING, THE MACRO ECONOMIC IMPACT OF SARS HAS NOT BEEN, AND IS NOT EXPECT TO BE, SIGNIFICANT.
 11. IN MACRO-ECONOMIC TERMS, INDEPENDENT ECONOMISTS WERE PROJECTING A GROWTH RATE OF AROUND 8% THIS CALENDAR YEAR. THIS WOULD INCREASE THE GROSS DOMESTIC PRODUCT FROM US\$1.24 TRILLION IN 2002, TO US\$1.34 TRILLION IN 2003. OFFICIAL PROJECTIONS FROM CHINA WERE VERY CONSERVATIVE -- 7% PRIOR TO SARS ACCORDING TO ZHU RONGJI, BUT Q1 WAS 9.9%.
 12. IF, AS MANY PROJECT, ACTUAL GROWTH IS CLOSER TO 7%, TOTAL GDP BY THE END OF THE YEAR WILL BE US\$1.33 TRILLION , FOR A THEORETICAL LOSS OF US\$12 BILLION. THIS IS A LOT OF LOST PRODUCTION, BUT IT IS ONLY ONE PERCENT OF THE ECONOMY AS A WHOLE, AND EQUIVALENT IN VALUE TO A QUARTER OF TOTAL FOREIGN DIRECT INVESTMENT LAST YEAR.
 13. INDUSTRIAL PRODUCTION IS 45% OF GDP, EXPECTED TO REACH US\$600 BILLION THIS YEAR - ALMOST THREE TIMES CANADA'S INDUSTRIAL PRODUCTION; THERE HAVE BEEN MINOR DISRUPTIONS TO SUPPLY CHAINS AS A RESULT OF QUARANTINE MEASURES AND REPETITIVE ROADSIDE TEMPERATURE CHECKS; SOME DECISIONS MAY BE DELAYED, ESPECIALLY WHERE PERSON-TO-PERSON BUSINESS DEALS HAVE TO BE CONDUCTED, IN PARTICULAR FOR EXPORTS FROM CHINA; BUT THE FACTORIES KEEP ON WORKING

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14. WITHIN THE SERVICES SECTOR, (34% OF GDP), TOURISM AND TRAVEL 5.6% OF GDP MOST HEAVILY HIT; RETAIL SALES IN MAJOR CITIES HAVE ALSO AFFECTED;
 15. AGRICULTURE AND RESOURCE-BASED SECTORS CONTRIBUTE 14% OF GDP; LARGELY INSULATED.
 16. CONSTRUCTION 7% OF GDP; SOME DELAYS, NO INDICATION OF MAJOR EFFECTS.
 17. FOR CANADA, THE LARGEST NEGATIVE IMPACT HAS BEEN IN TRAVEL - AIR CDA BEIJING TO VANCOUVER FLIGHTS WERE CANCELLED IN JUNE AND JULY, WITH ATTENDANT IMPACTS ON THE HOTEL TRADE.
 18. VISITORS TO CANADA ARE DOWN DRAMATICALLY DURING THE SPRING - WITH VISAS BEING ISSUED AT 20% OF NORMAL LEVELS DURING SOME WEEKS - AND OF COURSE BUSINESS VISITS TO CHINA HAVE ALMOST STOPPED.
 19. ON THE OTHER HAND, OUR LIFE INSURANCE COMPANIES ARE APPARENTLY DOING BOOMING BUSINESS SELLING THEIR POLICIES.
 20. WHILE SOME FAMILIES LEFT CHINA, AND TEACHERS FROM RURAL AREAS HAVE SOUGHT TO LEAVE, MOST CANADIANS IN CHINA CONTINUED TO LIVE THEIR LIVES WITHOUT FEELING THAT THEY WERE AT GREAT RISK.
 21. BY PUTTING THE SARS ISSUE INTO PERSPECTIVE, I AM NOT SUGGESTING THAT IT IS INSIGNIFICANT. IN SOME RESPECTS, SARS IS A METAPHOR, REVEALING - IN SOME CASES IN DEADLY FASHION - ASPECTS OF CHINA'S GOVERNANCE THAT ARE RELEVANT TO TODAY'S DISCUSSIONS. I WILL RETURN TO THESE IN A MINUTE.

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22. BUT THE IMPACT OF SARS SO FAR IS SMALL, AND IT IS NOT LIKELY TO BE SUSTAINED.
 23. SO, WE MUST KEEP OUR ATTENTION FOCUSSED ON THE FACTORS THAT WILL DETERMINE WHETHER CHINA IS INDEED THE ECONOMY TO WATCH, AND WHETHER AND HOW IT WILL IMPACT ON CANADA.
 24. THE IMPACT SHOULD BE MINIMAL, AND...

...CHINA'S ECONOMY WILL CONTINUE TO EXPAND

IT IS ALREADY THE 6TH LARGEST ECONOMY IN THE WORLD; THE 2ND ON PPP BASIS; IT IS THE 6TH INTERNATIONAL TRADER; IF CHINA MAINTAINS.
 25. BETWEEN 1978 AND 2000, CHINA SUSTAINED AN AVERAGE GROWTH RATE OF 9.4% , 3 TIMES THE WORLD AVERAGE OF 3.3%; LAST YEAR, IT GREW BY 8%, TO REACH, AS I'VE SAID, US\$ 1.24 TRILLION. IT ATTRACTED US\$53B IN FDI.
 26. CHINA IS NOW LARGEST PRODUCER IN THE WORLD OF TVS, AIR CONDITIONERS, CAMERAS, TELEPHONES; IT HAS THE 2ND IN TOTAL FX HOLDINGS, AT \$316B; IT HAS THE 6TH GDP IN THE WORLD; THE 2ND ON PPP BASIS; IT IS THE 6TH INTERNATIONAL TRADER; IF CHINA MAINTAINS GROWTH RATE OF 6% OVER THE NEXT 7 YEARS, ITS GDP WILL SURPASS BRITAIN, FRANCE AND GERMANY.
 27. EXPANSION WILL CONTINUE TO BE BASED ON FOUR FUNDAMENTAL PILLARS: NATIONAL POLICY DIRECTION AND INNOVATION; MIDDLE CLASS CONSUMPTION, FOREIGN DIRECT INVESTMENT AND EXPANDING INTERNATIONAL TRADE.
 28. IN POLICY TERMS, AND SIMPLY PUT, CHINA IS DETERMINED TO ASSUME A POSITION IN THE WORLD COMMENSURATE WITH ITS

SIZE, ITS POPULATION, ITS CULTURE AND ITS HISTORY.

29. THERE ARE MORE THAN A FEW TINGES OF INJURED NATIONALISM IN THIS STANCE. AS STATED BY HU GANG, A WELL-KNOWN BUSINESSMAN, IF YOUR COUNTRY IS STRONG, NO ONE CAN BULLY YOU.

NUMBER ONE

30. FOR THE LAST 25 YEARS, CHINA'S LEADERS HAVE SHARED A SINGLE MINDED FOCUS ON ECONOMIC DEVELOPMENT AS THE NATIONAL OBJECTIVE: YI JINGJI JIENSHE WEI ZHONGXIN.
31. THEY HAVE MOVED THE COUNTRY FROM THE EXTREMES OF MAOIST COLLECTIVISM TO MIXED ECONOMY BECAUSE THEY ACCEPTED THE NEED TO EXPERIMENT WITH EVERY POLICY TOOL THAT WOULD PRODUCE RESULTS. IDEOLOGY HAS LITTLE TO DO WITH IT.
32. EVERY STATEMENT AT THE 16TH PARTY CONGRESS LAST NOVEMBER, AND THE 10TH NATIONAL PEOPLE'S CONGRESS IN MARCH REITERATED THIS OBJECTIVE.
33. EVERY ACTION OF THE GOVERNMENT INDICATES THAT THEY WILL CONTINUE TO IMPLEMENT STRATEGIES ON THE BASIS OF WHAT WORKS AND WHAT DOESN'T. THAT INCLUDES MORE DECENTRALIZATION, MORE DEPENDENCE ON OPEN MARKETS FOR GOODS AND SERVICES, MORE DIVERSIFICATION OF OWNERSHIP, MORE INTERNATIONALIZATION, MORE INVESTMENT IN INFRASTRUCTURE. THERE MAY STILL BE AN OCCASIONAL OBEISANCE TO MARX AND LENIN, BUT AS FAR AS THE ECONOMY IS CONCERNED, THE ONLY THING THAT MATTERS IS WHAT WORKS.

NUMBER TWO

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34. AT THE MICRO ECONOMIC LEVEL, WELL OVER 100 MILLION CHINESE NOW LIVE MIDDLE CLASS LIVES VERY COMPARABLE TO OUR OWN. 200 MILLION IS THE PROJECTION FOR 2006. 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;
 35. THERE ARE 222 MILLION CELLPHONE SUBSCRIBERS IN CHINA; 59 MILLION INTERNET USERS ACCESS 371,000 CHINESE WEB SITES;
 36. THE WORLD TOURISM ORGANIZATION SAYS THAT 10 MILLION CHINESE TRAVELLED BEYOND CHINA'S BORDERS LAST YEAR.
 37. THEIR CONSUMER HABITS ARE DRIVING DEVELOPMENT.

NUMBER THREE

38. THIS MIDDLE CLASS IS THE ONLY VALID PROOF THAT THE CCP CAN DELIVER. IT PROVIDES A MODEL FOR CHINA'S HAVE-NOTS. AVERAGE DISPOSABLE INCOME IN URBAN AREAS GREW 13.4% IN 2002 (VS 4.8% IN THE RURAL AREAS WHERE THE BULK OF THE HAVE-NOTS LIVE, BUT WOULD RATHER LEAVE).
39. POLICY INNOVATION, INTERNATIONALIZATION AND A GROWING CONSUMER MARKET EXPLAIN WHY THE FLOWS OF FOREIGN DIRECT INVESTMENT HAVE BEEN AND CONTINUE TO BE SO LARGE.
40. AS OF 2001, AMERICANS HAD INVESTED US\$34B IN CHINA, JAPANESE US\$32B, THE KOREANS US\$12B, THE EUROPEANS US \$27B, THE TAIWANESE US\$29B, AND CANADIANS US\$3.4B. IN 2002, FDI APPROACHED US\$55B, FOR A OR US\$395 B OVER THE LAST 20 YEARS. THIS YEAR, FDI IS AGAIN EXPECTED TO SURPASS US\$50B. THERE ARE NO SIGNS THAT THESE FLOWS ARE ABOUT

TO ABATE. CHINA IS THE NUMBER ONE RECIPIENT OF FDI IN THE DEVELOPING WORLD. (NOTE THAT THESE ARE CUMULATIVE FLOWS FROM CHINA'S NUMBERS -- NOT STOCKS (WHICH CHINA DOESN'T PUBLISH, WHICH WOULD BE SOMEWHAT LOWER. (STATCAN NUMBER FOR CANADA'S INVESTMENT STOCK IS CAD\$ 667 MILLION IN 2002, UP FROM \$587 MILLION IN 2001.)

NUMBER FOUR

41. CHINESE EXPORTS INCREASED BY 28% IN 2000, 7% IN 2001, 22% LAST YEAR. GROWTH IS PROJECTED AT 10% FOR THIS YEAR, AND 12% NEXT YEAR. IMPORTS ENJOY SIMILAR GROWTH RATES. OVER 50% OF THIS TRADE IS GENERATED BY THE FOREIGN INVESTED ENTERPRISES THAT HAVE FLOODED INTO CHINA OVER THE LAST TWO DECADES, A FLOW AS WE HAVE NOTED ABOVE, THAT IS CONTINUING. AND WHILE WE ARE ON THE SUBJECT, CHINA'S IMPORTS AND EXPORTS ARE BROADLY IN BALANCE.
42. THE DEBATE IN CHINA IS NOT ABOUT CONTINUING GROWTH. IT IS ABOUT WHAT KIND OF GROWTH CAN DELIVER JOBS AND STABILITY. THESE ARE THE ACHILLES HEELS OF THE SYSTEM, AND GUARD US FROM MAKING EVER MORE OPTIMISTIC PROJECTIONS ABOUT THE FUTURE.
43. UNEMPLOYMENT AND UNDEREMPLOYMENT: URBAN UNEMPLOYMENT IS OFFICIALLY STATED TO BE 5.6%; SOME INDEPENDENT ECONOMISTS ESTIMATE IT TO BE CLOSER TO 7%. THAT CONVERTS TO 18 MM PEOPLE WHO SHOULD BE EARNING AN INCOME BUT AREN'T. MORE SERIOUSLY, A 1998 NATIONAL REPORT ON EMPLOYMENT STATED AT THAT TIME THAT A FURTHER 17% OF URBAN LABOUR FORCE UNDER-EMPLOYED, MEANING SOMETHING LIKE 43 MM LABOURERS. THAT'S THE CURRENT SITUATION. THIS IS WHAT IS COMING.

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44. INCOMPLETE REFORM: SOEs EMPLOY OVER 35% OF THE URBAN INDUSTRIAL WORKFORCE, BUT PRODUCE ONLY 27% OF THE MANUFACTURING GDP. IF PRIVATIZATION PROCEEDS AS THE GOVERNMENT INTENDS, 12MM WILL LOOSE THEIR JOBS. ALREADY, 100MM PEOPLE INTO THE URBAN LABOUR POOL.
 45. RURAL CHINA: 330 MM HOUSEHOLDS WORK THE FARMS OF CHINA. 150 to 200 MM ARE SUPERFLUOUS, AS AGRICULTURE CONTINUES TO MODERNIZE, LAND IS CONSOLIDATED, AGRICULTURE IS INTEGRATED IN THE GLOBAL MARKET SYSTEM NOW THAT CHINA IS IN THE WTO.
 46. POVERTY. ACCORDING TO THE WORLD BANK, 200 MILLION CHINESE LIVE ON LESS THAN ONE US DALL PER DAY. 28 MM CHINESE LIVE ON LESS THAN A PURCHASING POWER ADJUSTED USD 0.78 PER DAY (CHINA'S NATIONAL POVERTY STANDARD). 2% OF VILLAGES (30 MILLION POPULATION) REMAIN UNELECTRIFIED. THE PER CAPITA GDP IN CHINA'S FOUR POOREST PROVINCES IS CDN\$ 670 PER YEAR. THE UNEMPLOYMENT BENEFIT GIVEN TO FORMER SOE EMPLOYEES IN HEILONGJIANG IS Y870 PER YEAR.
 47. THEREFORE AT THE END OF THE DAY, THE DEBATE IN CHINA IS NOT ABOUT CONTINUING GROWTH. IT IS ABOUT WHAT KIND OF GROWTH CAN DELIVER PROSPERITY. ONE DOES NOT NECESSARILY LEAD TO THE OTHER. AND PROSPERITY ALONE DOES NOT LEAD TO POWER. THAT IS THE QUESTION TODAY: WHAT WILL IT TAKE TO MAKE CHINA POWERFUL.

TO BE RICH

48. CHINA'S ECONOMY IS LARGE AND GETTING LARGER, BUT CHINA'S GOAL IS TO BE RICH, RESPECTED AND POWERFUL.

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49. SIZE MATTERS. CHINA'S \$1.3B ECONOMY DRAWS ATTENTION IN ANY FORUM.
 50. BUT RAW NUMBERS ARE NOT ENOUGH. TO BE RICH, CHINA MUST DEVELOP AN ECONOMIC GROWTH MODEL THAT SHARES THE WEALTH. AT PRESENT, PER CAPITA GDP IN BEIJING AND SHANGHAI IS RMB 26000, OR \$4400 IN CDN DOLLARS. THIS IS NINE TIMES THE RATE IN THE WESTERN PROVINCE OF GUIZHOU.
 51. IN ORDER FOR ALL CHINESE TO HAVE A PER CAPITA INCOME OF USD 3600, WHICH IS THAT OF MALAYSIA, CHINA HAS TO SUSTAIN A GROWTH RATE OF 7%, FOR 23 YEARS.
 52. EVEN IF WE ASSUME THAT ONLY 50% OF CHINA'S POPULATION WERE TO ACHIEVE MALAYSIA'S RATES, THAT TOO WOULD TAKE 15 YEARS.

TO BE RESPECTED

53. TO BE RESPECTED, CHINA GROWTH MUST BE EQUITABLE. INCOME INEQUALITY IN CHINA IS GROWING. THE GINI COEFFICIENT IN 1980 WAS 32. TODAY, IT IS 44. THIS PLACES CHINA WORSE THAN INDIA. THERE OCCURRED, IN EACH OF CHINA'S 31 PROVINCES LAST YEAR, INCIDENTS, DEMONSTRATIONS AND OCCASIONALLY RIOTS. SOMETIMES TENS OF THOUSANDS OF PEOPLE ARE INVOLVED. VIRTUALLY ALL OF THESE DISTURBANCES ARE PROMPTED BY THE REFUSAL OR INCAPACITY OF PUBLIC OFFICIALS TO SATISFY THE BASIC HUMAN NEEDS OF THEIR COMMUNITIES. EQUITY BRING STABILITY WHICH BRINGS RESPECT.
54. TO BE RESPECTED, CHINA WILL ALSO NEED, IN TIME THE LEGITIMACY CONFERRED THROUGH DEMOCRACY AND HUMAN RIGHTS. CHINA DOES NOT HAVE REPRESENTATIVE INSTITUTIONS. PARTY OFFICIALS CANNOT BE REMOVED BY THE

PEOPLE. THERE ARE NO DIRECT ELECTIONS ABOVE THE VILLAGE LEVEL. THERE ARE NO LIMITS PLACED ON THE POWER OF THE COMMUNIST PARTY. CITIZENS' RIGHTS ARE NOT PROTECTED. RULE BY LAW, AS OPPOSED TO RULE OF LAW, IS THE PARADIGM.

55. CHINA ACCEPTED 20 YEARS AGO THE NOTION THAT MARKET SIGNALS, THE CHOICES THAT CONSUMERS MAKE IN THEIR PURCHASING DECISION, AS OPPOSED TO CENTRALIZED PRODUCTION QUOTAS, WOULD BRING PROSPERITY AND STRENGTH. IT HAS NOT YET ACCEPTED THE NOTION THAT MARKET SIGNALS THROUGH SUCH THINGS AS ELECTIONS AND REPRESENTATIVE ASSEMBLIES ARE ESSENTIAL TO GOOD PUBLIC POLICY.
56. BUT MODERN SOCIETIES NEED THESE SIGNALS. THEY NEED TO KNOW WHAT ARE THE PEOPLE'S PRIORITIES, NOT ONLY THOSE OF BUREAUCRATIC POLITICIANS AND CIVIL SERVANTS. THEY NEED INDEPENDENT JUDICIARIES, AND THE PROTECTION OF RIGHTS AND CONTRACTS. THEY NEED INDEPENDENT INSTITUTIONS SUCH AS A HEALTH CANADA OR CENTERS FOR DISEASE CONTROL CAN PROVIDE STRAIGHTFORWARD HEALTH ADVICE, NOT SOMETHING FILTERED THROUGH THE PARTY SECRETARY.
57. TO BE RESPECTED, CHINA MUST ALSO HAVE OFFER INTELLECTUAL, CULTURAL AND EVEN MORAL IMPACT. WHAT INFLUENCE CANADA WIELDS IS DUE IN PART TO THE SIZE OF OUR ECONOMY AND WHAT WE BRING TO THE INTERNATIONAL TABLE, BUT IT IS ALSO BECAUSE WE HAVE A SUCCESSFUL SOCIETY THAT INTEGRATES ALL OF THE NATIONALITIES AND ETHNIC GROUPS OF THE WORLD, WE HAVE RULE OF LAW AND WE CAN SUSTAIN AN ENVIABLE STANDARD OF LIVING.
58. FRANCE AND BRITAIN REMAIN POWERFUL BECAUSE OF THE COMBINATION OF FACTORS, INCLUDING THE ABILITY TO

PROJECT MILITARY FORCE, THE SIZE OF THEIR ECONOMIES - THE UK IS USD 1.6 TRILLION, FRANCE IS USD 1.4 TRILLION - THEIR HISTORICAL LEGACIES, AND THE CONTINUING FASCINATION THAT THE WORLD HAS REGARDING ASPECTS OF THEIR CULTURES. IN THE 1980s, THOUSANDS OF SUSHI RESTAURANTS APPEARED THROUGHOUT CANADA, THE US AND EUROPE, NOT BECAUSE WE ALL SUDDENLY DEVELOPED A CRAVING FOR RAW FISH, BUT BECAUSE WE WERE CURIOUS ABOUT THE CULTURAL DIMENSIONS OF AN ECONOMY THAT WAS NOT ONLY BIG IN ABSOLUTE TERMS, BUT BECAUSE IT WAS FILLING OUR HOUSES AND GARAGES WITH SUDDENLY INDISPENSABLE PRODUCTS. AND SO FORTH.

59. I DON'T KNOW IN WHAT WAY CHINA'S CULTURAL IMPACT WILL PLAY OUT - IT'S NOT LIKELY TO BE BEIJING OPERA - BUT WE WILL NOT CONSIDER CHINA TO HAVE ARRIVED UNTIL ELEMENTS OF ITS CULTURE AND EVEN SOME OF ITS IDEAS AND IDEALS BEGIN TO IMPACT ON US, IN OUR EVERY DAY LIVES. PERHAPS CULTURALLY, IT WILL BE FASHION, MAYBE MOVIES. BUT WHATEVER, CULTURE WILL BE A GREAT ENGINE FOR PROJECTING CHINA. IT WILL ALSO HAVE A GREAT MULTIPLIER EFFECT, ONE THAT MAKES US DESIRE CHINESE GOODS, TRAVEL TO CHINA, LEARN CHINESE, AND ACCEPT CHINA AS DESERVING AN IMPORTANT PLACE IN THE WORLD.

TO BE POWERFUL

60. CHINA NEEDS GREATER MILITARY CAPACITY. ITS GROUND FORCES ARE SEEMINGLY LARGE BUT THEIR TASKS INCLUDE DOMESTIC SECURITY AND PUBLIC WORKS. IT'S MILITARY ASSETS ARE NOT SIGNIFICANTLY LARGER THAN THOSE OF JAPAN, FOR EXAMPLE, AND JAPAN'S SHIPS AND AIRCRAFT AND ARTILLERY ARE MUCH MORE MODERN AND IT HAS ITS ALLIANCE WITH THE USA, WITH ALL THAT THAT BRINGS. WITH FEW EXCEPTIONS, CHINA'S EQUIPMENT IS ARCHAIC. ITS MOST MODERN SHIPS AND AIRCRAFT COME FROM RUSSIA, AND ITS DOMESTIC PRODUCTION CAPACITY IS OUTMODED.

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61. THIS RELATIVE WEAKNESS WON'T LAST FOREVER - CHINA IS MODERNIZING - BUT IT IS THE CURRENT SITUATION.
 62. IF YOU ADD TO THESE FACTORS DIPLOMATIC HEFT, CHINA TODAY HAS CONSIDERABLE STRENGTHS, AND IT IS ON ITS WAY, ALTHOUGH IT HAS NOT YET ACHIEVED, GREAT POWER.

WHAT DOES THIS MEAN FOR CANADA, AND FOR THIS AUDIENCE?

63. FROM MID-19TH CENTURY IMMIGRATION TO THIS YEARS STRUGGLE WITH SARS, WE HAVE BEEN DEALING WITH CHINA FOR 150 YEARS. TODAY'S CHALLENGE IS THIS: HOW DO WE USE CHINA'S RAPID GROWTH AND DEVELOPMENT TO OUR ADVANTAGE? HOW DO WE PROTECT OUR INTERESTS WHEN THEY ARE CHALLENGED?
64. PUT ANOTHER WAY, ALL INSTITUTIONS AND COMPANIES AND GOVERNMENT DEPARTMENTS AND CULTURAL GROUPS THAT HAVE AN INTERNATIONAL VOCATION MUST HAVE, TO GREATER OR LESSER EXTENTS, A CHINA STRATEGY.
65. FOR EXAMPLE, LAST YEAR, CANADA EXPORTED CDN\$349 BILLION IN GOODS TO THE ENTIRE WORLD. \$4.1 BILLION OF THAT WENT TO CHINA, 1% OF OUR TOTAL EXPORTS, AND 12% OF OUR EXPORTS TO THE NON-USA WORLD. LAST YEAR AS WELL, CHINA EXPORTED CDN\$16 BILLION OF GOODS TO CANADA, 4.6% OF OUR TOTAL IMPORTS, AND 1.3% OF CHINA'S TOTAL EXPORTS. THESE NUMBERS MAY NOT SOUND LARGE, BUT THEY STILL MAKE CHINA OUR 4TH LARGEST TRADING PARTNER, 3RD IF WE INCLUDE HONG KONG.
66. SO IN RELATIVE TERMS, OUR ECONOMIC RELATIONSHIP WITH CHINA IS NOT THAT SIGNIFICANT.
67. IN ABSOLUTE TERMS HOWEVER IT IS VERY SIGNIFICANT.

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68. LAST YEAR, OVER ONE THOUSAND OF CANADIAN COMPANIES WERE INVOLVED IN EXPORTS TO CHINA AND IMPORTS FROM CHINA. OVER 500 CANADIAN FIRMS HAVE REGISTERED OPERATIONS IN CHINA, DOUBLE THE NUMBER ONLY SIX YEARS AGO. LARGE COMPANIES SUCH AS BOMBARDIER, NORTEL, MANULIFE, SUNLIFE, THE CANADIAN WHEAT BOARD, AS WELL AS HUNDREDS OF SMALL AND MEDIUM ENTERPRISES HAVE DEVELOPED THEIR NICHEs IN CHINA AND ARE GROWING WITH IT.
 69. MY BASIC MESSAGE TO THE BUSINESS COMMUNITY HAS BEEN THAT THEY OWE IT TO THEIR MANAGEMENT AND THEIR BOARD OF DIRECTORS AND THEIR SHARE HOLDERS AND THEIR CLIENTS TO ASSESS WHAT CHINA'S GROWTH MEANS FOR THEM.
 70. THIS MAY MEAN ENDEAVORING TO PENETRATE THE CHINESE MARKET WITH THEIR GOODS AND SERVICES.
 71. IT MAY MEAN DECIDING NOT TO MARKET IN CHINA, BUT TO BE AWARE THAT THEIR COMPETITORS ARE DOING SO, EXPANDING THEIR GLOBAL MARKET SHARE OR ACCESSING LOWER LABOUR COSTS OR DIFFERENT TECHNOLOGIES.
 72. IT MAY MEAN SEEING YOUR COMPETITORS MANUFACTURING IN CHINA AND SUDDENLY APPEARING IN CANADA OR OTHER MARKETS WITH HIGHLY COMPETITIVE GOODS THAT DISPLACE THEIR OWN. IN THE EVENT, THEY HAD BETTER HAVE A STRATEGIC RESPONSE TO THIS CHALLENGE OR FACE UNPLEASANT CONSEQUENCES.
 73. FOR WE IN GOVERNMENT, THE SIGNIFICANCE IS GREATER OR LESSER, DEPENDING ON OUR DEPARTMENTAL RESPONSIBILITIES. HEALTH CANADA MAY NOT HAVE GIVEN A GREAT DEAL OF THOUGHT TO CHINA IN THE PAST, BUT THEY MUST DO SO TODAY.

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74. DFAIT, FINANCE AND INDUSTRY CANADA HAVE HAD TO ADJUST TO AN ACTIVIST CHINA IN THE WTO. WE MAY STILL NEED TO FIND WAYS OF PROMOTING OUR INDUSTRIES WHERE CHINA HAS BECOME HIGHLY COMPETITIVE. CHINESE COMPANIES ARE BEGINNING TO PUT PRESSURE ON CANADIAN BUSINESS, IN TRADITIONAL SECTORS SUCH AS TEXTILES AND APPAREL, AGRICULTURE, METALS AND MACHINE TOOLS. IRONICALLY, AND TURNING THIS AROUND, SOME CANADIAN-INVESTED CHINESE ENTERPRISES, FOR EXAMPLE IN TEXTILES AND CLOTHING, ARE NOW FINDING THEIR ACCESS TO THE CANADIAN MARKET BARRED BY QUOTA RESTRICTIONS, CHALLENGING TRADITIONAL TRADE POLICY ASSUMPTIONS.

 75. CHINA'S GOVERNANCE POSES SERIOUS CHALLENGES TO OUR VALUES DRIVEN DIPLOMACY. THE PUBLIC PROFILE OF CHINA CAN OFTEN BE NEGATIVE, GIVEN HUMAN RIGHTS ISSUES SUCH AS FALUN GONG, TIBET, XINZHANG MUSLIMS. CANADIANS EXPECT THAT OUR MAJOR INTERNATIONAL PARTNERS SHARE OUR BASIC VIEW OF DEMOCRACY AND HUMAN RIGHTS. WE HAVE TO ENSURE THAT OUR VALUES DIPLOMACY IS EFFECTIVE IN CHINA, IS UNDERSTOOD IN CANADA AND SERVES OUR OVERALL NATIONAL OBJECTIVES.

 76. CHINA IS STILL CANADA'S LARGEST SOURCE OF IMMIGRANTS. THE HIGHEST NUMBER OF SKILLED MIGRANTS IS ALSO FROM CHINA. OVER 10,000 STUDENT VISAS ARE ISSUED PER YEAR, THE LARGEST SOURCE OF FOREIGN STUDENTS FOR OUR EDUCATIONAL INSTITUTIONS WHO DEPEND ON THEM. OUR IMMIGRATION AND VISA PROGRAM IS THE LIFE BLOOD OF THE BILATERAL RELATIONSHIP. WE MUST ENSURE THAT IT CONTINUES TO SERVE CANADA'S BROAD INTERESTS.

 77. THERE ARE ISSUES OF THE GLOBAL COMMONS THAT WE CAN ONLY ADDRESS IF WE INVOLVE THE CHINESE. FOR EXAMPLE, CANADIANS BELIEVE THAT ENSURING A CLEAN GLOBAL

ENVIRONMENT IS ONE OF THE 21ST CENTURY'S MOST IMPORTANT TASKS. CHINESE ECONOMIC DEVELOPMENT WILL BRING A TERRIBLE PRICE IN TERMS OF ATMOSPHERIC POLLUTION. WE HAVE TO SUSTAIN ENGAGEMENT WITH CHINA, EVEN WITH OUR LIMITED RESOURCES, TO ENSURE THAT CHINA FOSTERS SUSTAINABLE DEVELOPMENT.

78. THERE ARE FEW DEPARTMENTS IN OTTAWA THAT, IN THE PURSUIT OF THEIR RESPECTIVE MANDATES, DON'T HAVE SOME CHINA INTERESTS.

79. MY ADVICE TO MY COLLEAGUES IN GOVERNMENT TODAY IS THAT WE BE AWARE THAT CHINA WILL ONLY GET BIGGER AND, IN TIME, MORE IMPORTANT; THAT WE ENSURE THAT SOMEONE IN OUR DEPARTMENTS HAS A GOOD GRASP OF DEVELOPMENTS IN CHINA THAT COULD IMPACT ON YOUR PRIORITIES AND YOUR PROGRAMS; THAT WE DEVELOP OUR STRATEGIES - WHETHER MODEST OR COMPLEX - BASED FIRMLY ON YOUR CORPORATE OR CLIENT'S LONG-TERM OBJECTIVES; THAT WE INVOLVE OUR MINISTERS AND SENIOR OFFICIALS DIRECTLY IN OUR STRATEGIES, BECAUSE IN CHINA RANK MATTERS AND ACCESS IS ESSENTIAL; AND THAT YOU GET AT LEAST AS MUCH OUT OF YOUR RELATIONS WITH CHINA AS YOU HAVE TO GIVE.

THANK YOU.