

FOUR CHALLENGES FOR CHINA AND CANADA
REMARKS

INTRODUCTION

ONE OF THE DEFINING FEATURES OF THE EARLY 21ST CENTURY IS THE GLOBAL IMPACT OF THE PEOPLE'S REPUBLIC OF CHINA.

THIS IS NOT A STATEMENT THAT WE WOULD HAVE MADE 10 YEARS AGO. IT IS THE SUDDENNESS OF CHINA'S RISE WHICH GENERATES BOTH OPTIMISM AND EXCITEMENT ABOUT SEEMINGLY UNLIMITED OPPORTUNITIES, AND AN EQUAL DOSE OF UNCERTAINTY ABOUT ITS BROADER IMPLICATIONS.

CHINA COULD BE GENERALLY VIEWED AS A CONVENTIONAL STATE, THRUST TO THE FOREFRONT BY CONTINUOUS AND RAPID ECONOMIC DEVELOPMENT, REPLICATING IN MANY WAYS THE GROWTH EXPERIENCE OF JAPAN, KOREA AND TAIWAN. BUT THIS TELLS ONLY PART OF THE STORY. MOST PEOPLE BELIEVE THAT CHINA'S SUDDEN EMERGENCE HAS A NUMBER OF EXCEPTIONAL CHARACTERISTICS AND DYNAMICS WHICH MAKE THIS STORY UNIQUELY IMPORTANT.

THIS VIEW ALSO SUGGESTS THAT THE CHALLENGES POSED BY GROWTH WITH CHINESE CHARACTERISTICS MUST ALSO BE UNIQUE. IN THESE AND OTHER RESPECTS, I THINK THAT MOST PEOPLE ARE RIGHT.

I WANT TO USE THE NEXT FEW MINUTES TO OUTLINE WHAT I BELIEVE TO BE A FEW OF THE KEY ISSUES THAT ACCOMPANY CHINA'S RISE. FOR PURPOSES OF COHERENCE, I REFER TO FOUR CHALLENGES.

I ALSO WANT TO PUT MATTERS IN THEIR PROPER PERSPECTIVE.

CANADA AND CANADIANS HAVE LIVED THEIR ENTIRE MODERN AND INCREDIBLY SHORT 138 YEARS OF HISTORY IN THE ERA OF GLOBALIZATION AND TRANSFORMATION. THE CONCEPTS, WORDS AND SOME OF THE FEATURES MAY BE NEW, BUT ADAPTING TO CONSTANT CHANGE, AN ESSENTIAL FEATURE OF GLOBALIZATION, IS AS MUCH OUR DEFINING CHARACTERISTIC AS CANADIANS, AS ARE OUR HORIZONS WITHOUT LIMITS AND OUR MULTINATIONAL, MULTI-ETHNIC POPULATION.

GLOBALIZATION MEANS CHANGE. IT MEANS TRANSFORMATION, UNDER THE IMPETUS OF THE MULTI-CONTINENT WIDE INTERACTION AND EXCHANGE OF GOODS, CAPITAL, TECHNOLOGY, LABOUR, IDEAS AND ASPIRATIONS. THIS GIVES IT A HISTORY OF AT LEAST 150 YEARS. THEN, AS NOW, ITS EFFECTS ARE DRAMATIC AND SOMETIMES WRENCHING.

BRITAIN, THE UNITED STATES, AND OTHER POWERS, THROUGH A VARIETY OF IDEOLOGIES OF EXPANSION AND POLICIES OF COLONIALISM, AND THEIR CAPITAL, AND THEIR TECHNOLOGY, THEIR EMIGRANTS AND MISSIONARIES, AND THEIR ARMIES, PROFOUNDLY TRANSFORMED THE PLANET IN THE LATTER HALF OF THE 19TH CENTURY. TEN PERCENT OF HUMANITY RELOCATED PERMANENTLY

IN THE 40 YEARS BETWEEN 1870 AND 1910.

WORLD WAR ONE, THE GREAT DEPRESSION AND WORLD WAR TWO DISRUPTED AND PUT A HALT TO MANY OF THESE CHANGES, AND DID SO MASSIVELY. BUT NOT IRREVERSIBLY. THE POST-WAR BRETTON WOODS INSTITUTIONS AND TRADE LIBERALIZATION SET THE GROUND-WORK FOR GLOBALIZATION WITH MODERN CHARACTERISTICS: TRANSNATIONAL CORPORATIONS, WORLD WIDE TRADE IN GOODS AND SERVICES, THE RISE OF MANUFACTURING IN DEVELOPING COUNTRIES, AND CONCOMITANT MOVE UP THE VALUE SCALE IN MANUFACTURING AND SERVICES FOR THE DEVELOPED COUNTRIES, THE INFORMATION AND COMMUNICATIONS TECHNOLOGIES REVOLUTION.

THESE BROUGHT ANOTHER FEATURE OF MODERN GLOBALIZATION: SUSTAINED, IF VARIABLE, ECONOMIC GROWTH.

CHINA IS VERY MUCH AT THE CENTER OF THIS MODERN PROCESS OF GLOBALIZATION. FROM INSIGNIFICANT LEVELS A GENERATION AGO, CHINA NOW ACCOUNTS FOR 4.5% OF WORLD GDP IN DOLLAR TERMS, AND 13% OF WORLD GDP IN PPP TERMS. THE BRITISH TREASURY PROJECTS THIS SHARE TO INCREASE TO ABOUT 19% BY 2015.

BY INCLUDING CHINA, THE SIZE OF TOTAL GLOBAL OUTPUT WILL CONTINUE TO INCREASE SIGNIFICANTLY. THE WORLD BANK CONSIDERS THAT THE CONSEQUENCE OF CHINA'S RISE WILL BE BROADLY POSITIVE: WHILE THE RELATIVE SHARE OF DEVELOPED COUNTRY OUTPUT WILL DECLINE, THE ABSOLUTE VOLUME AND

VALUE OF THEIR OUTPUT WILL CONTINUE TO RISE, AND THEREFORE, IN GLOBAL MACRO-ECONOMIC TERMS, WE CAN ALL POTENTIALLY GAIN. I DON'T THINK THAT THIS IS AN OPTIMISTIC PROJECTION. I THINK THAT IT IS A REALISTIC ONE.

THE CHALLENGE OF SUSTAINING GROWTH

I KNOW WE ARE ALL SATIATED WITH NUMBERS ON CHINA'S MACRO-ECONOMIC PERFORMANCE OVER THE LAST 25 YEARS, BUT TO SUMMARIZE: AVERAGE GDP GROWTH RATES OF 9.5% OVER THE PERIOD; AVERAGE RATE OF INCREASE OF EXPORTS AND IMPORTS OVER THE LAST DECADE OF 17% COMPOUNDED YEAR OVER YEAR. THIS IS TWICE OVERALL GLOBAL TREND LINE. LARGEST RECIPIENT OF FDI - ON AVERAGE, \$45 BILLION PER YEAR SINCE 1991, FOR A CURRENT TOTAL STOCK OF OVER \$570 BILLION BY THE END OF FEBRUARY; SECOND LARGEST RESERVES, OF \$610 BILLION; SEVENTH LARGEST NATIONAL GDP, ALTHOUGH POISED TO OVERTAKE A NUMBER OF G7 EUROPEAN ECONOMIES IN THE NEXT FEW YEARS. THIRD LARGEST GLOBAL TRADER. AND SO FORTH.

HOW LONG WILL THESE RATES OF GROWTH CONTINUE? KOREA AND JAPAN ARE THE DRAMATIC EXAMPLES OF THE LATE TWENTIETH CENTURY, WITH 30 YEAR RUNS. THE US AND CANADA ENJOYED LONG PERIODS OF SUSTAINED, SOMETIMES EVEN DRAMATIC GROWTH, IN THE LATE 19TH AND DURING THE 20TH CENTURY, BUT NOTHING APPROACHING CHINESE RATES.

THE LAST TIME I CHECKED, CHINA WAS STILL MOVING FORWARD

RAPIDLY: 2004 GDP GROWTH OF 9.5%, SUSTAINED DURING THE FIRST QUARTER OF THIS YEAR; EXPORT GROWTH OF 34% WAS SUSTAINED IN THE FIRST QUARTER; IMPORT GROWTH OF 40% IN 2004 WHICH WAS PARTIALLY BOOSTED BY OIL STOCKPILING, FELL OFF TO ONLY 12.2% IN THE FIRST QUARTER AS OIL IMPORTS WERE CUT BACK DUE TO HIGH PRICE CRUDE. MODERATE INFLATION IN THE PROPERTY MARKET AND SOME REPRESSED INFLATION IN ADMINISTERED PRICES FOR UTILITIES.

RATHER PERVERSELY, IT IS THIS HIGH RATE OF GROWTH THAT POSES THE FIRST OF THE FOUR CHALLENGES THAT I WANT TO DISCUSS WITH YOU. HOW LONG, IN FACT, IS THIS KIND OF GROWTH SUSTAINABLE?

I WOULD MAKE THREE POINTS: EXPORTS AND INVESTMENT, BOTH DOMESTIC AND FOREIGN, HAVE DRIVEN MUCH OF CHINA'S RECENT GROWTH. SECONDLY, CONTINUING REFORM OF THE DOMESTIC ECONOMY IS THE KEY TO LONG TERM SUSTAINABILITY OF OVERALL GROWTH; AND THIRDLY - IT SHOULD GO WITHOUT SAYING - THE MAINTENANCE OF GROWTH IN CHINA IS IN ALL OF OUR INTERESTS.

TRADE AND INVESTMENT ARE CHINA'S PRIMARY ENGINE. INVESTMENT ALONE HAS ACCOUNTED FOR MORE THAN 35% OF GDP GROWTH DURING THE PAST 25 YEARS. SINCE 2001, EXPORTS HAVE INCREASED BY 225%.

BUT STRAIGHT LINE PROJECTIONS ALONE TELLS YOU THAT IF EXPORTS CONTINUE TO RISE BY 35%, IN A DECADE, CHINA'S EXPORTS

WOULD EQUAL US\$ 12 TRILLION, ROUGHLY THE VALUE OF THE CURRENT US GDP. CHINA IMPORTED MORE THAN 1 MILLION BARRELS OF OIL PER DAY IN 2004, A TOTAL OF 122 MILLION TONS, UP 34.8% YEAR ON YEAR. IF CHINA'S PETROLEUM IMPORTS CONTINUE TO RISE AT THIS PACE, IN A DECADE, IMPORTS WOULD BE AT 20MM BARRELS PER DAY, ONE QUARTER OF CURRENT TOTAL GLOBAL PRODUCTION. NOBODY EXPECTS THAT THERE WILL BE THIS VOLUME OF NEW PRODUCTION IN SUCH A SHORT TIME FRAME.

WHAT IS MORE LIKELY IS THAT DOWNWARD PRESSURES ON GROWTH, BOTH EXOGENOUS AND ENDOGENOUS, WILL WORK TO SLOW THINGS DOWN.

WHILE \$60 BILLION IN FDI IS A VERY LARGE AMOUNT INDEED, IT IS ONLY 8% OF OVERALL FIXED INVESTMENT IN CHINA, AND 3.7% OF GDP. ITS IMPACT IN A \$1.6 TRILLION ESTABLISHED ECONOMY IS DECLINING IN RELATIVE TERMS. MORE TO THE POINT, PERHAPS 40% OF FDI IS REALLY DOMESTIC PRIVATE INVESTMENT LAUNDERED THROUGH OVERSEAS ACCOUNTS, AND MAKING A U-TURN BACK TO CHINA.

EXPORT-LEAD GROWTH CAUSES RAPID DISPLACEMENT OF NON-CHINESE GOODS, WHICH RISKS CREATING A BACKLASH WHICH CHINA WILL HAVE TO ADDRESS. FOR EXAMPLE, US IMPORTS OF CHINESE GOODS INCREASED FROM \$125 BILLION IN 2002, TO \$152 BILLION IN 2003 AND \$197 BILLION LAST YEAR. IN THE FIRST TWO MONTHS OF 2005, CHINA RANKED SECOND AS A SOURCE OF IMPORTS, BEHIND ONLY CANADA. SOME TEXTILE IMPORTS HAS ALREADY

INCREASED DRAMATICALLY IN THE FIRST FEW MONTHS OF THIS YEAR. IMPORTS OF CHINESE MADE COTTON TROUSERS ROCKETED BY ABOUT 1,500% AND COTTON KNIT TOPS BY 1,250%. THE US CONGRESS, FOR ONE, IS ALREADY SHOWING SIGNS OF IMPATIENCE. PROPOSALS FOR WTO-INCONSISTENT TARIFF INCREASES AND PRESSURE TO INCREASE THE VALUE OF THE RENMINBI WILL ONLY CONTINUE.

THE REAL COSTS IN TERMS OF ENVIRONMENTAL IMPACT MAY BE ABOUT 2% OF GDP, ACCORDING TO GREEN ACCOUNTING. THE CHINESE GOVERNMENT APPEARS TO BE INCREASINGLY COMMITTED TO CLEAN DEVELOPMENT GOALS. THIS WILL EVENTUALLY RAISE MANUFACTURING COSTS AND MAKE MARGINAL PROJECTS UNVIABLE.

THE DEFLATIONARY IMPACT OF OVER-PRODUCTION OF CAPITAL AND CONSUMER GOODS, THE FINANCIAL IMPACT OF LOW OR NEGATIVE RETURN ON INVESTMENT AND UNPAID LOANS TO THE BANKING SECTOR WILL AT SOME POINT WORK THEIR WAY INTO THE REAL ECONOMY. THESE DEFLATIONARY BRAKES MAY BE COUNTERED BY GROWING, BUT STILL LOW, DEPENDENCE ON CONSUMER SPENDING, AS THE DRIVER OF THE CHINESE ECONOMY. BUT UNTIL A RELATIVELY SECURE SOCIAL SECURITY SYSTEM IS IN PLACE, SAVINGS RATES WILL REMAIN HIGH, PUTTING A DAMPER ON CONSUMPTION.

PERHAPS MOST IMPORTANTLY, CHINA'S OWN INFRASTRUCTURE INVESTMENT, RAPID AS IT IS, IS HAVING TROUBLE MATCHING THE

PACE OF ECONOMIC GROWTH, ESPECIALLY IN ENERGY, WHERE CHINA HAS HAD BLACKOUTS AND BROWNOUTS DURING THE LATEST PHASE OF ITS BOOM.

THAT SAID, IF THE RATES OF GDP AND TRADE GROWTH ARE NOT SUSTAINABLE IN THE LONG RUN, IT IS MUST BE SAID THAT THE OVERALL POSITIVE DIRECTION OF GROWTH WILL CONTINUE, BECAUSE THE UNDERLYING FUNDAMENTALS OF CHINESE GROWTH ARE VERY STRONG INDEED: WTO MANDATED OPEN EXPORT AND IMPORT MARKETS; EMERGING FTA'S WITH SOUTHEAST ASIA, AUSTRALIA, NEW ZEALAND; SUSTAINED FOREIGN AND DOMESTIC PRIVATE INVESTMENT IN MANUFACTURING; LOW EVEN IF RISING LABOUR COSTS - (CURRENT AND FUTURE AVERAGE WAGE RATES).

THE GOVERNMENT'S POLICY SETS IN SUPPORT OF TRADE AND INVESTMENT REMAIN FLEXIBLE AND FORWARD LOOKING. THE IRREPRESSIBLE ENTREPRENEURIAL SPIRIT OF THE CHINESE PEOPLE, WHILE NOT QUANTIFIABLE, IS ALSO A VERY SIGNIFICANT DRIVER OF GROWTH.

THE BOTTOM LINE: CHINA WILL MEET THE CHALLENGE OF SUSTAINABLE GROWTH, BUT AT LEVELS THAT WILL INCREASINGLY TAKE INTO ACCOUNT ATTENDANT ENVIRONMENTAL COSTS, THE REQUIREMENTS OF INCREASED ENERGY EFFICIENCY AND THE NEED TO EXPAND SOCIAL BENEFITS TO THE LABOUR FORCE.

AND WE ALL HAVE A STAKE IN SUCH AN OUTCOME. ACCORDING TO THE ECONOMIST MAGAZINE, SINCE THE MID-1990s, PACIFIC ASIA

ACCOUNTED FOR ABOUT 45% OF GLOBAL GDP GROWTH, WITH CHINA ALONE ACCOUNTING FOR 25% OF GLOBAL GROWTH, SURPASSING THE CONTRIBUTION OF THE UNITED STATES, AT 20% AND THE EU, AT 14%. CHINA IS NOW ONE OF THE KEY SOURCES OF GLOBAL GROWTH AND PROSPERITY. THEIR SUCCESS IS NECESSARY FOR OUR SUCCESS.

THE CHALLENGE OF SOCIAL STABILITY

‘WENDING YADAO ICHIE’: ‘STABILITY ABOVE EVERYTHING’ IS ONE OF DENG XIAOPING’S PRINCIPAL LEGACIES. LIKE ALL SUCH INHERITANCES, ESPECIALLY OF THE PHILOSOPHICAL OR POLITICAL KIND, IT CAN BE READ IN MANY WAYS. AND LIKE ALL POLITICAL SLOGANS, IT’S MEANING NEEDS TO BE ADJUSTED TO CHANGING CIRCUMSTANCES. SINCE 1989, WHEN DENG EMPHASIZED STABILITY, CHINA’S POPULATION HAS INCREASED BY 180 MILLION, ITS PER CAPITA INCOME HAS INCREASED FROM 1634 RMB TO 9073 RMB.

THE ‘MIDDLE CLASS HAS GROWN TO 125 MILLION PEOPLE. PRIVATE AUTOMOBILE OWNERSHIP HAS RISEN FROM ALMOST NOTHING TO OVER 10 MILLION CARS TODAY. NOT MUCH STABILITY HERE.

INFORMATION IS MORE BROADLY ACCESSIBLE TODAY THAN AT ANY TIME IN CHINESE HISTORY. TWO DECADES AGO, THERE WERE 382 NEWSPAPERS IN CHINA, THE VAST MAJORITY PRODUCED BY THE STATE. TODAY, THERE ARE OVER 2,000, THE VAST MAJORITY COMPETING FOR READERS IN A VERY DYNAMIC MARKET. 10 YEARS AGO, THERE WERE 10 MILLION TV SETS IN CHINA, AND TODAY THERE ARE 350 MILLION, REACHING VIRTUALLY THE ENTIRE POPULATION.

10 YEARS AGO, 4.5 MILLION CHINESE TRAVELLED ABROAD. LAST YEAR, ALMOST 29 MILLION DID SO. NOT MUCH STASIS HERE EITHER.

THESE CHANGES WERE OVER THAN ONE GENERATION. IF ANYTHING, THE PACE OF THESE KINDS OF CHANGES IS INCREASING.

NOTHING CHANGES PEOPLE MORE THAN EDUCATION THROUGH THE AVAILABILITY OF INFORMATION, AND THE PROSPECTS OF CONTINUING RISE IN DISPOSABLE INCOME. THIS IS HAPPENING IN CHINA, AND THIS IS CHANGING THE COUNTRY PROFOUNDLY. SO THERE IS NO STABILITY HERE EITHER.

THERE ARE LESS DESIRABLE MEASURES OF CHANGE. GROWTH HAS BROUGHT DRAMATIC INEQUALITIES. URBAN TO RURAL INCOME DISPARITY MEASURES THREE TO ONE, ON A NATIONAL BASIS. EVEN IN THE MAJOR CITIES, THERE EXISTS A LARGE CLASS OF URBAN POOR - CERTAINLY IN THE TENS OF MILLIONS - WHOSE INCOME HAS NOT RISEN IN TANDEM WITH THAT OF THE URBAN POPULATION AS A WHOLE. THE FRUSTRATIONS THAT ERUPT FROM THESE IMBALANCES ARE OBVIOUS TO ANYONE WHO FOLLOWS THE NEWS IN CHINA, EVEN TO THE CHINESE PEOPLE THEMSELVES. THE GINI COEFFICIENT IS NOW .45, AND GETTING WORSE. IT IS MUCH HIGHER THAN THAT OF INDIA, FOR EXAMPLE.

HOWEVER, ONE THING THAT HAS NOT CHANGED IS THE RIGHT OF THE COMMUNIST PARTY OF CHINA TO EXERCISE ABSOLUTE POWER, WHEN IT CHOOSES TO DO SO, ON CHINESE SOCIETY AND THE CHINESE PEOPLE. THIS IS STABILITY OF A SORT, BUT MANY PEOPLE,

WITHIN CHINA AND WITHOUT, WONDER IF IT IS THE KIND OF STABILITY THAT WILL VOUCHSAFE THE CONTINUING RISE OF CHINA, NOT ONLY AS AN ECONOMY, BUT ALSO AS A SOCIETY AND AS A PEOPLE, AND ADDRESS THE SERIOUS CHALLENGES OF INEQUALITY.

I DON'T TELL THE CHINESE GOVERNMENT OR THE CHINESE PEOPLE WHAT KIND OF INSTITUTIONS THEY SHOULD HAVE TO ADAPT TO CHINA'S CHANGING SOCIETY AND ECONOMY, AND TO ENSURE THAT CHANGE BRINGS THE GREATEST GOOD TO THE GREATEST NUMBER OF PEOPLE. CHINA HAS ALWAYS HAD, AND ITS GOVERNMENTS HAVE FREQUENTLY VALUED, PUBLIC AND PRIVATE INTELLECTUALS AND THINKERS WHOSE ROLE IN LIFE IS TO PONDER THE STATE OF THE NATION, AND PROVIDE ADVICE ON ITS FUTURE DIRECTIONS. YOU CAN FIND THESE PEOPLE TODAY IN EVERY WALK OF LIFE, BOTH WITHIN AND OUTSIDE THE COMMUNIST PARTY.

NOBODY ARGUES IN FAVOUR OF INSTABILITY. HOWEVER, THERE IS WIDE RECOGNITION THAT, IN MODERN SOCIETIES, STABILITY COMES FROM THE CAPACITY OF INSTITUTIONS TO DEAL EFFECTIVELY WITH CONFLICT AND TO MANAGE CHANGE. AUTHORITARIANISM AND COERCION HAVE PROVEN TO BE MUCH LESS EFFECTIVE.

THERE ARE ONGOING DEBATES ON CHANGE AND STABILITY IN CHINA. SOME DEAL WITH ISSUES OF NATIONAL GOVERNANCE AND OTHERS AT THE LEVEL OF THE INDIVIDUAL.

AT THE LEVEL OF NATIONAL GOVERNANCE, STABILITY IS LINKED TO NOTIONS OF EQUALITY OF OPPORTUNITY, EQUITY, INDIVIDUAL

FREEDOMS, THE FREE FLOW OF INFORMATION, AND REPRESENTATIVENESS. ON THE GROUND, AND FOR INDIVIDUALS, THE NOTIONS INCLUDE PROBITY, JUSTICE, RULE OF LAW, ACCOUNTABILITY, FREEDOM FROM UNDUE INFLUENCE BY THOSE IN POWER, AND FREEDOM FROM CORRUPTION.

THE COMMUNIST PARTY OF CHINA BELIEVES THAT IT CAN DELIVER ALL OF THESE THINGS, AS WELL AS BOTH SOCIAL STABILITY AND CONTINUING ECONOMIC GROWTH. IT ALSO STATES THAT IT ALONE CAN REPRESENT THE WISHES OF THE CHINESE PEOPLE, THROUGH THE WORKINGS OF LIMITED FORMS OF INTRA-PARTY DEBATE AND DECISION MAKING. IT ALSO BELIEVES, TO CITE PRESIDENT HU JINTAO, THAT DEMOCRACY, AS WE UNDERSTAND IT, IS A DEAD-END.

THE CCP'S PROPAGANDA DEPARTMENT ARGUED FOR THREE YEARS THAT THE NATIONAL OBJECTIVE WAS 'XIAOKANG SHEHUI', THE ACHIEVEMENT BY 2020 OF AN ALL-AROUND, WELL-OFF SOCIETY, BASED ON INCREASING MARKETIZATION OF THE ECONOMY AND ECONOMIC GROWTH. PERHAPS FEARING THAT THIS WAS TOO DARWINIAN IN ITS STARK ECONOMIC FOCUS AND IMPLICATIONS, THE PARTY NOW CALLS FOR A HARMONIOUS SOCIETY, WITHOUT DEFINING TOO CLOSELY HOW THIS DIFFERS FROM THE PREVIOUS OBJECTIVE. IT DOES SOUND AS IF HARMONY IS AN OBJECTIVE OF ITSELF, AND CAN ONLY BE ACHIEVED BY FOLLOWING THE PARTY'S LEADERSHIP AND EDICTS.

AS A MATTER OF RECENT HISTORICAL EXPERIENCE, NO COUNTRY HAS ACHIEVED HIGH LEVELS OF DEVELOPMENT WITHOUT SOME

FORMS OF BROAD REPRESENTATIVENESS AND ACCOUNTABLE INSTITUTIONS, ACCOMPANIED WITH MEANINGFUL RULE OF LAW. IF CHINA'S OBJECTIVE IS TO REACH \$5,000 PER CAPITA WELL BEFORE MID-CENTURY, AND IF IT IS TO TAKE INTO ACCOUNT THE ASPIRATIONS OF THE POOREST MEMBERS OF ITS SOCIETY, IT IS DIFFICULT TO IMAGINE AN EFFECTIVE SYSTEM THAT DOESN'T PUT ITS RULERS, NATIONALLY AS WELL AS LOCALLY, TO AN OCCASIONAL TEST OF ACCOUNTABILITY AND PUBLIC SUPPORT.

NOR ARE THERE EXAMPLES AMONG THE TOP TWENTY DEVELOPED COUNTRIES IN THE WORLD, OF HAVING ACHIEVED AND SUSTAINED THEIR STANDARDS OF LIVING WITHOUT RESPECT FOR INDIVIDUAL RIGHTS, RULE OF LAW, AND REPRESENTATIVE INSTITUTIONS. THIS IS JUST AN EMPIRICAL FACT, NOT A POLITICAL OR VALUE JUDGEMENT. THERE IS NO EXAMPLE OF A MODERN, FUNCTIONING MARKET ECONOMY THAT IS NOT GOVERNED BY INVOLABLE RIGHTS AND THE RELIABILITY OF AN INDEPENDENT JUDICIARY, CONVINCED OF THE UTILITARIAN VALUE OF THE RULE OF LAW. IT'S JUST THAT SIMPLE.

IT IS UP TO THE CHINESE, OF COURSE, TO WORK THIS OUT FOR THEMSELVES.

TO THOSE, HERE AND ELSEWHERE, WHO ARGUE THAT THIS IS NONE OF OUR BUSINESS, I COUNTER THAT REAL STABILITY IS IN EVERYBODY'S INTEREST, WITHIN CHINA AS MUCH AS OUTSIDE CHINA. ALL SORTS OF DECISIONS IN AND OUT OF CHINA ARE MADE AND WILL BE MADE ON THE BASES OF VIEWS ON ITS LONG-TERM STABILITY. IN MY VIEW, IT IS IN THE INTERESTS OF CHINA'S

CONTINUING SOCIAL AND ECONOMIC AND POLITICAL PROGRESS, AND ITS CONTINUED INTEGRATION INTO THE GLOBAL COMMONS THAT A MEANS BE FOUND TO PROGRESS FROM LENINIST CENTRALISM TO REPRESENTATIVE INSTITUTIONS, SO AS TO ASSURE ITS STABILITY. HOW AND WHEN IT WILL DO THIS IS UP TO CHINA TO DECIDE, BUT SUCH DECISIONS WILL BE MADE IN THE FULL GLARE OF INTERNATIONAL ATTENTION AND ASSESSMENT. THAT, TOO, IS PART OF GLOBALIZATION.

THE CHALLENGE OF GEOPOLITICS

IN A GLOBALIZED WORLD, ALL COUNTRIES, CANADA NO LESS THAN CHINA, SEEK TO INCREASE THEIR INFLUENCE BEYOND THEIR BORDERS, SO THAT THE INTERNATIONAL ENVIRONMENT IN WHICH WE OPERATE WILL NOT ONLY BE SECURE AND BENIGN, IT WILL OPTIMIZE OUR WEALTH AND THE BENEFITS TO OUR CITIZENS. THE EFFORT TO DO SO, HOWEVER, IS BY ITS NATURE, DISRUPTIVE, BECAUSE NOT EVERY COUNTRY'S OBJECTIVES ARE IN PERFECT HARMONY WITH EVERY OTHER COUNTRY'S OBJECTIVES.

THIS SITUATION IS INESCAPABLE. SO IT MUST ALSO BE PEACEFUL, AND CLEARLY OF BENEFIT TO OTHERS. THE CHANGES THAT CHINA IS BRINGING ONTO TH WORLD STAGE ARE NOT ONLY ECONOMIC, THEY ARE POLITICAL. BY THAT, I MEAN THAT THEY AFFECT THE VARIOUS BALANCES OF POWER. THEY CHANGE THE RELATIVE SHARES OF POWER AND INFLUENCE.

IN ITS MOST MEASURABLE FORM, THERE IS DEMONSTRABLE

CHANGE IN THE DISTRIBUTION OF MILITARY POWER ON THE CHINESE PERIPHERY. THIS YEAR'S DECLARED MILITARY BUDGET IS EQUIVALENT TO CDN\$ 37 BILLION. THIS IS TWICE THE SIZE OF THE BUDGET OF 5 YEARS AGO, AND IS BELIEVED TO REPRESENT AS LITTLE AS ONE THIRD OF ACTUAL DEFENCE EXPENDITURES. CHINA IS BELIEVED TO HAVE APPROXIMATELY TWO DOZEN MERVed ICBMs WITH PLANS TO DEPLOY TWICE THAT NUMBER THIS DECADE. THE MAINLAND HAS MAYBE 700 MEDIUM RANGED MISSILES AIMED AT TAIWAN, TWICE AS MANY AS 5 YEARS AGO. BY 2010, CHINA IS EXPECTED TO BE ABLE TO DEPLOY 85 SUBMARINES, A THIRD MORE THAN IT HAS TODAY.

CHINA NOW HAS DEVELOPED, JUST IN THE LAST FEW MONTHS, CLOSER MILITARY TO MILITARY TIES WITH RUSSIA. IT HAS SIGNIFICANTLY IMPROVED ITS RELATIONS WITH INDIA, MOST RECENTLY FOLLOWING THE VISIT OF PREMIER WEN JIABAO.

THIS SHOULDN'T SURPRISE ANYBODY. CHINA HAS AND WILL ASSERT THE RIGHT TO SEEK A SECURE ENVIRONMENT AND TO DEFEND ITS INTERESTS. IT WILL DEFINE THOSE INTERESTS AS IT SEES FIT.

MILITARY POWER IS NOT THE ONLY FORM OF INFLUENCE IN THE GLOBALIZED WORLD. IT IS APPARENT THAT CHINA HAS CHOSEN ECONOMIC POLICY AS A IMPORTANT VEHICLE TO INCREASE ITS INFLUENCE AND THE BENEFITS IT CAN HARVEST FROM BEYOND ITS BORDERS. FOR A \$1.6 TRILLION ECONOMY, SECURITY IS NOT ONLY A MILITARY CONCEPT. THE EXAMPLES OF CHINA'S ECONOMIC DIPLOMACY ARE MANY: FREE TRADE AGREEMENTS WITH COUNTRIES

ON ITS SOUTHERN FLANK - ASEAN, AUSTRALIA, NEW ZEALAND; AN ECONOMIC AGENDA IN THE SHANGHAI COOPERATION ORGANIZATION, WHICH INCLUDES RUSSIA AND THE CENTRAL ASIAN STATES; ODA AND INVESTMENT IN OIL PRODUCING DEVELOPING COUNTRIES IN AFRICA, THE MIDDLE EAST AND LATIN AMERICA.

THIS TYPE OF EXPANSION IS THE UNAVOIDABLE COROLLARY OF INVOLVEMENT OF A LARGE AND AMBITIOUS ECONOMY IN A GLOBALIZED MARKET.

SO, CHINA'S BROAD AMBITIONS - IN MATTERS ECONOMIC AS WELL AS POLITICAL AND SECURITY - SHOULD, ON BALANCE, CONTRIBUTE TO MAKING THE WORLD FEEL MORE, NOT LESS, SECURE. THAT, OF COURSE, IS WHAT WE ALL WANT. CHINA ASSERTS THAT IT IS WHAT IT WANTS, REFERRING ON OCCASION TO ITS PEACEFUL INTENTIONS AND ITS PEACEFUL RISE. TIME WILL TELL IF THE EQUILIBRIUM OF INTERESTS IN FAVOUR OF SUCH A STRATEGY WILL PREVAIL.

FURTHERMORE, IT MUST ALSO BE POINTED OUT THAT COUNTRIES NOT ONLY BRING THEIR GOODS AND SERVICES TO THE MARKET, OR THEIR MILITARIES TO THEIR SHORES, THEY ALSO BRING THEIR IDEAS AND THEIR VALUES, AND TO SOME EXTENT THEIR CONCEPTS OF GOOD GOVERNANCE. WE CANNOT EXPECT CHINA TO BE ANY LESS FORTHRIGHT IN EXPRESSING ITS VIEW ON VALUES AND APPROACH TO GOVERNANCE THAN WE ARE.

CANADA HAS, AT THE CENTER OF ITS FOREIGN POLICY, THE PROMOTION OF OUR VALUES, ESPECIALLY HUMAN RIGHTS AND THE

RULE OF LAW. WE BELIEVE IN THE SOVEREIGN RIGHTS OF STATES, BUT ARE READY TO SUBSUME THOSE RIGHTS IN THE COMPLEX OF A GROWING WEB OF INTERNATIONAL AND PLURILATERAL AGREEMENTS AND INTERNATIONAL LAW. OUR PROMOTION OF THE RIGHT TO PROTECT CIVILIAN POPULATIONS AGAINST SERIOUS HUMAN RIGHTS ABUSES INCLUDES THE NOTIONS THAT SOVEREIGN STATES DO NOT HAVE THE RIGHT TO ABUSE THEIR OWN PEOPLE, AND THAT INTERNATIONAL INTERVENTION IS JUSTIFIED IF IT CAN BRING MASSIVE ABUSES TO A STOP.

CHINA PLACES MUCH MORE EMPHASIS ON THE SOVEREIGN RIGHTS OF THE STATE. THIS IS FUNDAMENTAL TO THE FIVE PRINCIPLES OF FOREIGN POLICY, WHICH THE GOVERNMENT ASSERTS ARE AT THE HEART OF CHINA'S FOREIGN POLICIES. CHINA IS UNCOMFORTABLE WITH THE TRANS-BORDER REACH OF SUCH INSTITUTIONS AS THE INTERNATIONAL CRIMINAL COURT, WHICH IT HAS NOT JOINED. IT'S EMPHASIS, IN ITS OWN SOCIETY, IS ON COLLECTIVE RIGHTS, NOT ON THOSE OF THE INDIVIDUAL. ITS APPROACH TO LAW IS TOP DOWN, AND A 2,500 YEAR OLD LEGALIST TRADITION OF USING LAW AS A TOOL FOR CONTROL. IN CHINA, ITS RULE BY LAW, RATHER THAN RULE OF LAW, AND THE COMMUNIST PARTY IS NOT SUBJECT TO THE FULL FORCE OF THE LAW.

THE DIFFERENCES OF VIEW BETWEEN CANADA AND CHINA, BETWEEN THE EU AND CHINA, THE USA AND CHINA AND OTHERS ON THESE ISSUES CAN USUALLY BE MANAGED, BUT SOMETIMES ONLY THROUGH AN AGREEMENT TO DISAGREE. IT MAY BE THE JOB OF DIPLOMATS TO FIND MUTUALLY SATISFACTORY SOLUTIONS WHEN

SERIOUS DISAGREEMENTS ARISE ON QUESTIONS OF HUMAN RIGHTS. BUT ABOVE ALL IT IS ALSO THE JOB OF OUR POLITICAL LEADERS AND OUR MEDIA AND ACADEMICS AND ALL THINKING PEOPLE TO TRY TO UNDERSTAND THE VARIETY OF OUR INTERESTS AND THE BREADTH AND BALANCE OF OUR NATIONAL OBJECTIVES.

CONTRARY TO SOME OPINION, THE PROMOTION OF HUMAN RIGHTS IN CHINA AND THE PROMOTION OF JOBS FOR CANADIANS THROUGH TRADE IN GOODS AND SERVICES ARE NOT IN CONTRADICTION TO EACH OTHER. THEY ARE IN SUPPORT OF EACH OTHER, AND THEY ARE DIMINISHED WHEN THEY ARE SEEN TO BE IN CONFLICT. THIS FALSE DICHOTOMY ALSO GROSSLY OVERSIMPLIFIES A RELATIONSHIP THAT ALSO REQUIRES POLICY SETTING AND MANAGEMENT OF OTHER IMPORTANT ISSUES, SUCH AS THE LARGE, DAILY MOVEMENT OF PEOPLE BETWEEN CHINA AND CANADA , THE TASK OF ENSURING CONTINUING IMMIGRATION FLOWS, AND SENDING STUDENTS TO OUR COLLEGES AND OUR UNIVERSITIES, THE EFFORTS TO PROMOTE UNDERSTANDING THROUGH TOURISM. AND SO FORTH.

CHINA'S RISE AND THE INEVITABLE ATTENTION THAT THIS IS ATTRACTING WILL BRING FORTH NOT ONLY STRONG ELEMENTS OF CONVERSION WITH CANADA AND OTHER INTERNATIONAL PLAYERS. IT WILL BRING FORTH ELEMENTS OF DIVERGENCE. WE CANNOT PRETEND OTHERWISE. WE WILL HAVE TO MANAGE THESE DIFFERENCES, AS WE DO WITH OTHER COUNTRIES, BASED ON A CLEAR UNDERSTANDING IN AND OUT OF GOVERNMENT OF THE GREAT VARIETY AND COMPLEXITY OF OUR INTERESTS, AND AN EFFECTIVE DIPLOMACY THAT PROMOTES ALL OF THEM.

ARE CHINA AND CANADA COMPLIMENTARY OR COMPETITIVE?

I HAVE ASKED THE CCBC TO DISTRIBUTE A DECK PREPARED BY INDUSTRY CANADA FOR YOUR FUTURE READING PLEASURE. I AM DRAWING PRIMARILY FROM THEIR WORK FOR SOME OF THE FOLLOWING COMMENTS.

THE TOTAL TWO WAY TRADE BETWEEN CANADA AND CHINA LAST YEAR WAS ABOUT \$26 BILLION. THE TOTAL OF CANADIAN AND CHINESE GLOBAL TRADE, BOTH IMPORTS AND EXPORTS, IS OVER \$800 BILLION. THUS, CANADIAN TRADE DEPENDENCE ON CHINA AND CHINESE TRADE DEPENDENCE ON CANADA ARE, IN BOTH CASES, VERY LOW, LESS THAN 2 PERCENT AND CLOSER TO 1% IN BOTH DIRECTIONS.

THESE NUMBERS SUGGEST THAT, FOR CANADA, CHINA IS MUCH MORE A COMMERCIAL OPPORTUNITY, THAN A COMMERCIAL THREAT.

IN 2003, LABOUR INTENSIVE PRODUCTS, SUCH AS TOYS AND GAMES, CLOTHING, FOOTWEAR AND FURNITURE, REPRESENTED OVER 20% OF OUR IMPORTS FROM CHINA, AND PRODUCTS SUCH AS COMPUTER AND PERIPHERAL EQUIPMENT, AUDIO, VIDEO, ELECTRICAL MACHINERY AND TELECOMS EQUIPMENT, ACCOUNTED FOR ANOTHER THIRD. CHINESE MARKET PENETRATION IS ALSO IN SUCH PRODUCT AREAS AS BBQs, BICYCLES, PLASTICS, FURNITURE.

IF YOUR COMPANY IS MANUFACTURING THIS RANGE OF PRODUCTS IN CANADA TODAY, AND OVER TIME IN OTHER PRODUCT AREAS

HEAVILY DEPENDENT ON LOW LABOUR COSTS, YOU HAVE REASON TO BE CONCERNED ABOUT YOUR BUSINESS' FUTURE. LABOUR COSTS IN CHINA AVERAGED ABOUT EIGHTY CENTS PER HOUR IN 2003. IN CANADA, THEY AVERAGED \$18.44. IF LABOUR INPUT, AS OPPOSED TO DESIGN, CONTINUOUS INNOVATION, NEW PRODUCT DEVELOPMENT, MARKETING OR INTELLECTUAL PROPERTY, IS THE BASIS OF YOUR BUSINESS, YOU ARE RUNNING A SERIOUS RISK OF BEING CRUSHED. AS BOB KEYES OF THE CANADIAN CHAMBER OF COMMERCE RECENTLY AND BLUNTLY PUT IT, 'ADAPT OR PERISH'.

BUT CHANCES ARE THAT YOU ARE NOT NOW IN THESE LINES OF MANUFACTURING. CANADIAN PRODUCTION IN TOYS, AUDIO, VIDEO, T/C/F REPRESENT ONLY 6.5% OF TOTAL CANADIAN PRODUCTION IN 2003. SO AT THE MACRO LEVEL, CHINA'S THREAT IS LIMITED IN SCOPE.

SIMILARLY, CHINA'S MARKET PENETRATION IN THESE LIGHT INDUSTRIES IN THE US HAS BEEN SIGNIFICANT. BUT THESE PRODUCT RANGES ONLY ACCOUNT FOR 7.5% OF CANADA'S EXPORTS TO THE UNITED STATE. CANADA'S MAIN EXPORTS TO THE US ARE RESOURCES AND RESOURCE-BASED MANUFACTURED PRODUCTS, AUTOMOBILES AND PARTS, AND OIL AND GAS, PRODUCT LINES WHICH HAVE FEW CHINESE COMPETITORS. CANADA'S SHARE OF THE US IMPORT MARKET HAS BEEN STEADY AT ABOUT 18% TO 20%. CHINA'S SHARE HAS RISEN FROM 3% TO 12% IN 2003. IT IS THE MARKET SHARES OF JAPAN AND EAST ASIAN COUNTRIES THAT HAVE TAKEN THE BRUNT OF CHINA'S COMPETITIVE IMPACT, COLLECTIVELY DECLINING FROM 34% TO 21% IN A DECADE.

WHERE WE CAN EXPECT TO SEE INCREASED COMPETITION FROM CHINA IN THE USA WILL BE IN MOTOR VEHICLE PARTS - THIS IS ALREADY HAPPENING - AND IN MACHINERY.

CHINESE COMPETITION IN SERVICES IS ON THE HORIZON, BUT THE INITIAL FIELDS OF PENETRATION WILL LIKELY BE LIMITED TO ARCHITECTURE AND ENGINEERING.

SO, THE COMPETITIVE THREAT IS THERE, BUT IT IS NOT GENERALIZED. DAVID RICARDO'S DOCTRINE OF COMPARATIVE ADVANTAGE REMAINS FIRMLY IN PLACE. CHINA IS NOT CHANGING THE BASIC RULES OF MARKET ECONOMICS. AS I'VE STATED ON OTHER OCCASIONS, CANADIAN BUSINESS HAS CONSISTENTLY DEMONSTRATED A CAPACITY TO ADAPT TO THE FORCES OF THE GLOBAL MARKET. WE ARE NOT ANY LESS SMART THAN WERE THOSE WHO ADJUSTED THEIR BUSINESSES TO THE OUTCOME OF WTO TRADE NEGOTIATIONS, THE CREATION OF THE FTA OR NAFTA, OR EXCHANGE RATE VOLATILITY. ADAPTING TO CHANGE AND CHALLENGE IS FREQUENTLY AS TOUGH AS IT IS ENERVATING, BUT CANADIAN BUSINESS HAS ALWAYS COME OUT ON TOP.

A MUCH BIGGER CONCERN, IN MY OPINION, IS THE DANGER OF A PROGRESSIVE STRUCTURAL MIS-MATCH BETWEEN THE CANADIAN AND CHINESE ECONOMIES ARISING FROM INSUFFICIENT CROSS-INVESTMENT. THIS IS BOTH A SHORT-TERM PROBLEM, AND A MORE PROFOUND AND LONG-TERM ISSUE.

MORE THAN HALF OF CHINA'S IMPORTS AND HALF OF ITS EXPORTS

ARE GENERATED BY FOREIGN INVESTED ENTERPRISES ESTABLISHED IN CHINA. THEY IMPORT RESOURCES AND MACHINERY AND TECHNOLOGY AND MANAGEMENT SKILL AND EXPORT THE PRODUCTS THAT THEY MANUFACTURE.

MORE SIGNIFICANTLY, ACCORDING TO A MAJOR STUDY BY THE ECONOMIST INTELLIGENCE UNIT, SUCH FACTORS AS THE RISE OF MIDDLE CLASS CONSUMER DEMAND AND A BUSINESS-TO-BUSINESS MARKET, THE DEVELOPMENT OF BRAND RECOGNITION, SIGNIFICANT IMPROVEMENTS IN THE TRANSPORTATION INFRASTRUCTURE, AND PROGRESS IN STANDARDIZING THE LEGAL AND REGULATORY SYSTEMS, THESE AND OTHER FACTORS ARE CONTRIBUTING TO A GROWING 'LOCALIZATION' OF FOREIGN INVESTED ENTERPRISES, WHO ARE INCREASINGLY INTEGRATING INTO THE DOMESTIC MARKET AS WELL.

WITH SOME IMPORTANT EXCEPTIONS, ONLY A RELATIVELY SMALL NUMBER OF CANADIAN COMPANIES ARE PART OF THESE MEGA-TRENDS, LARGELY BECAUSE CANADIAN INVESTMENT NUMBERS IN CHINA ARE NOT LARGE. ACCORDING TO THE BEST AVAILABLE FIGURES, TOTAL CANADIAN FDI STOCK IN CHINA IS LESS THAN \$750 MILLION DOLLARS, MUCH LESS THAN ONE PERCENT OF TOTAL FDI STOCKS NOW IN THE PRC.

I'M NOT ENTIRELY SURE WHY CANADIAN FIRMS DON'T INVEST MORE AGGRESSIVELY IN CHINA, WHEN THE US, UK, JAPAN, ROK, TAIWAN, FRANCE, GERMANY, ITALY AND OTHER MATURE ECONOMIES HAVE

DONE SO, AND THAT TO THE TUNE OF MORE THAN \$600 BILLION IN THE LAST DECADE AND A HALF. WE ARE, AFTER ALL, A MAJOR FORCE FOR INVESTMENT IN THE WORLD, AND A NET OUTWARD INVESTOR AT THAT.

THE REASONS MAY BE RELATED TO THE FACT THAT OURS IS BOTH A RESOURCES BASED AS WELL AS A POST-MODERN ECONOMY, HEAVY ON RESOURCE EXTRACTION AND PROCESSING, ON THE ONE HAND, AND ON SERVICES SUCH AS REAL ESTATE, BANKING, INSURANCE, ENGINEERING ON THE OTHER. CHINA HAS NOT YET WELCOMED FOREIGN INVESTMENT IN MINING, ALTHOUGH IT DOES ATTRACT EXPLORATION AND PROCESSING OF METALS AND MINERALS, AS WELL AS OIL AND GAS. ON THE OTHER HAND, IT'S SERVICES SECTOR IS BOTH HEAVILY REGULATED AND IMMATURE. CONSUMER GOODS MANUFACTURING IS NOT SIGNIFICANT IN CANADA, AND WE HAVE FEW GLOBAL BRANDS. GIVEN THE STRUCTURE OF CHINA'S COMPETITIVE EDGE, THIS MAY BE MORE OF A BLESSING THAN A CURSE.

OUR CHALLENGE ISN'T GETTING INTO CONSUMER MARKETS IN CHINA, IT IS BEING PART OF THE VAST GLOBAL SUPPLY CHAINS THAT NOW DOMINATE THE MANUFACTURING SECTOR. BUSINESS-TO-BUSINESS IS ALSO VERY MUCH WHAT WE ARE GOOD AT, BUT NOT ENOUGH CANADIAN COMPANIES HAVE YET FOUND IT IN THEIR INTEREST TO MAKE MANUFACTURING IN CHINA PART OF THEIR STRATEGIES. THE DECISION TO DO SO OR NOT DO SO IS FOR INDIVIDUAL BUSINESSES TO MAKE. ALL I CAN HOPE IS THAT EVERY CANADIAN BUSINESS IS CONDUCTING ITS ONGOING STRATEGIC

PLANNING EXERCISES, WITH CHINA VERY MUCH IN MIND. YOU CAN BE SURE THAT YOUR CANADIAN AND FOREIGN COMPETITORS ARE DOING SO AND YOU CAN ALSO BE SURE THAT CHINESE COMPETITORS ARE NOT FAR BEHIND .

THE OTHER SIDE OF THIS COIN IS CHINESE INVESTMENT IN CANADA. CHINA'S TOTAL OVERSEAS FDI IS ESTIMATED AT ABOUT \$37 BILLION, LESS THAN HALF A PERCENT OF GLOBAL STOCK, BUT IT IS GROWING RAPIDLY, IN TANDEM WITH THE 'GO ABROAD' DIRECTIVES TO COMPANIES EMANATING FROM THE STATE COUNCIL. CANADA'S CURRENT SHARE IS ABOUT ONE QUARTER OF A BILLION DOLLARS, LESS THAN 0.1% OF THE TOTAL.

THE CHINA ACADEMY OF INTERNATIONAL TRADE AND ECONOMIC COOPERATION HAS PRODUCED A VERY DETAILED AND CURRENT REPORT ON CHINESE FDI. IT STATES THAT, ASIDE FROM HONG KONG, MACAO AND VARIOUS CARRIBEAN TAX AND ACCOUNTING HAVENS, THE TOP FDI DESTINATIONS ARE, IN ORDER, THE USA, AUSTRALIA, SOUTH KOREA, SINGAPORE, THAILAND, FOLLOWED BY ENERGY SUPPLIERS IN AFRICA AND LATIN AMERICAN. CANADA IS NOT EVEN IN THE TOP TWENTY DESTINATION COUNTRIES.

CHINESE FDI IS PRIMARILY IN THE ICT SECTOR, IN DISTRIBUTION, OIL, GAS AND MINING, BUT ALSO SOME MANUFACTURING AND SERVICES. HALF OF FDI COMES FROM THE LARGE STATE OWNED COMPANIES. THE PRINCIPAL REASONS MOTIVATING CHINESE FDI INCLUDE: MARKET EXPANSION BEHIND THE BORDERS, WHERE PROTECTIONISM IS A THREAT; STRATEGIC LONG-TERM CORPORATE DEVELOPMENT;

ACCESS TO TECHNOLOGY AND MANAGEMENT SKILLS; AND ACCESS TO RESOURCES, THE LATTER BEING LARGE SCALE AND MUCH IN THE MEDIA.

CHINESE FDI IN CANADA HAS FOCUSSED IN THE PAST ON LIGHT MANUFACTURING, TRANSPORTATION SERVICES, TRADING AND RETAIL. NOW, AS WE SEE, IT IS MOVING INTO RESOURCES.

SOME CANADIANS ARE AMBIVALENT ABOUT THESE DEVELOPMENTS, PARTLY I THINK BECAUSE CHINA'S RISE IS PART OF THE SHOCK OF THE NEW - REMEMBER THE CONCERNS OVER JAPANESE INVESTMENT - PARTLY BECAUSE OF THEIR VIEWS ON CHINESE GOVERNANCE.

ALSO, CHINA'S CORPORATE MIX INCLUDES LARGE PRIVATE COMPANIES, BUT IT ALSO RETAINS SIGNIFICANT MIXED OWNERSHIP SYSTEMS AS WELL AS VERY LARGE STATE OWNED ENTERPRISES UNDER THE GENERAL AUTHORITY OF THE STATE ASSETS SUPERVISORY AND ADMINISTRATION COMMISSION, WHICH IN TURN IS UNDER THE STATE COUNCIL. THE COMMUNIST PARTY OF CHINA IS FORMALLY INVOLVED IN THE NOMINATION OF SOME TOP EXECUTIVES. SOME QUESTION HOW THESE VARIOUS ROLES, BEHIND THE BORDERS IN CHINA, WOULD AFFECT INVESTMENTS OPERATING BEHIND THE BORDERS IN CANADA.

IN MY VIEW, THERE IS NO PRIMA FACIE REASON TO BELIEVE THAT CHINESE OWNED COMPANIES IN CANADA WOULD OPERATE ANY DIFFERENTLY THAN ANY OTHER FOREIGN INVESTED ENTERPRISE.

AN UNSCIENTIFIC SAMPLING OF EXAMPLES OF MAJOR CHINESE STATE OWNED ENTERPRISE FDI IN OTHER COUNTRIES SUGGESTS THAT, IN BROAD TERMS, CHINESE COMPANIES ARE SEEKING TO MODEL THEIR BEHAVIOUR AND PERFORMANCE ON STANDARDS THAT ARE NOT GLARINGLY DIFFERENT FROM THOSE ADOPTED BY WESTERN FIRMS. CHINA'S SOES ARE BEING URGED, BY THE COMMUNIST PARTY AND THE GOVERNMENT, TO ADOPT PRIVATE ENTERPRISE MODELS OF INTERNAL GOVERNANCE, WITH STRONG, BOTTOM-LINE OBJECTIVES. CHINA'S WANTS TO WEEN COMPANIES OFF PUBLIC FINANCING; IT WANTS THEM TO DEVELOP WORLD CLASS S&T, PRODUCTS AND MANAGEMENT SKILLS, AS WELL AS GLOBAL BRANDS IN GLOBAL MARKETS. THEY ARE TO BECOME ACCEPTED MEMBERS OF THE INTERNATIONAL COMMUNITY, AS ONE FACE AMONG OTHERS OF CHINA'S PRESENCE IN THE 21ST CENTURY GLOBALIZED WORLD.

I AM CONFIDENT THAT THE FOREIGN INVESTMENT REVIEW ACT, WITH ITS EMPHASIS ON "NET BENEFIT TO CANADA" CRITERIA, ALLOW US TO ASSESS WHETHER LARGE INDIVIDUAL INVESTMENT APPLICATIONS SHOULD BE ALLOWED TO PROCEED. THERE IS A LIMITED BUT NOT INSIGNIFICANT TRACK RECORD OF CHINESE FIRMS - BOTH PUBLIC AND PRIVATE - INVESTING IN CANADA. TO DATE, NONE HAS PROVEN TO POSE PARTICULAR POLICY PROBLEMS TO GOVERNMENT OR TO CANADA.

SO, TO RETURN TO THE ISSUE OF COMPETING WITH CHINA, I REMAIN CONFIDENT THAT WE WILL ADAPT TO THE COMMERCIAL AND

ECONOMIC CHALLENGES POSED BY CHINA, IF WE DEVELOP OUR GLOBAL AND CORPORATE STRATEGIES, AND IF WE BRING TO THE TASK THE SKILLS WE HAVE SHOWN IN COMPETING WITH FIRMS FROM THE USA, JAPAN, THE EU, AND DEVELOPING COUNTRIES AS WELL. WE WILL COMPETE SUCCESSFULLY BECAUSE WE HAVE NOT CHOICE BUT TO DO SO.

A CONCLUSION OF SORTS: THE THREE ESSENTIAL PRINCIPLES

I'VE BEEN LIVING IN CHINA FOR ALMOST FOUR YEARS AND HAVE PONDERED THE ROLES OF BUSINESS AND ACADEMIA AND GOVERNMENT IN DEVELOPING A RESPONSE TO THE STRATEGIC CHANGES THAT CHINA IS BRINGING TO THE WORLD. I'VE GONE AROUND THE COUNTRY EXCHANGING VIEWS WITH BUSINESSES AND UNIVERSITIES AND COLLEGES AND PERFORMING ARTS GROUPS AND GOVERNMENT LEADERS ON THE IMPLEMENTATION OF CHINA STRATEGIES.

OVER TIME, I'VE CONCLUDED THAT, AT A CERTAIN LEVEL OF ABSTRACTION, ALL STRATEGIES MUST EMBRACE THE FOLLOWING FOUR PRINCIPLES.

THE FIRST IS LEADERSHIP. STRATEGIES REQUIRE THE CLEAR AND EXPLICIT COMMITMENT OF LEADERS. IN MY VIEW, IN EVERY ORGANIZATION, MONEY AND STAFF TIME ARE LARGELY FUNGIBLE. A LEADER'S TIME - THAT OF THE PRESIDENT OR BOARD CHAIRMAN OR MINISTER OR ARTISTIC DIRECTOR - IS NOT FUNGIBLE. THE BUCK STOPS AT THE DESK OF A VERY SMALL NUMBER OF PEOPLE AND

THEY HAVE ONLY HAS 24 HOURS IN THEIR DAY. LEADERS MUST DEFINE THEIR ORGANIZATION'S PRIORITIES, AND ACT AND BE SEEN TO ACT ON THEM. THIS MEANS THAT THE CHINA STRATEGY MUST INCLUDE THE LEADER'S VISION, AND HER OR HIS DIRECT INVOLVEMENT. IT MEANS BEING SYSTEMATICALLY INFORMED. IT MEANS TAKING THE TIME TO TRAVEL TO CHINA AND MAKING DIRECT JUDGEMENTS. THIS IS EXPENSIVE AND TIME CONSUMING, BUT CONSIDERABLY LESS SO THAN THE CONSEQUENCES OF FAILURE TO MEET THE CHINA CHALLENGE HEAD ON.

THE SECOND ESSENTIAL PRINCIPLE REFERS TO JOINT, COLLECTIVE EFFORT. IT ARISES WITH THE DESIGNATION OF ANY PRIORITY: THE NECESSITY OF KEY PARTS OF THE ORGANIZATION TO COME ON BOARD. THESE DAYS, WE SPEAK IN OTTAWA OF A 'WHOLE OF GOVERNMENT' APPROACH. IN THIS CASE, 'WHOLE OF GOVERNMENT' SIMPLY MEANS THAT RELATIONS WITH THE PRC ARE NOT ONLY THE RESPONSIBILITY OF THE FOREIGN AFFAIRS DEPARTMENT, BUT ALSO INVOLVE INTERNATIONAL TRADE CANADA, CIDA, INDUSTRY CANADA, AGRICULTURE CANADA, NATURAL RESOURCES CANADA, AND OTHERS. THESE DEPARTMENTS HAVE THEIR INDIVIDUAL CHINA STRATEGIES, BUT THEY MUST WORK TOGETHER AND IN HARMONY AND THAT IS WHAT WE ARE ATTEMPTING TO DO.

SIMILARLY, IN BUSINESS, THE EXECUTIVE SUITE, AS WELL AS CORPORATE PLANNING, FINANCE, MANUFACTURING, MARKETING HAVE TO BE CONVINCED OF THE RELEVANCE TO THEM OF THE CHINA STRATEGY, AND THEIR ROLE IN ITS IMPLEMENTATION.

DOING BUSINESS IN CHINA REQUIRES STRATEGIC ENGAGEMENT, AND NO STRATEGY WORKS WITH ONLY PARTIAL COMMITMENT.

THE THIRD PRINCIPLE IS INFORMATION. NEVER ASSUME ANYTHING, EITHER WITH RESPECT TO OBJECTIVE FACTS, OR HUMAN BEHAVIOUR.

WITH REGARD TO FACTS ON THE GROUND, THERE ARE MORE SOURCES OF INFORMATION TODAY TO ASSIST YOU IN YOUR DUE DILIGENCE IN CHINA, IN TERMS OF LAW FIRMS, BANKS, CREDIT AGENCIES, THINK TANKS. AND WE HAVE AN EMBASSY AND FOUR CONSULATES ON THE GROUND. THESE ARE FREE.

THE COROLLARY TO THIS PRINCIPLE IS THAT ALL AND EVERY PIECE OF INFORMATION IS INCOMPLETE. CHINA IS SO BIG, IT IS IN SUCH TRANSFORMATION, ITS REGIONS ARE SO DIFFERENT, NATIONAL AND LOCAL OBJECTIVES CAN BE SO DIFFERENT, AND SOURCES OF INFORMATION MAY BE SO SELF-INTERESTED, THAT YOU CAN AND WILL REGULARLY OBTAIN PERFECTLY PLAUSIBLE AND COMPLETELY CONTRADICTORY FACTS AND IMPRESSIONS WHEREVER YOU DECIDE TO LOOK.

IT IS THE REALITY OF TODAY'S CHINA THAT NO SINGLE SOURCE OF INFORMATION WILL GIVE YOU A COMPLETE PICTURE. SO THERE IS A HUGE PREMIUM TO BE PLACED ON OBTAINING AS MUCH AND AS VARIED INFORMATION AS POSSIBLE, ON WHICH TO BASE YOUR JUDGEMENTS,

THE SAME APPLIES TO PEOPLE. NEVER ASSUME ANYTHING ABOUT HUMAN BEHAVIOUR. THERE IS NO ALTERNATIVE TO GETTING TO KNOW YOUR COUNTERPARTS, AND GETTING TO KNOW THEM WELL. AND USUALLY, THE MORE SOURCES THE BETTER. I'VE SEEN TOO MANY PROJECTS FAIL BECAUSE THE CANADIAN COMPANY RELIED EXCESSIVELY ON ONE, USUALLY SELF-STYLED SUPERBLY WELL CONNECTED PLAYER.

THE ROLE OF GOVERNMENT IN ALL OF THIS IS EQUALLY STRAIGHT-FORWARD, AT LEAST CONCEPTUALLY. WE MUST STRIVE TO IMPROVE OUR TRADING RELATIONSHIP WITH CHINA, BY TAKING ADVANTAGE OF THE PROGRESSIVE LIBERALIZATION GENERATED BY CHINA'S WTO ACCESSION; OBTAIN SUCH IMPROVEMENTS AS A FOREIGN INVESTMENT PROTECTION AGREEMENT, CONCLUDE THE APPROVED DESTINATION STATUS NEGOTIATIONS, AND IMPLEMENT THE VARIOUS ENERGY AND RESOURCE AGREEMENTS THAT WERE SIGNED WHEN PRIME MINISTER MARTIN TRAVELLED TO CHINA IN JANUARY.

WE MUST CONTINUE TO SUPPORT YOUR MARKET DEVELOPMENT STRATEGIES AND HELP YOU IDENTIFY TRADE AND INVESTMENT OPPORTUNITIES.

AND WE MUST PURSUE THE ENDLESS CHALLENGE OF IMPROVING OUR COMPETITIVENESS AS A NATION.

QUITE A MENU, BUT ESSENTIAL NEVERTHELESS.

FINAL WORD

SO, THE CHALLENGES THAT I'VE OUTLINED COME DOWN TO A COUPLE OF SIMPLE OBSERVATIONS: CHINA IS UNAVOIDABLE, AND SECONDLY, IF WE GET OUR STRATEGIES RIGHT, ITS RISE IS AND WILL BE MANAGEABLE, AT THE NATIONAL AS WELL AS THE CORPORATE LEVEL. WE HAVE BEEN HERE BEFORE AND WE WILL BE THERE AGAIN.

THANK YOU.