

***Release of Working Paper on expanding trade to strengthen
innovation***

Remarks for

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to

Institute for Competitiveness & Prosperity

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Thank you, Jim and Roger and Good morning. (Mandarin) On behalf of the Canada China Business Council, I am delighted to be here. I am looking forward to an invigorating panel discussion. And my thanks to the Institute and to James Milway for inviting CCBC to join you.

As an organization, we see a lot of reports and working papers on Canada-China trade. While your paper paints a broader picture than Sino-Canadian trade, I was very impressed with the depth to which the paper examines this essential relationship. I believe the paper touches on the key issues and sets the tone for a necessary debate on how we go ahead—as a nation—to increase our trade globally.

CCBC believes that this country cannot usefully contemplate the future of Canada's prosperity without including the Canada-China trade relationship. So, I am pleased that CCBC's voice will be part of the discussion this morning.

For those here know who don't know CCBC-- our organization has been an integral part of the four decades of formal diplomatic relationships between Canada and China. In fact, Oct. 13 is the anniversary date of the signing of relations and we're holding our AGM in Beijing that day in recognition of the anniversary.

In contemplating Canada-China trade, it's important to take the long view. We frequently encounter situations where Canadian businesses—and governments—see China as a large and very complex photograph. In fact, that's not the case. We see China as a video. It's constantly moving forward. And we have to be nimble indeed to stay ahead of the plot.

Today, CCBC sees three roles. We are the Sino-Canadian trade **facilitator**. That historic role is still germane. However we also see ourselves as business **catalysts** – in every sense of that word. And we are strong **advocates** for the Sino-Canadian relationship at many, many levels.

This enhanced view of the Sino-Canadian business reality is essential for our national wellbeing. As your report notes with clarity, the global trade dynamic is entering a new phase of maturity. That's especially true for Canada-China trade. The

bilateral relationship is entering a new stage and how our country addresses it will determine the path of the **next** 40 years. Canada and China—in trade terms—are literally “growing up” together.

As your report makes abundantly clear, innovation is a key differentiator in how Canadian companies compete on the world stage. As Roger Martin’s notes in his introduction to the report—*International trade exposes our businesses and our managers to pressures that create the imperative for innovation.*

For Canada-China trade, innovation is becoming a vital issue.

Traditionally, Sino-Canadian trade has been import-export. We send them agricultural products, car parts and petroleum-related products and they send us machinery, textiles, consumer goods and some minerals. Industry Canada tells us that merchandise trade was worth a total of about \$50 billion last year—almost \$39-plus billion went to China and about \$11 billion to Canada for exports. That’s import-export trade in “stuff.”

Trade in services was a lot more modest. The Fraser Institute told us last year that trade in services represented just 12 per cent

of merchandise trade levels. And trade in services to China is quite modest—about two per cent.

This figure is a bit old—2007. However it would should be disconcerting to all of us today that trade with China in “smarts” is a lot less than trade in “stuff.” We should worry because trade in services will be very important to future prosperity for Canada.

Some might suggest that any trade relationship with two-one-hundredths of the total isn't that important. But I am here to suggest that—in no uncertain terms—Canada-China trade is important.

Our trade relationship with the U.S. is mission-critical. It's the lion's share of our total trade. However, we cannot assume that this will always be the case. Our major trading partner is in some considerable economic difficulty at the moment and that is not likely to change quickly. The entire western world is in recovery mode as western economies—in some cases—face decades of deficit, higher taxes, and slower government services and—critically—slower consumer spending.

The houses that Americans **don't** build will be lumber **not sold** from BC. The cars Americans **don't** buy will be parts **not made** in Ontario plants. And so on across Canada.

Is the sky falling in Canada-U.S. trade? No! Would a forward-looking company hedge its bets as traditional safe harbours seem a little less sure? I would hope so!

China—on the other hand—continues to blaze ahead at double-digit growth. Consumer spending rises in China. Manufacturing moves up the value chain. Government regulations impose more prudent levels of debt financing on China's banks.

China is assuredly a vital market for any company anywhere in Canada. China's economy will outpace the U.S. sometime in the next two decades. In the second quarter of the year, China surpassed Japan as the world's second largest GDP.

China is an economic superpower and we ignore China at our peril -- as a nation and as businesspeople.

At CCBC we believe that innovation is a key competitive advantage for Canada in trade with China.

As I noted, we have a history of import-export trade with China. But at CCBC we are seeing—more and more—trade in services and Canadian innovation. I can't put numbers on this change. But it is significant for CCBC members and we are the “feet-in-the-street” companies in Canada-China trade.

Your report talks about emerging nations reaching a “tipping point” on innovation. That is to say that point at which innovation – rather than price-- becomes a competitive advantage. We agree that China is not at the tipping point yet. But – as with everything China does—the pace at which China's economy moves towards that tipping point is scary.

Allow me to offer you a small illustration. A member of our Board of Directors called me recently and asked me to speak to a colleague in equity financing who was suspicious about a possible JV deal with a Chinese company. The Canadian side had IP the Chinese side wanted and the potential Chinese partners said “Hey, we will get government money to help us get the deal done.” The Canadian side was VERY uncertain. Frankly, they didn't believe that China's government would come to the table with money.

I told them—I can't comment on this one deal but I can tell you China is putting money on the table to get innovation deals done. Provinces are subsidizing M&A deals to make sure their companies have access to technology and process to bring products to market faster and better. China has the companies. It has the customers. What China needs is the innovation from companies in Canada. And China will put its money where its mouth is.

It is true that China has not reached the tipping point, and this gap to the tipping point creates a temporal opportunity for innovation leaders in areas like executive training, IP and commercialization, etc. China will reach the tipping point with or without Canada – question is, can we profit from helping them get there? The problem is that companies often think in “2D,” about the products they have to sell or source, versus in “3D” about how to monetize the processes or technologies they possess.

The implications of this fact are significant and Canada needs to get ahead of the curve in making connections with China's emerging innovation leaders. As your report says, “We need to move purposefully to deepen our relationship with China . . .”

Of course, as we step back, it makes perfect sense that the Canada-China trade balance shifts. China has emerged—in just a few short years—to reclaim its place as a globe-spanning economic power.

I do worry about the frustration that our political leaders express, whether it be with deficits, protectionism, investment barriers, or human rights. We don't deny that they exist, and a big role for us is identifying and helping to break down the barriers. But China is hard, and that's not going to change.

Key is how you view China. Are you looking at the photograph, or are you watching the video? Because a snapshot today tells a very different story than a video that shows how far things have come, even if they still have a long way to go. A Canadian strategy for China has to take the video approach, or we're in trouble.

Part of China's economic power is its shift from a net importer of foreign investment to a major player in outbound investment. Although they have a long way to go in sophistication, the integration of China's State-Owned-Enterprises with its exploding

and very ambitious private sector champions has created a formidable economic force. Gone are the days of 2004 when China Minmetals—to some extent—misjudged a bid for Noranda and China's National Offshore Oil Company was shut out of the Unical bid.

China has become much, much more subtle and effective—as the \$9-plus billion investments in Canada's oil sands in the past two years indicates.

This has to become part of our awareness. We have to be ready for that. And Sino-Canadian trade is about politics as much as it is about business. The two are inseparable.

In the Globe last week, a front-page article on Chinese interest in the Potash Corporation caught my eye. It talked about China's **practical** interest in Potash Corp. But we know that if China makes a bid for Potash Corp., the **political** debate that action launches will be intense. It will be a real test of the government's desire to let business do business. The pressure on government would be substantive—from both sides of the issue of Chinese ownership in this key Canadian resource enterprise.

There certainly is lots of political will—at the top—to enhance Canada China trade. Prime Minister Stephen Harper’s visit to China in December of 2009 sent a powerful message to Chinese AND Canadian businessmen about a renewed sense of the importance of the Canada-China link.

That message was reinforced during the dinner CCBC held for the Prime Minister and Chinese President HU Jintao in June in Ottawa. In their remarks, both leaders made very strong political commitments to Sino-Canadian trade. In fact, President HU noted the two leaders have agreed to double trade by 2015. The challenge is to, using the report’s terminology, create the pressure and support to make it a reality.

This level of political support for greater Canada-China trade and investment can’t be overemphasized. On the Canadian side—but particularly on the Chinese side—this support from the very top is compelling. It speaks with a loud, loud voice.

And it should. Back in 2007, about a year after the “cool politics, warm economics” theory from the government that came into power in 2006, we started asking members if there was an impact from this on their business. They said in principle, yes, but they

didn't have data. Six months later, they were willing to provide anecdotal evidence in private sessions with ministers, and the government started to listen. It took another year, but things have warmed up, and it's so important. That signal from the top impacts much of the traffic at lower levels.

My time is about up, but let me close with one last thought.

The oilsands investments--of which we just spoke--are indicative of another reality. The Canada-China trade relationship is moving rapidly past its previous nation-to-nation characteristic. Look at the \$4.6b Sinopec investment in Syncrude, which was actually a US-China deal as it bought out Conoco-Philips.

Canada and China are engaging one-another at the federal level, but also at the provincial level, the municipal and the corporate level. This new reality—by the way—creates an interesting challenge for CCBC. The days are long gone when serving our members was a mostly-logistical exercise or a market-entry exercise. The business relationships between Canada and China are much more intricate and subtle and we need to constantly be aware of these complexities in terms of what we provide for our members.

Our challenge is to secure those opportunities for Canada.

That observation is at the heart of your report. The need to secure these global opportunities for Canadians is the driving message of the report and its far-sighted and wise recommendations.

On page 51, you suggest that “Trade with China is the opportunity that is here and now.” At CCBC we heartily agree. Your report is a call to action that we endorse and support.

Thank you.