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This week marks the anniversary of the collapse of Lehman Brothers – the unofficial start date of a global financial crisis unlike any we have seen in a generation.

As we welcome the prospect of the Canadian economy emerging from recession – perhaps sooner than expected – the biggest danger we face is to assume that the world will be more or less the same as it was before the economic downturn. The temptation to be complacent is exacerbated by self-congratulatory pronouncements about Canada’s relatively strong performance compared to other G8 members, and the fact that our financial institutions were well supervised and therefore did not face the kind of meltdown that was seen south of the border.

It is in some respects inconceivable that Canadians could believe that the world has not changed. But habit, wishful thinking, narrow-mindedness, and vested interests have a powerful way of combining to resist change. The unwillingness of our political and business elites to show leadership further compounds the problem.

I am of course referring to the shift in global economic and political power that is taking place as a result of the US financial crisis. We should be clear that this power shift did not begin with the collapse of Lehman Brothers. The rise of so-called emerging markets has been discussed for many years. The economic crisis did, however, expose some fundamental weaknesses in the US economy and it has, I believe, accelerated the shift in global economic weight away from America and Europe to Asia, and to China and India in particular.

I remember when the crisis first erupted, a parade of North American commentators and analysts confidently predicted that China would not be immune from the downturn, that “decoupling” was a fantasy, and that the recession would in fact be the undoing of China’s export-led economy. A Globe and Mail columnist even mused about widespread social unrest in China leading to the collapse of the Chinese government.

What these analysts failed to understand was that there is a huge difference between an economic downturn due to a financial sector crisis and a downturn caused by weak external demand. Crudely speaking, the US problem is one of excessive spending whereas the Chinese problem is one of excessive savings. You don't need a PhD in economics to understand that, interdependence notwithstanding, the Chinese problem is preferable to the US one. The solution to what is euphemistically called "global imbalances" is for the US to spend a lot less and for China to spend a lot more. It is no wonder, therefore, that the Chinese stimulus package unveiled in November 2008 was the largest of any major economy, as a share of total output. The fact that there is enormous pent-up demand in China -- for infrastructure, capital equipment, and above all consumer goods -- has simply made the stimulus package more effective.

But all is not rosy in China. The collapse in US and EU demand has meant sharp declines in Chinese exports and massive layoffs. Despite the attractive headline GDP growth numbers, Beijing faces a very serious unemployment problem in the rural areas, and the attendant risk of social unrest.

There is no triumphalism, therefore, in the Chinese political, business, and intellectual elite about the relative rise of China's influence in the world economy. On the contrary, what I am hearing over and over again from Chinese colleagues is the need to rebalance their economy towards a greater emphasis on domestic demand. They are convinced that the US economy is headed for a period of sub-par growth because of the huge debt overhang and its implications for interest rates and inflation. This sentiment is shared across much of East Asia, which has also relied on exports to industrialized countries as a principal source of economic growth. There is a palpable anxiety across the region about how to generate growth, if not by exporting to the US. What astonishes me is how much less this anxiety seems to have taken root in Canada, which is overwhelmingly more dependent on exports to the United States, and which does not have the option of turning to domestic demand as an alternative engine of growth.

It has of course become popular again to talk about diversifying our export markets so that we are less reliant on the US market. Diversification is important, but selling more to China or India is only part of the story. The point about a fundamental power shift in the world economy is not simply about rapidly growing markets in Asia and other developing regions. It is about the impact of the Chinese economy and Chinese enterprises on every link of the supply chain; it is about upward pressure on the prices of raw materials and downward pressure on finished goods; it is about the global competition for talent; it is about research and innovation; and above all, it is about the deployment of capital globally.

In recent years, we have seen Chinese companies and sovereign wealth funds spend billions to secure access to natural resources around the world, through a combination of equity investment, loans for oil, and long-term contracts. The pace seems to have picked up recently with major deals announced in Latin America, Russia, and Australia. For a while, Canada was conspicuously missing from the list of destination countries. All of that changed last month with a succession of mega deals, including a \$1.7b investment by China Investment Corporation (CIC) in Teck Resources, followed by a \$1.9b Petrochina bid for a majority share of two

Athabasca Oil Sands Corporation projects. Anyone wondering if Petrochina has used up its financial war chest should wonder no more: China Development Bank announced last week that it had agreed to provide a \$30b loan to Petrochina, at a discounted interest rate, to fund the oil and gas company's "going global" strategy.

Recent Chinese investments in Canadian companies are a very good sign that we are on the Chinese outward investment radar, and that Chinese companies perceive Canada to be open to investment from the People's Republic. But we can do more to encourage and facilitate investment from China. An important test ahead will be the Government of Canada's review of Petrochina's bid for the oil sands projects. Mr Flaherty was in Beijing recently where he was widely quoted as saying that Canada welcomes Chinese investment. His words are currently being put to the test, and the results will be watched very closely by the global investment community.

The Asia Pacific Foundation of Canada is releasing today the results of a major survey of Chinese outward investment intentions. Working with the China Council for the Promotion of International Trade (the co-organizer of this Forum), we asked 1100 companies about their existing overseas investments, and their plans for future spending abroad. While I do not have time to go into the detailed findings, I can leave you with this overall message: Chinese outward investment is on the rise, not just in energy and mining, but also in the manufacturing, agri-food, and services sectors. While Canada hitherto has not ranked highly as a destination for Chinese investment, respondents rated Canada very well as a potential destination for outward investment. The most promising sectors for investment in Canada were identified as agri-food, information and communications technology, energy, and natural resources. I invite you to have a look at the full report which is available at [www.asiapacific.ca](http://www.asiapacific.ca). There are also limited copies at our display table outside the conference hall.

Allow me to conclude on a note of optimism: Canada's relative resilience during the economic crisis has not gone unnoticed in China. For a change, we are seen by the Chinese as a bastion of financial stability, and not just as a vast source of natural resources. And the ease with which the CIC investment in Teck sailed through the review process stands in stark contrast to the failed Chinalco bid for Rio Tinto of Australia, and Sinopec's aborted attempt to purchase Unocal of California a few years earlier. Relations between Ottawa and Beijing are improving, and it appears that Mr Harper and Mr Ignatieff are in a race of sorts to visit Beijing, if not before an election, then likely soon after.

The warming of relations could not come at a better time: Canada and China celebrate 40 years of diplomatic relations in 2010. There is much to celebrate about the past 40 years, but the best way to get ready for the coming anniversary is to think about the role that China will play in the world economy over the next 40 years, and to prepare for it.