

Harper's Challenge: Building a Mutually Beneficial Resource Relationship with China

During the middle of the 19th century as the United States felt strong enough to challenge England's dominance, Canadians seized the opportunity and under the leadership of our first Prime Minister John A. Macdonald Canada's continental destiny was forged. From this foundation Canada developed into one of the most successful nations.

With the recent emergence of China as the world's second largest economy, China feels strong enough to confront the United States and the established world order. This presents Canada with another historic opportunity challenging our Prime Minister Harper to lay the foundation for our global destiny.

China's emergence as a world power is by far the most compelling phenomenon facing the global community and Canada in particular. Our response to the challenges and opportunities China presents will shape our future as inevitably as our responses to the United States' interests and ambitions have done.

As this paper will show all the stars are aligned favourably for Canada: the 21st century is the time for Canada to shine! Is Prime Minister Harper up to the challenge?

My answer is yes. After five years of successfully managing minority governments and then winning a decisive mandate, Prime Minister Harper has demonstrated his abilities as a leader. He has addressed many important national issues, such as the Arctic, the Armed Forces and our relationship with the United States. We can expect no less when it comes to our relationship with the world's fastest growing economy. His scheduled November visit to China presents a timely opportunity to initiate a meaningful and effective dialogue with Chinese leaders.

Why am I so optimistic?

Prime Minister Harper is going to Beijing not as a supplicant but with a strong hand buttressed by our soft and hard powers.

Soft Powers: Our political and legal system are the foundation of one of the best functioning and most stable of the world's societies. We enjoy an evolving culture that embraces global diversity and is uninhibited in adopting the best any culture has to offer. It is no wonder that Canada has earned the highest country reputation ranking (Forbes Magazine), is considered the best country to do business in (Reputation Institute's 2011), and is the preferred destination for refugees and immigrants from all over the world.

Hard Powers: Out of over 190 sovereign states we rank 2nd in size, and while 36th in population with only 34 million people, we have the 11th largest economy. We rank 1st in potash, 2nd in nickel. We have the 3rd largest fresh water resources and forest resources. We are 3rd in aluminum and in natural gas, 5th in zinc, 6th in oil and lead, 7th in precious metals, 8th in copper and 9th in uranium. With the 8th largest manufacturing and service sector, we are the 8th biggest producer of cereals and the 10th largest producer of meat. (Economist 2011).

Geography gives us a unique location with direct connections to the world's major economies. Canada is thus well positioned to prosper by its geography and its wealth of natural resources that are indispensable for the fast growing economies of Asia, China in particular.

Increasing prosperity for millions upon millions of Chinese is a great opportunity for Canadians. Therein lies a once in a lifetime opportunity for Canada that can only be realized if our governments take time to grasp the issues and develop a winning global strategy. Our Prime Minister's forthcoming visit to China presents a unique opportunity to lay the foundation for our global strategy as China's leaders are anxious to have assured and reliable supplies of natural resources.

Here follow the two most important issues that the Prime Minister needs to address in furthering our relationship with China.

1. China is a major world power with over 1.3 billion people who need to be supplied with food, energy, better housing and so on. It is understandable that in order to ensure the supply of the needed commodities China desires to acquire natural resources. It is not in anybody's interest to deny them free access to the commodities they need, but owning and controlling their sources is a different matter. In fact, therein lies a great opportunity for Canada: to upgrade its resources before exporting them. China's demand for commodities will be of a long duration. This should give us comfort to make investments to process our raw materials at home before exporting them, thus adding value and employment. Chinese should be welcomed to invest in our raw material upgrading facilities. This should apply also to every other country, The United States, European Union and India included. That is the way of accommodating China without selling our core assets. China can rest assured that we will be a reliable supplier as we have always been. It is a win-win situation. There would be no hard feelings generated by our turning down China's desired acquisitions of our natural resources if, at the same time, we invite them to invest in our upgrading facilities. They will understand that we are merely protecting our national interest and taking advantage of tailor made opportunities for Canada. But we will be denied this opportunity if we lose the ownership and control of our key natural resource assets. This is the first time for Canada to have such a historical opportunity of upgrading our commodities before exporting them. If we miss this exceptional opportunity we will perpetuate Canada's role as a "hewer of wood and drawer of water" and will handicap seriously the future of our children and grandchildren.

2. Our trade with China could be a source of tension and Chinese and Canadian leaders should diligently address this important issue now. From 1995 to 2010 our trade deficit with China skyrocketed from \$1.1 billion in 1995 to over \$31 billion in 2010. During those 16 years our exports to China have grown by a factor of less than 4, while China's exports to Canada have grown by a factor of almost 10. Those large deficits are one of the main reasons for our historically positive trade balance turning negative. Were it not for substantial and consistent trade surpluses with the United States the situation would be that much bleaker.

When some politicians boastfully echo China's desire to double its bilateral trade with Canada by 2015 do they consider how we are going to pay for those imports? Assuming that both exports and imports double, which is optimistic from a Canadian point of view considering the

above ratios, our trade deficit would grow from \$31 billion last year to \$62 billion by 2015: a boon for China, not for Canada. Under such a scenario, we need to think hard how we are going to pay for the increasing trade deficits with China. Are we going to sell the ownership of our natural resources to pay for consumer goods we can ill afford and thereby speed up the indebtedness of Canada as export revenue from those resources would be lost? Redressing this imbalance will be next to impossible unless we add value to our exports as structural trade deficits with China will sap our wealth and erode our standard of living. Some “experts” are advocating selling our natural resources to China to redress the imbalance; we should recognize that selling natural resources while their value is escalating by reason of increasing demand is a sure money-loser. We have a good example in Premier Wall of Saskatchewan who so strongly opposed the sale of Potash Corp. Like many business leaders who supported him, Premier Wall knows that ownership and control of such key commodities is critical to our economic prosperity.

A recent poll conducted by Angus Reid found that “Canadian’s attitude toward Asia shows conflicted views – and more negative ones than three years ago – about whether Canada belongs to the Asia-Pacific region and what it stands to gain from trade with China. More Canadians now regard the economic power of China, India and a handful of other emerging Asian countries as a threat rather than as an opportunity.” This trend is troublesome because it is important that our relationships with China, India and other Asian countries should be strengthening rather than weakening. Perhaps Canadians are “cooling off “on Asia because of their negative reactions to increasing trade deficits and China’s buying of our natural resources. Whatever the reason both our and China’s leaders need to redress this trend and Prime Minister’s visit could lay the foundation for doing so.

It is not unusual for Canada to experience difficulties in dealing with major powers. We had difficulties first with England then with the United States and in each instance we have dealt with those difficulties successfully and there is no reason why China and eventually India should be different. What we cannot afford is to neglect the problems and miss the opportunities an energized and expanding Asia and China in particular present to Canada both

from the point of view of trade and for the large pool of potential immigrants from amongst young, intelligent and entrepreneurial Asians who aspire to live in Canada.

Prime Minister Harper, we Canadians are behind you supportive and expectant of your labours in forging a successful global strategy for Canada.

John Bruk
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