Intelligence MEMOS

From: John Gruetzner

To: To the next generation of Canadian exporters to China

Date: September 17, 2018

Re: **CANADA MUST UP ITS GAME TO PLAY WITH CHINA**

China's economic stature and the realities of a Trump-era NAFTA have stimulated a stronger interest within Canada in the theory the China market could off-set losses of exports to the United States.

From a macro-economic perspective this theory, currently held by many within government, think tanks and business councils is a legitimate one, with one caveat being the future health of China's economy. That said, actually obtaining significant growth for Canadian exporters is an entirely different matter. The reality of doing business in China means Canada's approach needs a significant reset to implement this theory.

As China's GDP growth stabilizes and its domestic consumption increases there will be new market conditions. Beijing's agricultural policies to source animal protein globally, as well as pressures on arable land in China, will create new opportunities for Canada's agro-food sector. China's rising focus on consumption has highlighted the buying power of a larger middle class and its interest in high-quality consumer goods.

At the same time, China's protectionist Made in China 2025 creates obstacles for Canada's innovation-based companies in information and communication technology (ICT), Cleantech and renewable energy to make headway both in China and when bidding against subsidized Chinese firms outside of China.

On one hand, China's seeks to enforce the global trade structure when in its interest but, on the other, also seeks to rewrite global commercial norms to its own advantage.

Protected domestically, Chinese exporters are armed with export financing in the Belt and Road Initiative "BRI" countries. Investments in resource projects as part of BRI over time will also shift China's interest in purchasing commodities to these investments. To combat this trend, Canada should court Chinese state-owned enterprise and private-sector investment in Canada in green and brown field resource projects. From the Chinese perspective, Canada will also have to demonstrate that these projects can actually be developed.

The Canadian public and private sectors need to aggressively engage and improve competency in three areas.

The first is market knowledge. Rapidly shifting dynamics in China force Canadian executives and political leadership to understand and react faster to evolving economic and government conditions. As it is, much of the information flow in Canada is not actionable as it is too simplistic and generic.

The second is trade and investment policy. Canada will have to work directly with China to develop a mechanism to address formal trade barriers like tariffs but also better tackle the behind-the-border restrictions on trade, which are more relevant. This will require wider co-ordination with, but not full acceptance of, other countries responses to regulatory obstacles. The most immediate realistic bi-lateral step forward is an economic partnership agreement.

Decisionmakers in Canada must recognize that US concerns with doing business with China pre-date President Trump's election. Canada and others share some of these concerns. Over time, Canada could work with China, the United States, the European Union and other key parties to improve the World Trade Organization as well as ensure that commitments made at the time of China's entry into the WTO mature in both the letter and spirit of accession.

A key priority is to work with China to implement full convertibility of the RMB, which should be a global undertaking.

The third is to constantly seek to improve the quality of Canada's commercial offering. This must happen on the ground in China and also back in Canada. A hard calculation using the concept of Total Assessable Market found in MBA schools should drive Canada's design and implementation of its national business strategy. Trade driven primarily by bi-lateral friendship has been replaced with competitive market conditions and the terms: **brand, price, quality and service**. To conclude sales requires permanent professional boots on the ground at a higher level of engagement with customers than practiced in Canada.

For example, the Canada China Business Council has identified the uncompetitive nature and amount of trade financing available to Canadian exporters. Export Development Canada (EDC), Canada's export credit agency, should also be given a larger global mandate to expand financing to a qualified list of BRI countries.

One step, both symbolic and concrete, the Canadian government should set by example and add qualified Board members with Asian experience to EDC, the Business Development Bank of Canada etc.

Conceivably, Canada's business acumen in China and rate of return to Chinese investors offered in Canada will drive exports to China and attract Chinese capital to Canada.

When China business news dominates the business section and not the political section of the *Globe and Mail* Canada will start to be on the right commercial track in China.

John Gruetzner is the founder of Intercedent Limited, an Asian focused business and investment advisory. He is also a partner in Spearfront Limited. Mr. Gruetzner serves on private sector and also non-profit boards. He is one of the 24 founders on a team of 24 Canadians forming the China Policy Centre to be based in Ottawa.

To send a comment or leave feedback, email us at blog@cdhowe.org.