“Canada and China: Economic growth and export diversity”
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Check Against Delivery

Good morning. I would like to begin by expressing my appreciation to the conference organizers for the invitation to speak with you today.

In particular, it is a privilege to share the spotlight with the Premier of Alberta. Premier Redford and I have known one another for many years and as an Albertan I am proud of the leadership that she is showing, as she establishes herself as a Premier who advocates proudly and articulately for Alberta’s important role in Canada - and more broadly for a bolder Canadian presence in global trade.

Any discussion of investment opportunities and the future flow of capital must begin with an understanding of the state of the so-called 'strategic partnership' between Canada and China:

- where we have been,

- where we are today, and

- where we are likely headed tomorrow.

Over the past several years, this relationship has unfolded and developed in real time and in important ways. Its growth and maturity will have a significant impact on the nature and terms of commerce in the years to come.

I’m going to begin today by touching on a few recent milestones in that relationship – as someone who’s been an active participant, as a Minister in the Canadian government, and more recently, as a banker who travels to China frequently and who works with our clients to find and explore opportunities for investment in Canada.

And I will return to consideration of the most important question, which is: “what’s next?”

- where the relationship ought to go,

- how both sides can help get it there,

- and the tremendous potential that exists for companies, for investors and for both countries if we get the relationship just right.

Let me start by taking you back about five years. At that time, a number of high profile Canadian companies, in manufacturing and in the resource sector were purchased or taken over by foreign buyers - some of them based in China. There was a flurry of articles in the press about the so-called “hollowing out” of corporate Canada. I remember daily attacks in Question Period on the subject.

It was during this contentious time that the Prime Minister asked me to serve as Minister of Industry.

And one of the first issues we had to confront was the rapid rise on the world stage of State-Owned Enterprises and, I might add, the angst surrounding their emergence.

As a Minister, what I found interesting - and, to be frank, a little distressing - was the paucity of thought that had been given across Canada to the larger issue of these SOEs, and how little had been formed in the way of comprehensive strategy.

There were no legislated standards relating to issues such as governance and transparency. The most comprehensive briefing materials I could get were in the form of the Economist magazine.

There was also no context and much discord on whether and how Canada should apply the net benefit test in the context of such a different kind of enterprise. Unlike most other developed nations, we didn’t even apply a national security test to potential transactions.

In fact, we didn't even have a national security test.

With so many Canadian companies looking so attractive to foreign buyers, we needed to clarify the rules about who would be able to buy what, and under which circumstances the federal government could intervene in a transaction.

So in October 2007, under my direction, the Department of Industry took a first step by issuing a policy directive on State Owned Enterprises. We created guidelines that gave the government leeway to act in the best interests of

Canada in future scenarios. The point was to back up Canada's open for business approach to foreign investment with some clarity and if required, policy muscle.

The directive was only a single page in length. It remains applicable today. It makes it clear that Canada is serious about our commitment to ensuring that all companies operating in Canada respect free-market values and the principles that govern the way we do business.

It makes it clear that there is an imperative that needs to be remembered and respected.

Our system works well because there are benchmarks for transparency, for principles of accounting and for the fundamentals of governance.

It works well because companies operate based on market principles.
In other words, a free market doesn't mean a free pass.

In my time as a banker, I have often made this clear in my meetings with the CEOs of many of the large state-owned enterprises here in China.

But at the same time, even as we were protecting Canada from enterprises that may not respect our standards of governance, commercialism or transparency, we had a second imperative:

To demonstrate that our concern was not and was never with the ownership of the foreign capital being invested in this country.

Canada is a trading nation. We always have been. We are the world's eighth largest exporter, and seventh largest importer. Trade accounts for almost two thirds of our total economy and exports account for a third of our GDP. Ensuring that we remain open for business - and free of regulations that are frustrating or cumbersome - is critical to our success and essential to our prosperity.

So that gives you a sense of the policy environment of the time - Canada's determination to adapt to the rise of SOEs, and to do so in a way that advanced, rather than curtailed, its pursuit of trade and open commerce with countries like China.

And China is definitely a Canadian priority. Prime Minister Stephen Harper first traveled here in December of 2009.

The trip was a long time in coming.

Those of you who follow Canadian politics will know that for several years in the mid-2000s, the status of what we then called 'Canada's new Government' was often quite precarious. In fact, its very survival was frequently in jeopardy. Actually, as I recall, in the time between 2006 and 2008 it was in jeopardy every day.

One of the things that the global recession of 2008 did was to strengthen the hand of the new Conservative Government demanding a singular focus on the economy and on our economic future. Ultimately, in this time of economic turmoil, both Canada and China - two countries that were performing relatively well during this volatile period - came to perceive the potential benefits of a closer and more active relationship.

That reality became clearer, and the bond between the two countries became closer, the following summer - in June of 2010 - when President Hu Jintao came to Canada with more than 300 Chinese business executives in tow.

During this visit, formal and informal discussions took place at a deeper and more meaningful level. Agreements, business deals and memos of understanding were signed.

Indeed, members of the Chinese and Canadian cabinets met together for the first time ever. That meeting was amongst the most memorable in my time in Government. Most important of all, we began the process of negotiated the parameters and architecture of the 'strategic partnership' between our two countries.

So the relationship had clearly evolved - and rapidly so - from where it had been even just a year before.

And again, it is worth considering the economic climate at the time. Although both China and Canada had made it through the worst of the global recession, the fragility, perilous public finances and structural weaknesses of many other trading blocks had become increasingly evident. These hard, uncertain times therefore demonstrated the paramount importance to Canada… a nation whose economy is powered largely by exports - of good and growing relationships with its most important trading partners.

I should add that the relationship between our two countries, and between our leaders, is about more than business, more than trade and commerce. President Hu, in particular, has made a priority of pursuing high-level exchanges and more cultural and educational interactions.

He speaks of the “vast potential” that exists in the bond between the two countries. This all translated into a broader relationship characterized by a new maturity and stability. These are exactly the conditions that invite confident investment.

I was part of such an experience when I traveled to China with our Governor-General, just prior to the Shanghai Expo. The reception she received and the connection she forged with the Chinese people spoke to a growing fellowship between our two countries.

I recall one evening in particular, as the most memorable dinner during my ten years in public life. The Chinese President keeps a compound here in Beijing, known as the 'Fishing Palace' because that is exactly what Emperors once did there. It is where Nixon was invited when he first came to China.

The Governor General and I, together with Ambassador David Mulroney experienced a remarkable and fascinating four-hour dinner spent in the company of President Hu and a handful of his most senior Ministers exploring the history of Canada's relationship with China and the future of our 'strategic partnership.'

I returned to Beijing later that same year, to work with my Chinese counterparts to put in place a bilateral agreement on the environment, including provisions for work together on heavy oils.

It was during this trip that I also engaged in the unique Sino-Canadian pastime of panda diplomacy.

I don’t know how many of you have had the experience of holding a panda cub on your lap.

It’s not an easy sensation to describe. Twice as heavy as a ten-pound sack of sugar, as wiry as the coarsest shaving brush, it's paws slathered in dripping honey - making it totally oblivious to politicians and photographers.

In fact, oblivious to everything except the honey.

Anyway, I digress.

This past February, the Prime Minister again traveled to China. The timing of this visit was important for two reasons. First, Prime Minister Harper is now in command of a majority government, with all the stability and political leeway that this entails. And second: it was just two months earlier that the Americans had made their decision to, at minimum, put off construction of the Keystone XL pipeline - which would have (and hopefully some day will) carry Canadian oil from the oil sands of Alberta to the refineries of the U.S. Gulf Coast.

Anyone with an interest in investing in Canada needs to understand both the business ramifications and the psychological impact of that decision.
For decades, Canada has blithely sold both its oil and natural gas to a single customer - at prices that were increasingly discounted to international prices.

Not because of any problems with the product, but bluntly, because we had only one customer.

In 2011 President Obama shattered that sleepy arrangement and in a single moment Canadians seemed to awaken to the fact that it doesn’t need to be this way.
In fact, it shouldn’t be this way.

Canada cannot rely on a single customer for something that is so critical to our economy and to our future prosperity.

The United States will always be Canada's best customer, but they shouldn't ever be our only customer.

This recognition really defined the Prime Minister's February visit to China. While here in Beijing he took the opportunity to explain why Canada had made a rather dramatic turn toward China.

He said, and I quote:

“There exists a symmetry between our economic needs that you find only between a small number of our commercial partners. Canada has the resources, technological sophistication, and geo-strategic positioning to complement China’s economic growth strategy. And China’s growth, in turn, complements our determination to diversify our export markets.” End quote.

It really is as clear as that.

Here, on one hand, in China we have the most populous nation on earth - a country bent on feeding the fires of growth. A country that is expected to account for 60% of the growth in the world’s oil demand going forward. A country that is our planet’s single largest consumer of raw materials.

And on the other, is Canada, a country abundant in energy and resources, a country suddenly aware of the imperative to diversify its customer base.

A country that sees the potential in becoming a trusted and reliable supplier of oil and natural gas to a rapidly expanding China. A country now abuzz with talk of pipelines to deliver the bounty of Alberta’s oil sands - along with liquefied natural gas - to the Pacific, and onward to Asia.
And that will be the defining paradigm stretching out over the years and decades ahead for the foreseeable future - this symmetry of need: Canada helping to fuel China’s growth; China helping to ensure Canada’s stability and prosperity.

But there is more we can achieve if we work more closely together.

On one hand, Canadian business needs to step up to the plate, take advantage of the agreements that already exists between our two counties and become more active within China.

But at the same time, China needs to be aware that within Canada, there is growing public interest in the need for greater reciprocity in our relationship.

And that will be the defining paradigm stretching out over the years and decades ahead for the foreseeable future - this symmetry of need: Canada helping to fuel China's growth; China helping to ensure Canada's stability and prosperity.

This is no passing fad or fancy.

The Prime Minister has laid out his long-term view in the clearest of terms: no matter what ultimately happens with Keystone, no matter when the American economy recovers, Canada must pursue the strategic imperative of diversifying its energy exports and tapping into new markets. That's why the Canadian government has moved to streamline the approval process for major infrastructure projects such as the proposed pipelines to the west coast.

Amid this symmetry of need there exists, of course, a rather stark asymmetry of size and access.

We hardly need to spend too much time exploring the scale of the differences.

Suffice to say the city we're in today is home to almost as many people as reside in my entire country. In ten years, China will have 44 cities bigger than our largest, Toronto.

What matters much more is the asymmetry of access. Over the last few years, Canada and China have developed a closer and more special relationship. During this time, China has become a significant investor in Canada - in its resources and especially in its energy.

Right now there's more than twice as much Chinese investment in Canada compared with the Canadian presence here - and that gulf is growing by the year.

It's not for nothing that China Investment Corporation last year chose Toronto as the site of its first foreign office.

In recent days, we have seen China move to lower its barriers to foreign ownership of stocks and bonds. This is welcome news and an important sign.

It fits with the growing feeling among Canadians that our two countries complement each other well - and that we can do more together if the doors are opened wider to Canadian firms and innovation, allowing Chinese companies to benefit from gaining wider access to our country's management and technological know-how.

Fostering capital flows in both directions is mutually important for sustained growth. Both countries have so much to offer and so much to gain from deeper co-operation and engagement.

Certainly Canada's perception of foreign capital has evolved quite dramatically from a few decades ago. It was in the 1980s that the Prime Minister of the time, Brian Mulroney, declared that Canada was "open for business."

But even for a period after that, there was uneasiness, and sometimes a suspicion, of foreign motives and foreign money.

That is far less true now. In today's world, where intense global competition is re-shaping how businesses compete and how commerce functions, the benefits of free and open markets are more important than ever.

One of the most important and influential reports during my time as Minister of Industry said the key to Canada's competitive success in the 21st century will be to "skate faster, shoot harder and keep our elbows up in the corners" of global commerce.

Two things about that:

One, contrary to what you might think from this quote, not every metaphor in Canada revolves around hockey. Just most of them.

Two, this is actually a fairly useful metaphor, because it speaks to the awareness and perhaps even the consensus that Canada needs to get in the game, stay in the game and play the game hard - with aggression, with confidence, with grit - if it wants to win.

Foreign investors bring with them capital, knowledge, capabilities and technology that can increase the productivity, efficiency and competitiveness of Canadian firms. We need rules. But we don't want our rules to serve as a mask for protectionism.

It was in this spirit that during my time as Minister of Industry in 2008, I directed that the threshold for review of direct foreign acquisitions be tripled to $1 billion. Recently operationalized, this narrowed the scope for government intervention and emphasized Canada's openness.

It declared to the world that Canada understands its potential will be unlocked only if it is a full participant in the global economy. And that potential demands access to international capital and requires Canada to be innovative, entrepreneurial and trade-oriented.

The conditions for investment in Canada - and the opportunities available - are indeed quite favorable today.

No other nation in the world is leading energy projects on Canada's pace and scale - pipelines, hydro projects, some $100-billion in proposed and approved investments in energy infrastructure from coast to coast.

Canada has a government that is committed to and encouraging of foreign investment - a government that well understands the need for access to both domestic and global capital in order to fuel growth.

In fact, in an interview not long ago, the head of the China Investment Corp. was quoted as saying that he loves Canada because, and I quote, "The Canadian government overall is a lot more welcoming than most other governments in the developed world."

There are rules regarding takeovers and transactions and those rules will be enforced. I ought to know since I led the process to rewrite the Investment Canada Act and the Competition Act in 2009.

And I disagree with much of the commentary that surrounds those pieces of legislation, but that alas, is a subject for another day.

The important point for the present is that Canadians don't want and won't allow these rules to close off their country from the world.

It is quite remarkable to look back and see how much has changed between Canada and China in a few short years. Both sides have decided a closer relationship is in their interest. And as a result the potential for business opportunities has expanded rapidly.

The transactions just keep coming:

- China Investment Corporation's $800-million agreement with Penn West Energy Trust to develop bitumen.

- PetroChina's $1.9 billion acquisition of an interest in two oil sands projects.

- Sinopec Group's $4.6 billion purchase of a company's stake in another oil sands concern and its 100 per cent take over of Daylight Energy, to name just a few.
- Our Bank has been active in all of these transactions and in others.

- In Canada, we see investment of this kind as a sign of confidence in our economy and in our future. We see it as a reflection of the fact that we have weathered the recent economic storms better than any other member of the G8. We see it as an awareness of the reality that in a volatile world, where investments can be devalued or even lost, Canada stands as a safe, stable and smart bet.
- And we see it as a symbol of the potential that exists for greater economic success as a closer partner with China.
- The U.S. relationship will always remain important to Canada, but our gaze is now also fixed upon the Pacific and Asia. For its part, China is looking to Canada to help fuel its future.
- When each country looks across the Pacific, what it sees is opportunity. What each country sees is the future.

Thank you.