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Connection PULLOUT



Sino-Canadian trade potential

CANADA CHINA BUSINESS COUNCIL

As Canada/U.S. trade volume wanes in the faces of plummeting U.S. (& Canadian) consumer confidence, savvy Canadian exporters would be wise to look east rather than south to pick up the slack and to cement new market opportunities. The answer to declining NAFTA trade possibilities for many Canadian exporters and professional services providers could be China, "one of the world's fastest-growing markets" according to Canada's independent Fraser Institute.

In its new Sino-Canadian trade study, *Canada's Economic Relations with China*, released Feb. 19 in Edmonton, the Fraser Institute says Canadian companies are not remotely close to capitalizing on the potential of China. In his introduction to the study Hon. David Emerson, a former minister of both industry and foreign affairs and international trade, says bluntly: "We have fallen short of the vast potential for mutually beneficial trade, investment and broader bilateral opportunities."

There is no debate that the global trade winds are blowing in new directions. The Organization for Economic Co-operation and Development (OECD) says Canada and its trading partners are facing the worst economic outlook since the 1970's oil crisis. OECD's composite leading indicator (CLI) — considered to be a reliable 'early-warning system' for economies — are in rapid decline. Canada's CLI was down 7.2



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Many experts believe China, which has one of the globe's fastest growing markets, is a country Canada could cultivate as a major trade partner.

points in 2008.

Canada has experienced its first trade deficit in more than 30 years. The main culprit, logically enough, is the U.S., Canada's largest trading partner by far. With more than 66 per cent of Canadian trade going south to the U.S., a loss of demand there is painful.

By comparison to the U.S., Canada's trade with China is modest — only 6 per cent of Canada's total trade.

"However," says Canada China Business Council Executive Director Sarah Kutulakos, "the potential for growth in that Canada/China trade and investment relationship is almost boundless.

For Canadian companies experiencing difficulty in the North

American trade reality, China is a literally a new paradigm — a market that cries out for growth."

Canada's merchandise trade with China, today, has a lot of headroom versus the trade picture with our American neighbours. In 2008, Canadian exports to the U.S. were worth about \$375 billion, whereas exports to China amounted to about \$10.3 billion.

The total value of exports to both were up, driven in considerable part by much higher commodity prices in 2008. However, actual trade volumes between Canada and the U.S. have been slowly declining.

There is great capacity for growth in Canada/China trade in services and foreign direct invest-

ment (FDI). Compared with Canada's merchandise trade with China, the Fraser Institute says, "Services trade and investment relations with China are not robust."

Canada's services trade with China accounts for just 1.2 per cent of our total global trade in services (in 2005).

Services trade with the U.S. for the same year was about 58 per cent of the total. Almost half of Canada's FDI went to the U.S., only 0.3 per cent went to China. Despite deals such as the recently-announced China National Petroleum Corp., purchase of Canada's Verenergy Inc. for \$449 million, Chinese FDI rates in Canada are minimal, at about 0.1

per cent of total.

"Services represent a very substantive opportunity for Canadian companies in China," Kutulakos notes.

"Many of the largest and most successful Canada China Business Council members are banks, financial services companies, law and accountancy firms, large and small, and management services companies. They are very successful in China because they bring Canadian expertise and services excellence to a market that needs these skills."

"At the same time, our members include many of Canada's most innovative companies. "They are cleantech firms, small, cutting edge technology companies and small-

to-mid-sized manufacturers. The Chinese market has room for just about any Canadian enterprise that has world-class products and/or services to offer."

Developing new markets may be a nervous proposition in an economic downturn, but the stress that is becoming evident in our established trade relationships illustrates the time is right for what Emerson called, "further engagement and intensification of Canada's economic relations with China."

As Canada/U.S. trade enters a prolonged period of re-defined connections, the wisdom of migrating to new markets seems clear. And China is, far and away, the giant among Canada's high-potential markets.

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