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NOTES FOR A SPEECH BY  
THE HONOURABLE JAMES KELLEHER,  
MINISTER FOR INTERNATIONAL TRADE,  
TO THE CANADA-CHINA TRADE  
COUNCIL

OTTAWA

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Ladies and Gentlemen:

I am delighted to participate in the sixth annual general meeting of the Canada-China Trade Council. I confess, however, that I am somewhat awed by the responsibility of being your keynote speaker, for I am all too aware of whom I am speaking to. A great many of you are dedicated experts in Canada-China relations. Some of you have been to China many times. A few of you are members of the Embassy of the People's Republic of China -- and I particularly welcome your presence here, for the Embassy has been a source of enormous strength in building relations between our two countries. Not only that, I'm sure that Ambassador Yu will be happy to correct me if I miss the mark.

In the face of all this expertise, I must confess that I feel like a Junior League hockey player called up to give Wayne Gretzky lessons on how to score goals.

Except that, as Canada's Minister for International Trade, I do have some resources to call upon, and I have a feeling for where Canada is going in trade. So please bear with me. I may not tell you a great deal that you don't already know, but I may tell you something.

Let me start with the big picture.

It will come as no news to anyone here that revitalizing Canada's trade performance is one of the highest priorities of the Progressive-Conservative government. The Prime Minister has spoken about it often. It was prominent in the Finance Minister's economic statement in November. I myself have mentioned it from time to time.

I think you are also familiar with the broad outlines of our strategy. We intend to examine, in consultation with the private sector and the provincial governments, various avenues of securing and enhancing access for our exports to world markets. We will shortly be issuing a discussion paper on export financing. We will be active in encouraging the world's trading nations to embark on a new round of multilateral trade negotiations under the GATT. We will explore the options open to us to strengthen our business ties with our number one trading partner, the United States. And we will be launching a big push to expand our trade with the nations of the Pacific Rim, which as you know is the fastest growing area, economically, in the world.

So much for the big picture. My purpose today is to zero in on the "small" picture -- China.

Some small pictures are bigger than others.

China, of course, is much in the news these days. So many Western trade missions pass through the country that its hotels are Standing Room Only. Scarcely a week goes by without a newspaper report from China telling of yet another new agreement of some kind with Western business groups. We have read with interest, and I must say with appreciation, of the creation of Special Economic Zones -- I believe there are 19 of them now -- and of the very special status China has promised to Hong Kong.

On the other hand, we have also seen a flurry of stories suggesting that China is about to renounce Karl Marx and take up capitalism as a way of life. Don't believe it. China is going to remain a centrally planned economy. It's just that the central planning has been expanded a bit to include some of capitalism's ways.

What is happening in China is the modernization of Marxism, and that is exciting of itself. As the direct result of its exposure to the West over the past few years, China has decided -- and Vice-Premier Deng Xiaoping has decreed -- that it is completely fitting for Communists to use capitalist tools and methods. Internally, this has taken such forms as monetary reward to workers and management for higher production, the promotion of consumerism, and the profit motive -- properly employed, of course. In Beijing, for example, there is a new supermarket, collectively owned, named "Yi Li". Yi Li means "righteous profits".

In China, this is known as "socialism with Chinese characteristics". It is a very pragmatic sort of socialism. Thus we see China sending some of its brightest students abroad to see what they can learn from us -- primarily science, technology and management techniques. We see China's government increasingly prepared to be flexible in its approach to trade and foreign investment. And we see Chinese government companies slugging it out toe-to-toe with Western and Japanese businesses in the international marketplace. As a people, I think it is fair to say that the Chinese have never been short on business acumen. If they ever were, they are not short on it now.

To the outside business world, this is very heady stuff. A country that is beginning to open its doors. A country with a civilization that goes back three millenia, and a potential market of more than a billion people. But caveat vendor -- let the seller beware. China is by far the toughest market Canadian business has tried to crack.

There are many reasons for this. One of them is a simple problem of clear communications between members of two very different cultures.

Another is red tape. China still has a huge bureaucracy, despite the efforts of the present government to make the system more efficient. As a result, developing a market in China involves investing a great deal of managerial time and considerable expenses.

A third reason is China's traditional reluctance to use large amounts of foreign commercial credits to finance imports. China would rather be a lender than a borrower, and when it does borrow it gets very good terms, often aid-trade financing.

Another source of disappointment is the unrealistic expectations of Canadian companies going into China for the first time. China does offer opportunities, but it is a market that takes time to develop, and the opportunities are specific rather than generalized. China has not opened all of its doors. There is still a high level of protectionism of local industry. China's priorities are import substitution and export promotion. It encourages investment and products that will help it reach those goals. This means that technology, capital equipment, joint ventures and raw materials get priority. There is little interest in much else.

Price competitiveness is also a serious problem in the China market. A hypothesis put to me has been that the relatively small size of our companies renders their products and services in many cases uncompetitive in price. There may be some validity to this reasoning but I think it's partly a cop-out. I wonder if a large part of the problem is not our pricing policies? Because of the perceived risks of dealing abroad, Canadian companies tend to add a range of contingency funds which in a country like China simply price them right out of the market. Some of our competitors, on the other hand, do just the reverse. They cut their prices, on the theory that every additional contract from abroad helps reduce their overhead costs. Maybe we should be sharpening our pencils, as well.

There is another factor in the equation of doing business with China. It might be called the uncertainty factor. The People's Republic has undergone abrupt changes in policy in its 35 years. There was the era of the Hundred Flowers, followed by the Great Leap Forward, followed by the Cultural Revolution, and now the period of modernization. What guarantee is there that this period of warming business relations will last?

None, of course. Nobody can predict the future anywhere. But there seems to be a stability now in China, a pragmatism, a sense that life belongs to the person rather than to the State, and that would seem to bode well. There is also a great swelling of consumerism that will be difficult to reverse. Nine out of ten urban households in China now have TV sets, and a lot of them are colour TV. People are buying things they have never had before, and doing things they never could before. There are discotheques and soap operas and the awareness that life is getting better. There is even rock music, or perhaps it's folk music to a rock beat, performed by Chinese rock stars. I suppose you could call it Rock and Egg Roll.

So although there are no guarantees that China will stay on its present course, there is not very much to suggest that it won't. The skies are pretty clear.

What does this all mean for Canadian business? What does it mean particularly for the small and medium size companies that are the backbone of Canadian industry? You may be surprised.

This is the group of companies with which the Chinese wish to deal with because of the current emphasis on renovation of their existing facilities. An increasing number of Chinese delegations has recognized that small and medium size Canadian firms have the technology that China is looking for in this area. And a number of contracts have been signed by firms such as STM Computers, Dyer Equipment, Dipix, MecFab and Canterra Engineering.

There are, of course, some problems when small and medium firms attempt to pursue opportunities in the China market. One of them is that their main, if not only trade experience has been with the United States, which is a very simple market compared to China. In addition, small and medium size firms do not have the financial and personnel resources enjoyed by multinational corporations. They are in need of more substantial assistance and we are now reassessing the federal trade assistance programs at their disposal.

Because of the costs involved in establishing a presence in China, one of the most valuable tools we in the government can offer those firms is a strong and effective commercial staff in our embassies and at our headquarters. Our staff on the China front is sorely overstretched and has

not always been in a position to service our business community as well as we would all like. The obvious solution is to beef up the staff. Curiously enough, that is exactly what we are doing. We will be increasing resources both for our post in Beijing and our post in Hong Kong to cover China. We will speed up the construction of the new embassy in Beijing. We will also be considering ways and means of establishing a Canadian presence in Shanghai.

We are also reviewing a range of export incentives. The most important of these at the moment is the Program for Export Market Development (PEMD) with which I am certain you are all familiar.

As part of our fairs and mission programmes, I would like to announce today that at the request of the Chinese government, Canada will participate in the Asian Pacific trade fair to be held in Beijing in November of this year.

This major exercise will involve approximately 100 Canadian companies, mainly from the energy, transportation, communication and agriculture areas. Our main focus will be trade promotion and we are counting on you to publicize the Canadian participation in this event in your business contacts with the Chinese. Only if we work together can we hope to maximize the benefits from our participation in this prestigious international fair.

As a means of strengthening our economic relations with China and as part of the Export 85 program, I myself and many of my fellow Ministers hope to lead trade missions to the PRC in the coming year. In addition the Chinese Minister for Foreign Economic Relations and Trade, Madame Chen Mu Hua, and her colleague the Minister responsible for Water Resources and Electrical Power, Madame Quian Zheng Ying, have accepted our invitation to visit Canada in 1985.

One of the issues that we will be studying is the financing of Chinese technology imports. Chinese foreign exchange reserves are now estimated at approximately \$10 billion. This is a considerable sum, but it is not enough to meet Chinese development requirements. Concessional financing from other countries will not suffice either. My government will be taking a very close look at the special conditions facing Canadian companies operating in China. There may be some possibilities in this area but I am not sure we'll be able to meet all of China's expectations.

Canada has, with China, also been looking at ways and means of diversifying Chinese manufactured goods exports to Canada. In addition, China is seriously considering investing in Canada, so as to secure sources of supply in the food products and potash areas. A substantial part of our export strategy has focused on the joint development of the Chinese energy sector through the supply of expertise and equipment in the exploration, exploitation and transportation of energy. We intend to intensify our efforts in those areas. Another vital aspect of China's development will involve the upgrading of its communications network and we intend to actively pursue our efforts in this area.

I hope that some of the thoughts I have shared with you today will underline the importance my government attaches to the China market. We believe there is a two-way process going on. As we increase our understanding of China and improve our marketing approach, the Chinese are sharpening their understanding of international commercial practices. This process will mean greater opportunities for reward for both sides.

In this context, we recognize the considerable contribution made by the CCTC in the development of sino-Canadian trade. I am proud to see the accomplishments of this privately funded organization and I hope that together we will work even harder at strengthening our relationship with the giant of Asia. As I said earlier, some small pictures are bigger than others.

Thank you.