

## **GLOBALIZATION AND CHINA'S REFORMS: An International Political Economy Approach**

### **INTRODUCTION**

- I'M HONOURED TO BE INVITED TO PROVIDE THE KEY NOTE ADDRESS TO THIS DISTINGUISHED GROUP OF SCHOLARS. I WISH TO COMMEND DAVID ZWEIG, QUEENS UNIVERSITY AND FUDAN UNIVERSITY FOR OFFERING A VENUE TO FIELD TEST A RELATIVELY NEW AMBASSADOR TO CHINA.
- I SPENT 15 YEARS IN JAPAN, AS A DIPLOMAT AND IN THE PRIVATE SECTOR. I HAVE ALSO, FOR MOST OF MY ADULT LIFE, BEEN KEENLY INTERESTED IN CHINA AND ITS STRUGGLE TO TRANSFORM ITSELF INTO A MODERN STATE. I ASPIRE TO BUT WILL NOT CLAIM FOR MANY YEARS TO COME THE HALLOWED TITLE OF "CHINA HAND". MAYBE ONE DAY, BUT NOT YET.
- KEN GALBRAITH ONCE WROTE THAT MODESTY IS AN OVERRATED VIRTUE. STILL, I THINK IT WISE TO ADMIT UP FRONT THE PAUCITY OF MY SCHOLARLY CREDENTIALS. IF NOTHING ELSE, THIS WILL SITUATE EXPECTATIONS AT A LEVEL I MAY BE BETTER ABLE TO ATTAIN.
- HAVING SAID THAT, I CONSIDER THAT PRACTITIONERS OF DIPLOMACY AND INTERNATIONAL RELATIONS DO ENJOY CERTAIN ADVANTAGES. WE ARE, AFTER ALL, INSIDE THE ROOM WHEN IMPORTANT DECISIONS ARE DEBATED AND MADE AND MORE OFTEN THAN NOT, WE HAVE FASHIONED THESE DECISIONS BEFORE HAND.
- THERE IS A JOKE THAT SAYS THAT DIPLOMATS ARE LIKE HEAD WAITERS WHO HAVE BEEN INVITED TO SIT AT THE TABLE. TRUE, AND WE ARE ALSO IN THE KITCHEN,

## ASSEMBLING THE FEAST.

- I CONSIDER THAT DAY TO DAY EXPERIENCE IN THE WORLD OF INTERNATIONAL RELATIONS DOES PROVIDE IRREPLACEABLE PERSPECTIVES AND, FOR THOSE OF US WHO ARE INCLINED TO PONDER THESE THINGS, INVALUABLE INSIGHTS INTO THE HUMAN CONDITION AND RELATIONS AMONG STATES.
- EVEN AT THEIR BEST HOWEVER, THESE FROM-THE-GROUND-UP PERSPECTIVES ARE NOT OF ANY GREATER OR LESSOR RELEVANCE THAN THE REFLECTIONS OF PEOPLE SUCH AS YOURSELVES WHO HAVE, IN MY LIGHTS, GREATER SCOPE AND OPPORTUNITY TO STUDY AND THINK AND VIEW AND WRITE ABOUT, FROM A HEALTHY DISTANCE, SUBJECTS SUCH AS INTERNATIONAL POLITICAL ECONOMY AND THE LIKE. I KNOW THAT YOU HAVE THOUGHT ABOUT THESE MATTERS MORE THAN I HAVE BEEN ABLE TO DO IN MY BUSY YEARS IN ASIA AND AT HEADQUARTERS IN OTTAWA.
- HAVING SITUATED OURSELVES MORE OR LESS ON AN EVEN PLAYING FIELD, LET ME PUT FORWARD A PERSONAL PERSPECTIVE ON CHINA AND THE INTERNATIONAL POLITICAL ECONOMY. THESE COMMENTS ARE INTENDED AS A CONTRIBUTION TO DEBATE, OVER THE NEXT COUPLE OF DAYS.

## **THE ARGUMENTS**

- IN GOOD ACADEMIC FASHION, LET ME LAY OUT MY ARGUMENT AT THE OUTSET.
- I THINK THAT THE SUCCESS OF THE WESTERN, CAPITALIST DEVELOPMENT MODEL, CONFIRMED BY THE COLLAPSE OF THE SOVIET UNION AND ITS EASTERN EUROPEAN ALLIES AROUND THE BEGINNING OF THE LAST DECADE, FIRMLY

PLACED ECONOMIC DIPLOMACY ON A FOOTING EQUAL TO THAT OF TRADITIONAL POLITICAL AND SECURITY DIPLOMACY AS A PUBLIC GOOD AND KEY OBJECTIVE OF INTERNATIONAL RELATIONS. IPE, THE CONSTRUCT OF ECONOMIC DIPLOMACY PLAYED OUT BY COUNTRIES AND INTERNATIONAL ECONOMIC INSTITUTIONS, IS NOW A CENTRAL SUBSET OF GEOPOLITICS.

- IT IS FOR THIS REASON, AMONG OTHERS, THAT WE RECOGNIZE TODAY SUCH A VARIETY OF “THREATS” TO THE INTERNATIONAL ORDER: NOT JUST MILITARY IN NATURE, BUT THOSE THAT CAN SERIOUSLY DISRUPT A STATE’S ECONOMIC WELL-BEING, SUCH AS CURRENCY CRISES, CYBER-TERRORISM, UNCONTROLLED MOVEMENT OF POPULATIONS, THE SPREAD ACROSS BORDERS OF INFECTIOUS DISEASES AND SO FORTH.
- BUT WE ALSO RECOGNIZE THAT THERE ARE BENEFICENT INFLUENCES ON A COUNTRY’S ECONOMIC SECURITY BY POSITIVE DEVELOPMENTS IN OTHER COUNTRIES AND INTERNATIONAL ECONOMIC INSTITUTIONS: THAT, AFTER ALL, IS THE PROMISE OF GLOBALIZATION.
- WHAT IS AT THE HEART OF DISCUSSIONS TODAY AND TOMORROW WILL BE THOSE EFFECTS - FELICITOUS AND DISRUPTIVE - OF CHINA’S ECONOMIC DEVELOPMENT, BE IT GROWTH, STASIS OR A REVERSAL OF CHINA’S EXPANSION.
- WITH THAT IN MIND, LET ME MAKE THE FOLLOWING CASE.
- THE GROWTH AGENDA OF THE CHINESE COMMUNIST PARTY AND THE CHINESE GOVERNMENT, AND THE MANAGEMENT OF ATTENDANT DIRECT AND COLLATERAL INTERNATIONAL DIMENSIONS OF THIS PLANNED GROWTH, WILL REMAIN AT THE ABSOLUTE CENTRE OF CHINA’S POLICY AGENDA FOR ANOTHER DECADE AND PROBABLY A LOT LONGER THAN

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THAT.

- THE 90s WERE A GEOPOLITICAL FREE RIDE FOR CHINA, AS THE DECADE PROVIDED A POLITICAL AND ECONOMIC ENVIRONMENT THAT ALLOWED CHINA'S LEADERS TO FOCUS ON GROWTH, PARTICULARLY FROM 1992 TO 1997, BUT ALSO BEYOND. I REALIZE THIS VIEW WILL NOT BE SHARED BY EVERYONE IN THE AUDIENCE.
- THIS NEW DECADE HOWEVER IS GOING TO BE A LOT TOUGHER FOR THE CHINESE, FOR A LOT OF REASONS.
- FIRSTLY, SEPTEMBER 11 FOCUSSED USA ATTENTION ON AMERICAN STRENGTHS AND WEAKNESSES INTERNATIONALLY, AND TRIGGERED FORMS OF ENGAGEMENT WHOSE LONG-TERM OUTCOME REMAINS UNPREDICTABLE. THIS US RECALIBRATION OF ITS INTERNATIONAL INTERESTS AND ROLE HAS CREATED A NEW INTERNATIONAL PROBLÉMATIQUE WHICH WILL STABILIZE IN STILL UNPREDICTABLE WAYS. TO USE MY FRIEND KISHORE MAHBUBANI'S PHRASE, RARELY HAS THE INTERNATIONAL SITUATION BEEN SO PLASTIC.
- THIS WILL REQUIRE A CHINESE RESPONSE WHOSE DIMENSIONS AND COSTS ARE STILL LARGELY UNKNOWN.
- SECONDLY, THE NEXT DECADE OF CHINESE ECONOMIC DEVELOPMENT WILL BE ONE DURING WHICH IT WILL BE MUCH MORE DIFFICULT TO ASSURE HIGH LEVELS OF GROWTH THAN WAS THE CASE IN THE FIRST 20 YEARS. IF CHINA IS TO ACHIEVE THE FULL BENEFITS OF A MARKET ECONOMY, AND HAVE THE WHEREWITHAL TO ADDRESS IT'S IMMENSE SOCIAL PROBLEMS AND THE CHALLENGES TO THE CCP, IT MUST NOW AND QUICKLY MODERNIZE AND ADAPT AN IMMENSE RANGE OF MARKET AND GOVERNANCE INSTITUTIONS, TO ALLOW MARKETS TO BE TRANSPARENT, TO BE EFFECTIVELY

REGULATED AND TO BE SUBJECT TO THE RULE OF LAW AND A TRULY INDEPENDENT JUDICIARY.

- THIS MEANS, IN PRACTICE, TO SUBSTITUTE POWER AND PERSONAL RELATIONSHIPS WITH COMMITMENT BY THE POLITICAL ELITE AND TENS OF THOUSANDS OF GOVERNMENT OFFICIALS, AT ALL LEVELS OF GOVERNANCE, TO HIGHLY ABSTRACT NOTIONS OF PUBLIC GOOD.
- CHINA'S ASPIRATIONS CANNOT BE ACHIEVED WITHOUT SIGNIFICANT ADJUSTMENT OF ITS GOVERNANCE, POLITICAL AS WELL AS ECONOMIC. THIS DOESN'T MEAN THAT CHINA HAS NO CHOICE BUT TO COPY CANADIAN DEMOCRATIC NORMS.
- IT DOES MEAN THAT WITHOUT INTRODUCING COMPETITIVE PRINCIPLES AND PRACTICES IN POLITICAL GOVERNANCE, CHINA'S LEADERS WILL NOT GET THE MASSIVE AND CONTINUOUS FLOW OF POLITICAL SIGNALS THAT ARE ESSENTIAL TO MANAGING A MODERN ECONOMY. MORE SIGNIFICANTLY, NOR WILL AN INCREASINGLY AFFLUENT, EDUCATED AND GLOBALIZED MIDDLE CLASS NEED LESSONS FROM INSTITUTIONS LIKE THE CCP TO TELL THEM WHAT TO THINK AND WHAT TO DO. AND THIS IS THE CLASS - MAYBE OVER 100 MILLION TODAY - WHO ARE THE REAL FORCE OF TRANSFORMATION.
- NOR WILL CURRENT GOVERNANCE PRACTICES PROVIDE TO THE HUNDREDS OF MILLIONS OF POOR AND LOW INCOME EARNERS A SENSE THAT THEY TOO ARE BUILDING THE NEW CHINA, AND WILL BENEFIT FROM ITS GROWTH.
- IF WE WERE STILL IN THE 60s AND 70s, JAPAN, TAIWAN AND SOME OF THE SOUTH EAST ASIAN TIGERS MIGHT HAVE PROVIDED USEFUL LESSONS TO CHINA, IN PURSUING THE NEXT STAGE OF DEVELOPMENT. BUT FOR REASONS THAT

WILL NO DOUBT BE DISCUSSED IN THE COMING DAYS, TODAY PERHAPS ONLY THE ROK CAN PROVIDE CLUES TO CHINA'S FUTURE GOVERNANCE, PARTICULARLY WITH REGARD TO ECONOMIC RESTRUCTURING. AND PERHAPS TAIWAN OR SINGAPORE FOR POLITICAL REFORM.

- AS YOU CAN SEE, I AM MORE INCLINED TO BET ON A POSITIVE SCENARIO FOR CHINA, THAN A PESSIMISTIC ONE.
- AND AS THE REPRESENTATIVE OF A COUNTRY THAT IS ALREADY BEING INFLUENCED BY DEVELOPMENTS IN CHINA, IT IS INCUMBENT ON CANADIANS AND CANADIAN INSTITUTIONS TO PREPARE FOR A CHINA WHOSE INFLUENCE WILL ONLY INCREASE, AND PERHAPS DRAMATICALLY, RATHER THAN PLAN FOR DECLINE. IT IS EASIER TO RESPOND TO THE LATTER, BUT PREPARING FOR THE FORMER - PREPARING FOR CHINESE GROWTH AND INFLUENCE - IS A LOT WISER.
- LET ME NOW ELABORATE ON SOME OF THESE POINTS.

### **THE FREE RIDE**

- THAT THE ECONOMIC POLICY REVOLUTION LAUNCHED IN THE LATE SEVENTIES - SOME OF IT ANTICIPATED AS EARLY AS THE MID-50s - HAS TRANSFORMED CHINA FUNDAMENTALLY IS INDISPUTABLE. THAT IT WAS INSPIRED IN PART BY THE REALIZATION THAT CHINA COULD NOT ACHIEVE ITS SOCIALIST LET ALONE POWER OBJECTIVES WITHOUT RAPID, CONTINUOUS AND BROAD BASED ECONOMIC GROWTH IS ALSO SELF-EVIDENT.
- WHAT IS RELEVANT TO TODAY'S DISCUSSION IS THE EQUALLY IMPORTANT CONTRIBUTION THAT A WELCOMING INTERNATIONAL ENVIRONMENT PROVIDED TO EASE AND INDEED ACCELERATE THIS PROCESS.

- YOU CAN SAY WHAT YOU LIKE ABOUT THE COLD WAR BUT WHAT IS INDISPUTABLE IS THAT IT'S OUTCOME PUT PAID TO THE NOTION THAT CENTRALIZED SOCIALIST SYSTEMS CAN WORK. THE WEST MAY NOT HAVE WON THE GEOPOLITICAL NEW WORLD ORDER THAT IT ANTICIPATED, BUT ITS VICTORY DID PROVIDE THE FOUNDATIONS FOR THE FULL-BLOWN GLOBALIZATION THAT HAS DEFINED THE ERA IN WHICH NOW WE LIVE.
- MANY FACTORS CONTRIBUTED TO THIS: TECHNOLOGICAL DEVELOPMENTS AND THEIR PROLIFERATION AMONG THE MIDDLE CLASSES AND EVEN LOWER INCOME POPULATIONS ARE ON TOP OF EVERYBODY'S LIST.
- I WOULD ARGUE AS WELL HOWEVER THAT CHINA'S ENTRY INTO THIS GLOBALIZING WORLD BENEFITED FROM THE DEMONSTRATED SUCCESS OF ASIAN MODELS OF GROWTH, AS WELL AS THE SUBSEQUENT LEGITIMATION OF ECONOMIC SECURITY, AND THE TRADE AND INVESTMENT OBJECTIVES ALONG CAPITALIST AND FREE-MARKET PRINCIPLES THAT THE POST-COLD WAR WORLD CELEBRATED.
- JAPAN FROM THE 60s TO THE EARLY 90s, KOREA, TAIWAN AND THE TIGERS FROM THE 70s TO THE LATE 90s WERE DEMONSTRATIONS OF WHAT WELL-LEAD ASIAN ECONOMIES COULD ACHIEVE.
- CHINA IN THE 80s LAUNCHED ITSELF ON A PARALLEL PATH, WITH SIGNIFICANT SUCCESS. BUT THIS SUCCESS WAS BASED LARGELY ON DOMESTIC REFORM, AND ONLY PARTIALLY AND IN RESTRICTED FASHION, ON INTERNATIONALIZATION THROUGH THE SEZs AND IMPORTED TECHNOLOGIES.
- IT IS REALLY POST-1992, WHEN DENG XIAOPING'S "JOURNEY OF INSPECTION" TO THE SOUTH, AND THE 14<sup>TH</sup> PARTY

CONGRESS, WHICH LEGITIMIZED AND PROMOTED THE ECONOMIC MODELS OF THE SEZs, THAT DECISIONS WERE MADE TO IMPLEMENT THESE NATIONALLY, AND THAT EXPANSION COULD BE ACCELERATED.

- THE POINT I WANT TO MAKE IS THAT CHINA BENEFITED FROM A FORTUITOUS COINCIDENCE OF CIRCUMSTANCES THAT ARE NOT LIKELY TO BE REPEATED, AND ON WHICH IT CANNOT DEPEND IN THE FUTURE.
- AT LEAST UNTIL 1997, CONFIDENCE IN THE POTENTIAL FOR GROWTH IN ASIA WAS WIDESPREAD, SO THAT INVESTORS WERE WAITING IN LINE AS CHINA PROGRESSIVELY OPENED SECTOR AFTER SECTOR OF ITS ECONOMY TO FOREIGN PARTICIPATION. AMONG MANY INVESTORS, LITTLE ATTENTION WAS PAID TO R.O.I. AS THE COSTS OF INEVITABLE CYCLICAL DOWNTURNS WOULD BE OBIATED BY LONG-TERM PROSPECTS THAT COME FROM INVOLVEMENT IN A MARKET OF SUCH GREAT POTENTIAL.
- ACCORDINGLY, FDI Poured INTO CHINA. FROM 1992 TO 2001, FDI GREW FROM A LOW OF USD \$11 BILLION, TO A HIGH OF \$47 BILLION IN 2001, FOR A TOTAL OF \$369 BILLION, INVOLVING PERHAPS OVER 100 000 PROJECTS IN ALL. THE MAJORITY OF THESE PROJECTS EITHER FAILED OR DID NOT MAKE MONEY FOR THE FOREIGN INVESTORS. NO MATTER, THE RESULT WAS ECONOMIC GROWTH OF 9.9% PER YEAR, ON AVERAGE, RAISING GDP TO 1 TRILLION USD BY THE TURN OF THE CENTURY.
- FOREIGN DIRECT INVESTMENT REGULARLY CONTRIBUTES OVER 10% OF CHINA'S GROSS FIXED CAPITAL FORMATION -- WITH SIGNIFICANT SPIN-OFF BENEFITS, INCLUDING PRODUCTIVITY GAINS.
- SECONDLY, DESPITE THE ABSENCE OF WTO DISCIPLINES AND

FRAMEWORK ON CHINA, THE WORLD ECONOMY WELCOMED CHINA TO THE TRADING FAMILY, AND NOT ONLY THROUGH FDI. CHINESE EXPORTS ROSE FROM \$84 BILLION IN 1992 TO \$266 BILLION LAST YEAR. THE US, CHINA'S BIGGEST MARKET, IMPORTED \$610 BILLION, AND SUSTAINED A TOTAL TRADE DEFICIT OF \$486 BILLION IN THE PERIOD.

- CANADA'S NUMBERS ARE NOT SO DRAMATIC, BUT NEVERTHELESS, OUR CUMULATIVE TRADE DEFICIT FOR THE DECADE IS CAD \$ 38 BILLION.
- CHINA'S TOTAL TRADE SURPLUS DURING THIS PERIOD AMOUNTED TO \$186 BILLION.
- WITHOUT GETTING INTO A DEBATE ABOUT THE MERITS OR DEMERITS OF TRADE DEFICITS AND SURPLUSES, THE FACT REMAINS THAT CANADA, THE USA AND OTHERS OPENED THEIR ECONOMIES AND ALLOWED MASSIVE INVESTMENT FLOWS TO WHAT WAS THEN STILL LARGELY A CLOSED ECONOMY. THERE WERE MANY REASONS FOR THIS, BUT THEY INCLUDED THE GEOPOLITICAL BENEFITS OF ENGAGING CHINA AND DRAWING IT FURTHER INTO THE GLOBAL COMMUNITY.
- A SIMILAR OPENNESS CAN BE DISCERNED IN THE FLOW OF SCIENCE AND TECHNOLOGY AND COPYRIGHTED KNOWLEDGE SUCH AS COMPUTER SOFTWARE. IT IS HARD TO IMAGINE CHINA TODAY WITHOUT CHINESE LANGUAGE WINDOWS APPLICATIONS, HOWEVER THEY WERE OBTAINED - AND WE KNOW THAT MOST WERE OBTAINED WITHOUT AUTHORIZATION OR COMPENSATION.
- THEREFORE, MUCH, PERHAPS THE BETTER PART OF CHINA'S GROWTH AROSE THANKS TO SIGNIFICANT RESOURCE REALLOCATION AND IMPORTANT EFFICIENCY GAINS THAT WERE DRIVEN NOT ONLY BY DOMESTIC REFORM, BUT BY

CHINA'S FOREIGN TRADE SECTOR. ECONOMISTS ESTIMATE THAT TRADE-RELATED EFFECTS ADD OVER 1.5% TO ANNUAL GDP GROWTH RATES.

- FURTHERMORE, FOREIGN INVESTED ENTERPRISES PLAYED THE KEY ROLE IN THIS ACHIEVEMENT. OVER HALF OF TOTAL TRADE - IMPORTS AND EXPORTS - IS CONDUCTED BY THESE FIRMS.
- FINALLY, EXPANSIONARY ECONOMIES IN ASIA - UNTIL 1997 - AND EUROPE AND AMERICA - UNTIL 2001 - PROVIDED THE GROWING MARKETS AND INVESTMENT CAPITAL THAT COULD MEET CHINA'S NEEDS.
- THE INTERNATIONAL POLITICAL ENVIRONMENT - WITH VIRTUALLY ALL CONFLICT BEHIND BORDERS AND ON THE PERIPHERY OF THE DEVELOPED WORLD - PROVIDED CHINA WITH AN ESSENTIAL BREATHING SPACE SO THAT IT'S CONCENTRATION ON ECONOMIC DEVELOPMENT COULD BE UNBROKEN.
- ALL OF THESE FACTORS, AND MANY OTHERS, FAVOURED CHINA'S GROWTH AND RAPID INTEGRATION INTO THE INTERNATIONAL ECONOMY.

### **WHAT'S THE DIFFERENCE?**

- THE SITUATION IN THE NEW CENTURY IS REMARKABLY DIFFERENT, AND THUS WILL NOT LIKELY PROVIDE THE SAME BENEFICENT ENVIRONMENT AS THE LAST. LET ME JUST LIST A FEW IMPORTANT CHANGES.
- THE BENEFITS OF WTO ACCESSION ARE REAL BUT MANY OF THEM ARE BACKLOADED. THIS IS HARDLY SURPRISING AS ACCESSION NEGOTIATIONS DEALT WITH MARKET OPENING AND STRUCTURAL AND REGULATORY REFORM OBLIGATIONS

FOR CHINA, NOT FOR ANYONE ELSE. VIRTUALLY EVERYONE IN THIS ROOM CAN LIST THE CHALLENGES THAT CHINESE INDUSTRY AND SERVICES WILL FACE IN THE COMING YEARS, THANKS TO LOWER AVERAGE TARIFFS AND OTHER MARKET OPENING MEASURES. THERE IS MUCH LESS OF A FREE RIDE.

· CHINESE SECTORS SUCH AS AGRICULTURE, AUTOMOTIVE, BANKING, INSURANCE, TELECOMS AND OTHERS, ALL OF WHICH GREW REMARKABLY IN THE 90s, WILL FACE SERIOUS CHALLENGES. RESPONSE TO INTERNATIONAL COMPETITION WILL REQUIRE THE TYPE OF SOPHISTICATED RE-ENGINEERING OF CHINESE INDUSTRY AT THE NEXUS WHERE CORPORATE MANAGEMENT, RISK SENSITIVE FINANCIAL INSTITUTIONS, REGULATORY AUTHORITY AND GOVERNMENT SUPPORT MEET. IT IS NOT CLEAR THAT THIS ESSENTIAL ALIGNMENT OF COMPETENCIES WILL DEVELOP SMOOTHLY OR RAPIDLY.

· I DON'T PRETEND TO HAVE ANY OF THE SKILLS NECESSARY TO PREDICT WHAT THE GROWTH IN FOREIGN DEMAND FOR CHINESE GOODS AND SERVICES WILL BE IN THE COMING DECADE, BUT IT IS NOT LIKELY TO BE AS ROBUST AS IT WAS IN THE 90s. JAPAN'S CONTINUING ANAEMIA, THE DIFFICULTY OF RELAUNCHING GROWTH IN SOUTH EAST ASIA, THE ECONOMIC INVISIBILITY OF CHINA'S TWO GIANT NEIGHBOURS, INDIA AND RUSSIA, AND UNCERTAINTIES ABOUT THE SIZE AND DURABILITY OF EXPANSION IN THE MARKET THAT MATTERS THE MOST, THE UNITED STATES, PROBABLY URGE CAUTION. 50% OF CHINA'S SALES TO THE US ARE CONSUMER PRODUCTS, A SECTOR WHICH IS SENSITIVE TO SWINGS IN THE MICRO AS WELL AS MACRO ECONOMY.

· FOR WHAT IT'S WORTH, MY BET IS FOR SEVERAL YEARS OF SLOWER ECONOMIC GROWTH, A SITUATION THAT CAN ONLY BE OVERCOME BY CHINA'S EXPORTERS BY A RISE IN

PRODUCTIVITY, COMPETITIVENESS AND THE QUALITY OF ITS PRODUCTS.

- AND HERE, I SEE IMMENSE DIFFICULTIES. FOR THIS IS WHERE THE DOMESTIC POLITICAL ECONOMY MEETS THE INTERNATIONAL POLITICAL ECONOMY.
- BECAUSE CHINA MUST CHANGE THE DIRECTION OF ITS REFORM PROGRAM. THE OECD HAS BEEN MOST ARTICULATE ON THIS. IT SAYS THAT THE SCOPE FOR SECTOR BY SECTOR REFORM IS DECLINING.
- THE INTER-RELATIONSHIPS AMONG THE VARIOUS PARTS OF THE ECONOMY REQUIRE MORE COHERENT AND ECONOMY-WIDE RESTRUCTURING, SO THAT THE ALLOCATION OF CAPITAL, LABOUR, S&T AND OTHER KEY FACTORS CAN BE MORE EFFICIENT. THERE IS A SERIOUS NEED FOR SIGNIFICANT MERGERS AND ACQUISITIONS LEGISLATION AND REGULATIONS, SO THAT MORE CONCENTRATION CAN LEAD TO GREATER EFFICIENCIES. THE FINANCIAL SECTOR IS NOT NOW UP TO THE TASK OF ALLOCATING RESOURCES, AND NOT ONLY BECAUSE OF THE NPL PROBLEM. FINANCIAL INTERMEDIATION IS WEAK THROUGHOUT THE ECONOMY.
- SECONDLY, REGULATORY AGENCIES NEED TO HAVE NOT ONLY THE INDEPENDENCE AND FREEDOM TO DO THEIR JOBS. THEY MUST HAVE THE SOPHISTICATION TO DEVELOP A CAPACITY WITHIN THE INDUSTRIES THAT THEY OVERSEE TO PROMOTE SELF-REGULATION AND DISCIPLINE. CHINA IS TOO VAST, INSTITUTIONS ARE TOO NUMEROUS, AND THE DEMANDS OF GROWTH ECONOMIES TOO DIVERSE TO THINK THAT BEIJING RULES CAN ADDRESS ALL PROBLEMS.
- THIRDLY, CHINA NEEDS AN OPEN AND FREE DOMESTIC MARKET. WE ALL KNOW ABOUT EXTERNAL BARRIERS, BUT INTERNAL BARRIERS ARE JUST AS NUMEROUS, AND IN FACT

MORE INTRACTABLE. I WAS TOLD RECENTLY OF THE PRACTICE OF GUANGDONG COMPANIES OF SHIPPING THEIR GOODS TO HONG KONG, FOR ONWARD SHIPMENT TO SHANGHAI BUT BACK BY LAND THROUGH GUANGDONG, AS HONG KONG PROCESSING WAS SIMPLER AND SHANGHAI WAS MORE WILLING TO DEAL WITH HK GUARANTEES.

- AND SO FORTH.
- ALL THIS TO SAY THAT ANY ASSESSMENT OF THE STRATEGIC IMPACT OF CHINA ON THE REGION CANNOT BE UNDERSTOOD IN THE ABSENCE OF AN APPRECIATION THAT THE CHALLENGES OF EXPANDING CHINA'S ECONOMY START WITH THE DOMESTIC ENGINES AND SYSTEMS. THESE ARE WHAT WILL DETERMINE, IN THE END, THE SIZE AND EXTENT OF CHINA'S ENGAGEMENT BEYOND ITS BORDERS. AGAIN, IT IS ESSENTIAL TO UNDERSTAND THE DPE, IF ONE IS TO PROJECT THE IPE.

### **CONSEQUENCES FOR THE IPE: THE CANADA CASE**

- HAVING SAID ALL OF THAT, AND STICKING TO MY EXPECTATION THAT CHINA WILL IN FACT ACHIEVE AT LEAST MODERATE EXPANSION, WHAT WILL BE THE IMPACT ON THE REGION AND THE WORLD?
- I DON'T, IN FACT, PROPOSE TO ANSWER THAT QUESTION. IT WILL BE BETTER ADDRESSED BY THE PRESENTERS THAT FOLLOW MY REMARKS.
- LET ME JUST OUTLINE WHAT I THINK THESE WILL BE ON CANADA.
- I THINK THE DETERMINANTS OF CHINA'S IMPACT WILL INCLUDE GEOGRAPHY, THE NATURE OF CANADIAN SOCIETY,

OUR ECONOMIC STRUCTURE AND THAT MOST ELUSIVE OF FACTORS, NATIONAL WILL.

- GEOGRAPHY, AS WE ALL KNOW, IS FATE. THE PACIFIC IS WIDE, BUT SINCE THE 17<sup>TH</sup> CENTURY, IT HASN'T BEEN THE BARRIER TO CONTACT THAT IT HAD BEEN IN THE PREVIOUS MILLENNIA. BY THE TIME CANADIANS BEGAN TO DEVELOP THE WEST COAST OF CANADA, LARGE NUMBERS OF PEOPLE COULD CROSS OCEANS QUITE FREELY. ADDED TO THIS NEW REALITY WAS THE FACT THAT THE INADEQUACIES OF OUR INTERNAL LABOUR MARKET WERE SUCH THAT THE IMPORTATION OF PEOPLE WAS A NATIONAL IMPERATIVE. IN FACT, IT STILL IS.
- DEMAND WAS PARTLY MET BY ADJUSTMENTS TO THE FLOW OF SURPLUS LABOUR IN CHINA WHICH HAD FOR CENTURIES HEADED SOUTH, TO INDOCHINA AND THE ARCHIPELAGOES OF WHAT ARE NOW THE PHILIPPINES, INDONESIA AND MALAYSIA, AMONG OTHER DESTINATIONS. THESE LABOURERS FROM CHINA, AS WELL AS OTHER ASIAN COUNTRIES, PLAYED KEY ROLES IN THE DEVELOPMENT OF OUR TRANSPORTATION INFRASTRUCTURE, OUR MINING AND AGRICULTURAL SECTORS, OUR FISHING INDUSTRY AND OTHERS. THE DESCENDANTS OF THESE EARLY PIONEERS AND THEIR MODERN COUNTERPARTS NOW NUMBER OVER ONE MILLION CANADIAN CITIZENS.
- AND THESE FLOWS ARE CONTINUING. OVER 16% OF IMMIGRANTS TO CANADA ARE OF CHINESE ANCESTRY. CANADA DEVOTES CONSIDERABLE RESOURCES TO MAINTAINING THESE FLOWS, FOR IMMIGRANTS - PEOPLE WHO MOVE PERMANENTLY - AS WELL AS FOR TEMPORARY VISITORS, INCLUDING TOURISTS, BUSINESS PEOPLE AND STUDENTS. INDEED, THE CANADIAN GOVERNMENT HAS OVER 150 STAFF IN CHINA AND HONG KONG TO FACILITATE THEIR MOVEMENT.

- THIS IS NOT HAPPENSTANCE. THIS IS POLICY RESPONSE BY A GOVERNMENT DETERMINED TO CEMENT LINKS WITH AN EMERGING POWER; BY A SOCIETY OF IMMIGRANTS THAT PLACES A HIGH POLITICAL AND SOCIAL PRIORITY ON ENSURING CONTINUING FLOWS OF NEW IMMIGRANTS CITIZENS; AND BY AN ACKNOWLEDGED NEED TO SUSTAIN OUR OWN GROWTH IMPERATIVE.
- AND EVERYTHING SUGGESTS THAT THE SUPPLY SIDE OF THIS EQUATION, POWERED BY ECONOMIC GROWTH, A RISING MIDDLE CLASS AND THE CONTINUING INADEQUACIES OF A CHINA STILL IN NEED OF DEVELOPMENT, WILL ALSO CONTINUE TO RISE.
- CANADA IS A NATION BUILT ON TRADE. IT WAS THUS FROM THE START OF THE EUROPEAN INCURSIONS - I WAS RAISED ON STORIES AND SONGS OF THE "COURREURS DE BOIS" AND THE FUR TRADE - AND IT IS EVERMORE THE CASE TODAY. INTERNATIONALIZATION IS IN THE WARP AND WOOF OF OUR ECONOMIC LIFE.
- AND SO IT IS BECOMING WITH CHINA, AS I'VE ALREADY ILLUSTRATED.
- THUS, THE SUPPLY OF CANADIAN GOODS AND SERVICES TO CHINA'S MARKET HAS GROWN, IN COMPARATIVE TERMS, AT A RAPID RATE. CANADA'S EXPORTS TO CHINA 10 YEARS AGO WERE VALUED AT CAD \$2.1 BILLION, FIVE YEARS AGO AT \$2.4 BILLION AND LAST YEAR AT \$4.2 BILLION, GIVING US A MATHEMATICAL INCREASE OF 100% OVER A DECADE.
- BUT THE ABSOLUTE NUMBERS REMAIN SMALL, JUST OVER \$4B LAST YEAR, IN CANADIAN DOLLARS. THAT'S LESS THAN A WEEK'S EXPORTS TO THE US, ABOUT HALF OF OUR ANNUAL EXPORTS TO JAPAN. EVEN ADDING HONG KONG TO THE MIX

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DOES NOT CHANGE THE DIMENSIONS TO ANY GREAT EXTENT.

- CANADIAN CONSUMERS OF TOYS, TEXTILES, CLOTHING, FOOTWEAR AND FURNITURE, AND CANADIAN IMPORTERS OF MACHINERY HOWEVER HAVE BENEFITED FROM THE LOWER PRICES OF CHINESE GOODS, SO THAT EXPORT TO CANADA ARE ABOUT THREE TIMES IMPORTS FROM CANADA. BUT AGAIN, THE NUMBERS ARE NOT HUGE, NOT SURPRISING, GIVEN THE DEGREE OF INTEGRATION WE HAVE ACHIEVED WITH THE UNITED STATES.
- WE CANNOT BE INDIFFERENT TO THESE RELATIVELY LOW LEVELS OF TRADE, HOWEVER BENEFICIAL THEY ARE TO THOSE INVOLVED. CANADA CANNOT WATCH THE PASSING SCENE OF CHINA'S POST-WTO GROWTH WITH INDIFFERENCE. A RANGE OF GOVERNMENT POLICIES MUST BE ADJUSTED TO ENSURE THAT CANADIAN FIRMS ARE IN THE MARKET, AND ARE ABLE TO TAKE ADVANTAGE OF NEW OPPORTUNITIES. INFINITELY EASIER SAID THAN DONE, BUT THE IPE IS NOT A GIVEN: IT IS SOMETHING TO SHAPE.
- HAVING SAID THAT, I ALSO BELIEVE THAT AS IMPORTANT AS RAW NUMBERS ARE STRATEGIC PARTNERSHIPS. CANADA, THROUGH THE ACTIVISM OF ITS BUSINESSES, BUT ALSO SUPPORTED BY CANADIAN POLICY, HAS TIED ITSELF TO CHINA'S DEVELOPMENT IN SIGNIFICANT WAYS. SOME OF OUR BIGGEST FIRMS - NORTEL, SNC-LAVALIN, BOMBARDIER - AND MANY SMALL BUT DYNAMIC ONES - PORTS INTERNATIONAL - HAVE MADE LONG TERM BUSINESS AND MARKETING INVESTMENTS THAT SERVE THEIR INTERESTS AND THOSE OF CHINA. THESE STRATEGIC TIES WILL SHAPE CANADA'S LINKS WITH CHINA AND THE ASIA PACIFIC. POST-WTO CHINA WILL ONLY INCREASE THE SIGNIFICANCE OF THOSE TIES: THEY WILL RESHAPE CANADIAN FIRMS AND THEIR OVERALL RESPONSE TO THE INTERNATIONAL ENVIRONMENT.

- WHAT IS CLEAR FROM THESE EXAMPLES IS THAT THE IMPACT OF CHINA ON CANADA'S IPE ENVIRONMENT IS NOT A MATTER OF PASSIVE RESPONSE: IT IS A QUESTION - IT MUST BE A QUESTION - OF SHAPING THAT RESPONSE. IN OTHER WORDS, BENEFITING FROM THE CHANGES THAT ARE BEING WROUGHT UPON THE WORLD THROUGH THE WORKINGS OF THE INTERNATIONAL POLITICAL ECONOMY ALSO REQUIRES POLITICAL WILL.
- IT REQUIRES THAT THE GOVERNMENTS OF CANADA AND THE PROVINCES, AND OUR BUSINESSES, AND OUR INSTITUTIONS SUCH AS UNIVERSITIES, AND OUR ACADEMIC, INTELLECTUAL AND ARTISTIC COMMUNITIES ACKNOWLEDGE CHINA'S RISING STRATEGIC IMPORTANCE AND DECIDE IN WHAT FASHION TO RESPOND TO IT, FOR THEIR CORPORATE AS WELL AS OUR NATIONAL BENEFIT.
- THAT PROCESS IS WELL LAUNCHED. WITH THE EXCEPTION OF OUR RELATIONS WITH THE USA, NO COUNTRY HAS BEEN THE TARGET OF GREATER POLITICAL ATTENTION THAN CHINA. OVER THE LAST 10 YEARS, OUR POLITICAL LEADERS, STARTING WITH THE PRIME MINISTER, WHO HAS MADE 6 VISITS TO CHINA DURING THE PERIOD, HAVE BEEN PAYING ATTENTION.
- OUR BUSINESS COMMUNITY, SOME OF WHOM ARE MEMBERS OF AN EXTREMELY DYNAMIC CANADA CHINA BUSINESS COUNCIL, ARE "THINKING CHINA" AND MANY ARE "ACTING CHINA", THROUGH TRADE AND INVESTMENT.
- CANADA'S DEPARTMENT OF FOREIGN AFFAIRS HAS, IN MY HUMBLE OPINION, A STRONG AND COMMITTED AND STRATEGIC VIEW OF CHINA THAT IS PLANNING FOR THE FUTURE. WE ARE TELLING CANADIANS THAT IT IS NECESSARY FOR THEM TO ASSESS THE IMPACT OF CHINA'S GROWTH ON

THEM, AND TO DETERMINE WHETHER OR NOT IT IS TIME TO DEVELOP THEIR OWN CHINA STRATEGIES.

- BUT GIVEN THE SIZE AND POTENTIAL OF CHINA, THESE EFFORTS ARE NOT LIKELY TO BE ENOUGH. CHINESE LIVING IN A GLOBALIZED, INTERCONNECTED WORLD HAVE AN INCREASINGLY LARGE NUMBER OF OPTIONS. THEY CAN CERTAINLY CHOOSE NOT TO HAVE MUCH TO DO WITH CANADA AND GO SOMEWHERE ELSE FOR THEIR GOODS AND SERVICES AND MARKETS AND UNIVERSITIES AND SO FORTH. INDEED, THAT IS EXACTLY WHAT MOST ARE DOING.
- SO IT IS UP TO CANADIANS TO SELL THEMSELVES, TO RAISE THE AWARENESS IN IMPORTANT CHINESE CIRCLES, INCLUDING THE MIDDLE CLASS, THAT OUR SOCIETY AND OUR BUSINESSES AND OUR EDUCATIONAL INSTITUTIONS ARE DESIRABLE PARTNERS, INDEED AMONG THE BEST IN THE WORLD. THIS IS CERTAINLY WHAT WE BELIEVE THEM TO BE. BUT WE HAVE TO FIND MORE WAYS OF MAKING THAT POINT, AND MAKING IT STICK.
- IPE IS NOT ONLY A GIVEN, IT IS AN ENVIRONMENT WE MUST INFLUENCE.

## **CONCLUSION**

- LET ME CONCLUDE BY MAKING THE FOLLOWING POINTS:
- STRAIGHT LINE PROJECTIONS ARE ALWAYS DANGEROUS, AND ESPECIALLY SO WITH SUCH COMPLEX PHENOMENA AS NATIONAL ECONOMIES AND DOMESTIC POLITICS. IT IS EASY TO POINT TO THE DIFFICULTIES THAT CHINA IS FACING, AND LET THESE DOMINATE OUR PERSPECTIVES. BUT CAUTION IS NOT THE ONLY PRISM THROUGH WHICH ONE MUST ATTEMPT TO DEVINE THE FUTURE.

- POLITICAL WILL AND THE VISION, AMBITIONS AND ENERGY OF CANADIANS AS WELL AS CHINESE WILL ALSO BE DETERMINANTS OF THE FUTURE.

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IT IS INCUMBENT ON GOVERNMENT - AND  
ACADEMICS - TO PLAY LEAD ROLES. DYNAMIC POLICY  
DEVELOPMENT MAY RUN WELL AHEAD OF REAL WORLD  
TRENDS, BUT THAT IS INFINITELY MORE PRODUCTIVE THAN  
PLAYING CATCH-UP.

- BEING ABLE TO FORMULATE AND IMPLEMENT SUCH  
FORWARD LOOKING POLICIES IS BOTH MY  
RESPONSIBILITY AND YOURS.

THANK YOU VERY MUCH FOR PROVIDING ME WITH THE  
OPPORTUNITY TO SHARE THESE THOUGHTS WITH YOU.