



The Bottom Line

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China Scolds Western Leaders

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China has been flexing its muscles a lot lately—the admonishment of PM Stephen Harper for his much-delayed visit was the latest in a series of rather undiplomatic rebukes. President Obama didn't get a warm welcome either, as China has taken to scolding the U.S. about its rapidly growing budget deficit, a reminder that China is the primary financier of the U.S. debt. The other day, a Chinese official reportedly said that the problem is that the U.S. dollar is too volatile, not that the Chinese yuan is undervalued (by an estimated 30%).

Clearly, the dollar's trade-weighted decline in the past year would have hit the loonie less harshly if the yuan had been allowed to strengthen. China is now the #1 trading partner with the U.S., having garnered a 19% share of American imports compared to only 14.6% for Canada. It is only recently that the gap between the Chinese and Canadian share of U.S. imports has widened sharply and, for decades, Canada was by far the largest exporter to the U.S.

Canada's trade status with the U.S. was challenged by the relative loss in competitiveness arising from the over 50% rise in the loonie vis-à-vis the U.S. dollar since early 2002. Over that period, the yuan has risen only 21% and not at all in the past year as the U.S. economy tanked. Sino-Canadian relations might be stressed, but so are Sino-American relations. Yet both countries are dependent on emerging Asia for much of their future economic prosperity. China is already either the #1 or #2 consumer of commodities in the world and its demand is growing far more rapidly than any country in the developed world. While its demographics are not as good as in India, owing to its long-standing one-child policy, its central government has far tighter control of its human capital and economic development. So far, that has given China an enormous competitive advantage.

Three years ago, Harper stood on the principle of putting his human rights concerns ahead of business trade development, although Finance Minister Flaherty along with Canadian business leaders and others traveled to China repeatedly for high level meetings with Chinese officials. This year alone, there have been a seemingly record number of visits to China by senior Canadian government officials. But the Chinese clearly were offended by Harper's refusal to attend the Beijing Olympics last August.

Nevertheless, China and Canada did make significant progress this week in easing the flow of goods and services between the two countries. Finally, after many years of negotiation, Canada has been granted Approved Destination Status by the Chinese government. This will allow Chinese travel agents to organize group tours of Canada, a destination that will

no doubt be very popular. Canada has more Mandarin-speaking people than any other non-Asian country. There are 1.3 million Chinese-Canadians, many of whom still have friends and family connections on the Mainland. Our hotels, restaurants, casinos and tourist attractions will have no trouble finding Chinese talent to welcome the newcomers. Expect to see bilingual (Mandarin-English or Mandarin-French) menus and signage at many of these locations.

The Bottom Line: Politics aside, many Canadian businesses are already benefiting from rapidly growing demand in China. The future opportunities are immense, which will only bolster growth in Canada and the standard of living in China. Trade and tourism with China is a win-win proposition for both countries. The world's biggest importer of industrial materials, food and technology is slated to become a significant economic stimulant.

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