

**'Small is beautiful': what China's next phase of growth
means for Canadian SMEs**

**Speaking notes for
Warren Everson**

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123 Queen St. West**

Before I get started I want to thank the hosts for the opportunity to be part of what has been a great program so far. I also want to thank Mr. Yu Ping for his remarks and congratulate him on what I heard was a truly fantastic APEC CEO Summit organized by his Council in Beijing. We're very thankful that our President, Perrin Beatty, was on one of the panels.

For those who don't know, I lead the policy shop at the Canadian Chamber of Commerce head office in Ottawa. Our organization represents a network of over 200,000 Canadian businesses of all sizes, sectors and regions across Canada. I've been asked to say a few words about what we see as next steps for Canada's economic relationship with China.

In the business community, I think we're all tired of being reminded that Canada is a Pacific nation. We should know that by now. But we only recently started acting like one. The achievements of the past couple years – joining the Trans-Pacific Partnership, getting free trade with South Korea – came after a long period of complacency.

China is, of course, central to our renewed agenda in the region. Last year, China became Canada's second largest trading partner. As we heard this morning, the bilateral investment treaty is now in place.

The Chamber was also pleased with the outcomes of the Prime Minister's visit last month, especially the new renminbi trading hub. You may have seen the report we launched on the subject a couple months back. Some in this room contributed to it, including ICBC Canada and Bank of China Canada.

Despite new momentum, however, the path forward for Canada-China relations is not as straight as many of us in the business world would like it to be. We all know that some Canadians are apprehensive about trade with China. It's what the surveys tell us and what politicians hear from their advisors. Canada's been in this position before. It took us more than 70 years to do free trade with the United States.

I still remember the heated debates when I was part of the Mulroney government that put the agreement with the U.S. in place. The point is that Canadians don't jump headfirst into the arms of economic giants – no matter how friendly. One of the problems is that we only hear about the big deals and big headlines: takeovers of Canadian companies; railcars packed to the brim with resources going to Chinese factories and construction sites; containers of Chinese goods flooding Canada for the Christmas season.

Sure, these things bring huge benefits to Canada. But many people simply can't relate. And it's easy for them to feel intimidated by the sheer scale of everything. I was reading President Xi Jinping's new book and he likes to say: "a single flower does not make spring, while one hundred flowers in full blossom bring spring to the garden". I take this to mean that if only a few businesses and sectors in Canada prosper from trade with China, our partnership will be stunted.

We need to bring new communities and new people together. Broaden the base. How do we do this? I think we can agree that we've got Bay Street covered. Earlier, we heard about opportunities for Chinese investment in Canadian municipalities. This would help. Our universities and colleges are doing more joint research with China and taking in more Chinese students.

For the chambers of commerce I represent, it's all about tourism and local small businesses. In some ways, small businesses have been leading the charge in China. I was surprised to learn they make up 60 percent of new exports to China, compared to only 10 percent in the case of Japan, for instance. But most SMEs do more business with the Chinese buffet on Main Street. Ultimately, only one percent of them are exporting to China. The number is growing, of course – and will continue to grow as China's citizens spend more and care more about the environment.

China is looking for more than raw materials today. They want our fine foods, like wine and lobster. They want our municipal waste treatment technologies. There's huge room to grow in tourism. President Xi talks about sending 400 million tourists abroad over the next 5 years. Australia gets three times more visitors from China than Canada every year – even though Vancouver's closer to Beijing than Sydney, and equal distance to Shanghai. Surely, we can do better. Companies like Rocky Mountaineer and Frontiers North Adventures are good candidates. The first offers high-end train travel through the Rockies. The other organizes tours to see the polar bears in Churchill Manitoba. Building on Canada's well-known strengths in the market, these are exactly the sorts of experiences that appeal to middle class consumers with money in their pockets and a desire to get out of the hustle-and-bustle.

But it's tough to sell in China today. The market's growing and so is the competition. Small businesses can't afford to fly over several times a year to meet with travel agents. And in China, inexpensive advertising tools like YouTube and Facebook aren't available.

A recent survey by the Asia-Pacific Foundation of Canada found that Canadian companies in China have trouble with the local language, culture and regulatory climate. They find it hard to understand the market and meet the right people. As a result, they're more likely to go through a wholesaler when they do business with China. And wholesalers pay less than the end customer. That's why we're excited about the promise of e-commerce. By connecting companies with buyers, delivering products and securing payments, online marketplaces can solve a lot of these problems.

In China this year, over 10 percent of retail sales took place through these channels. Last month, our President met with Jack Ma at Alibaba's headquarters in Hangzhou. As many of you know, Ma likes to say 'small is beautiful' and that his mission is to help small businesses export around the world. Personally, I'd like to ask him how he squares his little guy image with the fact that his IPO was the biggest in world history! Is that just me? Ma's message that technology can turn local companies into global companies is very powerful.

Before meeting him, we asked some members across Canada what they thought about using Alibaba-style websites to sell to China. The response was overwhelming. Many have an e-commerce strategy in place. Some are building one. For others, it was like a light went off in their head. One company rents and delivers full-service camping trailers for customers that want to spend a week or two in the BC wilderness without the hassle of equipment. The farthest market they've ever sold to is North Dakota. We told them about Alibaba's plans for an online tourism market and explained how the service would work. Five minutes later they called the local college to ask if there were any Chinese-speaking students who could intern with them over the summer.

We need to plant seeds like this one that turn into roots; roots that are broad enough allow our relationship to grow. So, what do we do next? How do we get more small businesses selling to China? Or get the ones that are to tell their stories?

I think it's important to start by saying that while small may be beautiful, we can't forget that Canada's leading corporations make up the largest share of Canadian exports and investments in China. And they take SMEs with them. One Canadian company told me he sells half of what he makes to China, but that his customers are a handful of US and Japanese multinationals he's been selling to for decades. Canada's aerospace supply chain similarly depends on the success of firms like Bombardier and Pratt & Whitney.

Keeping all this in mind, many small businesses are going out there alone and could use a hand. We've been pushing the government to do more in this area,

and I feel like we're turning a corner. Canada just opened four new Canadian offices in China. There are over 100 trade commissioners there now. And they're starting to look at ways to get Canadian small businesses onto e-commerce platforms.

We have a trade commissioner embedded with us in Toronto now. He's working with chambers across the country to make sure local businesses know where in their community they can find helpful tools to export. If they're going into the market, the Canada-China Business Council can help them hit the ground running with virtual office services and on-site business incubators in Shanghai and Beijing.

We need to get the RMB hub up and running so importers and exporters will be able to do more business in the currency of their choice.

It may be too early for Canada and China to launch formal negotiations on a free trade agreement. But we should at least take a hard look at all the costs and benefits of different ways forward, and identify which trade barriers are most stifling. China's agreement with Australia last month shows that we can't afford to wait very long.

I want to close by saying that the Chinese business community in Canada has an important role to play too. By investing here, adopting our suppliers as part of your global network and talking publicly about the valuable contributions you make to our economy, you will help build the critical mass we need to take this relationship to the next level.

We at the Canadian Chamber of Commerce are here to offer our support. I'll end there and would be happy to take some questions if we still have time.