Special

ASIA RISING

Ready or not, Canada's ties to Asia are growing. We asked the Asia Pacific Foundation, the Canada China Business Council and other experts to explain the implications.

Put knowledge to work.
Understanding the Asia factor across Canada

By Eva Busza, Vice-President, Research and Knowledge, Asia Pacific Foundation of Canada

The impact of Asia is extending to unexpected corners of Canada. Did you know that Asia now absorbs close to 45 per cent of British Columbia's merchandise exports and more than 13 per cent of Nova Scotia's? Asia is a major buyer of goods from across Canada. For instance, in 2013, Asian countries bought 82 per cent of Saskatchewan peas, 87 per cent of Newfoundland's iron and ores, and 99.7 per cent of Nunavut tanned furskins.

Immigration from Asia is redefining the demographic landscape across Canada. Canadians from Victoria to Halifax now realize the impact of Asia in their hometowns, whether it is from increased tourism, trade, immigration or international students. Asians represent 13 per cent of Canada's population, and they are the fastest growing minority group in Canada. While the number of Canadians of Asian descent remains low in the Atlantic region and in Quebec, it now exceeds the national average and reaches impressive numbers in Ontario (17.4 per cent) and British Columbia (23.8 per cent). Asia is now the main source of international students throughout the country. Did you know that in 2010, 76.9 per cent of international students in Prince Edward Island came from China alone?

Provinces have taken note of Asia's increasing importance and are taking steps to strengthen ties with the region. On her recent trip to Asia, British Columbia's Premier Christy Clark met with Malaysian Prime Minister Najib Razak to promote B.C. as a liquefied natural gas export hub. Alberta now has three new trade offices in Asia that provide on-the-ground resources and help connect Albertan and Asian businesses. Saskatchewan recently created an Asia Advisory Council to help the province develop its own strategy for engaging with the region. And Robert Ghiz, Prince Edward Island's Premier, led a trade mission to Japan, Hong Kong and Taiwan in February in an effort to build business relationships and educational partnerships.

Despite all of this activity, Canadians remain divided over how to move forward with our relationship with Asia. An annual poll conducted by the Asia Pacific Foundation of Canada has found that Canadian support for increasing engagement with Asia has been in decline since 2012. At the same time, the reality of Asian countries playing an increasingly significant role in international politics and the global economy is becoming more apparent than ever before. As this trend continues, Canadians need accurate, reliable and easily accessible information on how Asia matters to their daily lives.

To help respond to this need, the Asia Pacific Foundation of Canada's new project, The Asia Factor, serves as an interactive tool for Canadians to explore Asia's impact in each of Canada's provinces and territories. The site allows users to visualize and compare data about Canada's interactions with Asia through trade, immigration, tourism, twinning relationships and more.

With the rise of Asian countries, Canada is witnessing a global shift in power that is unprecedented in our national history. As the complex economic and political dynamics of the region continue to evolve, Canadians' best tool to help them navigate these changes will be knowledge. It is our hope that TheAsiaFactor.ca will be a useful tool for Canadian businesses, policy-makers and individuals as they continue to develop their diverse and unique relationships across the Pacific.

THE ASIA FACTOR

In 2013, Canada shipped $51-billion in goods to Asia, making it our second-largest export market. The AsiaFactor.ca explains this and other ties between Canada and Asia. Here are a few:

Canada's Merchandise Exports to Asia:

26.5%
Agricultural and Agri-food Products

24.0%
Metals and Minerals

16.1%
Wood, Pulp and Paper

9.4%
Energy Products

9.1%
Chemicals, Plastics and Rubber

4.4%
Mechanical Machinery and Appliances

3.3%
Other Transportation Equipment

2.2%
Textiles, Clothing and Leather

2.0%
Electrical and Electronic Machinery and Equipment

1.6%
Technical and Scientific Equipment

0.8%
Vehicles and Parts

0.5%
Consumer Goods and Miscellaneous Manufactured Products

Stop being so Canadian:
What Canada needs to do to truly succeed in China

By Peter Harder, President, Canada China Business Council

At first glance, Canada's economic relationship with China appears to be in good shape. At $73.2-billion, trade has grown by 4.5 per cent from the previous year, and inbound investment from China was $16.7-billion in 2013. However, to ensure Canada remains a prosperous country, we must drastically step up our economic engagement. Good growth is simply not good enough. We need to stop acting so Canadian and start being Canadian Plus.

And that means we must be more nimble, more committed and single-minded in our focus on building stronger and more beneficial economic relationships. Australia and the U.S. aren't waiting for us. Neither is China.

Australia is a prime example. It has had a focused Asia strategy for a generation, creating continuity that transcends governments. Asian language education is in its school curriculum. That country's transparent FDI regime makes it the top destination for Chinese investment from 2005 to 2013 (Canada ranked third, behind the U.S.).

So is the United States. A member tells me how his U.S. clients treat China like an MBA case study – they gather the data, analyze it, make a decision and go. His Canadian clients sit on the results and wait. But China won't wait for us. It has aggressive goals in its Five-Year Plan, in areas that Canada has an advantage. Companies will succeed by helping China meet its goals. This can be done very profitably. More than 90 per cent of U.S. companies in China are making money. Chinese investments in the U.S. nearly doubled from 2012 to 2013, with private enterprise comprising more than 80 per cent of transactions and 70 per cent of value.

I would argue that we can be more Australian and American, while maintaining the unique business environment that makes Canada attractive to the Chinese. Chinese officials plead with us to do more. China has asked Canada to enter free trade talks following the Canada-China Economic Complementarities Study. China has ratified the Foreign Investment Protection and Promotion Agreement (FIPA) that Canada signed in 2012 and is still waiting for Canada to ratify it. In the meantime, Canadian companies and investments go unprotected. But the experience of early-moving Canadian companies, many of which are members of my Council, agrees with their foreign competitors. The opportunity is there, the profit is there, and by competing successfully in and with a market like China, our companies become more productive and competitive. This is crucial if we are to stay a strong nation.

Although the Canadian government plays a crucial role in making this happen, the onus is on business, educators and civil society to be more strategic and aggressive about making China a priority. We need to celebrate Canadian successes in China, celebrate good corporate citizenship and create a more welcoming investment environment in both countries. We must accelerate high-level visits of government ministers and co-ordinate business delegations with these visits. But most importantly, we have to make decisions and act. The rest of the world is acting. China won't wait for Canada.

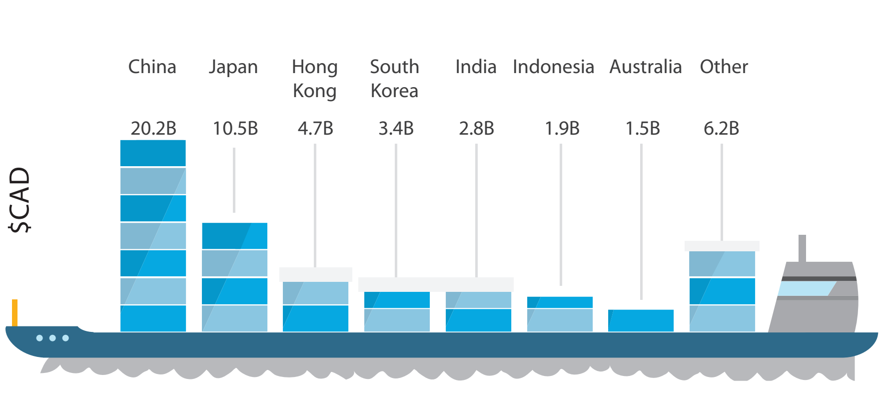
Peter Harder is a senior policy advisor to Dentons Canada LLP. Peter possesses a wealth of expertise in public policy as a result of over 30 years of decision-making at the centre of Canadian government.

MORE DATA FROM THEASIAFACTOR.CA

11.6%
of Canada's trade is with Asia

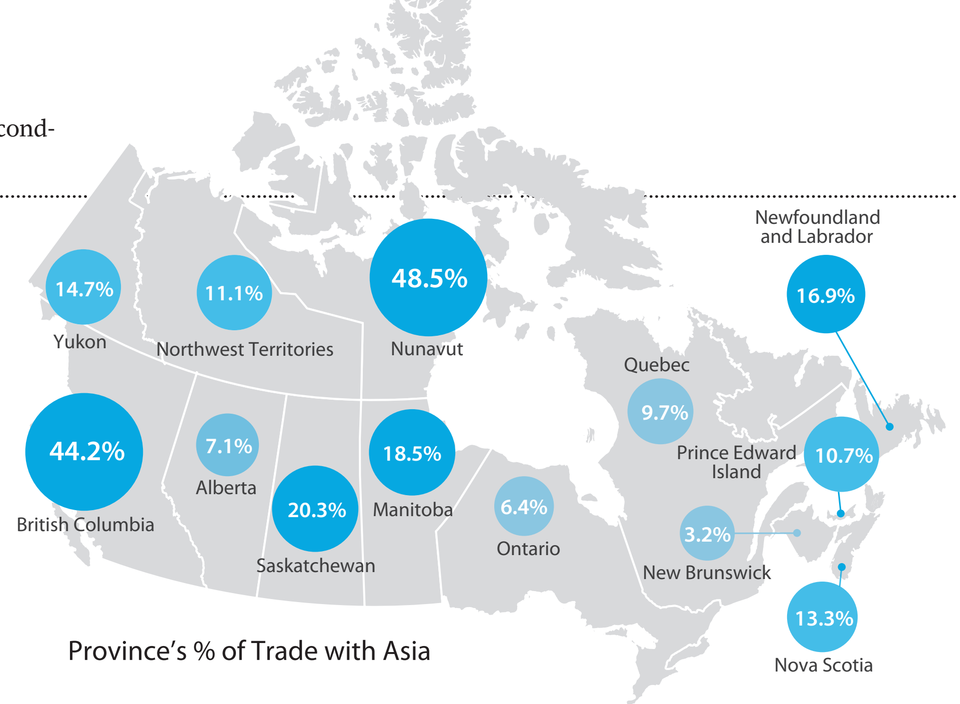
60.1%
of Canada's exports to Asia go to China, Japan and South Korea

#2
China is now Canada's second-largest export market



Canada's Main Export Partners in Asia

Source: Industry Canada



Province's % of Trade with Asia

CURRENCY

Renminbi continues its global financial ascent

Four years after China began promoting the use of its currency for trade and financial transactions in the international market, the renminbi (RMB) – known to many as the yuan – continues its ascendancy in the global financial arena.

From its 23rd-place ranking just 18 months ago among world payment currencies, the renminbi has moved up this year to the seventh spot. Its share of global payment activities rose in March to 1.62 per cent from 1.42 per cent in the previous month. What's also notable is the increase in value of RMB payments – 29 per cent in March compared to an increase of just 13.4 per cent for all other currencies.

At the same time, the number of renminbi clearing centres worldwide and countries with swap agreements with the Peoples Bank of China (PBOC) continues to grow. Initially Hong Kong was the only place in the world outside China that could swap currencies directly with the PBOC. Today, offshore RMB clearing centres exist in Taipei, Singapore and London, and more than 20 countries have swap agreements with the PBOC.

"With an internationalized renminbi, the value for businesses is cost savings and finding a larger market."

Debra Lodge
is managing director and head of RMB Business Development North America at HSBC

"China wishes for central banks around the world to hold renminbi as a reserve currency in much the same way as they hold, for example, U.S. dollars, Canadian dollars and euros – that's their end game," says Debra Lodge, managing director and head of RMB Business Development North America at HSBC. "The starting point is the renminbi being used as a world payment currency for imports and exports of goods and services."

For Canadian companies that do business in China, the global emergence of the renminbi, and the existence of a 24-hour CNH (offshore RMB) FX market, translate into positive implications. Instead of paying and invoicing in U.S. dollars as many importers and exporters have been doing for years, they now have the option to settle trade transactions in China's currency, says Ms. Lodge. This reduces currency exchange costs for both suppliers and recipients of goods because payments for goods are converted directly into renminbi, bypassing U.S. dollar exchanges. Suppliers are also receiving their home currency without exposure to FX risk.

Combined with hedging strategies that use forward contracts to mitigate foreign exchange risks, this can add up to meaningful savings, says Ms. Lodge.

"As an example, we helped one company obtain renminbi invoicing from their supplier in China, as well as set up a program for hedging their cash flows over the next year," she explains. "On their annual spend, this added up to a five per cent saving, which they were very happy with."

Not every company in China is allowed to hold foreign currency. The rise of the renminbi as a global currency makes it easier for Chinese companies to do business with foreign entities. This could, in turn, encourage more Chinese companies to buy from businesses beyond their borders.

"It opens up new markets for importers and exporters because it gives them access to companies they may not have been able to do business with before," says Ms. Lodge, who notes that HSBC now issues trade financing, such as documentary credits, in renminbi. "With an internationalized renminbi, the value for businesses is cost savings and finding a larger market. And if you're willing and able to trade in China's currency, then you're also bringing value to your Chinese customers and suppliers."

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