

SPONSOR CONTENT

Asia-Canada connections

PARTNERSHIPS

Strategic approach crucial to success in Asia

The growing significance of the Asia Pacific region shows the need for Canada to develop a strategy to diversify and deepen its existing partnerships in the region, according to the Asia Pacific Foundation of Canada (APF).

In a report published earlier this year, the APF proposed a series of recommendations for a Canada-Asia strategy in response to the rise of Asia as a global economic power and political force.

"The Government of Canada has the opportunity to strengthen its position as a credible and reliable collaborator and partner in Asia. An engagement that respects Canadians' core beliefs – yet is open to the traditions, interests and values of the region – will help advance Canadian national interests and contribute to the sustainable development and growth of the region," according to the report titled *Building Blocks for a Canada-Asia Strategy*.

Dominated by China, Canada's second biggest trading partner after the U.S., by 2030, Asia will account for 53 per cent of the world's population, 50 per cent of the world's GDP, 64 per cent of the global middle class and more than 40 per cent of global middle class consumption, APF president and CEO, Stewart Beck stated earlier this year.

Even though China's economy is slowing, it's important to note that it is still growing at 6.5 per cent annually, says Sarah Kutulakos, executive director of the Canada China Business Council.

"Every year that base gets bigger, so the amount of economic incremental value that China is providing to the world is still pretty incredible. It's 25 per cent of the world's growth," she adds.

That's important for Canada because our trade with China comprises 50 per cent of our trade with Asia as a whole, she says.

While the volume and value of trade with other Asian nations may not be as large as with China, it is still significant. For example, Export Development Canada (EDC) announced earlier this year that it provided financing estimated at US\$1-billion in 2015 to facilitate business between Canadian and Indian companies, an annual record.

"2015 was EDC's most successful year to date in India, and there's a lot more room to grow," said Nathan Andrew Nelson, EDC's chief representative in India.

EDC's permanent representatives in Mumbai and New Delhi made more than 100 introductions between Indian buyers and Canadian companies in



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Sarah Kutulakos
is executive director of the Canada China Business Council

2015, and co-led three significant trade missions in the oil and gas, information and communications technologies, and infrastructure sectors.

India is now Canada's fourth largest trading partner in Asia behind China, Japan and South Korea and ahead of Taiwan and Vietnam.

Japan is also in Canada's sights. At the conclusion of his recent visit to Tokyo, Prime Minister Justin Trudeau said improving trade relations with Japan is a top priority of his government.

"The growing collaboration between Canada and Japan – on innovation and science – will contribute directly to our economic growth, and will benefit all Canadians," he added.

But for most Asia watchers, China is where many of the best opportunities for Canada lie. Ms. Kutulakos says while Canada's trade with China is good, it's not good enough.

"It grew by 10 per cent last year and by 6 per cent the year before that. But in general, we tend to be falling behind some of our competitor countries and we could be doing more," she adds.

While Canadian companies need to be aggressive and driving their own business in China, the bilateral government relationship also has a very strong impact on business at all levels.

"When relations are good, companies find that it's just that much easier to do business," says Ms. Kutulakos.

Although the slowdown in the Chinese economy has affected com-

modity sales, Canadian exports to China increased by 5 per cent in 2015 compared to 2014, she adds. Nevertheless, Canadian companies still face challenges in doing business in China, including their size.

"Many of our companies are SMEs, and it's harder to do business if you're a \$10-million company rather than a \$1-billion company. We also find that a lot of Canadian companies don't have a strategy for China while their competitors from other countries do," she says.

Ms. Kutulakos says there are good opportunities for Canadian companies in specific sectors in China including agri-food, and food and beverage in general.

While China remains crucially important to Canada, the APF's Stewart Beck, in his message in the foundation's Asia report, urged the government to adopt a wider strategic view of Asia.

"This is a pivotal time for Canada and for Canadians – a time to decide how to navigate through the ebb and flow of Asia's rise. A concerted and strategic approach to Asia is necessary to ensure appropriate engagement over the long term," he wrote.

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Canada's bilateral trade with Asia in 2015 was worth \$168.8-billion with more than half the total being attributed to trade with China. ISTOCKPHOTO.COM

BY THE NUMBERS

\$168.8-billion

Canada's bilateral trade with Asia in 2015

\$85.3-billion

Canada's bilateral trade with China in 2015

#2

China's position as Canada's largest trading partner after the U.S.

750+

Canadian companies doing business in India

52%

Increase in export of Canadian goods to India between 2010 and 2014

\$6.3-billion

Value of overall bilateral trade in goods between Canada and India in 2014

6.1%

India's share of Canada's total global exports of goods in 2014

#1

Japan's rank as Canada's foreign direct investment partner in Asia in 2012

330+

Japanese subsidiaries in Canada employ tens of thousands of Canadians

\$18.8-billion

Value of Canada's merchandise trade with Association of South-east Asian Nations member countries in 2014

451,000

Number of Canadian tourists who visited the ASEAN region in 2013

Source: Government of Canada and Export Development Canada

INTERVIEW

China's global impact good for Canada

China still offers significant business opportunities to Canadian companies in spite of the slowdown in the country's economic growth, according to Linda Seymour, executive vice president and head of commercial banking for HSBC Bank Canada.

"Compared to the supercharged growth of 14.2 per cent in 2007, it seems that the economy has contracted a lot with growth now just under 7 per cent," she says. "However, China is still going to produce more output this year than it did in 2007, so the economy is actually still quite strong, and there are still good opportunities for companies looking to expand into China."

A new report, *China and the World*, published last month by HSBC Global Research, concluded that while the U.S. may be the world's biggest economy, China is the most important because its growth and changing tastes have a far-reaching impact across the globe.



"Rapid urbanization is creating big demand for investment in infrastructure, and rising incomes is contributing to greater demand for products and services by Chinese consumers."

Linda Seymour
is executive vice president and head of commercial banking for HSBC Bank Canada

"China is moving up the export value chain and becoming a more influential global consumer of goods and services, both domestically and overseas. Over time, the country will become a greater capital exporter due to more overseas direct investment and portfolio investment," according to the report.

Ms. Seymour says reforms aimed at fostering a more sustainable, consumer-driven economy along with better access to domestic financial markets provide good openings for Canadian companies in China.

"Rapid urbanization is creating big demand for investment in infrastructure, and rising incomes is contributing to greater demand for products and services by Chinese consumers," she says. "Health care is a good example of a service area where Canadian firms have expertise that could benefit China. Health care spending in the country is estimated to grow to about \$1-trillion in 2020 from \$357-billion in 2011. It's a significant opportunity for investment."

The biggest challenge for Canadian

companies doing business in China is to understand the market and consumer behaviour.

"Culture plays a part. Business is done very differently in China compared to Canada," says Ms. Seymour. "We recommend that clients who are looking at exploring opportunities in China reach out to professionals and to their contacts on the ground – perhaps a local partner so that they have someone to help navigate through the differences. That's how they can avoid costly mistakes."

Canadian companies doing business in China should also consider the benefits of using renminbi, the Chinese currency, for transactions, she adds.

"There are a number of advantages, and we've seen them with our clients. They can often negotiate better pricing, which in turn helps them access a larger market share. It simplifies the process of doing the transaction and can reduce their foreign exchange exposure because they are not having to deal with an extra currency, and it

gives them an advantage over their competition."

Ms. Seymour says it's also important for Canadian companies looking to invest in China to understand the geography of the country and know where they want to be.

"For example, we believe the Pearl River Delta offers big opportunities for Canadian investors. It's a concentration of 11 cities on the southern coast with a large, urbanized population and is a significant contributor to the economy, including about 9 per cent of GDP, 26 per cent of exports and 7.6 per cent of retail sales," she adds.

HSBC has examined how and why Canadian companies are successful when entering foreign markets and identified the attributes they need internally to succeed.

"These include local market knowledge, being innovative, having international networks understanding the market they are going into and having people on the ground to help them," says Ms. Seymour.

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ASIA-CANADA CONNECTIONS

OPINION

Innovation must underpin Canada's Asia Pacific future



By Stewart Beck, President and CEO, and Eva Busza, Vice-President, Research and Programs, Asia Pacific Foundation of Canada

Not only does Asia have the financial resources to help catalyze new ideas, it has the experience scaling up these ideas to fit a wide set of consumers. This is a key step in the innovation game, and it is not going unnoticed.

Prime Minister Justin Trudeau was sworn in last November with a promise to bring Canada back onto the global stage and to foster new ideas. It is hardly surprising, then, that our Liberal government is placing so much emphasis on 'innovation.' We have heard the term trumpeted from the rooftops by ministers, policy advisers and the private sector from St. John's to Victoria, and all stops in

between. And it makes good sense. How can Canada be "back" if it isn't bringing anything new and interesting to the table?

In 2015, Canada held 2nd place in the Global Entrepreneurship Monitor and tied with Australia for 12th place in the Global Innovation Index. Respectable, certainly. But as a nation, the percentage of our GDP spent on research and development fell from 1.688 per cent in 2013 to 1.612 per cent in 2014 – the difference netting out to roughly US\$546-million. While some may consider a 0.076 per cent decline little cause for panic, it is worth noting that this downward trend has been constant since 2009. By comparison, in 2013, the United States, Australia and China spent 2.742 per cent, 2.114 per cent and 2.046 per cent, respectively. Clearly there has been a disconnect between what we can achieve as a country and what we've been prepared to invest in innovation.

Now is the time to redefine how our nation should move forward in this

increasingly tech-heavy and highly digital global landscape. How do we, in short, become an innovation nation? Our first step should be to look to our Asian partners. The Asia Pacific region boasts some of the most innovative countries in the world and is currently experiencing an explosion in digital connectivity. In 2015, the Bloomberg Innovation Index ranked nine Asian economies among the top 50 in the world. In terms of Internet penetration, India and China boast an unparalleled number of digital users and consumers, with more than 100 million and 600 million users, respectively. In Southeast Asia, it is estimated that the region gains 124,000 new Internet users every day. Not only does Asia have the financial resources to help catalyze new ideas, it has the experience scaling up these ideas to fit a wide set of consumers. This is a key step in the innovation game, and it is not going unnoticed. Just last Thursday, Natural Resources Minister Jim Carr announced that the federal government would double its

spending on clean-energy research by 2020, specifically to find ways to bring Canada's emerging tech to global consumers.

Sure, Canada has been spending proportionately less on the essential R&D that brings innovation to life. But we do have our own share of innovation success stories. Look no further than the DMZ at Ryerson University, ranked the best university-based business incubator in North America in 2015. Meanwhile, Canadian institutions are increasingly looking to Asia, not just for capital and technology, but also for valuable, sustainable and fruitful partnerships. The India-Canada Centre for Innovative Multidisciplinary Partnerships to Accelerate Community Transformation and Sustainability (IC IMPACTS), in conjunction with the University of Alberta, is holding its second summer institute program this year bringing together graduate students from Canada and India to collaborate on nanotechnology research. The MaRS innovation hub in Toronto, meanwhile, has recently partnered with a Hong Kong-based technology hub called Cyberport to focus on financial tech development.

It is through this new breed of partnerships that we will climb back up the ranking ladders to become an innovation nation of global significance. Fresh technologies, new businesses and leading-edge solutions will drive Canada forward over the next decade. We need to leverage our newest talent and prepare young Canadians for the shifting geopolitical situation that is the Asia Pacific. This is how Canada comes "back," and stays there.

The Asia Pacific Foundation of Canada (APF Canada) is a not-for-profit organization focused on Canada's relations with Asia. Its mission is to be Canada's catalyst for engagement with Asia and Asia's bridge to Canada. It does that by partnering with both the private and public sector. www.asiapacific.ca



Canadian institutions are increasingly looking to Asia, not just for capital and technology, but also for valuable, sustainable and fruitful partnerships, according to the Asia Pacific Foundation. ISTOCKPHOTO.COM

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