

Studies in Chinese Economic Policy



February 2009

Canada's Economic Relations with China

by Raaj Tiagi
with Lu Zhou
Foreword by David Emerson

avec un résumé en français
附有中文摘要





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Foreword

China has seen several decades of growth and transformation that many will say is unprecedented in world history. Some historians would say, “Welcome back, China.” They will observe that for centuries China was a leading international power in mathematics, science, astronomy, trade, exploration, and culture. In the fifteenth century AD, China very suddenly retreated from contact with the world and remained a dormant power for centuries. Whether it’s a Chinese arrival or a Chinese awakening, the implications for the world are profound and in no area more so than in international trade and commerce.

Many countries have seized the opportunity and realized substantial benefits from a strategy of friendship and engagement with China. While Canada has had a long history of friendship and our commercial relations have grown significantly, we have fallen short of the vast potential for mutually beneficial trade, investment, and broader bilateral opportunities.

This excellent study by the Fraser Institute provides important quantification and analysis of our trade with, and investment in, China. It examines trade in merchandise, trade in services, and two-way flows of investment. It also examines comparable data on the performance of countries that have done better at trading with China, underscoring lessons for Canada from the successes of others.

I congratulate the Fraser Institute for their timely and important work on this topic. I welcome the findings and conclusions. And I hope that senior Canadian decision makers in business and in government will take advantage of this information to encourage further engagement and an intensification of Canada’s economic relations with China. We owe it to present and future generations to take full advantage of the opportunities that will continue to flow from China’s historic reopening to the world.

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February, 2009*

Executive summary

As a major trade-dependent nation, Canada has pursued a policy of economic engagement with China, especially since the latter's dramatic growth over the last several decades. While a number of media articles point to Canada's growing economic interest in China, there is at present little information on the nature of the economic relationship between the two countries. The lack of such information is troubling since sound public policy rests on policy makers and citizens having solid information as a foundation for informed decisions.

Canada's Economic Relations with China attempts to fill this gap. It does so by quantifying Canada's economic relations with China in terms of Canada's merchandise trade with China, its trade in services with China, inward and outward foreign direct investment between the two countries, and the presence of Chinese immigrants in Canada. The main objective of the report is not only to comment on Canada's current economic status with China but also to identify potential areas of growth in the relationship.

Compared to its trade with the United States and contrary to popular opinion, Canada's trade with China is extremely small

The United States is by far Canada's largest trading partner for merchandise. For example, the United States accounted for more than two-thirds of Canada's overall trade in 2007. China, on the other hand, accounted for only 6% of Canada's overall trade in the same year. When we break this trade down into exports and imports, the differences are even starker: almost 80% of Canada's merchandise goods were exported to the United States in 2007, while only 2% went to China that year. Also, contrary to the widespread public perception that everything is "made in China," more than half of Canada's imports originated in the United States while only 9% originated in China in 2007.

Compared to Canada's bilateral merchandise trade relations with China, its services trade and investment relations with China are not as robust. For example, Canada's services trade with China represented only 1.2% of its overall services trade in 2005 (the latest year for which we have data), while its services trade with the United States accounted for 58% of its overall services trade in the same year.

Similarly, Canada's foreign direct investment in China and China's foreign direct investment in Canada have been very low. For example, while almost 44% of Canada's worldwide investments went to the United States in 2007, only 0.3% went to China. Moreover, while 58% of overall investments in Canada were from the United States, China's share was negligible at 0.1% of the total.

Canada's trade with China has grown significantly over time

Although Canada's trade with China constitutes a small fraction of its overall trade, trade relations between the two countries have improved over the last decade. This is especially true in terms of Canada's merchandise trade relations with China.

For example, compared to 1998, trade with China grew by more than 350% by 2007 while trade with the world, excluding China, grew by only 33% over the same period. All trade indices point to the same conclusion. For example, Canada's trade dependence index (the ratio of Canada's overall trade with China to GDP) increased from 1% in 1998 to 3% in 2007.

When we look at Canada's trade with China broken down into exports and imports, we discover that both have increased over time: China is now Canada's third largest export market and our second largest source of imports. Note however that imports from China have grown faster than exports, resulting in habitual trade deficits (CA\$ 29 billion in 2007) with China. For example, looking at the period from 1998 to 2007, Canada's exports to China increased by 272% while imports from China over the same period increased by 400%.

"Trade" in foreign direct investment with China has increased over time as well. For example, Canada's investments in China, although small in magnitude, have increased by approximately 300% from 1998 to 2007. Compared to this, China's investments in Canada have increased by approximately 170% over the same period.

Canada's services trade with China has also grown, although by a much smaller proportion. For example, services trade grew from approximately 1% of Canada's total services trade in 1998 to 1.2% in 2005. Note however that, since data are available only until 2005, some of the increased growth in services trade arising from China's membership in the WTO and economic liberalization in financial services and insurance may not have been captured here.

Canada's competitors have an edge over Canada in their economic relations with China

Although Canada has strengthened its economic ties with China in the last decade, countries such as Australia, which have a similar resource and economic base, have established stronger ties with the Asian superpower. For example, Canada's import-to-export ratio with China was four in 2007, implying that Canada's imports were four times larger than its exports to China; by comparison, Australia's import-to-export ratio with China was 1.2 in 2007. Canada's trade deficit with China has also grown faster than has Australia's: from 1999 to 2007, Canada's trade deficit with China grew by over 400% while Australia's trade deficit with China grew by only a little over 200%.

A similar picture emerges for total trade. China imported more from Australia (2.7% of its overall imports in 2007) and Japan (14%) than from Canada (1.1%) or the United Kingdom (at 0.8%). Similarly, China exported

more to Japan (8.4% of its overall exports in 2007) and the United Kingdom (2.6% of its overall exports) compared to Canada (1.6% of its overall exports in 2007) or Australia (1.5% of its overall exports in 2007).

These comparisons do not imply that trade should be balanced between countries nor that current trade between Canada and China does not reflect economic realities. The main conclusion is rather that there are unexploited opportunities for further gains from trade that can enrich both countries.

The way ahead for relations between Canada and China— expand and diversify trade

The fact that Canada's trade with China is currently so small (relative to the United States and other countries), suggests that there is significant potential for expansion of economic ties with China. For example, there is considerable scope to increase and diversify exports to China. At present, Canada's exports to China consist primarily of products from the mineral and forestry sectors. In turn, Canada imports consumer goods and industrial machinery and parts from China. Although China's future growth would ensure that there will be continued demand for Canada's resource-based products, there is considerable potential for Canada's trade with China to become more diversified. For example, China's growing middle-class population, especially in the emerging inland (second-tier) cities, opens up new opportunities for Canada's retail trade and other goods sectors.

Also, the growth in the services sector in Canada should present considerable opportunities for the country to export services. Restricted trade in services implies that there is considerable room for Canada's services trade to grow and to take advantage of new opportunities created by market liberalization in China. This, coupled with the growth of middle class demands in areas where Canada has competence, should offer considerable opportunities for Canadian firms in China.

Conclusion

Canada is one of the most developed countries in the world and numerous factors give the country an advantage in strengthening trade relations with China, perhaps more so than many other countries in the world. Canada has varied natural resources, superior technology, an energetic business sector, and a growing Chinese population in Canada. Given that other countries have committed to improve their economic ties with China (Australia is close to a free trade agreement with China, while China and the United Kingdom have committed to a 50% growth in trade within two years), it would be in Canada's interest to improve economic relations with China.

This, of course, means that governments in both countries need to work together to overcome barriers to trade and investment. For example, if significant investment is to occur, Canada and China need to sign a "Foreign

Investment Promotion and Protection Agreement.” This would ensure that rights and obligations arising from investment in either country are clear to all parties. Further, while it is important that Canada reviews its policies and procedures regarding investment in Canada under the Investment Canada Act, it is essential that such revisions not send a signal that would deter any future investment in its economy. Public policies of this sort are a necessary prerequisite to further significant growth of the economic relationship between Canada and China created by individual traders and investors from the private sector. In this way, better public policy can contribute to enhanced prosperity in both countries.

摘要

作為一個主要倚靠貿易的國家，加拿大一直尋求制定一套與中國建立經濟聯繫的政策，尤其是在過去數十年間後者出現了急劇的增長。儘管一些媒體文章指出加國對中國增加了有關經濟方面的興趣，但現時關於兩國之間經濟關係本質的資料卻乏善可陳。缺乏相關資料的現象令人擔憂，原因是一個健全的公共政策要靠賴決策者和公民掌握著實質資料，以此為作出明智決定的基礎。

這份名為加拿大與中國的經濟關係研究報告，就是嘗試填補這種不足。方法就是透過加中商品貿易、加中服務貿易、兩國的往來海外直接投資以及中國移民定居加國等方面的數據，量化出加拿大與中國之間的經濟關係。同時，這份報告的主要目標不單是要評論加國目前與中國之間的經濟狀況，也同時指出兩國關係上具增長潛力的領域。

相對於與美國之間的貿易往來並有別於一般看法，

加拿大現時對華的貿易活動規模仍相當小

美國至今依然是加國在商品方面的最大貿易伙伴。舉例來說，2007年的加國整體貿易中，美國佔其中逾三分之二。另一邊廂，中國在同年僅佔加國整體貿易的6%。當我們把貿易分為出口和入口，差異情況則更為明顯：2007年加拿大有差不多80%的商品出口至美國，但同年輸往中國的卻只有2%。此外，公眾普遍印象是一眾出售的貨品均是「中國製造」，實情是2007年加國入口的商品中有超過半數源自美國，至於同年來自中國的則僅佔9%。

比較起加中商品貿易上的互惠關係，加中在服務貿易及投資往來則欠缺強勢。例如，2005年（我們獲取資料的最近年份）加拿大與中國的服務貿易僅佔全年整體的服務貿易1.2%，而同年與美國的服務貿易則相等於整體服務貿易58%。

同樣地，加國對華的海外直接投資以及中國在加拿大的國外直接投資都可說是十分稀少。舉例來說，加國在2007年的環球投資中有接近44%是進入美國，而投資到中國的則僅佔0.3%。除此之外，進入加拿大的整體投資有58%來自美國，來自中國的卻只佔微乎其微的0.1%。

加拿大與中國貿易大幅增長

雖然加中貿易僅佔整體貿易的一小部分，但在過去十年兩國的貿易關係存在改善。尤其在加中商品貿易方面，情況更是顯而易見。

舉例來說，比較起1998年，2007年對華貿易飆升了超過350%。反觀不包括中國在內，加國與世界其他地區的貿易往來在同期只有33%增幅。所有貿易指數都指向同一個結論。例如，加拿大貿易依賴指數（加國與中國整體貿易比對國內生產總值的比率）由1998年的1%上升至2007年的3%。

當觀察加中在出口與進口的貿易情況，我們會發現兩者都在增長中：目前，中國已經成為加拿大的第三大出口市場，同時也是加國的第二大入口來源地。不過值得注意的是，從中國進口的增長速度較出口迅速，導致加國對華出現慣性貿易赤字（2007年為290億加元）。舉例來說，回顧1998年至2007年，由加拿大出口到中國躍升了272%，而從中國入口在同期則增加了400%。

和中國在海外直接投資方面的「貿易」也與日俱增。舉例來說，加拿大在中國的投資數目雖然小，但由1998到2007年大約增加了300%。相比起同期中國在加拿大的投資則增加了約170%。

至於加中兩國在服務貿易上也有增長，雖則在比例上遠較為少。舉例來說，加拿大與中國的服務貿易由1998年佔全年整體的約1%增加到2005年的1.2%。不過要注意的是，由於合用的資料只到2005年為止，部分因中國成為世界貿易組織成員以及金融服務和保險業開放下帶動的服務貿易增長可能尚未反映出來。

加拿大的競爭者在對華經濟關係上佔優

雖然加拿大在過去十年已加強與中國的經濟連繫，但與諸如澳洲等國家(擁有的資源和經濟基礎跟加拿大相似)比較，它們卻已經與這個亞洲超級大國建立了更強的聯繫。例如，加拿大跟中國的進出口比例在2007年是4，顯示加國大從中國的進口高於出口到中國4倍之多。相比下澳洲同年的進出口比例比例為1.2。加拿大和中國的貿易逆差也比澳洲的上升得較快：由1999年到2007年，加國對中國的貿易逆差增長超過400%，而澳洲對中國的貿易逆差增長幅度僅稍為超過200%。

在整體貿易上也浮現類似的圖畫。中國從澳洲（在2007年佔整體入口的2.7%）和日本（14%）的入口明顯高於從加拿大（1.1%）和英國（0.8%）的入口。同樣地中國出口到日本（在2007年佔整體出口的8.4%）和英國（整體出口的2.6%）比出口至加拿大（在2007年佔整體出口的1.6%）和澳洲（在2007年佔整體出口的1.5%）要多。

這些比較並非暗示國與國之間的貿易應該維持平衡，也不是說加中兩國現時的貿易未能反映經濟實況。主要的結論倒是目前存在一些未經拓展但將對兩國有利的貿易機會。

未來加中關係的發展方向—擴大貿易及推動貿易多元化

加中兩國現存的貿易規模細小（比較起美國及其他國家），顯示對華的經濟連繫具備巨大擴張潛力。例如，出口到中國在數量和種類方面都存在相當大的增長空間。目前，加拿大輸往中國的主要是礦業和林木業產品。相反加國從中國入口的主要是消費品與工業用機器和零件。雖然中國未來的增長可以保證對加拿大資源類產品的持續需求，但是加中貿易卻存在更多元化的巨大潛力。舉例來說，中國中產階級人口的增長，特別是在新興內陸（第二線）城市，會為加國零售貿易及其他產品行業開拓嶄新機會。

此外，在加拿大服務行業的增長應會為本國把服務輸出提供不少機會。服務上的貿易限制顯示加拿大的服務貿易大有增長空間，同時可以藉著中國市場開放所創造的新機會而獲益。加上中產階級對加國能夠提供的需求會有所增長，應當可以為加拿大公司在中國帶來不少機會。

結論

加拿大是全球其中一個最發展的國家，而無數的因素令到本國在加強與中國的貿易關係方面，比世界上很多其他國家具備更大優勢。加拿大擁有不同的天然資源、先進的科技、充滿活力的商界並不斷上升的華裔人口。縱觀其他國家都在致力改善與中國的經濟連繫（澳洲和中國接近達成自由貿易協議，而中英兩國也致力在兩年內將雙邊貿易推高50%），改善與中國的經濟關係將符合加國利益。

要改善關係，兩國政府當然需要共同努力消除貿易和投資上的障礙。舉例來說，假使出現重要的投資，加中兩國就需要簽署一份「外國投資推廣與保護協議」。這樣將可以確保投資到在其中一國時，各方都能瞭解所涉及的權利和義務。除此以外，加國不但需要檢討現行《加拿大投資法》中關於在加國進行投資所涉及的政策和程序，更重要的是有關修改不能讓人誤以為加國將阻礙任何在本地的未來投資。要讓貿易商人和私人投資者創造加中經濟關係大幅增長，這類公共政策乃先決條件。更完善的公共政策可以有助促進兩國更大的繁榮。

Résumé

En tant que pays qui dépend considérablement du commerce, le Canada a mis en œuvre une politique de participation économique avec la Chine, surtout depuis la croissance phénoménale de cette dernière au cours des dernières décennies. Alors que plusieurs articles dans les médias soulignent l'intérêt croissant du Canada envers la Chine sur le plan économique, il existe actuellement peu d'information à propos de la nature de la relation économique entre les deux pays. L'insuffisance de ce type d'information est troublante puisque de bonnes politiques publiques exigent que les décideurs et les citoyens aient une information fiable comme base pour prendre des décisions éclairées.

Cette étude tente de combler ce vide. Elle le fait en quantifiant les relations économiques du Canada avec la Chine en matière de commerce de marchandises, d'échange de services, d'investissement direct à l'étranger (dans les deux directions) et de présence d'immigrants chinois au Canada. L'objectif principal de l'étude n'est pas seulement de commenter le statut économique actuel du Canada avec la Chine, mais aussi de mettre l'accent sur des secteurs potentiels où la relation pourrait se développer.

Comparativement avec son commerce avec les États-Unis et contrairement à la croyance populaire, le commerce du Canada avec la Chine est extrêmement limité

Les États-Unis sont de loin le plus important partenaire commercial du Canada en ce qui concerne les marchandises. À titre d'exemple, les États-Unis ont représenté plus des deux tiers du commerce global du Canada en 2007. La Chine, quant à elle, n'a représenté que 6 % de son commerce global lors de la même année. Lorsque nous séparons ce commerce entre les exportations et les importations, la différence est encore plus marquante : près de 80 % des marchandises canadiennes ont été exportées aux États-Unis en 2007, comparativement à seulement 2 % en Chine. De plus, contrairement à la perception largement répandue dans la population voulant que tout soit « fabriqué en Chine », plus de la moitié des importations canadiennes provenaient des États-Unis et seulement 9 % de la Chine en 2007.

Comparativement aux relations commerciales bilatérales du Canada avec la Chine qui concernent les marchandises, ses relations de commerce et d'investissement avec la Chine ne sont pas solides sur le plan des services. À titre d'exemple, le commerce de services avec la Chine a représenté seulement 1,2 % de son commerce de services global en 2005 (la dernière année pour laquelle des données sont disponibles), alors que son commerce de services avec les États-Unis a représenté 58 % de son commerce de services global la même année.

De même, l'investissement direct à l'étranger du Canada en Chine et l'investissement direct à l'étranger de la Chine au Canada ont été très faibles. À titre d'exemple, alors que près de 44 % des investissements canadiens à l'échelle mondiale sont allés aux États-Unis en 2007, seulement 0,3 % sont allés à la Chine. De plus, bien que 58 % des investissements globaux au Canada provenaient des États-Unis, la part de la Chine était négligeable à 0,1 % du total.

Le commerce du Canada avec la Chine a crû de manière importante au fil du temps

Bien que le commerce du Canada avec la Chine ne constitue qu'une petite fraction de son commerce global, les relations commerciales entre les deux pays se sont améliorées pendant la dernière décennie. C'est particulièrement vrai pour le commerce de marchandises.

À titre d'exemple, de 1998 à 2007, le commerce avec la Chine a crû de plus de 350 % alors que le commerce avec le reste du monde (en excluant la Chine) a crû de seulement 33 % pendant la même période. Tous les indices commerciaux mènent à la même conclusion. À titre d'exemple, l'indice de dépendance commerciale du Canada par rapport à la Chine (la proportion de son commerce avec cette dernière par rapport au PIB) a augmenté de 1 % en 1998 à 3 % en 2007.

Quand nous examinons le commerce du Canada avec la Chine en séparant les exportations et les importations, nous découvrons que les deux ont crû au fil du temps : la Chine est désormais le troisième plus important marché d'exportation du Canada et la deuxième plus importante source d'importation. Il faut noter cependant que les importations en provenance de la Chine ont crû plus rapidement que les exportations, ce qui a mené à des déficits commerciaux courants (de 29 milliards \$ CA en 2007) avec ce pays. À titre d'exemple, en examinant la période allant de 1998 à 2007, les exportations canadiennes en Chine ont crû de 272 % alors que les importations chinoises pendant la même période ont augmenté de 400 %.

Le « commerce » d'investissement direct à l'étranger avec la Chine a également crû au fil du temps. À titre d'exemple, les investissements canadiens en Chine, bien que de portée limitée, ont augmenté d'environ 300 % de 1998 à 2007, alors que les investissements chinois au Canada ont augmenté d'environ 170 % pendant la même période.

Le commerce de services entre le Canada et la Chine a aussi augmenté, bien que par une proportion beaucoup plus petite. À titre d'exemple, le commerce de services a crû d'environ 1 % du commerce canadien global de services en 1998 à 1,2 % en 2005. On doit toutefois noter que, puisque les données ne sont disponibles que jusqu'en 2005, une partie de la hausse du commerce de services découlant de l'adhésion de la Chine à l'OMC et de la libéralisation des services financiers et d'assurance pourrait ne pas avoir été prise en compte.

Les concurrents du Canada ont une longueur d'avance sur celui-ci dans leurs relations économiques avec la Chine

Bien que le Canada ait renforcé ses liens économiques avec la Chine pendant la dernière décennie, des pays comme l'Australie, qui ont des ressources et une économie similaires, ont établi des liens plus forts avec la superpuissance asiatique. À titre d'exemple, le rapport importations/exportations du Canada avec la Chine était de quatre en 2007, ce qui indique que les importations canadiennes en provenance de la Chine ont été quatre fois plus importantes que ses exportations vers ce pays. En comparaison, le rapport importations/exportations de l'Australie avec la Chine fut de 1,2 en 2007. Le déficit commercial du Canada par rapport à la Chine a aussi crû plus rapidement que celui de l'Australie : respectivement de 400 % et d'un peu plus de 200 % de 1999 à 2007.

Un portrait similaire apparaît pour le commerce total. La Chine a importé davantage de l'Australie (2,7 % de ses importations globales en 2007) et du Japon (14 %) que du Canada (1,1 %) ou du Royaume-Uni (0,8 %). De même, la Chine a exporté davantage au Japon (8,4 % de ses exportations en 2007) et au Royaume-Uni (2,6 %) qu'au Canada (1,6 %) ou en Australie (1,5 %).

Ces comparaisons ne visent ni à suggérer que le commerce devrait être équilibré entre les pays ni que le commerce actuel entre le Canada et la Chine ne reflète pas les réalités économiques. La conclusion principale est plutôt qu'il existe des occasions inexploitées d'obtenir des gains supplémentaires qui pourraient enrichir les deux pays.

La marche à suivre pour les relations entre le Canada et la Chine – développer et diversifier le commerce

Le fait que le commerce du Canada avec la Chine soit actuellement si restreint (comparativement à celui avec les États-Unis et d'autres pays) suggère qu'il existe un potentiel important à développement des liens économiques avec la Chine. À titre d'exemple, il existe des possibilités considérables d'augmenter et de diversifier les exportations destinées à la Chine. Présentement, les exportations du Canada en Chine sont principalement constituées de produits des secteurs minier et forestier. À l'inverse, le Canada importe des biens de consommation, de la machinerie et des pièces industrielles de la Chine. Bien que la croissance future de la Chine garantisse qu'il y aura une demande soutenue pour les produits canadiens liés aux ressources naturelles, il existe un potentiel considérable pour que le commerce du Canada avec la Chine devienne plus diversifié. À titre d'exemple, la classe moyenne grandissante en Chine, particulièrement dans les villes en émergence (de deuxième ordre) sur le continent, offre de nouvelles occasions pour le commerce de détail canadien ainsi que pour d'autres secteurs liés aux marchandises.

De plus, la croissance dans le secteur des services au Canada devrait offrir de nombreuses occasions pour que le pays puisse exporter ses services. Un commerce restreint dans les services suggère qu'il existe une marge de

manœuvre importante que le commerce canadien des services prenne de l'expansion et tire profit des nouvelles occasions créées par la libéralisation des marchés en Chine. De concert avec la croissance de la demande en provenance de la classe moyenne dans les secteurs où le Canada possède une expertise, ceci devrait offrir des occasions considérables pour les entreprises canadiennes en Chine.

Conclusion

Le Canada est l'un des pays les plus développés au monde et de nombreux facteurs lui donnent un avantage en matière de renforcement des relations commerciales avec la Chine, peut-être davantage que plusieurs autres pays dans le monde. Le Canada possède des ressources naturelles variées, des technologies supérieures, un secteur des affaires énergétique et une population chinoise croissante à l'intérieur de ses frontières. Étant donné que d'autres pays se sont engagés à améliorer leurs liens économiques avec la Chine (l'Australie est sur le point de conclure un accord de libre-échange avec celle-ci et la Chine et le Royaume-Uni se sont engagés à une croissance de 50 % de leur commerce d'ici deux ans), il serait dans l'intérêt du Canada d'améliorer ses relations économiques avec la Chine.

Cela signifie, bien sûr, que les gouvernements des deux pays doivent travailler ensemble afin de surmonter les obstacles au commerce et à l'investissement. À titre d'exemple, pour que des investissements considérables aient lieu, le Canada et la Chine doivent signer un « Accord de promotion et de protection de l'investissement étranger ». Cela garantirait que les droits et les obligations découlant de l'investissement dans l'un ou l'autre des pays soient clairs pour toutes les parties. De plus, bien qu'il soit important que le Canada révise ses politiques et ses procédures concernant l'investissement au Canada en vertu de la *Loi sur Investissement Canada*, il est essentiel que de telles révisions n'envoient pas un signal qui découragerait des investissements futurs dans son économie. Des politiques publiques de cet ordre sont un préalable afin de favoriser une croissance importante de la relation économique entre le Canada et la Chine provoquée par des commerçants et des investisseurs individuels du secteur privé. De cette façon, de meilleures politiques publiques peuvent contribuer à accroître la prospérité des deux pays.

1 Introduction

The emergence of China as a major economic player, especially in the last decade, has led countries around the world to seek stronger economic ties with the Asian superpower.¹ Canada has been no exception to this trend. Recognizing its growing importance, the Canadian government has sought to broaden its relationship with China in various ways. In fact, the key goals of the Canadian government's foreign policy towards China have been to ensure that China's economic rise benefits Canada by increasing two-way trade and investment in goods and services, as well as to position Canada as a preferred destination for Chinese immigrants, students, and visitors (Government of Canada, 2008a). Statistics testify to the longstanding and productive nature of relationship between Canada and China: there has been a surge in bilateral trade between the two countries as well as increased bilateral movement of people, capital, and services. As trade and other barriers continue to fall, Canada will have an even greater opportunity to engage China, while establishing its own economic presence in Asia.

While Canada's economic relations with China have seen dramatic growth more recently, Canada's engagement with China actually goes back to the 1960s, when Prime Minister John Diefenbaker promoted wheat sales on credit to communist China. This was followed by Prime Minister Pierre Trudeau's visit to (and official recognition of) China in 1970. In 1973, the governments of the two countries signed a trade agreement that was followed by the establishment of the Canada-China Trade Council (based in Toronto) in 1978. Since then, the two countries have signed a wide range of Agreements and Memorandums of Understanding (MOUs) about trade, investment, insurance, tax, environment, and criminal matters.²

Despite the growing economic relationship between the two countries, the media continues to focus upon issues related to human rights, sovereignty, relations with Taiwan, and so on. These concerns are predominantly non-economic in nature and seem not to be balanced against their potential impact on economic activities. Certainly, there is a sense that the calculation of national interest in both countries is not taking the economic circumstances fully into account. There is, therefore, a need for a better understanding of the economic relationship between the two countries. Sound public

1 Note that whenever China is referenced, statistics are calculated only for mainland China. This excludes Hong Kong, Macau, and Taiwan.

2 A detailed listing of Canada's agreements with China is available; see Embassy of the People's Republic of China in Canada, 2003.

policy rests on policy makers' and citizens' having solid information as a foundation for informed decisions. At present, little, objective information on this topic is available.

This study, therefore, aims to create a factual framework that will help policy makers and the general public in Canada understand the impact of the bilateral economic relationship between the two countries. In particular, we quantify the economic relationship between Canada and China as it has evolved over the years and as it exists today. Results from our analysis indicate that economic relations between Canada and China have certainly begun to flourish. We find that trade in merchandise between the two countries has increased dramatically over the past decade. For example, compared to 1998, trade with China grew by more than 350% in 2007 while trade with the world, excluding China, grew by 33%. Trade in services, although still low, is showing an upward trend. Moreover, following the settlement of key agreements on foreign direct investment and tourism, "trade" in these sectors is expected to grow in the coming years.³

The rest of the report is organized as follows. In section 2, we review previous literature on Canada-China relations. This is followed by a brief discussion on data that have been used in this report (section 3). In section 4 we document China's growth by presenting key statistics related to the Chinese economy. This is followed by a discussion of Canada's economic relations with China in merchandise trade (section 5), in services, including tourism (section 6), and in investment flows (section 7). In section 8 we present a brief discussion of the Chinese community in Canada which is followed by a conclusion in section 9.

3 There has been increased co-operation between Canada and China on other fronts as well. For example, under Canada's new initiative, the "Canada-China Joint Committee on Health," Chinese and Canadian officials have been working together to address issues such as the safety of food, drugs, and other products and to establish cooperative approaches to the early detection and containment of infectious diseases (Emerson, 2008).

2 Literature review

China's growing economic strength has been well documented in a large body of work. In this section, however, we review literature that has studied the economic relationship between Canada and China. The primary sources reviewed include publications from Statistics Canada, the Asia Pacific Foundation of Canada (APF Canada), and the Canada–China Business Council (CCBC).⁴

Our survey of this literature indicates that, while there is substantial work on Canada's economic relationship with other partner countries such as the United States, its relationship with China has not been studied in as much detail.⁵ Moreover, the focus of these reports is seldom on Canada's bilateral relations with China. A majority of these reports study Canada's general trade patterns with all its major trading partners where China figures as one among many partners. For example, a recent report by Cameron and Sabuhoro (2008) only lists Canada's major exports to China and major imports from China, as of 2007. The focus of their report is Canada's growth in overall trade and not relations between Canada and China *per se*. Similarly, other reports, such as the *Canada's International Market Access Report* (Canada, Minister of International Trade, 2008), only quantify the total value of Canada's exports to and imports from China. Some other reports that do focus on relations between China and Canada are not very different in their analysis

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- 4 We also surveyed several book chapters (e.g., Safarian and Dobson, 1995) that have attempted to study various aspects of this relationship. The Association of Canadian Studies in China, a group consisting of 48 Chinese universities has several articles and publications on Canada-China relations. However, almost all of these publications are in Chinese. <<http://www.canadastudies.com.cn/cs/chn70274.html>>.
 - 5 Further, a majority of work discussing bilateral relations between Canada and China is fairly recent. This may be on account of China's recent emergence as one of Canada's major economic partners. Note, however, that there is substantial research on China's relations with the United States. For example, there are reports that look into this in detail (e.g., United States Trade Representative, 2006), reports that assess the impact of China on the US economy (Elwell, Labonte and Morrison, 2007), and reports that deal with issues arising from trade between China and the United States. For example, a recent report by Zhao and Wang (2008) studies the economic implications of the first US countervailing duty case against China. Also, there are numerous reports from the World Bank and the Organisation for Economic Co-operation and Development (OECD) that study China. These include reports that study China's exports worldwide (Amity and Freund, 2008), factors that account for China's surge in inward foreign direct investment (Fan, Morck, Xu, and Yeung, 2008); and China's outward foreign direct investment (OECD, 2008).

of the relationship. Like those listed above, these reports (e.g., Khondaker, 2007; Roy, 2004) primarily summarize the overall value of exports to and imports from China at the national level. More recently though, there have been some reports that have delved deeper into the trade relations between the two countries. For example, a recent report by Wyman (2007) documents the major exports to and imports from China at the industry level while another report by the Asia Pacific Trade Council (2006) investigates British Columbia's trade with China as of 2005.

In *Canada's Economic Relations with China*, we focus on Canada's trade relations with China in a much greater detail. In particular, we calculate various indices that analyze different aspects of Canada's trade relationship with China. To put these in context, we compare these indices with similar indices that are calculated for Canada's other trading partners. Further, we analyze Canada's relations with China not only at the national level but also at the provincial level. There may be a lot of variation in trade with China from province to province that cannot be uncovered in an aggregate, country-level analysis. Analysis at the provincial level provides a deeper understanding of Canada's trade relations with China. Finally, we identify the key industries and products that are involved in trade between the two countries.

While the main focus of the report is on Canada's trade in merchandise with China, we also provide information on some other important aspects of this relationship. For example, we look at bilateral trade in services (including tourism), an often overlooked but increasingly important sector. To our knowledge, this aspect of Canada's relationship with China has not been documented. In addition, we look at foreign direct investment between the two countries and document the Chinese community in Canada, using the most recent data.⁶ Quantifying Canada's economic relationship with China would help identify the extent of Canada's economic linkage with China along the above dimensions. This will, in turn, help focus attention on areas where China and Canada need to work together to further strengthen their economic ties.

6 Papers that have looked at immigration from China have used data from the 2001 Canadian Census (Chui, Tran, and Flanders, 2005; Wang and Lo, 2005; Lindsey, 2001). For our report, we have used data from the 2006 Census of Population.

3 Data issues

When country *A* exports to country *B*, country *A*'s recorded exports to country *B* should ideally match country *B*'s recorded imports from country *A*. While the above seems reasonable, customs authorities in the two countries may follow different methodologies in measuring inflows and outflows of goods so that outflows recorded by one country may not exactly match inflows recorded by the partner country. For example, Canada may ship goods through Hong Kong to China, the final destination. However, since the final destination may not be known at the time of exportation, Canada may report these as exports to Hong Kong, not China. Meanwhile China, the final country that received the goods, will allocate this trade to Canada because the trade data are compiled on a country-of-origin basis (Bohatyretz and Santarossa, 2005). Since Hong Kong is a major conduit for China's imports and exports, the difference in reporting procedures accounts for much of the observed discrepancy in bilateral trade data.⁷

In this report, we are concerned with measuring Canada's exports to China and imports from China. Since import data recorded by the importing country are considered reliable (customs offices are generally more attentive to goods entering the country than to those leaving because of tariff and tax assessments), we are able to use import statistics generated by Canadian authorities without worrying too much about data quality. Export data, however, pose a challenge. This is highlighted in figure 3.1 and table 3.1, where exports of merchandise to China as reported by Canada are lower for all years than imports from Canada as reported by China. For example, in 2007, Canada's reported exports of merchandise to China were CA\$9 billion while China's reported imports from Canada were much higher at CA\$12 billion.⁸

Going by our earlier argument, we should ideally use Chinese import data to measure Canada's exports to China. However, for this report, we use

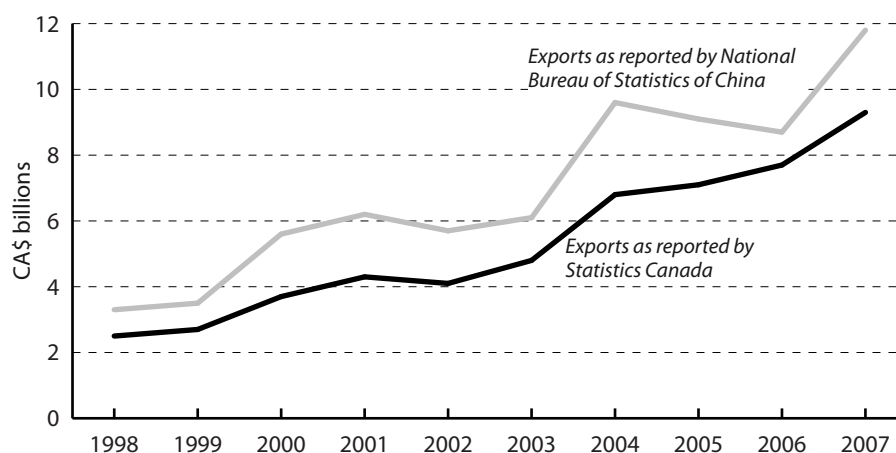
7 Other factors may account for data discrepancies as well. One such issue is the problem of measuring exports based on one convention, *free on board* (FOB), which does not include the costs incurred to ship the goods from the point of exit to the point of destination, and imports on another convention, *cost, insurance, and freight* (CIF), which includes costs associated with shipment of goods. As explained by Bohatyretz and Santarossa (2005), Canadian imports and exports are collected and published on an FOB basis while China publishes its imports on a CIF basis and its exports on an FOB basis. There are other problems related to under-invoicing and over-invoicing and duty avoidance. For a more thorough discussion of these and other data-related issues, see the recent report by Goldfarb and Theriault (2008).

8 Note that all values are expressed in Canadian dollars. Where necessary, data were converted to Canadian dollars using exchange rates obtained from the World Bank, 2009.

Table 3.1: Discrepancy in measuring exports, Statistics Canada and National Bureau of Statistics of China

	as reported by Statistics Canada		as reported by National Bureau of Statistics of China	
	Value (CA\$ billions)	Annual Growth	Value (CA\$ billions)	Annual Growth
1998	2.5	—	3.3	—
1999	2.7	6.7%	3.5	4.5%
2000	3.7	38.8%	5.6	60.6%
2001	4.3	15.3%	6.2	12.0%
2002	4.1	−3.1%	5.7	−8.8%
2003	4.8	16.4%	6.1	7.7%
2004	6.8	40.8%	9.6	56.1%
2005	7.1	4.9%	9.1	−4.9%
2006	7.7	7.8%	8.7	−4.5%
2007	9.3	21.3%	11.8	35.7%

Source: Statistics Canada, 2008; National Bureau of Statistics of China, 2009.

Figure 3.1: Discrepancy in measuring Canada's exports to China, 1998–2007

Source: Statistics Canada, 2008; National Bureau of Statistics of China, 2009.

estimates for exports as reported by Canadian statistical agencies (Statistics Canada, Industry Canada). The advantage of using export data as reported by Canadian authorities is that not only do we work with more *conservative* estimates of exports to China but, with these data, we are also able to carry out our trade analysis at the provincial and industrial level.⁹

9 Chinese data on imports (from Canada) do not identify the province of origin.

4 China in the global economy

Before moving on to our discussion on Canada's trade relations with China, let us look at China's role in the world economy and key statistics summarizing the Chinese economy.

China is the world's third largest trader

Since the introduction of economic reforms in 1978, the Chinese economy has grown substantially and there is enormous potential for continued future growth. Its position in the world has changed remarkably and is likely to change even more in the near future. For example, China's trade volumes have risen from 0.8% of the world total in 1978 (the first year of reform) to approximately 8% of the world total in 2007. China was the world's third largest international trader in 2007, after the United States and Germany, compared with 29th in 1978 (Santander Group, 2008).

China's per-capita GDP (at purchasing power parity) increased approximately three fold over the last decade

Table 4.1 shows how per-capita gross domestic product (GDP) at purchasing power parity (PPP) has evolved in recent years. Although China's per-capita GDP is only approximately one fifth as large as per-capita GDP in neighboring South Korea, the average output per person in China increased threefold over the last decade¹⁰ and, over the most recent year, per-capita GDP grew at 14%, considerably higher than all other countries in the table.

China's exports, worldwide, have grown dramatically

While growth in China's GDP has been substantial, its growth in trade and, in particular, exports has been even more rapid (figure 4.1). For example, China's exports have grown by almost 450% since 1998. Manufactured products constitute a substantial portion of China's exports, accounting for 94.9% of total exports in 2007, compared with 50% in 1980.¹¹ On the other hand, the export share of primary products has been falling over time: in 2007, primary products accounted for only 5.1% of China's total exports (National Bureau of Statistics of China, 2009).¹²

10 Note also that, in 2007, Canada's per-capita GDP was almost seven times larger than China's.

11 Manufactured products include chemicals and related products, industrial products, rubber products, minerals and metallurgical products, machinery and transport equipment, miscellaneous products and products not classified elsewhere.

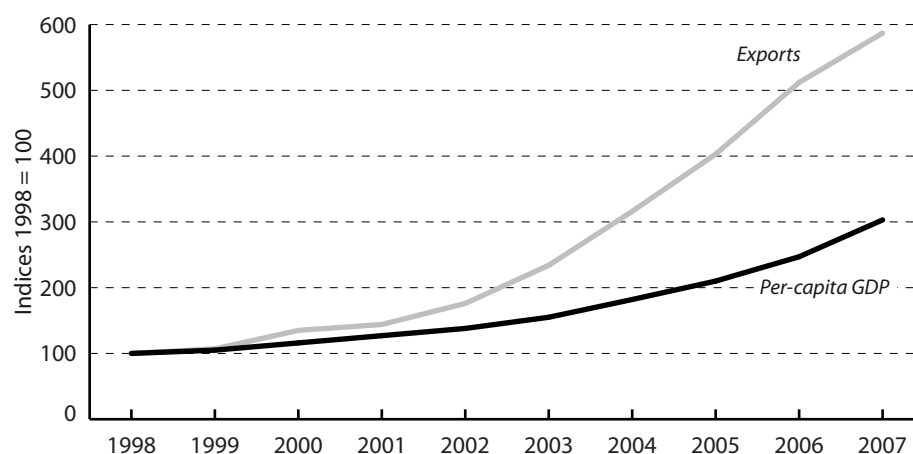
12 Primary products include food and live animals, used mainly for food; beverages and tobacco; non-edible raw materials; mineral fuels, lubricants, and related materials and animal and vegetable oils, fats, and waxes.

Table 4.1: Per-capita GDP (PPP) in selected economies (at current inter'l dollars)

	1998	2007	Change over 2006
China	1,994.0	5,344.8	14.2%
Hong Kong	23,446.0	42,321.6	8.1%
Japan	23,982.7	33,525.1	4.9%
Korea, Republic	13,643.7	24,711.7	7.5%
Thailand	4,569.9	8,137.6	6.9%
India	1,360.0	2,752.7	10.6%
Canada	25,477.2	35,729.2	-2.6%
United States	31,518.8	45,789.9	4.1%

Note: PPP= Purchasing Power Parity

Source: World Bank, 2009; calculations by authors.

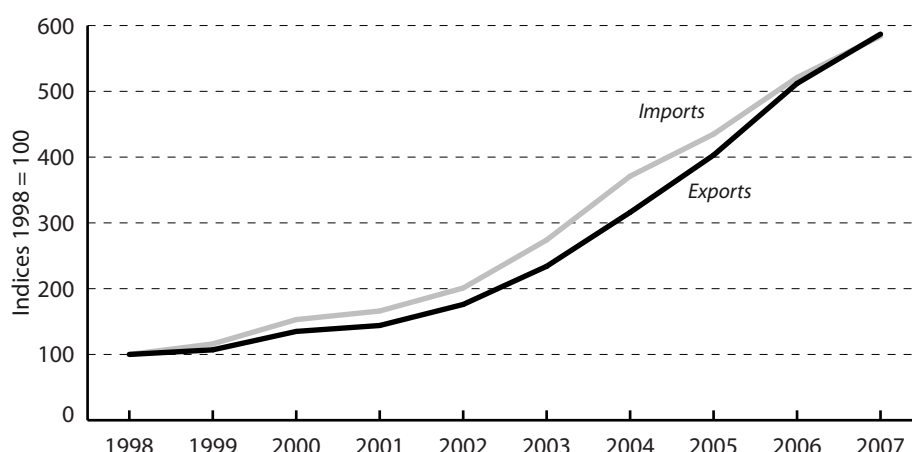
Figure 4.1: Growth of China's per-capita GDP and exports, 1998–2007

Note: Indices are of dollar value.

Source: World Bank, 2009; calculations by authors.

The recent growth in China's trade has been fairly evenly divided between its growth in imports and exports (figure 4.2). In 2007, China's imports of goods constituted approximately 30% of its GDP, consisting primarily of manufactured goods, of which machinery and transport equipment constituted the largest share.

Note that even during years of recent global recession (2001 to 2002), China's import growth remained fairly strong. In fact, imports increased by almost 20% between 2001 and 2002, suggesting that the strength of Chinese demand for imports may have reduced the severity of the global downturn on various economies. It is possible that this will occur again in the present global recession, with China's relatively faster economic growth supporting economic activities elsewhere.

Figure 4.2: Growth of China's exports and imports worldwide, 1998–2007

Note: Indices are of dollar value.

Source: World Bank, 2009; State Administration of Foreign Exchange (China); calculations by authors.

China's current account surplus has grown

Despite growth in Chinese imports, the country's current account surplus is substantial and constituted more than 11% of GDP in 2007 (figure 4.3). As of 2007, China had the largest current account surplus in the world (CA\$399.4 billion), followed by Germany (CA\$273.4 billion) and Japan (CA\$ 226.1 billion) (World Bank, 2009).

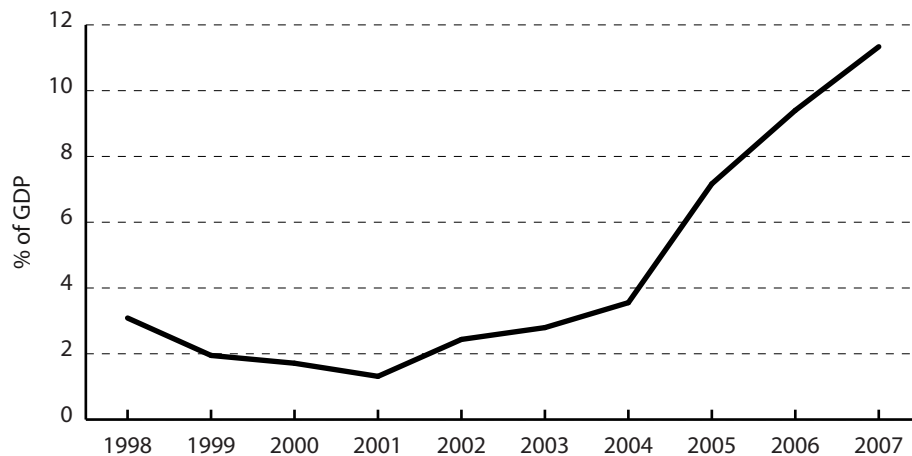
China has attracted substantial foreign direct investment (FDI)

Finally, on the financial account, China's inflows of foreign direct investment stood at approximately CA\$89.7 billion in 2007, 3% of the country's GDP. In recent times, China has increased its stake in foreign assets as well: as of 2007, investment outflows stood at almost CA\$28.5 billion, 1% of China's GDP (Invest in China, 2009).

Ease of doing business in China

While China has experienced substantial growth in the past decade, it still has much to do to open its markets to Canadian goods and services. When judged by some other measures, China is less open to the global economy. For example, the World Bank ranks China 83rd (from a list of 178 countries) in its ranking of countries based on the ease of doing business.¹³ The Fraser Institute's index of economic freedom shows that China has made progress towards a more open economy but still has a considerable distance to go to match other Asian countries and the most advanced economies in the world.

13 Economies were ranked on their ease of doing business from 1 to 181, with first place being the best (World Bank, 2008).

Figure 4.3: China's current account balance (% of GDP), 1998–2007

Source: World Bank, 2009; State Administration of Foreign Exchange (China); calculations by authors.

For example, in 2008 (2006 data), China ranked 93 out of 141 countries (with a score out of 10 of 6.29); in 1980, it ranked 94 out of 105 countries (with a score of 3.99). The global median of all countries is presently 6.77 and Hong Kong, the jurisdiction ranked highest in the world for economic freedom, has a score of 8.94 (Gwartney and Lawson, with Norton, 2008: 69, 98).

Increased openness is good for China as it is for Canada. With increased trade, Chinese and Canadian consumers will have increased access to a variety of products. Moreover, lower import prices will increase consumer's real incomes and raise their standards of living. Similarly, imports will improve the competitiveness of Canadian and Chinese firms, leading to higher productivity and higher wages for workers over time.

5 Trade in merchandise

5.1 General trends

5.1.1 Overall trade

Canada and China began trading a decade after the establishment of the People's Republic of China in 1949. Recently, China has become Canada's second largest trading partner, following the United States, and the third largest export market for merchandise, following the European Union and the United States.

While Canada's relations with China have grown over time, the same cannot be said of Canada's trade relations with Hong Kong. Over time, Canada's trade relations with Hong Kong have not been nearly as robust as those with mainland China.¹⁴ Therefore, in this report, while we present key statistics about trade between Canada and Hong Kong, we only analyze Canada's trade relations with mainland China.¹⁵

Statistics attest to the strong economic relations between Canada and China. One simple way to measure China's growing importance in the overall Canadian economy is to trace out Canada's Trade Dependence Index (TDI) with China and compare it with the TDI of Canada's other partners. The index is the ratio of Canada's total trade (exports + imports) with China to its gross domestic product (GDP). Expressed as a percentage, the index measures the importance of the trading partner (for example, China) to the Canadian economy.¹⁶ Figure 5.1 presents Canada's TDI with China for 2006 and 2007. To put this in context, we also present Canada's TDI with the United States (historically, Canada's top trading partner) and with selected members of the Asia-Pacific Economic Cooperation (APEC).¹⁷

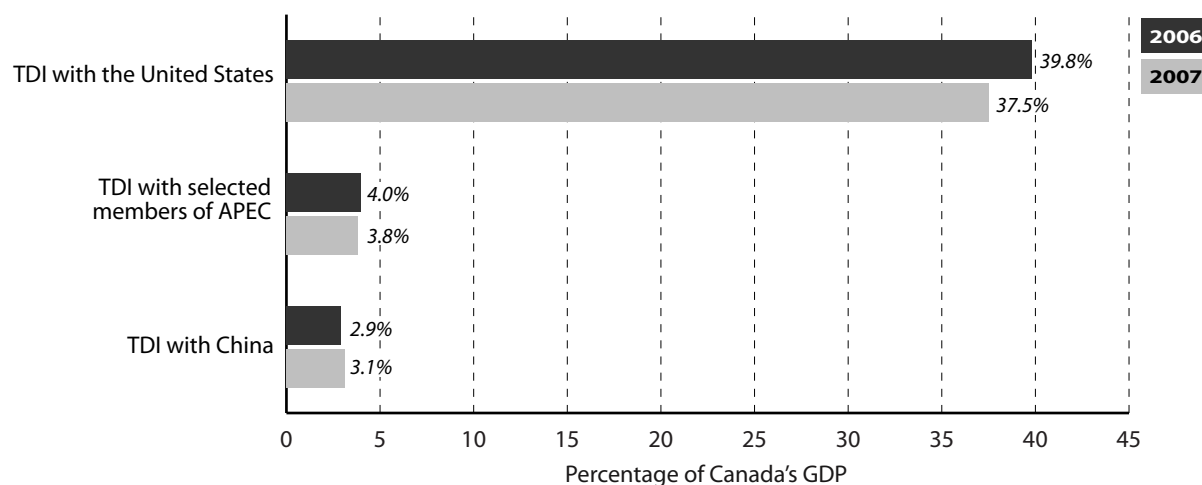
14 For example, Canada's trade in merchandise with China grew by more than 350% from 1998 to 2007 while Canada's trade with Hong Kong declined by approximately 20% over the same period. Canada's exports to Hong Kong, however, grew by 8% over this period.

15 We have also not included Macau and Taiwan in our analysis because Canada's trade with these countries is much smaller in magnitude and has not grown by much in the last decade. For example, Canada's trade with Macau grew by 16% from 1998 to 2007 while its trade with Taiwan grew by only 4% over the same period.

16 The TDI ranges theoretically from zero to infinity (though it is normally under 100%), with a higher score representing greater dependence on the trading partner. Note, however that an open and liberalized economy may have a small TDI if a large proportion of its GDP is created by non-traded activities supported by the domestic market.

17 APEC was chosen since it consists of a good mix of developed as well as developing economies and represents the trade region relevant to both Canada and China. In this report, statistics are calculated using data from the following members of APEC: Australia, Brunei,

Figure 5.1: Canada's Trade Dependence Index (TDI) with its partners, 2006 and 2007



Notes: [1] In this report, statistics are calculated using data from the following members of APEC: Australia, Brunei, Indonesia, Japan, South Korea, Malaysia, New Zealand, Papua New Guinea, Philippines, Russia, Singapore, Thailand, and Vietnam.

[2] Trade Dependence Index (TDI) = Canada's merchandise trade value (exports + imports) with its trading partners / Canada's GDP.

Source: Industry Canada, 2008; calculations by authors.

China is Canada's second largest trading partner

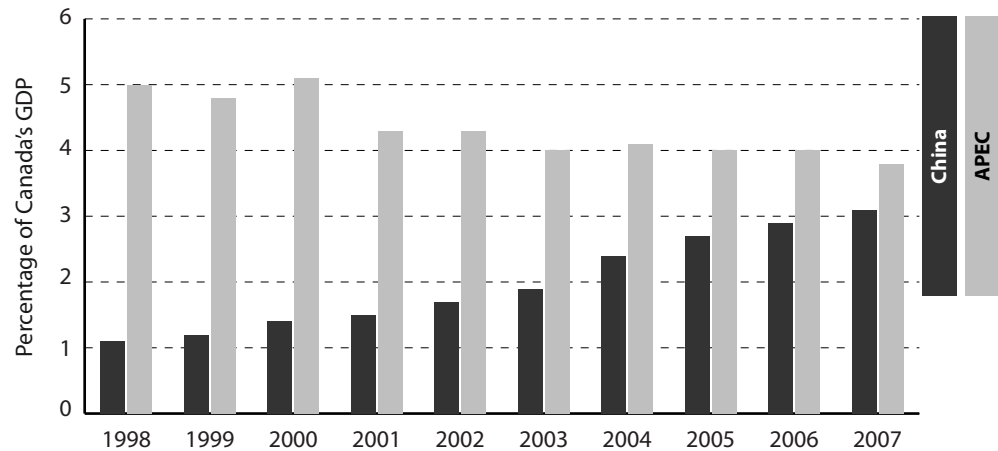
As expected, Canada has the highest TDI with its next-door neighbor, the United States. The index suggests that the United States was Canada's most important trading partner in 2007: trade with the United States accounted for 38% of Canada's overall GDP that year. In comparison, the total value of trade with China was only 3% of Canada's GDP. Nevertheless, China was as important a trading partner for Canada in 2007 as were the other APEC countries put together. The TDI of Canada and China and Canada and APEC were almost the same in 2007.

Canada's Trade Dependence Index with China has grown substantially

While the United States has traditionally been Canada's largest trading partner, Canada's trade relationship with China has grown tremendously over the last decade. Figure 5.2 looks at Canada's TDI from 1998 to 2007. Note the steady increase in Canada's TDI with China, suggesting China's growing importance in the Canadian economy. On the other hand, Canada's TDI with APEC seems to have declined over the years, from approximately 5% in 1998 to 4% in 2007. In comparison to Canada, however, some other members of

Indonesia, Japan, South Korea, Malaysia, New Zealand, Papua New Guinea, Philippines, Russia, Singapore, Thailand, and Vietnam.

Figure 5.2: Canada's trade dependence index (TDI) with China and selected members of APEC, 1998–2007



Notes: [1] In this report, statistics are calculated using data from the following members of APEC: Australia, Brunei, Indonesia, Japan, South Korea, Malaysia, New Zealand, Papua New Guinea, Philippines, Russia, Singapore, Thailand, and Vietnam. [2] Trade dependence index (TDI) = Canada's merchandise trade value (exports + imports with its trading partners) / Canada's GDP.

Sources: Industry Canada, 2008; calculations by authors.

the Organisation for Economic Co-operation and Development (OECD) have a higher TDI with China.¹⁸

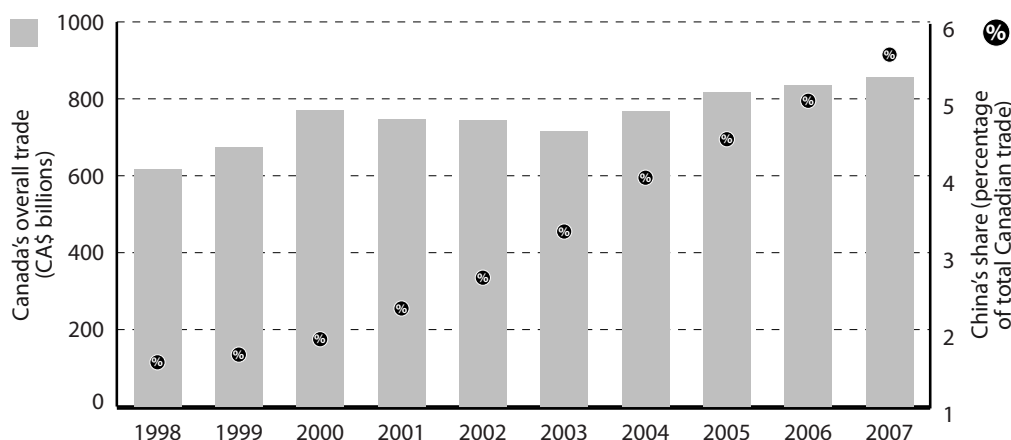
The value of Canada's trade with China has grown

A stronger picture of this growing economic relationship between Canada and China emerges when we look at Canada's trade (expressed in dollar values) with China, over time.¹⁹ Figure 5.3 shows Canada's total trade (globally) and China's share as a proportion, for the period from 1998 to 2007: China's

18 For example, one can compare Canada's TDI with China to that of Australia, Japan, and the United Kingdom from 1999 to 2007, using data from the United Nations Commodity Trade Statistics database (UN Comtrade, 2008). However, since trade data compiled by UN Comtrade may differ from the way it is compiled by Canadian statistical agencies, indices calculated from UN Comtrade's data might differ from the indices calculated from official Canadian sources. What is important, however, is the relative comparison across countries. Results from UN Comtrade's data indicate that, for all the years, Australia's TDI with China (4.8 in 2007) and Japan's TDI with China (5.3 in 2007) were much higher than Canada's (2.1 in 2007). Only the United Kingdom's TDI with China (1.41 in 2007) has been lower than Canada's TDI with China for all the years. Note that we retrieved the GDP figures for the countries mentioned above from the website of the International Monetary Fund (IMF, 2008).

19 This report analyzes trends in merchandise trade in terms of dollar values. It is therefore possible, when prices change significantly, for the value of trade to change at a rate different from changes in the quantity or volume of trade.

Figure 5.3: Canada's overall trade with the world (CA\$ billions) and China's share (%) of the total, 1998–2007



Note: Trade = sum of exports and imports (expressed in \$ values).

Sources: Industry Canada, 2008; calculations by authors.

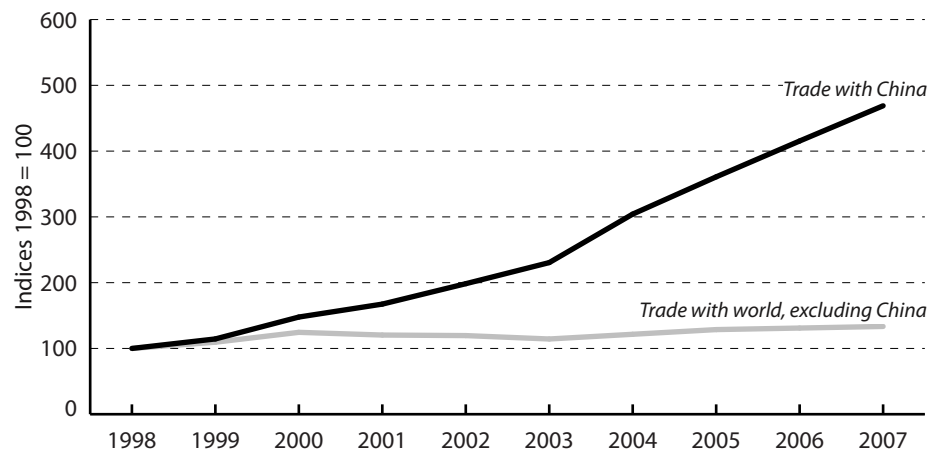
share in Canada's trade has increased consistently over the decade. For example, as of 2007, Canada's trade with China was worth approximately CA\$48 billion (6% of Canada's overall trade), starting from approximately CA\$10 billion (2% of Canada's overall trade) in 1998.

As is clear from figure 5.3, Canada's trade with China has increased steadily over the entire period even though Canada's (overall) trade declined in certain years. For example, from 1998 to 2007, trade with China has increased by more than 350% while trade with the world, excluding China, has grown at a much slower pace of 33% (figure 5.4).²⁰

China's share in overall Canadian trade has grown

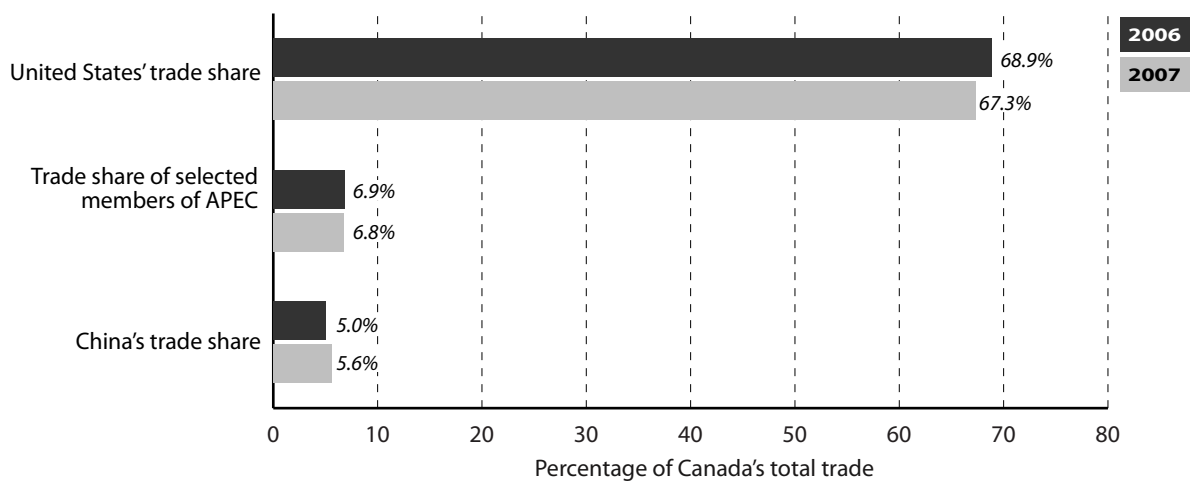
The percentage of overall trade that Canada has with a certain trading partner, tells us how important that trade partner is in the overall trade profile of the Canadian economy. Figure 5.5 shows China's share in overall Canadian trade in 2006 and 2007. For comparison, we also show the shares of the United States and selected APEC countries. In 2007, the United States accounted for approximately 67% of Canada's total trade while China's share was lower at 6%. However, China's share in Canada's total trade in 2007 was not very different from that of the APEC countries. More importantly, as figure 5.6

20 Data from the United Nations Commodity Trade Statistics database (UN Comtrade, 2008) indicates that Australia's trade with China has grown faster than Canada's. For example, compared to 1999, Australia's trade with China grew by 865% while Canada's trade with China grew by approximately 784%. For the same period, Japan's trade with China grew by 395% while U.K.'s trade with China grew by 595%.

Figure 5.4: Growth of Canada's trade with China and the world, 1998–2007

Notes: [1] Indices are of dollar value. [2] Trade = sum of exports and imports (expressed in \$ values).

Sources: Industry Canada, 2008; calculations by authors.

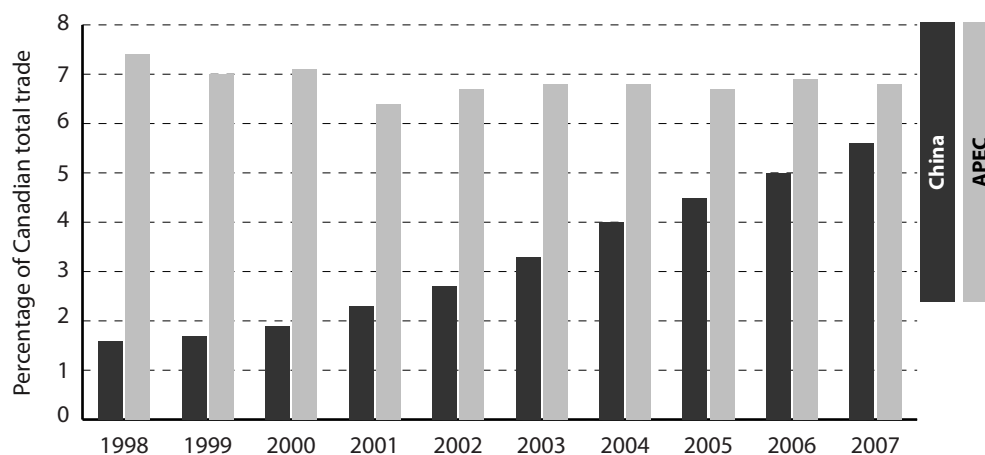
Figure 5.5: Shares of Canada's trading partners in overall Canadian trade, 2006 and 2007

Notes: [1] In this report, statistics are calculated using data from the following members of APEC: Australia, Brunei, Indonesia, Japan, South Korea, Malaysia, New Zealand, Papua New Guinea, Philippines, Russia, Singapore, Thailand, and Vietnam.

[2] Trade share = trade (exports + imports, expressed in \$ values) with a trading partner (country or region) / a country's overall trade (expressed in \$ values).

Source: Industry Canada, 2008; calculations by authors.

Figure 5.6: Trade shares of China and selected members of APEC in overall Canadian trade, 1998–2007



Notes: [1] In this report, statistics are calculated using data from the following members of APEC: Australia, Brunei, Indonesia, Japan, South Korea, Malaysia, New Zealand, Papua New Guinea, Philippines, Russia, Singapore, Thailand, and Vietnam. [2] Trade share = trade (exports + imports, expressed in \$ values) with a trading partner (country/region) / country's overall trade (expressed in \$ values). Sources: Industry Canada, 2008; calculations by authors.

shows, China's trade share has grown steadily over the decade while that of APEC countries has remained fairly constant.²¹

5.1.2 Exports

That Canada is a major trading nation is no secret. International trade, primarily exports, account for a large proportion of Canada's economy. For example, in 2007 merchandise exports accounted for roughly a third of Canada's total GDP (Statistics Canada, 2008).

China replaced Japan as Canada's third-largest export market in 2007

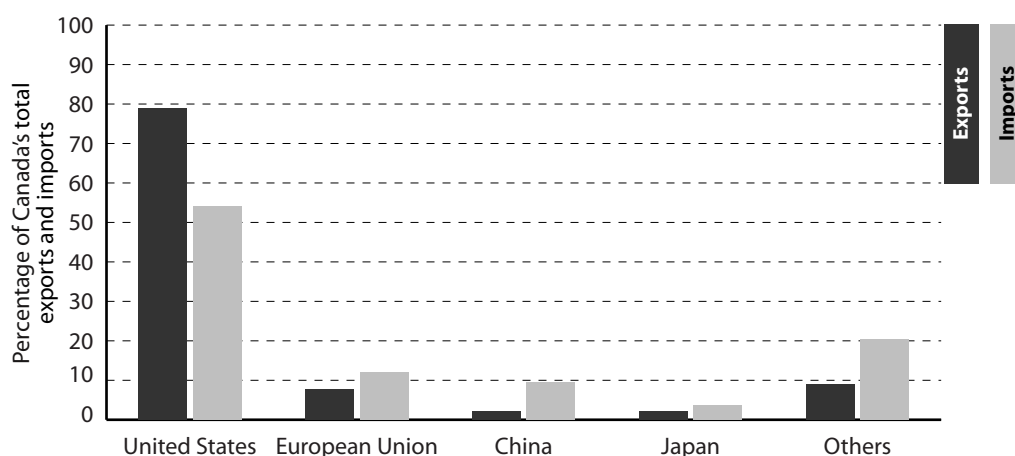
The United States was Canada's largest export market, accounting for approximately 80% of total Canadian exports in 2007 (table 5.1, figure 5.7). China, on the other hand, was Canada's third-largest export market (following the European Union), accounting for approximately 2% of Canada's overall

21 Data from the United Nations Commodity Trade Statistics database (UN Comtrade, 2008) indicates that China's share in overall Australian trade (approx. 15% in 2007) as well as China's share in overall Japanese trade (approx. 18% in 2007) was higher than China's share in overall Canadian or UK trade (approx. 4% each in 2007). In 2007, China imported more from Australia (2.7% of its overall imports) and Japan (14%) than from Canada (1.1%) or the UK (0.8%). Similarly, in 2007, China exported more to Japan (8.4% of its overall exports) and the UK (2.6%) than to Canada (1.6%) or Australia (1.5%).

Table 5.1: Canada's merchandise exports (CA\$ millions) by top ten trading partners and Hong Kong, 2006–2007

Country of export	Exports in 2006	Exports in 2007	Share in Canada's total exports	Growth over 2006	2007 index (1998 = 100)
World	440,266	450,374	100.0%	2.3%	141
United States	359,254	355,951	79.0%	−0.9%	132
United Kingdom	10,134	12,798	2.8%	26.3%	290
China	7,661	9,292	2.1%	21.3%	372
Japan	9,416	9,223	2.0%	−2.1%	107
Mexico	4,375	4,960	1.1%	13.4%	338
Netherlands	3,063	4,045	0.9%	32.0%	216
Germany	3,955	3,883	0.9%	−1.8%	143
Norway	1,889	3,684	0.8%	95.0%	429
France	2,882	3,127	0.7%	8.5%	185
Korea, Republic	3,266	3,007	0.7%	−7.9%	165
Hong Kong	1,595	1,543	0.3%	−3.3%	108

Source: Industry Canada, 2008; calculations by authors.

Figure 5.7: Canada's exports to, and imports from, major trading partners (as % of Canada's total exports and imports), 2007

Note: Exports and imports add to 100%.

Sources: Industry Canada, 2008; calculations by authors.

exports. And, although the United States is still Canada's largest export market, between 2006 and 2007 exports to China grew by more than 21% while exports to the United States contracted by 1%.²² In the same year, China replaced Japan as Canada's third largest export market. Further, between 1998 and 2007, Canada's exports to China grew by an astounding 272%, higher than all of its other trading partners except Norway (table 5.1, figure 5.8).

Canada's export propensity with China has grown steadily over time

Export propensities, the ratio (percentage) of exports to GDP, show the overall degree of reliance of domestic producers on foreign markets.²³ Figure 5.9 shows Canada's export propensity ratio with China, compared with its export propensities with the United States and selected members of APEC. Exports to the United States accounted for about 23% of Canada's overall GDP in 2007 while exports to China and APEC accounted for only approximately 0.6% and 1.4% of Canada's total GDP. However, Canada's export propensity with China has been increasing steadily over the decade (figure 5.10). Canada's export propensity with APEC is slightly higher than that with China but has not grown by as much over this period.

China's export share has grown steadily

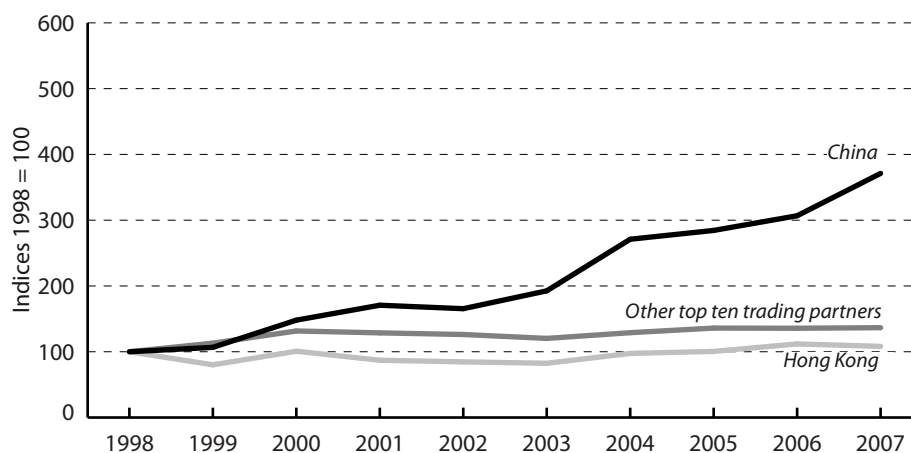
Similarly, even though China's export share—exports to China as a percentage of total Canadian exports—were much lower (2% of total Canadian exports) than that of the United States in 2007 (figure 5.11), they have grown steadily over the decade (figure 5.12). According to our extrapolations, current growth rates over the period from 1998 to 2007 suggest that Canadian exports to China will double to over CA\$18 billion by 2020. However, China will still likely hold its third-place ranking as exports to the UK have been growing just as robustly.

5.1.3 Imports

As with exports, Canada's imports of Chinese goods have risen in recent years. Although the United States accounts for 54% of Canada's overall imports, China has become a major supplier of goods to Canada (table 5.2). In fact, Canada's purchases of Chinese goods have risen by approximately 400% since 1998 (figure 5.13).

-
- 22 In comparison, China accounted for 14% of Australia's overall exports, 15% of Japan's overall exports, and 1.7% of the UK's overall exports. Further, from 1999 to 2007, exports from Australia to China grew faster (by over 600%) than exports from Canada to China (approx. 370%). Exports to China from Japan and the UK grew at a slower pace, by 300% and 150%, respectively (UN Comtrade, 2008).
 - 23 Export propensity ratios range from 0 (implying no exports) to 100% (implying that all domestic production is exported). Note that export propensity ratios may be biased upwards by the extent of re-exports.

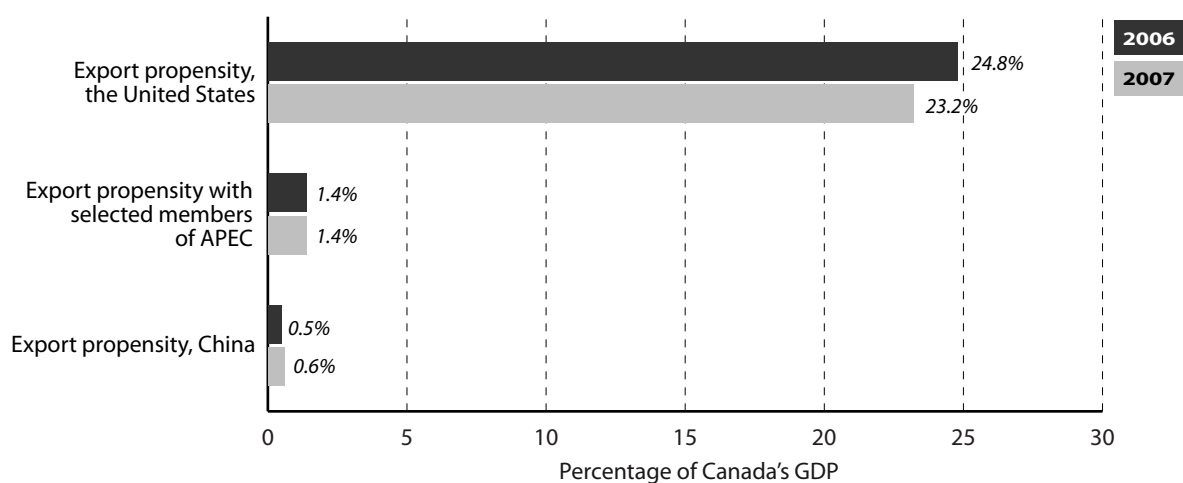
Figure 5.8: Growth in Canada's exports to China, Hong Kong and other top ten trading partners (excluding the United States), 1998–2007



Note: Indices are of dollar value.

Source: Industry Canada, 2008; calculations by authors.

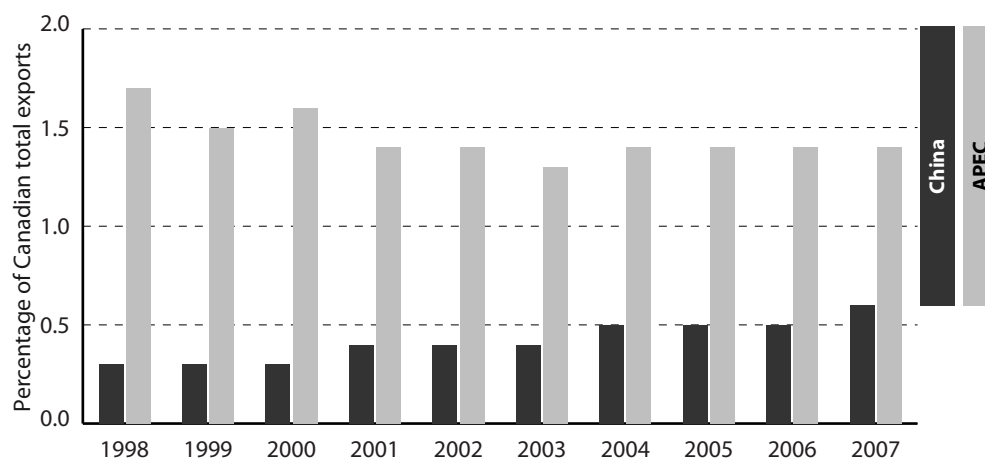
Figure 5.9: Canada's export propensity ratios with its trading partners, 2006 and 2007



Notes: [1] In this report, statistics are calculated using data from the following members of APEC: Australia, Brunei, Indonesia, Japan, South Korea, Malaysia, New Zealand, Papua New Guinea, Philippines, Russia, Singapore, Thailand, and Vietnam.
 [2] Export propensity ratio = exports to a trading partner (country or region, expressed in \$ values) / country's GDP.

Source: Industry Canada, 2008; calculations by authors.

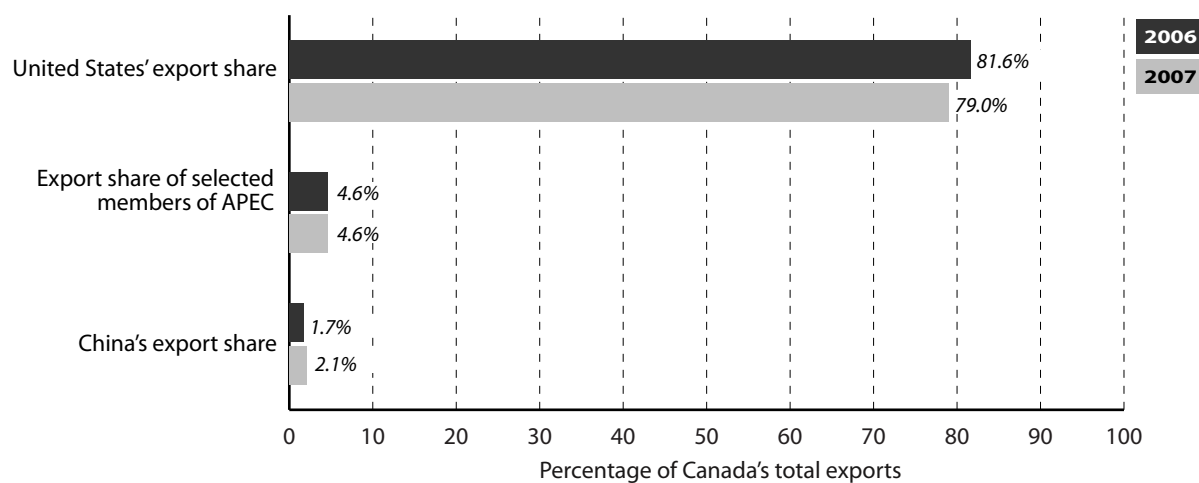
Figure 5.10: Canada's export propensity ratios with China and selected members of APEC, 1998–2007



Notes: [1] In this report, statistics are calculated using data from the following members of APEC: Australia, Brunei, Indonesia, Japan, South Korea, Malaysia, New Zealand, Papua New Guinea, Philippines, Russia, Singapore, Thailand, and Vietnam. [2] Export propensity ratio = exports to a trading partner (country/region, expressed in \$ values) / country's GDP.

Sources: Industry Canada, 2008; calculations by authors.

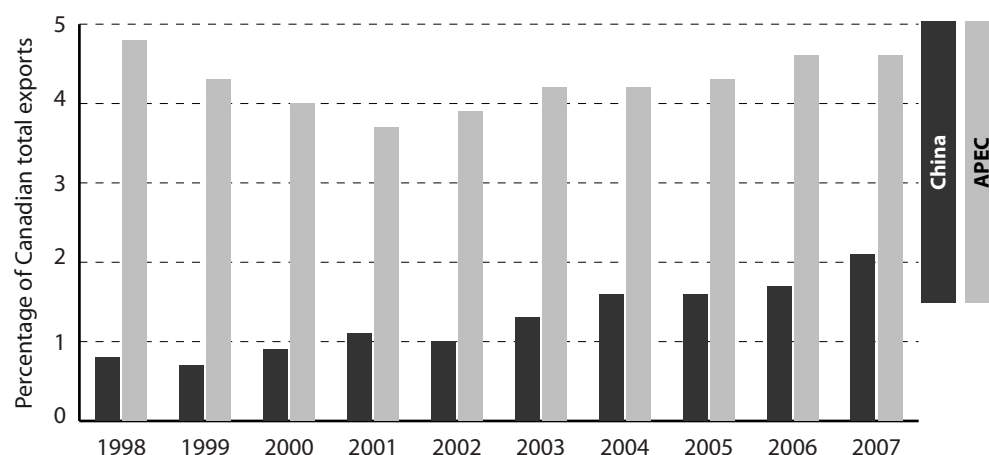
Figure 5.11: Export shares of Canada's trading partners in overall Canadian exports, 2006 and 2007



Notes: [1] In this report, statistics are calculated using data from the following members of APEC: Australia, Brunei, Indonesia, Japan, South Korea, Malaysia, New Zealand, Papua New Guinea, Philippines, Russia, Singapore, Thailand, and Vietnam. [2] Export share = exports to a trading partner (country or region, expressed in \$ values) / country's total exports (expressed in \$ values).

Source: Industry Canada, 2008; calculations by authors.

Figure 5.12: Export shares of China and selected members of APEC in all Canadian exports, 1998–2007



Notes: [1] In this report, statistics are calculated using data from the following members of APEC: Australia, Brunei, Indonesia, Japan, South Korea, Malaysia, New Zealand, Papua New Guinea, Philippines, Russia, Singapore, Thailand, and Vietnam. [2] Export share = exports to a trading partner (country/region, expressed in \$ values) / country's total exports (expressed in \$ values).

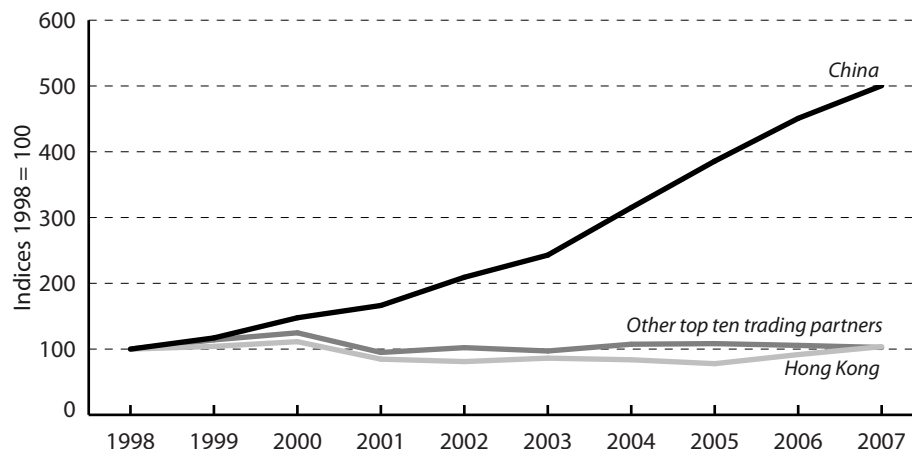
Sources: Industry Canada, 2008; calculations by authors.

Table 5.2: Canada's merchandise imports (CA\$ millions) by top ten trading partners and Hong Kong, 2006–2007

Imports from:	Imports in 2006	Imports in 2007	Share of Canada's total imports	Growth over 2006	2007 index (1998 = 100)
World	396,645	406,737	100.0%	2.5%	136
United States	217,642	220,479	54.2%	1.3%	108
China	34,491	38,291	9.4%	11.0%	500
Mexico	16,009	17,169	4.2%	7.2%	224
Japan	15,326	15,457	3.8%	0.9%	110
Germany	11,126	11,533	2.8%	3.7%	190
United Kingdom	10,864	11,458	2.8%	5.5%	181
Korea, Republic	5,763	5,364	1.3%	−6.9%	162
Norway	5,444	5,363	1.3%	−1.5%	212
France (incl. Monaco, French Antilles)	5,186	5,090	1.3%	−1.8%	104
Algeria	4,954	5,071	1.3%	2.4%	935
Hong Kong	513	532	0.1%	3.8%	43

Source: Industry Canada, 2008; calculations by authors.

Figure 5.13: Growth in Canada's imports from China, Hong Kong, and top ten trading partners (excluding the United States), 1998–2007



Note: Indices are of dollar value.

Source: Industry Canada, 2008; calculations by authors.

After the United States, Canada buys most from China

In 2007, Canada imported CA\$ 38 billion worth of goods from China, accounting for approximately 10% of total Canadian imports (figure 5.14).²⁴ This was higher than APEC's share in overall Canadian imports in 2007. Moreover, imports from China have grown dramatically over the decade, surpassing imports from APEC in levels as well as in growth rates (figure 5.15). In 2007, after the United States, China was Canada's second largest trading partner for imports.

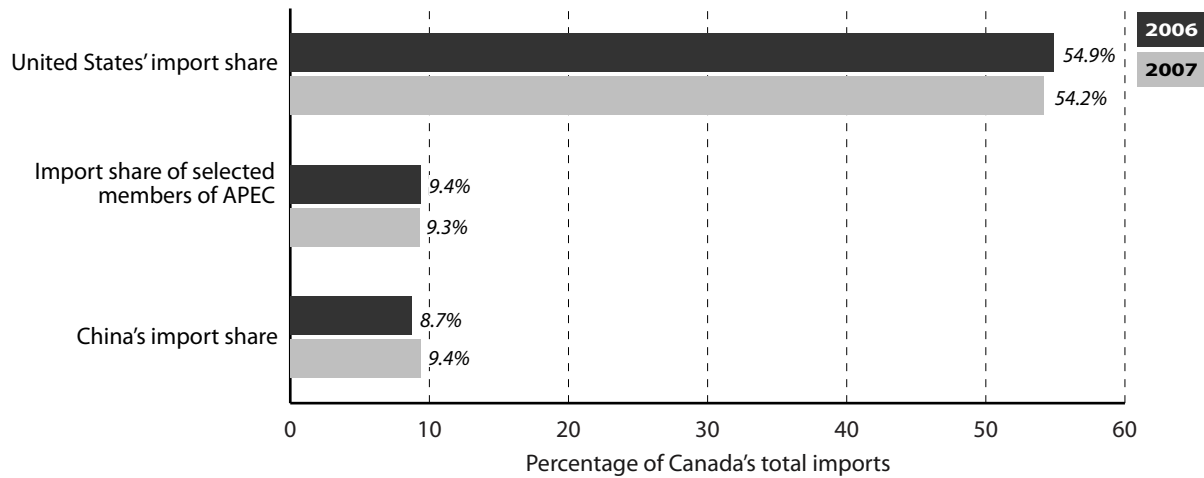
Canada's import penetration ratio with China has grown

Figure 5.16 shows Canada's import penetration ratios with China and other trading partners. This is the ratio (in percentage) of total imports to domestic demand and shows the degree to which domestic demand (the difference between GDP and net exports) is satisfied by imports.²⁵ In 2007, Canada's import penetration ratio with China stood at 2.4%. This implies that approximately 2% of Canada's domestic demand was met by imports from China.

24 Data from the United Nations Commodity Trade Statistics database (UN Comtrade, 2008) indicates that, in 2007, China accounted for approximately 15% of Australia's overall imports in 2007, approximately 21% of Japan's, and 8% of the UK's. However, from 1999 to 2007, Canada's imports from China have grown by 695%, faster than the growth of its imports from Australia (565%), Japan (215%) or the UK (548%).

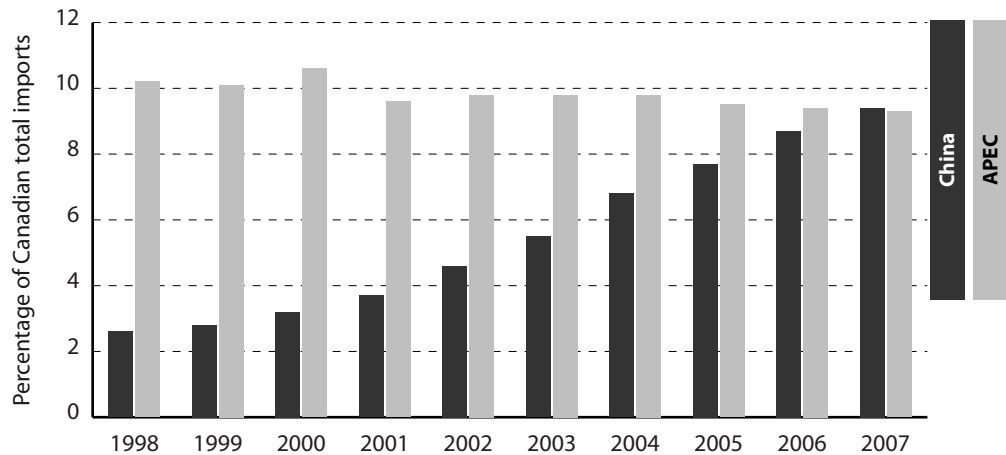
25 The import penetration ratio ranges from 0 (implying no imports) to 100% (implying that imports satisfy the country's entire aggregate domestic demand). Note that this ratio may be biased upwards by the extent of re-exports.

Figure 5.14: Import shares of Canada's trading partners in overall Canadian imports, 2006 and 2007



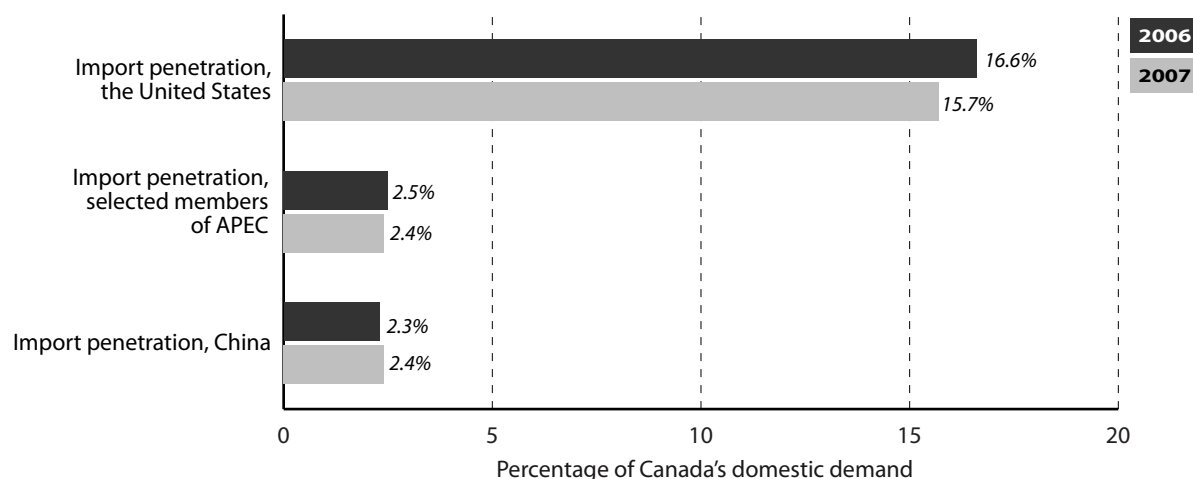
Notes: [1] In this report, statistics are calculated using data from the following members of APEC: Australia, Brunei, Indonesia, Japan, South Korea, Malaysia, New Zealand, Papua New Guinea, Philippines, Russia, Singapore, Thailand, and Vietnam. [2] Import share = imports from a trading partner (country or region, expressed in \$ values) / country's total imports (expressed in \$ values). Source: Industry Canada, 2008; calculations by authors.

Figure 5.15: Import shares of China and selected members of APEC in all Canadian imports, 1998–2007



Notes: [1] In this report, statistics are calculated using data from the following members of APEC: Australia, Brunei, Indonesia, Japan, South Korea, Malaysia, New Zealand, Papua New Guinea, Philippines, Russia, Singapore, Thailand, and Vietnam. [2] Import share = imports from a trading partner (country/region, expressed in \$ values) / country's total imports (expressed in \$ values). Sources: Industry Canada, 2008; calculations by authors.

Figure 5.16: Canada's import penetration ratios with its trading partners, 2006 and 2007



Notes: [1] In this report, statistics are calculated using data from the following members of APEC: Australia, Brunei, Indonesia, Japan, South Korea, Malaysia, New Zealand, Papua New Guinea, Philippines, Russia, Singapore, Thailand, and Vietnam. [2] Import penetration ratio = country's imports from a trading partner / (GDP – net exports to partner).

Source: Industry Canada, 2008; calculations by authors.

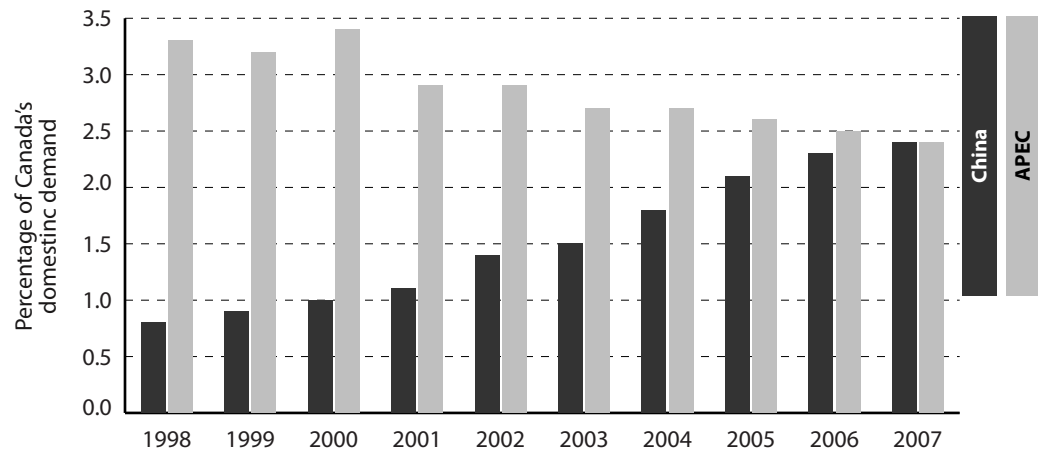
Though Canada's import penetration ratio with the United States is much higher (at 16% in 2007), over the decade, imports from China have been satisfying more and more of Canada's aggregate demand (figure 5.17). Moreover, China's import penetration ratio equaled that of the selected APEC countries in 2007. This alone testifies to China's growing economic presence in the Canadian economy.

Canada has a higher marginal propensity to import with China than with the United States

While import penetration ratios measure the proportion of domestic demand that is satisfied by imports, we can also calculate the marginal propensity to import (MPM), which measures the extent to which we might expect imports (from a partner country) to rise for a given rise in the value of income (GDP). Technically, the marginal propensity to import is defined as the ratio of the change in total imports to the change in GDP over a year.²⁶ In 2007, Canada's marginal propensity to import was highest with China (at 0.06), compared to the United States (at 0.03), or APEC (at 0.01) (figure 5.18). This implies

26 The marginal propensity to import ranges from 0 (implying that no part of additional GDP is spent on additional imports) to 1 (implying that the entire additional income generated is spent on imports).

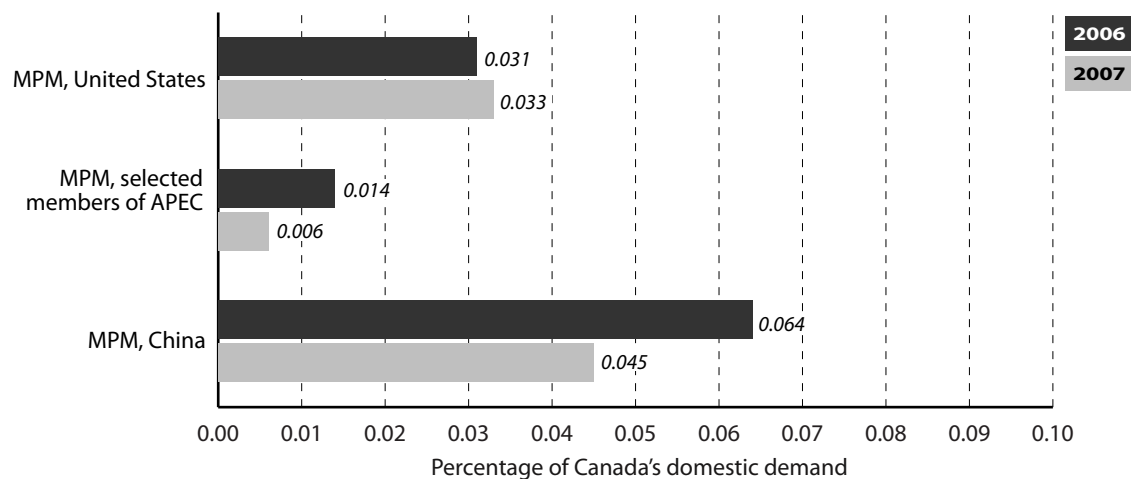
Figure 5.17: Canada's import penetration ratios with China and selected members of APEC, 1998–2007



Notes: [1] In this report, statistics are calculated using data from the following members of APEC: Australia, Brunei, Indonesia, Japan, South Korea, Malaysia, New Zealand, Papua New Guinea, Philippines, Russia, Singapore, Thailand, and Vietnam. [2] Import penetration ratio = Country's imports from a partner / (GDP – net exports from a partner).

Sources: Industry Canada, 2008; calculations by authors.

Figure 5.18: Canada's marginal propensity to import (MPM) ratios with its trading partners, 2006 and 2007



Notes: [1] In this report, statistics are calculated using data from the following members of APEC: Australia, Brunei, Indonesia, Japan, South Korea, Malaysia, New Zealand, Papua New Guinea, Philippines, Russia, Singapore, Thailand, and Vietnam. [2] Marginal propensity to import = change in total imports / change in income (GDP).

Source: Industry Canada, 2008; calculations by authors.

that an increase in Canadian GDP results in roughly double the increase in imports from China compared to increases in imports from the United States or APEC. In other words, a \$100 increase in Canada's GDP would result in roughly a \$6 increase in imports from China but only a \$3 increase in imports from the United States.

5.1.4 Trade balance

Canada has the largest trade deficit with China

The growth of Chinese imports into Canada at a faster rate than exports to China has resulted in imbalanced trade between China and Canada. In 2007, compared to its top ten trading partners, Canada had the largest bilateral trade deficit with China, at CA\$29 billion (table 5.3). From 1998 to 2007, this deficit increased by more than 400%. In 2007, Canada had a trade deficit with all its major trading partners except the United States, the United Kingdom, and Hong Kong (figure 5.19).²⁷

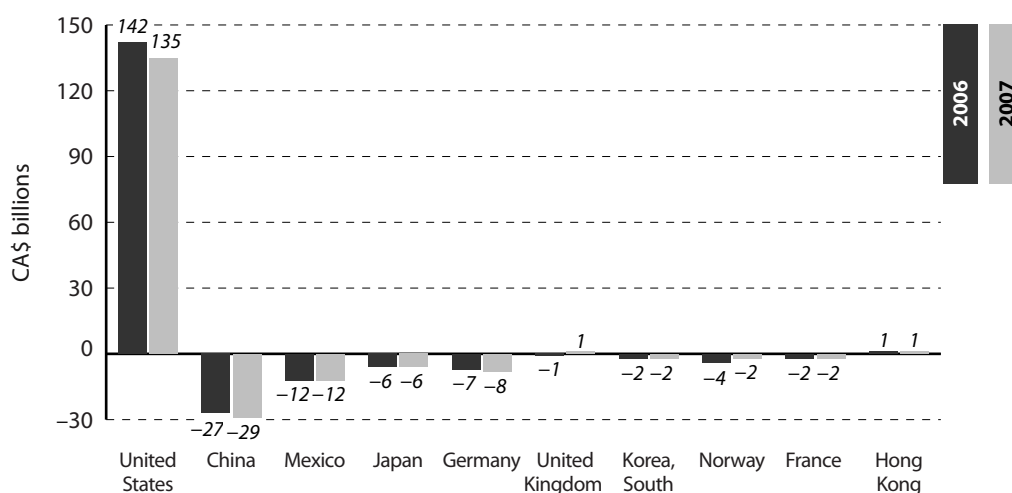
Table 5.3: Canada's merchandise trade balance (CA\$ millions) with its top trading partners, 2006–2007

	Trade balance in 2006	Trade balance in 2007	2007 index (1998 = 100)
World	43,621	43,637	141
United States	141,611	135,473	204
China	–26,830	–28,999	563
Mexico	–11,635	–12,208	196
Japan	–5,910	–6,235	116
Germany	–7,171	–7,650	227
United Kingdom	–730	1,340	–70
Korea, Republic	–2,497	–2,357	158
Norway	–3,554	–1,679	101
France	–2,304	–1,963	62

Source: Industry Canada, 2008; calculations by authors.

²⁷ In general, trade deficits need not imply lack of competitiveness for the country incurring such deficits. For example, suppose Canada buys more from China, then China can use the money that it earns on its exports to Canada to buy Canadian exports or to invest in Canadian assets. If the amount of investment capital entering Canada exceeds the amount flowing out, then Canada can use that money to buy imports over and above the amount that it could have bought by merely selling its exports. Thus, one reason for a trade deficit could be that the deficit country is growing faster than its trading partners (Griswold, 1998).

Figure 5.19: Canada's merchandise trade balance with top ten trading partners, 2006 & 2007



Sources: Industry Canada, 2008; calculations by authors.

However, Canada's deficit with the world is two times greater

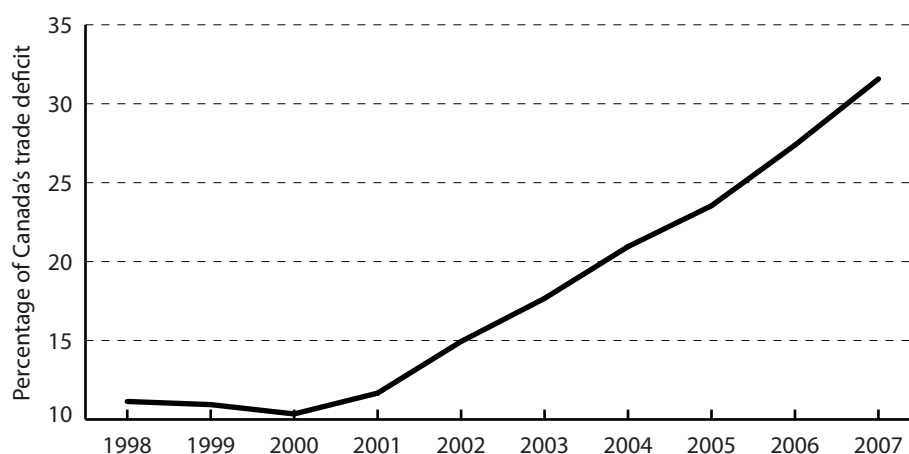
It is important, however, to put this deficit with China into context. Although China accounts for a substantial portion of Canada's trade deficit (figure 5.20), Canada's trade deficit with the world excluding China and the United States is almost two times greater than its deficit with China (figure 5.21). Moreover, although Canada's exports with China have not grown as fast as Canada's imports have in recent times, without China, Canada's export growth would have been even slower (figure 5.22) and the resultant trade deficit larger.²⁸

There is scope to increase exports to China

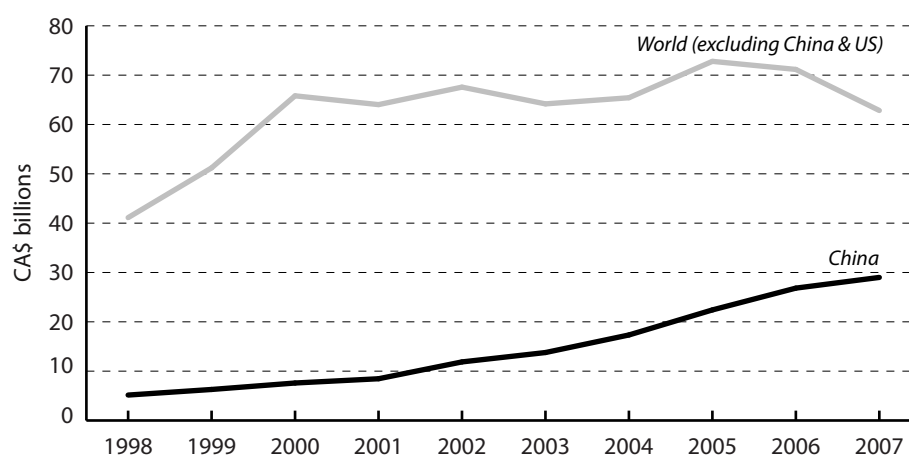
Figure 5.23 presents Canada's export and import intensity indices with China. These indices reflect the ratio of the share of Canada's trade with China relative to the share of world trade destined for China. In other words, these indexes show the "intensity" of Canada's trade relationship with China.²⁹ Note that while Canada's import intensity has exceeded one in recent years, export intensity indices are less than one for all years. This implies that Canada, for whatever reasons, is trading (exporting) less with China than with the world, on average. The index suggests that Canada has considerable scope to generate additional revenues from its trade (exports) with China in the future.

28 However, comparisons with Australia indicate that Canada's trade deficit with China has also grown faster than Australia's: from 1999 to 2007, Canada's trade deficit with China grew by over 400% while Australia's grew by only a little over 200%.

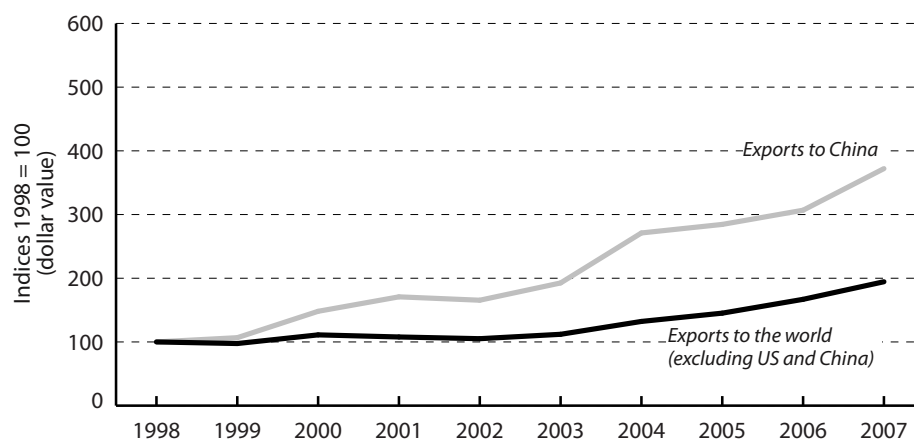
29 A value greater (less) than 1 is interpreted as an indication of more (less) trade than the world average. For example, an index greater than one suggests that trade between Canada and China is larger than expected, given its importance in the world trade.

Figure 5.20: China's share in Canada's trade deficit, 1998–2007

Source: Industry Canada, 2008; calculations by authors.

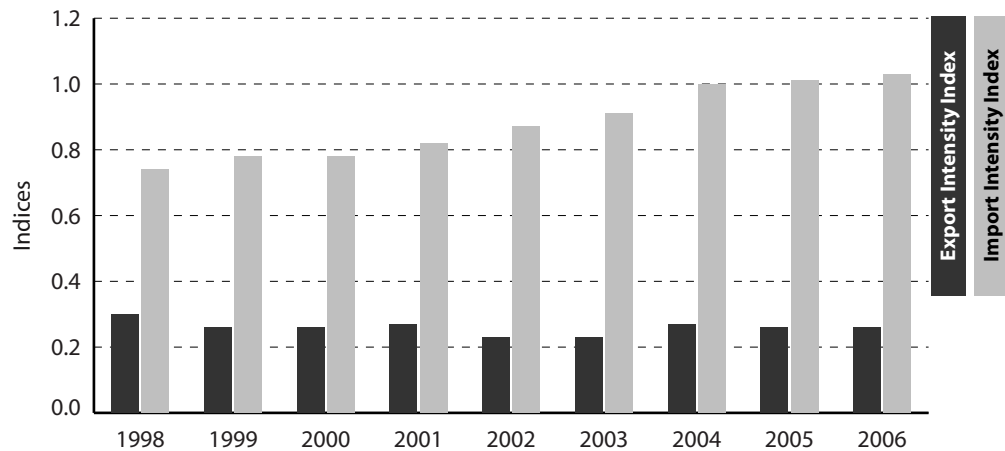
Figure 5.21: Canada's trade deficit (CA\$ billions) with China and the world (excluding China and the United States), 1998–2007

Source: Industry Canada, 2008; calculations by authors.

Figure 5.22: Canada's export growth with its partners, 1998–2007

Source: Industry Canada, 2008; calculations by authors.

Figure 5.23: Canada's export and import intensity indices with China, 1998–2006



Notes: [1] Export intensity index = the ratio of the share of Canada's exports to China relative to the share of the world import from China. [2] Import intensity index = the ratio of the share of Canada's imports from China relative to the share of the world export to China. [3] As of 2008, data on China's total exports worldwide and China's total imports worldwide were not available; therefore the indices could not be calculated for 2007. Sources: Industry Canada, 2008; calculations by authors.

5.2 Exports and imports, by industry and products

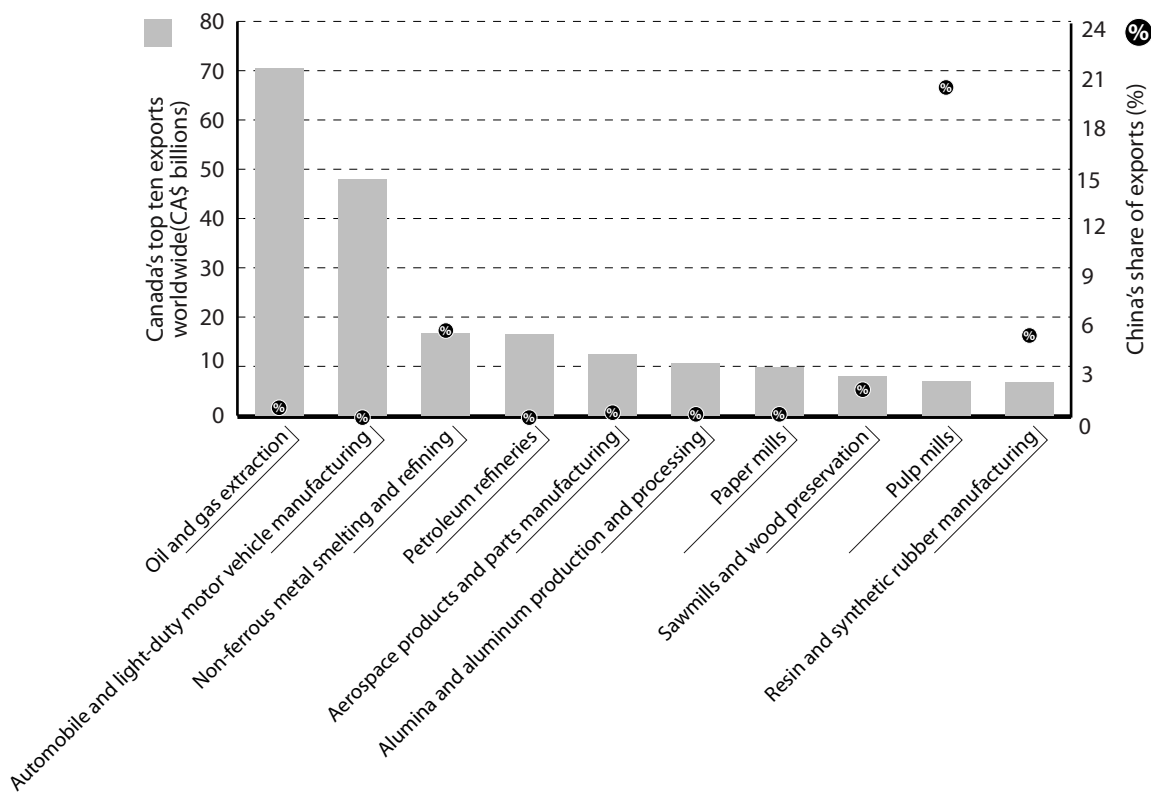
In the previous section, we analyzed Canada's trade relations with China. Results indicate that bilateral relations between the two countries are continuing to grow strongly. In this section, we identify the key industries and products that are involved in Canada's trade with China. This can provide us with a deeper understanding of Canada's export and import markets as they are linked to China.

Figure 5.24 shows Canada's top ten exports worldwide in 2007, by industry, and China's share in these exports. These industries exported approximately CA\$207 billion of goods worldwide (45% of Canada's total exports) but, of this, only 3% was exported to China.

The oil and gas industry has been Canada's largest exporter worldwide

Owing to its large comparative advantage in natural resources, the oil and gas extraction industry was, perhaps understandably, Canada's largest exporter in 2007. The total value of exports from this industry was approximately CA\$71 billion in 2007 (16% of Canada's overall exports in the same year). The other major export industries were automobiles at CA\$48 billion (11% of Canada's overall exports), followed by non-ferrous metals at CA\$17 billion (4% of overall Canadian exports). None of these top three export industries constituted China's main source of imports from Canada. For example, China's share of exports by the oil and gas extraction industry was very small, at 0.6%. However, in 2007 almost 20% of exports from the pulp industry—Canada's ninth largest exporting industry that year—went to China.

Figure 5.24: Canada's top ten exports worldwide (CA\$ billions), by industry, and China's share (%), 2007



Sources: Industry Canada, 2008; calculations by authors.

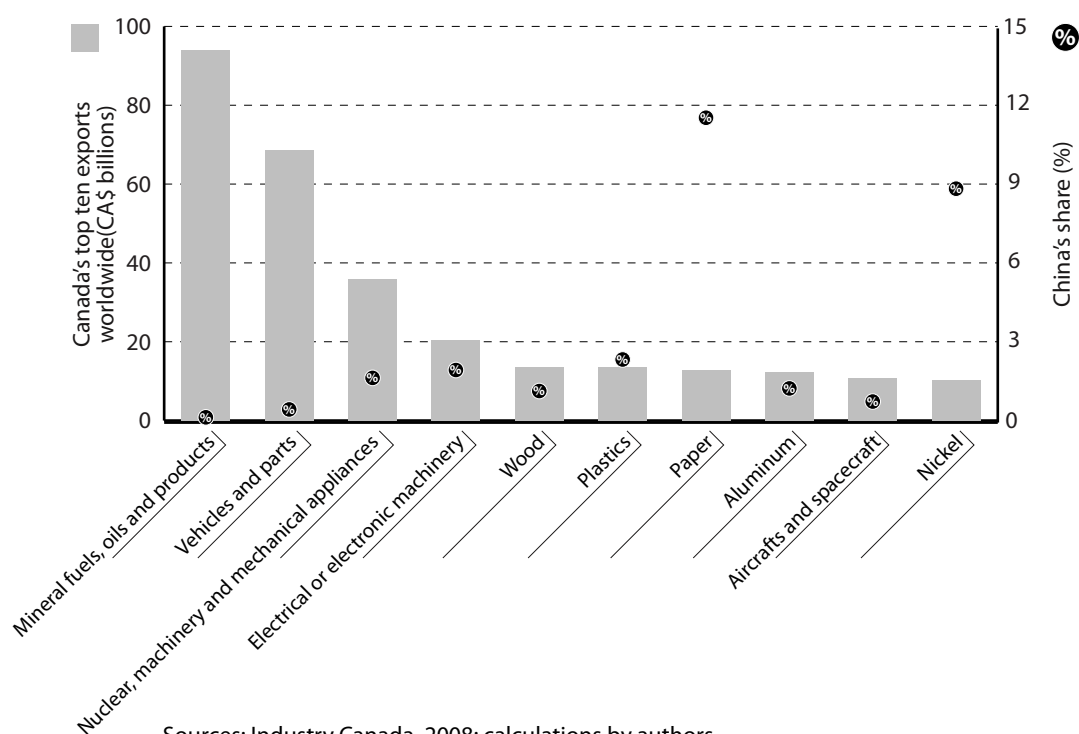
Similarly, figure 5.25 shows the top ten products exported worldwide and China's share of those products, in 2007. For example, Canada's largest export category in 2007, mineral fuels, oils, and products, stood at CA\$94 billion (20% of Canada's overall exports). However, only 0.2% of these exports went to China in 2007. Of Canada's top ten products exported worldwide, China's share was the largest in paper-industry products (12%), followed by nickel (9%).

The pulp industry has been Canada's largest exporter to China

Figure 5.26 lists Canada's top ten exports (by industry) to China in 2007. Together, these industries accounted for more than 60% of Canada's total exports to China in 2007. Canada's largest exporter to China was the pulp industry.³⁰ The industry notched up exports worth CA\$1.4 billion, accounting for approximately 16% of Canada's total exports to China in 2007. Other major exporters to China in 2007 were the organic chemical industry (12% of total exports) followed by the non-ferrous metal industry (10% of total exports).

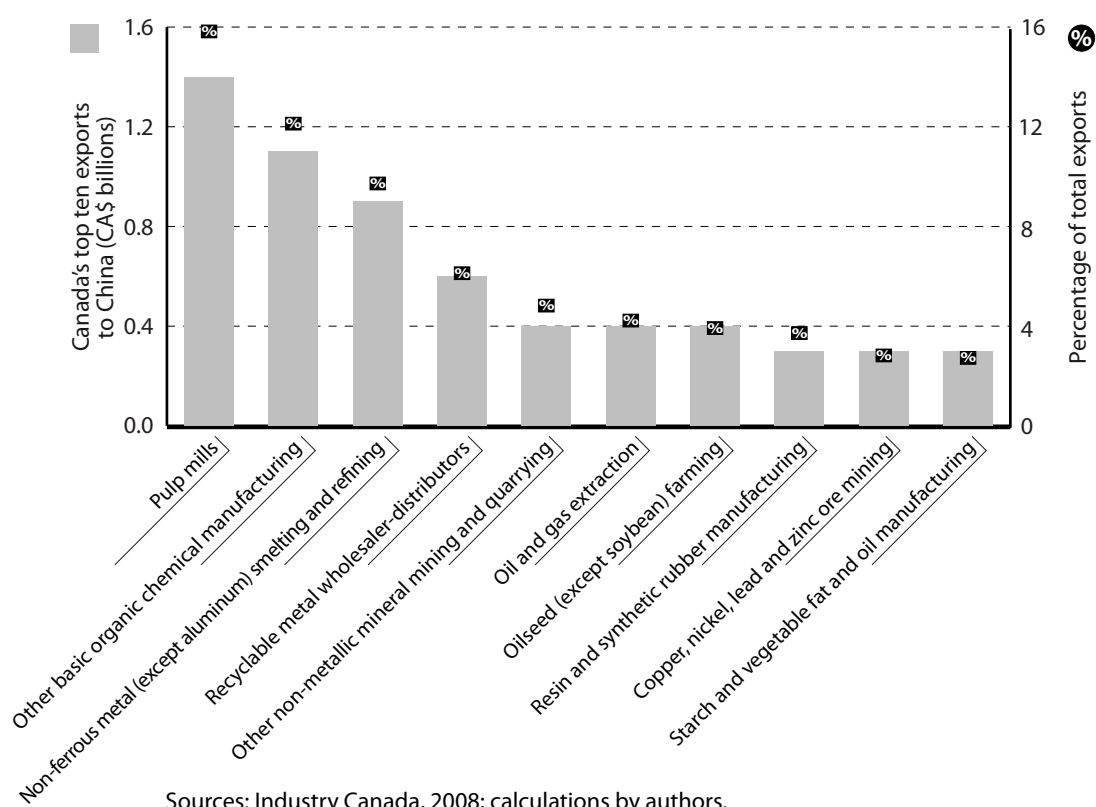
30 The pulp industry has consistently ranked as Canada's leading exporter to China, except in 2005, when organic chemicals was the largest exporter.

Figure 5.25: Canada's top ten exports worldwide (CA\$ billions), by products, and China's share (%), 2007



Sources: Industry Canada, 2008; calculations by authors.

Figure 5.26: Value of Canada's top ten exports to China (CA\$ billions), by industry, and percentage of total export, 2007



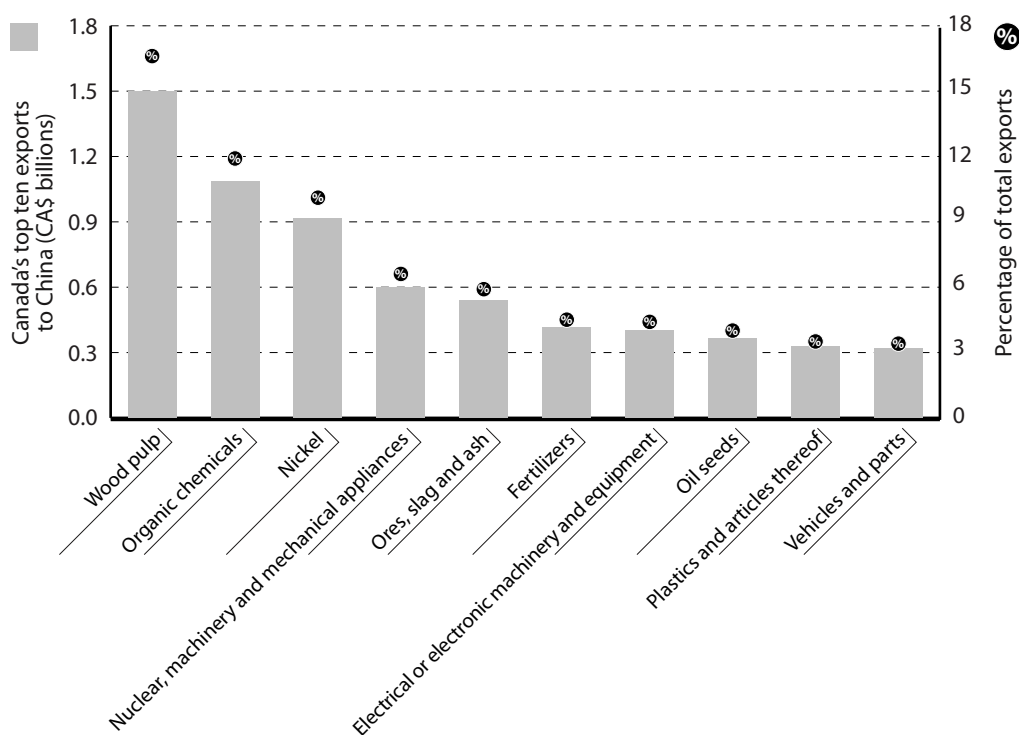
Sources: Industry Canada, 2008; calculations by authors.

Wood pulp was Canada's largest export product to China in 2007. Approximately CA\$2 billion worth of wood pulp was exported to China, accounting for 17% of Canada's total exports to China. Organic chemicals and nickel were the other important products exported to China in 2007 (figure 5.27). Table 5.4 ranks Canada's major export destinations by top ten products exported in 2007. The United States was, by far, Canada's largest export destination for almost all of the top ten products exported in 2007. China, however, was Canada's second largest export market for plastics, third largest for vehicles and parts, and the fourth largest for wood, nickel, and electric and electronic equipment.

Canada's top imports worldwide have been from the automobile industry

Canada's top imports in 2007 were from the automobile and oil and gas extraction industries. Imports from these industries were valued at CA\$60 billion in 2007 (approximately 15% of Canada's total imports). However, a very small fraction of these originated in China (figure 5.28). On the other hand, 40% of Canada's imports from the computer equipment industry (valued at CA\$13 billion)—its third-largest type of import—originated from

Figure 5.27: Value of Canada's top ten exports to China (CA\$ billions), by product, and percentage of total export, 2007



Sources: Industry Canada, 2008; calculations by authors.

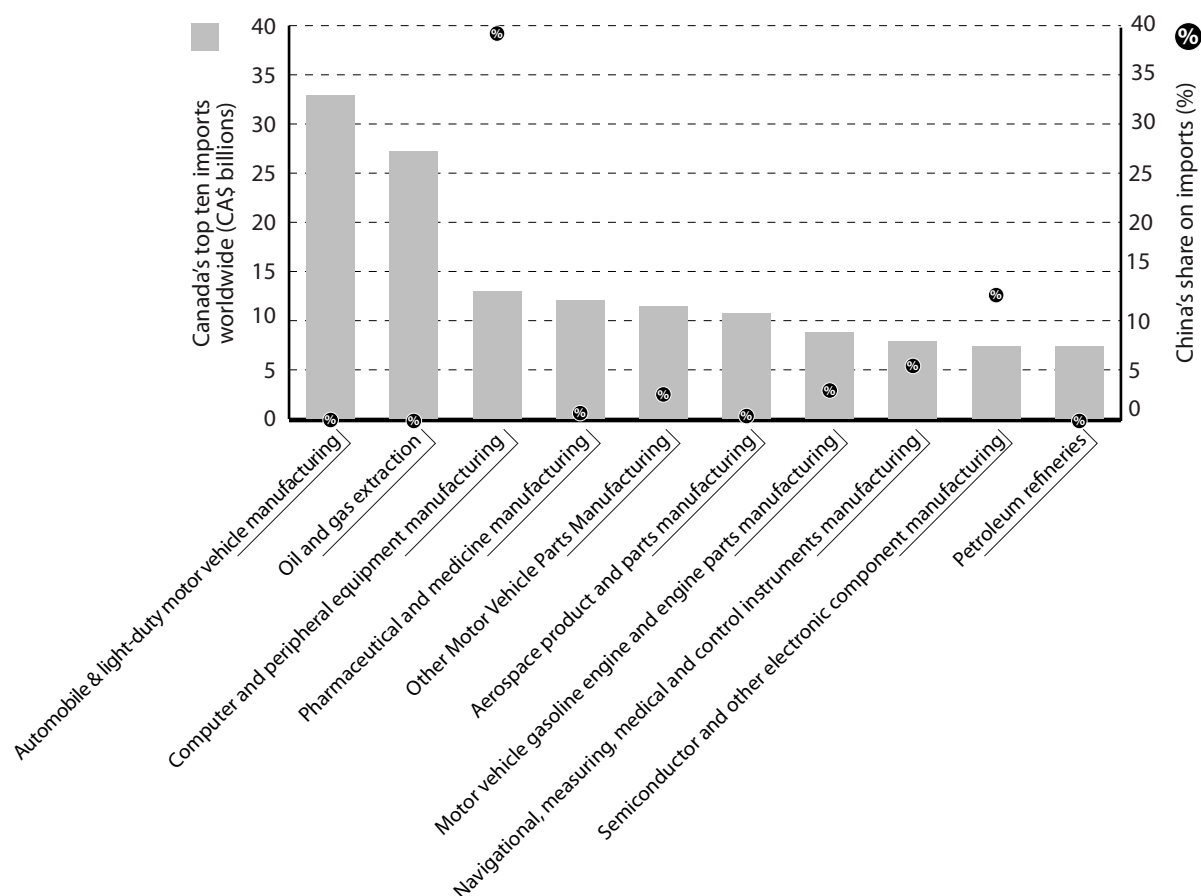
Table 5.4: Ranking of Canada's Major Export Partners, by various product categories, 2007

	Mineral Fuels Oils and Products	Vehicles and Parts	Nuclear, Machinery and Mechanical Appliances	Electrical or Electronic Machinery and Equipment	Wood	Plastics	Paper	Aluminum	Aircraft and Spacecraft	Nickel
United States	1	1	1	1	1	1	1	1	1	2
United Kingdom	9	—	3	2	3	6	2	8	2	3
China	7	3	5	4	4	2	—	6	—	4
Japan	2	—	—	5	2	—	—	4	9	6
Mexico	—	2	9	3	—	3	4	7	8	—
Netherlands	4	—	8	—	5	—	—	5	—	5
Germany	6	9	2	9	10	2	9	2	5	—
Norway	—	—	—	8	—	—	—	—	—	1
France	—	—	4	—	—	6	6	9	4	—
Korea, Republic	3	—	—	10	6	—	—	5	—	9
Brazil	8	—	—	—	—	—	3	—	—	—
Italy	10	—	10	—	9	4	—	—	3	—
Chile	5	—	—	—	—	5	—	—	—	—
India	—	—	—	—	—	7	5	—	—	—
Venezuela	—	4	—	—	—	—	7	—	—	—
Turkey	—	—	—	—	—	—	8	—	—	—
Colombia	—	6	—	—	—	—	10	—	—	—
Taiwan	—	—	—	—	7	—	—	—	—	8
Hong Kong	—	—	—	6	—	—	—	—	—	7
Belgium	—	—	—	—	8	—	—	—	—	10
Thailand	—	—	—	—	—	—	—	10	—	—
Australia	—	8	6	7	—	—	—	—	—	—
Russian	—	7	7	—	—	—	—	—	—	—
South Africa	—	5	—	—	—	—	—	—	—	—
Finland	—	10	—	—	—	—	—	—	—	—
United Arab Emirates	—	—	—	—	—	—	—	—	6	—
Spain	—	—	—	—	—	—	—	—	7	—
Luxembourg	—	—	—	—	—	—	—	—	10	—

Note: Ranking by dollar values, where 1 = Canada's top partner

Source: Industry Canada, 2008; calculations by authors.

Figure 5.28: Canada's top ten imports worldwide (CA\$ billions), by industry, and China's share (%), 2007



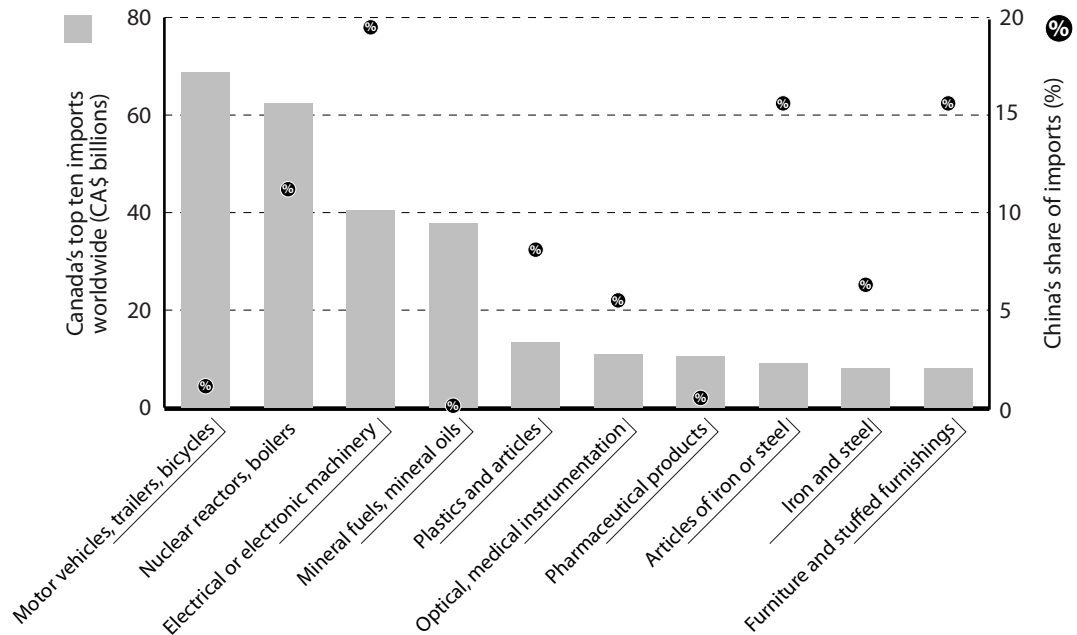
Sources: Industry Canada, 2008; calculations by authors.

China. Similarly, Canada's chief imports of products in 2007 were motor vehicles, trailers, and bicycles (valued at CA\$69 billion). Approximately 1.2% of these products were imported from China in 2007. Among the top ten products imported by Canada, imports from China were the largest in the electric and electronic products category: approximately 20% of these products came from China (figure 5.29).

Canada's top imports from China have been from the computer manufacturing industry

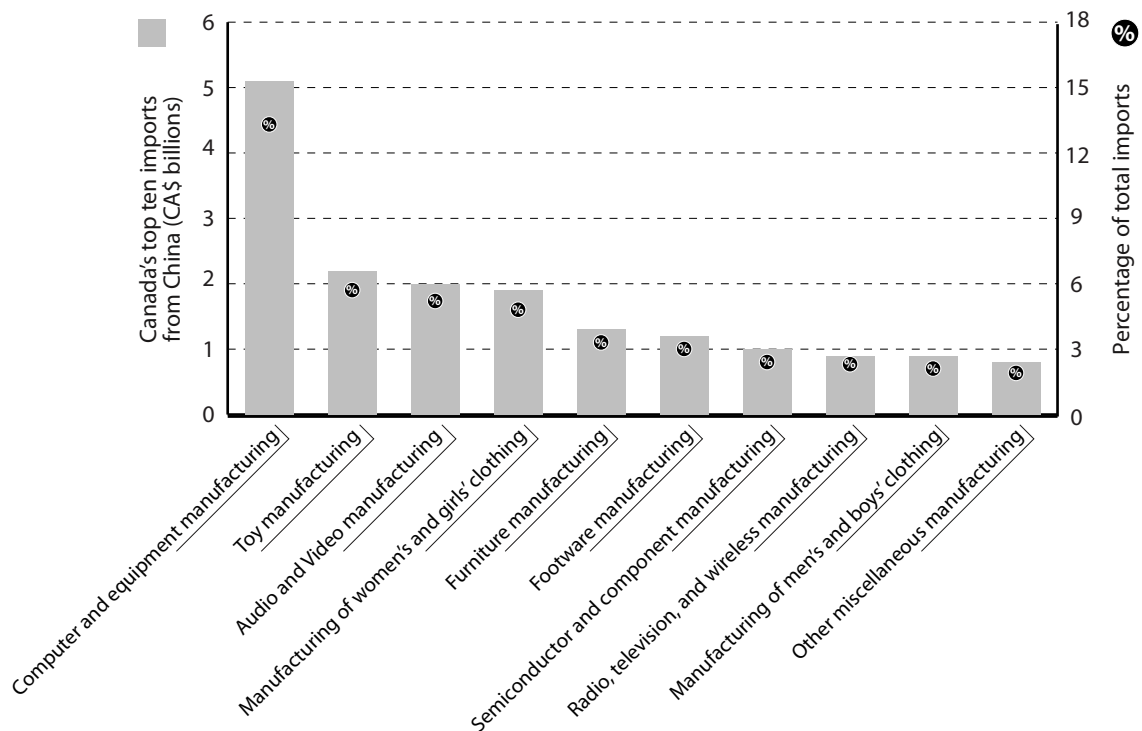
By industry, Canada's largest imports from China were from computer and equipment manufacturing (valued at CA\$5 billion) and toy manufacturing (valued at CA\$2 billion). These industries accounted for approximately 20% of total imports from China (figure 5.30). By product, Canada's largest import from China in 2007 was electric and electronic equipment (CA\$8 billion). Other important products imported from China were nuclear

Figure 5.29: Canada's top ten imports worldwide (CA\$ billions), by product, and China's share (%), 2007



Sources: Industry Canada, 2008; calculations by authors.

Figure 5.30: Value of Canada's top ten imports from China (CA\$ billions), by industry, and percentage of total export, 2007



Sources: Industry Canada, 2008; calculations by authors.

reactors, boilers, machinery, and mechanical appliances (valued at CA\$7 billion) and toys, games, and sporting goods (valued at CA\$3 billion). Together these products accounted for more than 45% of imports from China in 2007 (figure 5.31).

Table 5.5 ranks Canada's top import partners in 2007 by the top ten product categories imported. As with exports, a majority of Canada's imports originated from the United States. However, China was the second largest source for a majority of the top ten products (nuclear machinery and mechanical equipment, electric and electronic equipment, plastics, iron and steel, and furniture signs) that Canada imported worldwide.

Table 5.5: Ranking of Canada's major import partners, by top ten product categories, 2007

	Vehicles and Parts	Nuclear, Machinery and Mechanical Appliances	Electrical or Electronic Machinery and Equipment	Mineral Fuels Oils and Products	Plastics	Scientific and Technical Instrumentation	Pharmaceutical Products	Articles of Iron or Steel	Iron and Steel	Furniture Signs; Prefabricated Buildings
United States	1	1	1	1	1	1	1	1	1	1
China	6	2	2	7	2	3	5	2	2	2
Mexico	3	5	3	5	4	4	6	6	9	3
Japan	2	3	4	6	7	5	4	3	5	7
Germany	4	4	7	8	3	2	2	5	3	4
United Kingdom	7	6	8	4	8	6	3	8	7	6
Korea, Republic	5	7	5	9	5	8	9	7	4	8
Norway	9	9	9		9	9	7	9	8	9
France	—	—	—	3	—	—	—	—	—	—
Algeria	10	10	10	2	10	10	10	10	10	10
Taiwan	8	8	6	10	6	7	8	4	6	5

Note: Ranking by dollar values, where 1 = Canada's top partner

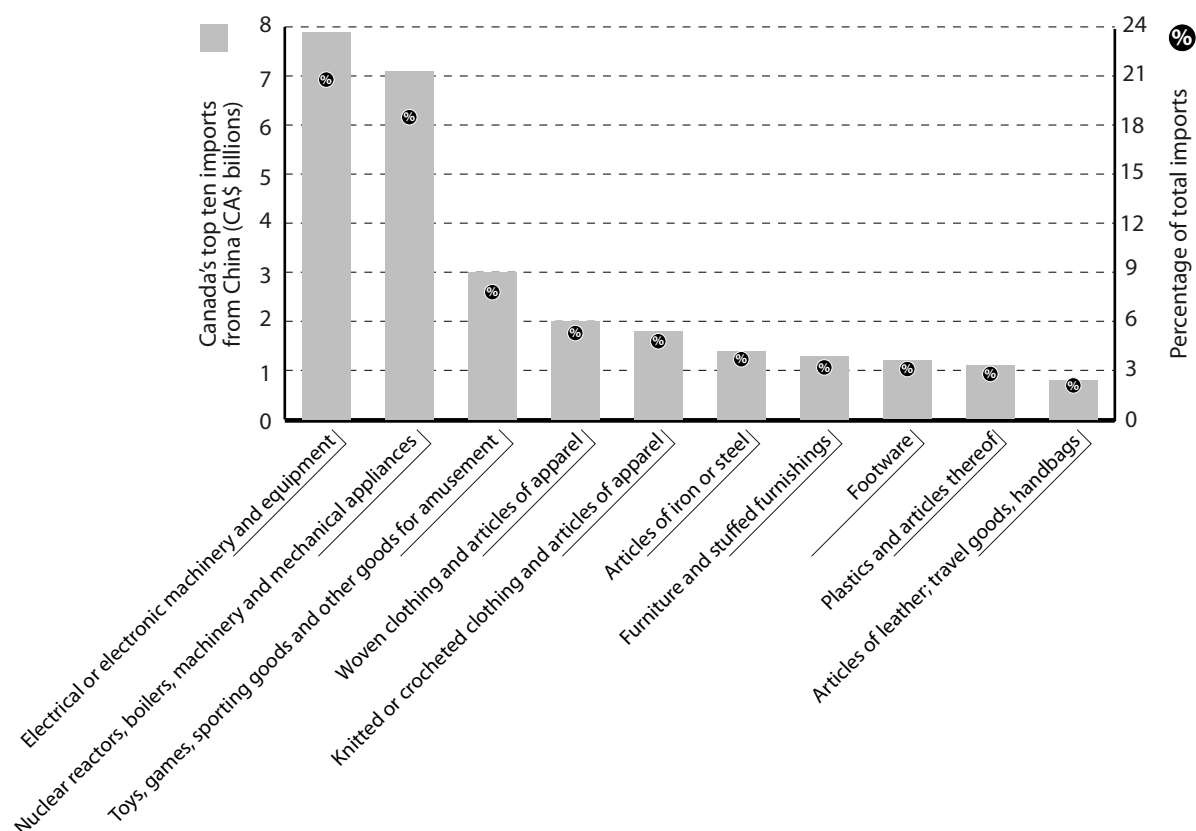
Source: Industry Canada, 2008; calculations by authors.

5.3 Trade between Canadian provinces and China

In previous sections, we presented Canada's trade relations with China at the national level. In this section we look at trade relations between Canada's provinces and China.³¹ By identifying the provinces that are driving Canada's trade with China, we better our understanding of overall trade relations between China and Canada. For example, while we understand that exports

31 Nova Scotia, New Brunswick, Prince Edward Island, and Newfoundland & Labrador have been grouped together as Atlantic provinces. British Columbia includes Yukon, Northwest Territories, and Nunavut.

Figure 5.31: Value of Canada's top ten imports from China (CA\$ billions), by product, and percentage of total imports, 2007



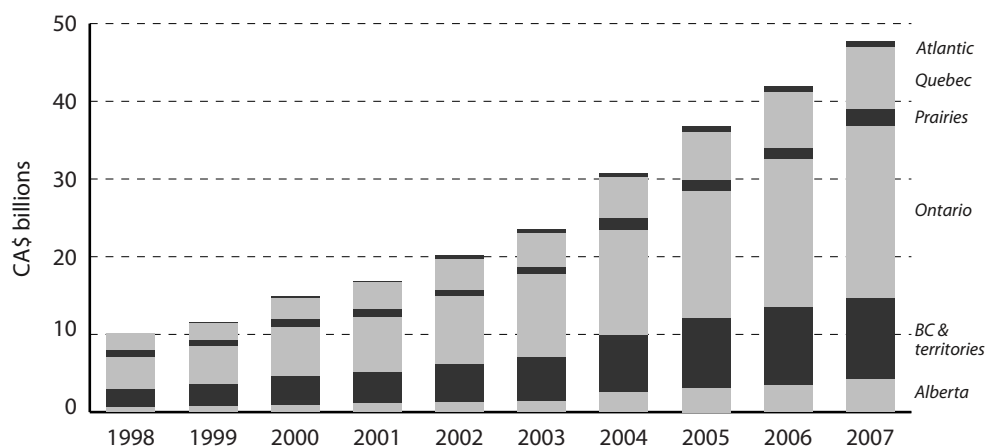
Sources: Industry Canada, 2008; calculations by authors.

to China have increased over time, it need not be that exports from all provinces in Canada have increased simultaneously and the growth may have been driven by just one or two large provinces. An analysis at the provincial level would help identify such variation in Canada's trade with China.

Ontario is the province with the greatest trade with China

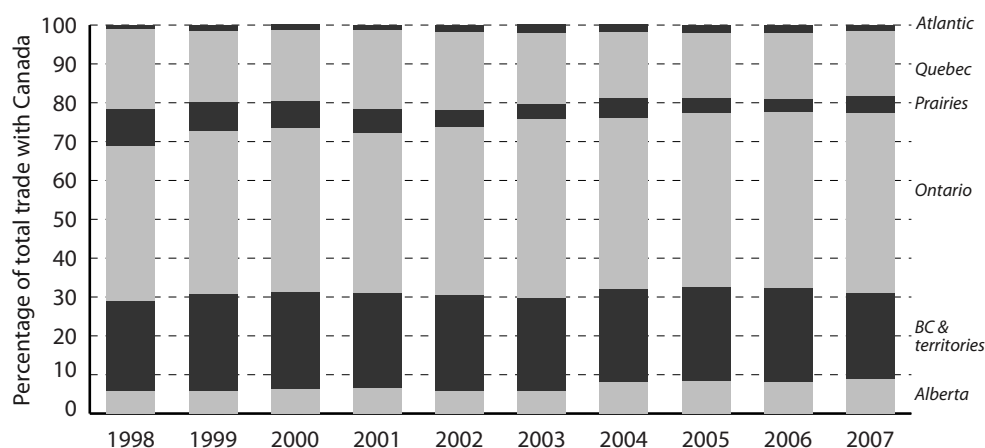
Figure 5.32 presents Canada's trade balances with China, broken down by province. For every year from 1998 to 2007, the value of Ontario's trade with China has been the highest. In 2007, Ontario's trade with China was valued at CA\$22 billion, accounting for approximately 46% of Canada's overall trade with China (figure 5.33). It was followed by British Columbia (and territories), which accounted for 22% of Canada's overall trade with China (at CA\$10 billion). In 2007, Saskatchewan and Manitoba accounted for approximately 5% of Canada's overall trade with China. Trade between China and these provinces, especially Saskatchewan, has declined over the years: between 1998 and 2007, trade between Saskatchewan and China fell by five percentage points.

Figure 5.32: Canada's trade with China, by province (CA\$ billions), 1998–2007



Note: British Columbia and territories include British Columbia, Yukon, Northwest Territories, and Nunavut; Prairies include Saskatchewan and Manitoba, Atlantic provinces include New Brunswick, Nova Scotia, Prince Edward Island, and Newfoundland & Labrador.
Sources: Industry Canada, 2008; calculations by authors.

Figure 5.33: Provincial share in Canada's trade with China, 1998–2007

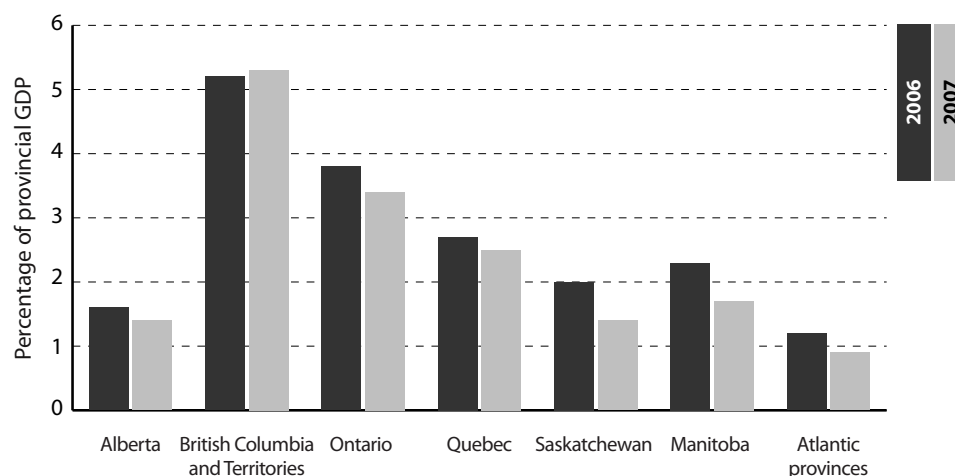


Note: British Columbia and territories include British Columbia, Yukon, Northwest Territories, and Nunavut; Prairies include Saskatchewan and Manitoba, Atlantic provinces include New Brunswick, Nova Scotia, Prince Edward Island, and Newfoundland & Labrador.
Sources: Industry Canada, 2008; calculations by authors.

British Columbia is Canada's largest trading partner, after adjustment for the size of provincial economies

Controlling for the size of the provincial economies (trade adjusted by GDP in each province), British Columbia was Canada's largest trading partner with China (figure 5.34). In 2007, trade with China accounted for approximately 5% of British Columbia's GDP. In contrast, for Ontario (the second largest trading partner after adjustment), trade represented approximately 4% of its GDP in the same year.

Figure 5.34: Provincial trade with China as a percentage of provincial GDP, 2006 & 2007



Note: British Columbia and territories include British Columbia, Yukon, Northwest Territories, and Nunavut; Atlantic provinces include New Brunswick, Nova Scotia, Prince Edward Island, and Newfoundland & Labrador.

Sources: Industry Canada, 2008; calculations by authors.

Alberta is Canada's main exporter

Table 5.6 shows the total value of Canada's exports, by province, from 1998 to 2007. In 1998, Saskatchewan accounted for the largest share (at 25%). Between 2000 and 2003, however, Ontario became Canada's largest exporter to China. More recently, Alberta has surpassed all other provinces as Canada's largest exporter to China (accounting for 30% of overall Canadian exports in 2007). Alberta's exports to China have grown faster than all other provinces, especially between 2006 and 2007 (figure 5.35). On the other hand, exports from Saskatchewan and Manitoba have not grown at the same pace as the Canadian average.

The organic chemical manufacturing industry is Alberta's main exporter to China

Alberta's oil and gas extraction industry has been its top exporter worldwide (table 5.8, pages 58–60). In 2007, the industry's exports stood at CA\$53 billion worldwide. However, only 2% of this was exported to China. Alberta's main exports to China were, instead, from the organic chemical manufacturing industry. Sales to China from this industry stood at Ca\$1 billion in 2007, accounting for 38% of Alberta's total exports to China.

Saskatchewan is Canada's largest exporter, after adjustment for the size of provincial economies

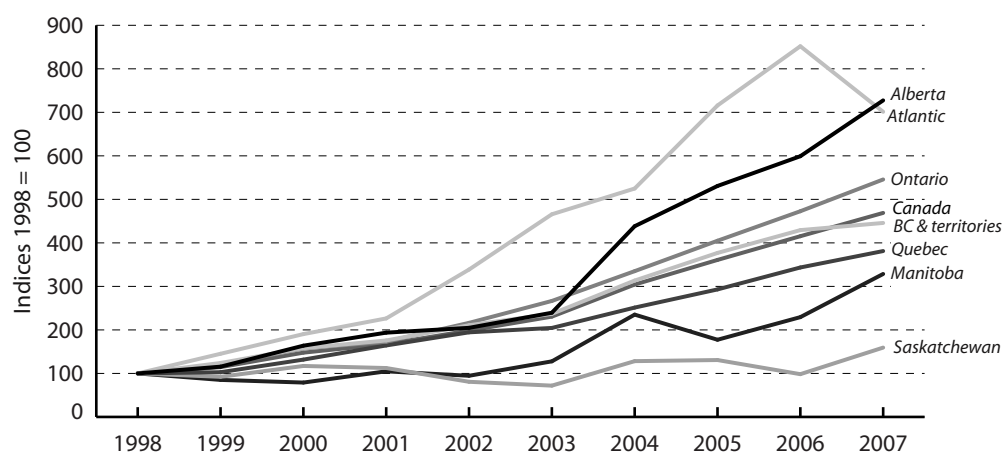
Controlling for the size of the provincial economies, Saskatchewan turns out to be Canada's largest exporter (figure 5.36). In 2007, Saskatchewan's exports

Table 5.6: Canada's merchandise exports (CA\$ millions) to China, by provinces, 1998–2007

	Alberta		BC and territories		Ontario		Quebec		Saskatchewan		Manitoba		Atlantic Canada	
	Value	% of total exports to China	Value	% of total exports to China	Value	% of total exports to China	Value	% of total exports to China	Value	% of total exports to China	Value	% of total exports to China	Value	% of total exports to China
1998	484	19.4%	468	18.7%	286	11.5%	335	13.4%	631	25.3%	228	9.1%	66	2.6%
1999	560	21.0%	598	22.5%	485	18.2%	180	6.7%	572	21.5%	161	6.0%	108	4.1%
2000	779	21.1%	759	20.5%	858	23.2%	328	8.9%	731	19.8%	109	2.9%	133	3.6%
2001	897	21.0%	786	18.4%	857	20.1%	725	17.0%	687	16.1%	168	3.9%	144	3.4%
2002	846	20.5%	774	18.7%	976	23.6%	709	17.2%	485	11.7%	80	1.9%	262	6.3%
2003	967	20.1%	968	20.1%	1,365	28.4%	558	11.6%	423	8.8%	158	3.3%	371	7.7%
2004	1,924	28.4%	1,274	18.8%	1,314	19.4%	690	10.2%	772	11.4%	415	6.1%	381	5.6%
2005	2,052	28.9%	1,366	19.2%	1,374	19.3%	809	11.4%	752	10.6%	231	3.3%	520	7.3%
2006	2,194	28.6%	1,567	20.5%	1,629	21.3%	886	11.6%	508	6.6%	331	4.3%	545	7.1%
2007	2,831	30.5%	1,838	19.8%	1,713	18.4%	995	10.7%	872	9.4%	550	5.9%	494	5.3%

Note: BC and territories include British Columbia, Nunavut, Northwest Territories, and Yukon; Atlantic provinces include Newfoundland & Labrador, Prince Edward Island, Nova Scotia, and New Brunswick.

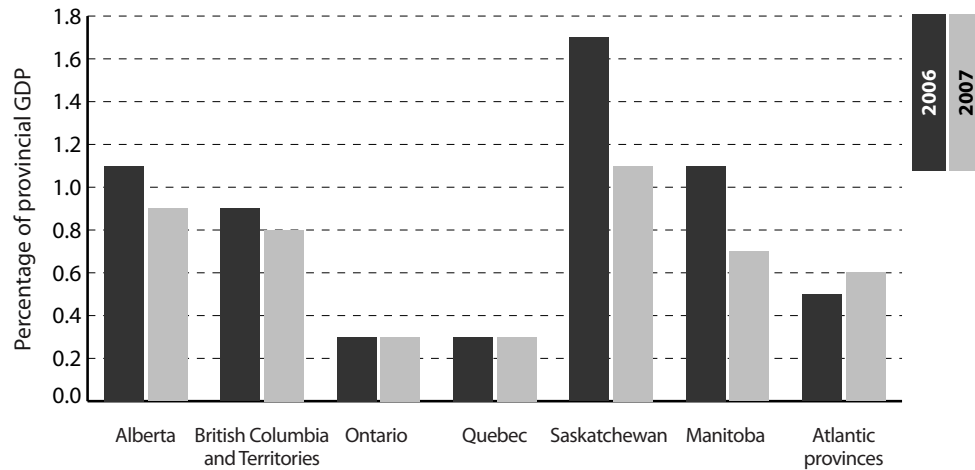
Source: Industry Canada, 2008; calculations by authors.

Figure 5.35: Growth in provincial exports to China, 1998–2007

Notes: Indices are of dollar value. BC & territories include British Columbia, Yukon, Northwest Territories, and Nunavut. Atlantic provinces include Newfoundland & Labrador, Prince Edward Island, Nova Scotia, and New Brunswick.

Source: Industry Canada, 2008; calculations by authors.

Figure 5.36: Provincial exports to China as a percentage of provincial GDP, 2006 & 2007



Note: British Columbia and territories include British Columbia, Yukon, Northwest Territories, and Nunavut; Atlantic provinces include New Brunswick, Nova Scotia, Prince Edward Island, and Newfoundland & Labrador.

Sources: Industry Canada, 2008; calculations by authors.

to China represented 2% of its provincial GDP. Forty-five percent of its exports to China consisted of non-metallic mineral mining and quarrying products. After adjustment, Alberta and Manitoba were the next largest exporters to China (with exports accounting for 1% of their GDPs, respectively).

Ontario imports most from China

Ontario has consistently ranked as Canada's top importer from China. In 2007, Ontario's imports from China were valued at CA\$20 billion, 53% of Canada's overall imports in 2007. Second was British Columbia (at 23%); Quebec was third (at 18%). Table 5.7 shows Canada's provincial imports from China from 1998 to 2007. Growth in provincial imports relative to 1998 is shown in figure 5.37. Although Ontario is Canada's largest importer from China, Alberta has witnessed the fastest growth in imports over the decade.

Ontario's imports are primarily from China's computer and peripheral manufacturing industry

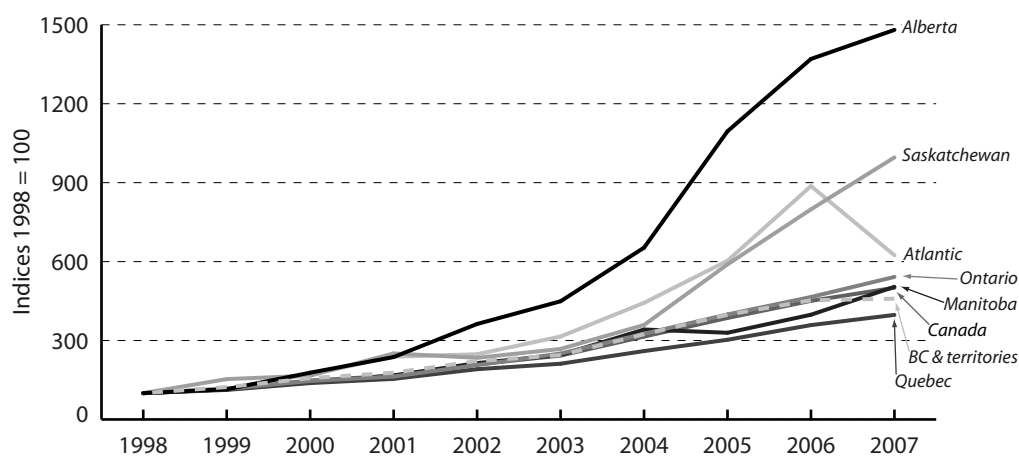
Ontario's imports from China were primarily from the computer and peripheral manufacturing industry (table 5.8, pages 58–60). As of 2007, imports stood at CA\$4 billion, accounting for 19% of Ontario's total imports from China. Ontario's largest imports worldwide are from the automobile industry (at CA\$27 billion); almost none of the products in this category were imported from China.

Table 5.7: Canada's merchandise imports (CA\$ millions) from China, by provinces, 1998–2007

	Ontario		BC and territories		Quebec		Alberta		Manitoba		Atlantic Canada		Saskatchewan	
	Value	% of total imports from China	Value	% of total imports from China	Value	% of total imports from China	Value	% of total imports from China	Value	% of total imports from China	Value	% of total imports from China	Value	% of total imports from China
1998	3,757	49.1%	5,643	24.7%	1,743	22.8%	91	1.2%	114	1.5%	43	0.6%	16	0.2%
1999	4,363	48.7%	6,684	25.9%	1,957	21.9%	105	1.2%	130	1.5%	51	0.6%	25	0.3%
2000	5,498	48.7%	8,459	26.2%	2,410	21.3%	162	1.4%	162	1.4%	74	0.7%	27	0.2%
2001	6,132	48.2%	9,484	26.3%	2,689	21.1%	217	1.7%	191	1.5%	104	0.8%	40	0.3%
2002	7,764	48.5%	11,952	26.2%	3,331	20.8%	331	2.1%	244	1.5%	108	0.7%	37	0.2%
2003	9,411	50.6%	14,021	24.8%	3,692	19.9%	410	2.2%	279	1.5%	137	0.7%	43	0.2%
2004	12,230	50.7%	18,336	25.3%	4,532	18.8%	596	2.5%	390	1.6%	192	0.8%	57	0.2%
2005	14,995	50.8%	22,502	25.4%	5,280	17.9%	1,000	3.4%	376	1.3%	262	0.9%	94	0.3%
2006	17,481	50.7%	26,021	24.8%	6,252	18.1%	1,251	3.6%	454	1.3%	385	1.1%	128	0.4%
2007	20,348	53.1%	29,006	22.6%	6,927	18.1%	1,352	3.5%	575	1.5%	271	0.7%	159	0.4%

Note: BC and territories include British Columbia, Nunavut, Northwest Territories, and Yukon; Atlantic provinces include Newfoundland & Labrador, Prince Edward Island, Nova Scotia, and New Brunswick.

Source: Industry Canada, 2008; calculations by authors.

Figure 5.37: Growth in provincial imports from China, 1998–2007

Notes: Indices are of dollar value. BC & territories include British Columbia, Yukon, Northwest Territories, and Nunavut. Atlantic provinces include Newfoundland & Labrador, Prince Edward Island, Nova Scotia, and New Brunswick.

Source: Industry Canada, 2008; calculations by authors.

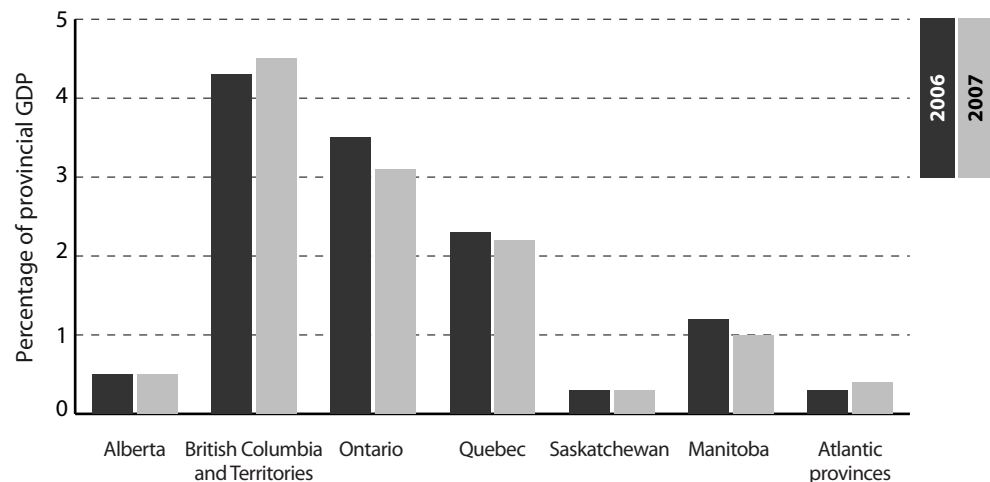
British Columbia imports most from China, after adjustment for the size of provincial economies

When we adjust for the size of the provincial economies, British Columbia ranks as the largest importer from China (figure 5.38). In 2007, British Columbia's imports from China accounted for 4% of the province's GDP. Like Ontario, British Columbia's main imports from China were from the computer and peripheral manufacturing industry (approximately 12% of its overall imports). Ontario was the second largest importer, after adjustment for the size of provincial economies, its imports from China accounting for 3.5% of its GDP in 2007.

Alberta, Saskatchewan and the Atlantic provinces have small trade surpluses with China

Figure 5.39 provincial trade balances with China from 1998 to 2007. Ontario ran the largest trade deficit with China (at CA\$18 billion in 2007), followed by British Columbia (at C\$ 6 billion) and Quebec (at C\$ 5 billion) (figure 5.39). On the other hand, Alberta has been running a trade surplus with China the entire decade. In 2007, the surplus was valued at C\$ 1.5 billion. Saskatchewan and the Atlantic region were the other provinces that ran small trade surpluses with China over the same period.

Figure 5.38: Provincial imports from China as a percentage of provincial GDP, 2006 & 2007



Note: British Columbia and territories include British Columbia, Yukon, Northwest Territories, and Nunavut; Atlantic provinces include New Brunswick, Nova Scotia, Prince Edward Island, and Newfoundland & Labrador.

Sources: Industry Canada, 2008; calculations by authors.

Figure 5.39: Provincial trade balances with China, 1998–2007

Note: British Columbia and territories include British Columbia, Yukon, Northwest Territories, and Nunavut; Prairies include Saskatchewan and Manitoba, Atlantic provinces include New Brunswick, Nova Scotia, Prince Edward Island, and Newfoundland & Labrador.

Sources: Industry Canada, 2008; calculations by authors.

Data:

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Alberta	0.4	0.5	0.6	0.7	0.5	0.6	1.3	1.1	0.9	1.5
British Columbia & territories	-1.4	-1.7	-2.2	-2.6	-3.4	-3.6	-4.8	-6.1	-7.0	-6.8
Ontario	-3.5	-3.9	-4.6	-5.3	-6.8	-8.0	-10.9	-13.6	-15.9	-18.6
Prairie Provinces	0.7	0.6	0.7	0.6	0.3	0.3	0.7	0.5	0.3	0.7
Quebec	-1.4	-1.8	-2.1	-2.0	-2.6	-3.1	-3.8	-4.5	-5.4	-5.9
Atlantic	0.0	0.1	0.1	0.0	0.2	0.2	0.2	0.3	0.2	0.2

Conclusion

Canada's economic relations with China have grown substantially in the last decade, although the United States remains Canada's primary trading partner; all trade indices point to this conclusion. However, when we compare Canada's economic interaction with China with that of other countries, we discover that there is scope for further improvement. Comparisons with Australia, for example, show that, while Canada's imports-to-exports ratio with China was four in 2007—Canada imported four times as much from China as it exported to China—, Australia's import-to-export ratio with China was 1.2 in 2007). Further, Canada's deficit with China has grown faster than Australia's: between 1999 and 2007, Canada's trade deficit with China grew by over 400% while Australia's grew by over 200% over the same period.³²

32 Calculations were based on data retrieved from United Nations Commodity Trade Statistics database (UN Comtrade, 2008). Note also that Australia and China are close to a free-trade agreement while countries such as the UK have committed to a 50% growth in trade with China within two years (Marchi, 2008).

In conclusion, while there certainly has been growth in trade between the two countries, there is considerable scope for Canada to increase and diversify its exports to China. Section 5.2: Exports and imports, by industry and products, of the report shows that Canada's exports to China consist primarily of products from the mineral and forestry sectors. In turn, we import consumer goods and industrial machinery and parts from China. Although China's future growth would ensure that there will be continued demand for Canada's resource-based products, there are opportunities for Canada to export to China's growing middle-class population, especially in China's emerging inland (second-tier) cities.³³ In particular, this opens up opportunities for Canada's retail trade and other goods and services sectors. As China becomes more liberalized, relations between Canada and China are bound to grow even stronger. This will ensure that both countries will reap the benefits of trade that are a central contributor to economic growth and a rising standard of living.³⁴

33 An article by Pang and U.S. Commercial Services (2008) discusses the opportunities available for American exporters in China's second-tier cities such as Xi'an, Nanjing, Dalian, Xiamen, Tianjin, Hangzhou, Shenzhen, Huangpu, Qingdao, Fuzhou, Shijiazhuang, Wuhan, Chengdu, and Ningbo.

34 There are several benefits to countries that trade with one another. (1) Consumers' real purchasing power rises since they can obtain goods and services at lower prices than what they have been paying. (2) A country can produce more GDP from its land, labor, and capital because it is not using them to produce things that other countries can produce at a lower cost. Moreover, trade (3) integrates countries politically and (4) encourages innovation among producers as they compete with foreign firms. Finally, trade (5) expands markets for products manufactured by local firms. Research has shown that foreign competition, which includes trade in goods and services, provides significant benefits to a country through increased productivity, lower prices, and a wide range of goods and services for its consumers. For example, a study (using data from 1980 to 1996) of the Canada-US Free Trade Agreement (FTA) by Daniel Trefler (2004) found that the FTA was associated with an increase up to 15% in labor productivity. Another study by Hung and colleagues (2004) found that for the United States, foreign competition accounted for a 32% growth in labor productivity in the manufacturing sector between 1996 and 2001. Studies on Canada have found evidence of benefits to consumers from the signing of the US-Canada Open Skies Agreement in 1995. For example, a Statistics Canada article by Dubey and Gendron (1999) found that by the end of 1996, 59 new routes were created allowing greater access by Canadian passengers to US air traffic hubs and outbound international flights. The authors also found that the share of the total number of travelers choosing Canadian carriers increased from 40% in 1993 to 44% in 1997. A large body of empirical literature has examined whether trade raises a country's real income. For example, Irwin and Tervio (2001) use data from the period before World War I, the interwar period, and the post-war period and conclude that (for all their sample countries, including Canada), an increase in trade (controlling for endogeneity) as a proportion of GDP, resulted in higher incomes for these countries. A paper by Frankel and Romer (1999), points to the same conclusion. Further, a paper by Calderon and Chong (2000) uses a panel of countries (including Canada) for the period from 1960 to 1965 and shows that a 5% increase in the volume of trade leads to a long-run decline of 1.26 points in income inequality.

Table 5.8: Canada's top three exports and imports worldwide and to China, by province and industry (in CA\$ billions) and China's share (%), 2007**British Columbia**

Export Worldwide	CA\$ billions	to China	Exports to China	CA\$ billions	Exports
1 Sawmills and Wood Preservation	5.3	2.0%	Pulp Mills	1.0	55.0%
2 Pulp Mills	3.4	29.9%	Copper, Nickel, Lead and Zinc Ore Mining	0.2	9.5%
3 Oil and Gas Extraction	2.8	0.0%	Recyclable Metal Wholesaler-Distributors	0.1	6.8%

Imports Worldwide	CA\$ billions	from China	Imports from China	CA\$ billions	Imports
1 Automobile and Light-Duty Motor Vehicle Manufacturing	3.0	0.1%	Computer and Peripheral Equipment Manufacturing	1.0	11.6%
2 Computer and Peripheral Equipment Manufacturing	1.7	59.6%	Doll, Toy and Game Manufacturing	0.7	8.2%
3 Petroleum Refineries	1.7	0.0%	Women's and Girls' Cut and Sew Clothing Manufacturing	0.6	6.7%

Alberta

Export Worldwide	CA\$ billions	to China	Exports to China	CA\$ billions	Exports
1 Oil and Gas Extraction	53.3	2.0%	Other Basic Organic Chemical Manufacturing	1.1	38.4%
2 Resin and Synthetic Rubber Manufacturing	3.3	7.5%	Oil and Gas Extraction	0.4	13.8%
3 Petroleum Refineries	2.8	0.0%	Non-Ferrous Metal (except Aluminum) Smelting and Refining	0.3	11.1%

Imports Worldwide	CA\$ billions	from China	Imports from China	CA\$ billions	Imports
1 Oil and Gas Extraction	1.4	0.0%	Household and Institutional Furniture Manufacturing	0.1	8.4%
2 Aerospace Product and Parts Manufacturing	0.9	0.0%	Iron and Steel Pipes and Tubes Manufacturing from Purchased Steel	0.1	6.0%
3 Construction Machinery Manufacturing	0.7	1.2%	Semiconductor and Other Electronic Component Manufacturing	0.1	5.0%

Saskatchewan

Export Worldwide	CA\$ billions	to China	Exports to China	CA\$ billions	Exports
1 Oil and Gas Extraction	6.9	0.0%	Other Non-Metallic Mineral Mining and Quarrying	0.4	47.6%
2 Other Non-Metallic Mineral Mining and Quarrying	2.8	14.6%	Oilseed (except Soybean) Farming	0.2	19.6%
3 Wheat Farming	2.5	0.0%	Pulp Mills	0.1	15.4%

Table 5.8, continued: Canada's top three exports and imports worldwide and to China, by province and industry (in CA\$ billions) and China's share (%), 2007

	Imports Worldwide	CA\$ billions	from China	Imports from China	CA\$ billions	Imports
1 Construction Machinery Manufacturing		0.9	0.0%	Pesticide and Other Agricultural Chemical Manufacturing	0.0	17.8%
2 Motor Vehicle Body and Trailer Manufacturing		0.5	0.2%	Household and Institutional Furniture Manufacturing	0.0	13.7%
3 Agricultural Implement Manufacturing		0.4	0.1%	Tire Manufacturing	0.0	7.4%

Manitoba

	Export Worldwide	CA\$ billions	to China	Exports to China	CA\$ billions	Exports
1 Non-Ferrous Metal (except Aluminum) Smelting and Refining		2.3	19.0%	Non-Ferrous Metal (except Aluminum) Smelting and Refining	0.4	80.2%
2 Aerospace Product and Parts Manufacturing		0.6	0.0%	Oilseed (except Soybean) Farming	0.0	8.7%
3 Electric Power Generation		0.5	0.0%	Recyclable Metal Wholesaler-Distributors	0.0	2.9%

	Imports Worldwide	CA\$ billions	from China	Imports from China	CA\$ billions	Imports
1 Construction Machinery Manufacturing		0.9	0.3%	Computer and Peripheral Equipment Manufacturing	0.1	9.2%
2 Agricultural Implement Manufacturing		0.6	0.2%	Telephone Apparatus Manufacturing	0.0	5.2%
3 Engine, Turbine and Power Transmission Equipment Manufacturing		0.4	1.9%	Household and Institutional Furniture Manufacturing	0.0	4.0%

Ontario

	Export Worldwide	CA\$ billions	to China	Exports to China	CA\$ billions	Exports
1 Automobile and Light-Duty Motor Vehicle Manufacturing		47.6	0.0%	Recyclable Metal Wholesaler-Distributors	0.2	9.9%
2 Non-Ferrous Metal (except Aluminum) Smelting and Refining		9.9	0.9%	Other Plastic Product Manufacturing	0.1	6.9%
3 Gold and Silver Ore Mining		5.8	0.0%	Non-Ferrous Metal (except Aluminum) Smelting and Refining	0.1	5.4%

	Imports Worldwide	CA\$ billions	from China	Imports from China	CA\$ billions	Imports
1 Automobile and Light-Duty Motor Vehicle Manufacturing		26.5	0.0%	Computer and Peripheral Equipment Manufacturing	3.8	18.8%
2 Other Motor Vehicle Parts Manufacturing		10.4	0.0%	Doll, Toy and Game Manufacturing	1.3	6.3%
3 Computer and Peripheral Equipment Manufacturing		9.5	40.2%	Audio and Video Equipment Manufacturing	1.3	6.3%

Table 5.8, continued: Canada's top three exports and imports worldwide and to China, by province and industry (in CA\$ billions) and China's share (%), 2007**Quebec**

Export Worldwide	CA\$ billions	to China	Exports to China	CA\$ billions	Exports
1 Aerospace Product and Parts Manufacturing	8.2	0.3%	Recyclable Metal Wholesaler-Distributors	0.2	18.3%
2 Alumina and Aluminum Production and Processing	8.2	0.0%	Pulp Mills	0.1	14.8%
3 Paper Mills	4.7	0.0%	Commercial and Service Industry Machinery Manufacturing	0.1	7.2%

Imports Worldwide	CA\$ billions	from China	Imports from China	CA\$ billions	Imports
1 Oil and Gas Extraction	13.8	0.0%	Women's and Girls' Cut and Sew Clothing Manufacturing	0.8	11.7%
2 Aerospace Product and Parts Manufacturing	5.7	0.2%	Footwear Manufacturing	0.4	5.5%
3 Petroleum Refineries	3.6	0.0%	Men's and Boys' Cut and Sew Clothing Manufacturing	0.3	4.6%

Atlantic provinces

Export Worldwide	CA\$ billions	to China	Exports to China	CA\$ billions	Exports
1 Petroleum Refineries	9.2	0.0%	Iron Ore Mining	0.2	39.6%
2 Oil and Gas Extraction	7.3	0.0%	Seafood Product Preparation and Packaging	0.2	34.9%
3 Seafood Product Preparation and Packaging	1.9	8.9%	Copper, Nickel, Lead and Zinc Ore Mining	0.0	8.3%

Imports Worldwide	CA\$ billions	from China	Imports from China	CA\$ billions	Imports
1 Oil and Gas Extraction	8.9	0.0%	Seafood Product Preparation and Packaging	0.1	33.0%
2 Automobile and Light-Duty Motor Vehicle Manufacturing	2.7	0.1%	Household and Institutional Furniture Manufacturing	0.0	10.3%
3 Non-Ferrous Metal (except Aluminum) Smelting and Refining	1.0	0.0%	Veneer, Plywood and Engineered Wood Product Manufacturing	0.0	4.2%

Note: BC and territories include British Columbia, Nunavut, Northwest Territories, and Yukon; Atlantic provinces include Newfoundland and Labrador, Prince Edward Island, Nova Scotia and New Brunswick.

Source: Industry Canada, 2008; calculations by authors.

6 Trade in Services

6.1 Overall trade

Trade in services has become an increasingly important component of a country's balance of payments. According to the United Nations Conference on Trade and Development (UNCTAD), close to 14.7% of world trade is now generated from services. In 2007, this trade was valued at approximately CA\$5.4 trillion, representing 8.8% of the world's overall GDP and 17.2% of world's total trade in merchandise (UNCTAD, 2008).³³

Trade with China accounts for 1.2% of Canada's overall trade in services

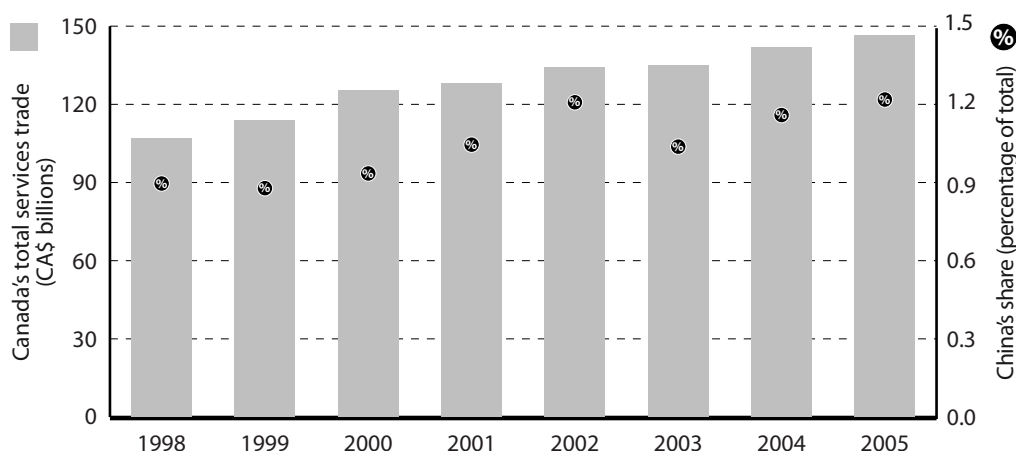
The Canadian services sector represented approximately two thirds of Canada's GDP, up from just over half in the 1980s, and it generated approximately 75% of total employment in Canada in 2005 (Statistics Canada, 2008). However, Canada's *trade* in services has been fairly low. According to the Canadian Services Coalition and the Canadian Chamber of Commerce (2006), Canada's services trade represents only 12% of its total trade and ranks behind the G7 average in services share of trade. In 2007, Canada's

- 33 Services cover a wide range of intangible and heterogeneous products and activities. Unlike trade in merchandise, which is easier to measure since it can be itemized or checked at customs, measurement of services poses a challenge because they require direct interaction between providers and consumers. In most cases, production and consumption of consumer services cannot be separated. Therefore, most international transactions in services require either that the consumer move to the location of a producer (as in tourism, health, education) or that the producer move to the place of consumption (through foreign direct investment). The World Trade Organization (WTO, 2008, May 26) distinguishes between four modes of trade in services: Mode 1 involves cross-border trade (e.g., call centers); Mode 2 involves consumption abroad (consumers travel to the country of the service provider, e.g., tourism); Mode 3 involves a commercial presence (e.g., foreign direct investment); Mode 4 involves the temporary movement of people to the country of the consumer (e.g., professional services: medical, accounting, engineering, etc.). Of these, modes 3 and 4 are generally not captured by balance of payments statistics (WTO, 2008). In this chapter, we look at services trade as captured by Canada's balance of payments. These include: (1) travel services (business and personal); (2) transportation services (water, air, and land); (3) commercial services (communication service; construction; insurance and other financial services; computer and information; royalties and license fees; non-financial commissions; equipment rentals; management services; advertising and related services; architecture, engineering, and other technical services; miscellaneous services to business; audio-visual services; and personnel, cultural, and recreational services); and (4) government services. We also include a small section on tourism. Chapter 7 will look at foreign direct investment.

trade in services was valued at CA\$154 billion, an increase of \$57 billion from its level in 1998.³⁴ As with trade in merchandise, the United States was Canada's primary trading partner, accounting for 58% of Canada's overall trade in services. In the same year, China and Hong Kong each accounted for approximately 2% of Canada's total services trade.

Figure 6.1 shows Canada's total trade in services (in dollar values) from 1998 to 2005 (the latest year for which data are available for Canada and China)³⁵ and China's share in the total. Unlike China's increasing share in Canada's overall trade in merchandise, China's share in Canada's overall trade in services has not grown much: from approximately 1% in 1998, it grew to 1.2% in 2005. However, this share has remained fairly stable over time.

Figure 6.1: Canada's total services trade (CA\$ billions) and China's share (%) of the total, 1998–2005



Sources: Statistics Canada, 2008; calculations by authors.

6.2 Exports

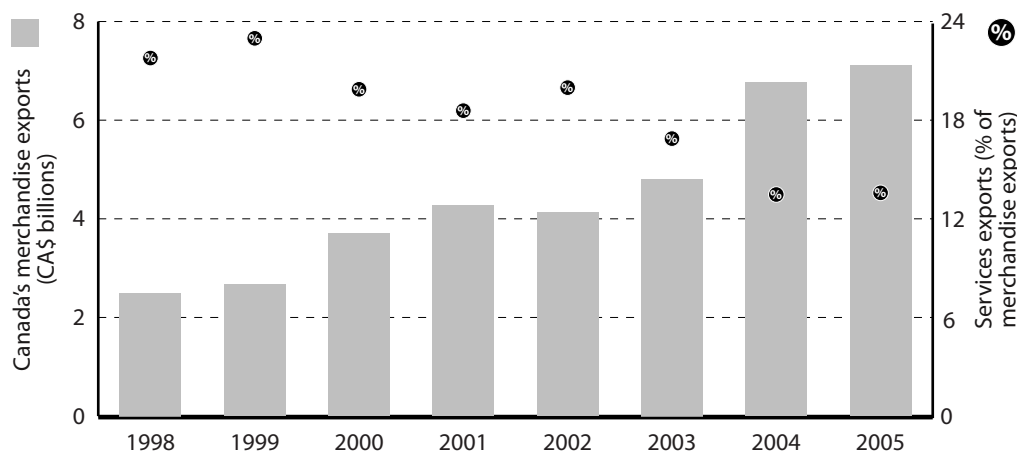
Canada's ratio of services exports to merchandise exports has declined over time

While Canada's exports of merchandise represented nearly 30% of its overall GDP in 2007, Canada's exports of services represented only approximately 4.4% of its overall GDP. A quick way to check the importance of services exports to a partner country is to look at the ratio of services exports to the overall merchandise exports to the same country (figure 6.2). From 1998 to 2005, Canada's services-export ratio declined: while exports of services to

34 Note that these figures do not include foreign direct investment.

35 Note that since figures are available only until 2005, some of the increased growth in services trade due to China's WTO accession and liberalization in financial service and insurance may not have been captured here.

Figure 6.2: Canada's merchandise exports to China (CA\$ billions) and services exports to China as a percentage of merchandise exports, 1998–2005



Sources: Statistics Canada, 2008; calculations by authors.

China represented 22% of its total merchandise exports in 1998, they represented only 14% in 2005. However, it is still possible that Canada's services trade with China may have grown in absolute terms (although at a slower pace than Canada's merchandise exports to China). Slower export growth in services relative to merchandise may have resulted in lower services-to-merchandise trade ratios observed above. To check this, we plot Canada's growth in services exports to China since 1998 and compare that with growth in Canada's merchandise exports to China for the same period (figure 6.3). Indeed, services exports to China did increase over the entire period, though Canada's merchandise exports increased much faster.

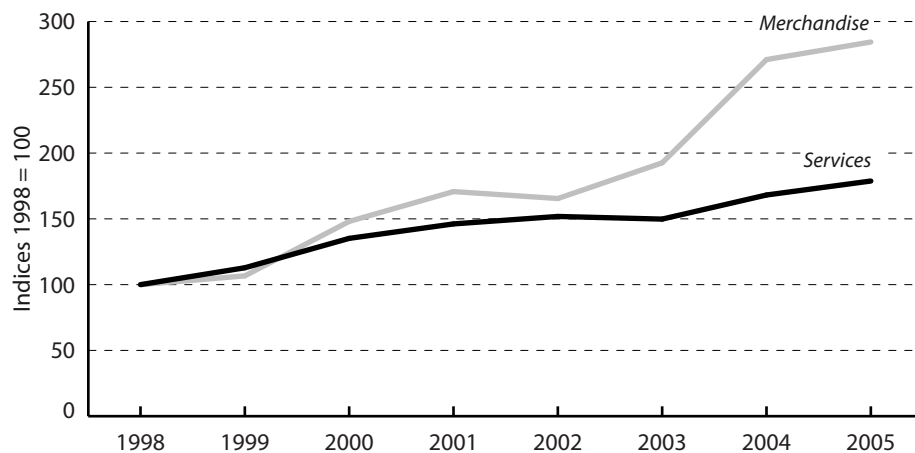
Canada's exports of services to China have grown over time

Canada's exports of services to China grew at an average rate of 9% annually between 1998 and 2005 (table 6.1). Moreover, compared to 1998, Canada's services exports to China were 78% higher in 2005. Figure 6.4 compares Canada's growth in services exports to China with growth in services exports to its top ten trading partners (excluding the United States). As the figure shows, services exports to China seem to have grown faster than Canada's services exports to its top ten trading partners.

China is among Canada's top ten services-export markets

Table 6.2 shows Canada's top ten services-export markets worldwide, from 1998 to 2005. As with exports of merchandise, the United States has been Canada's largest services-export market over the entire period. China too has been among Canada's top ten markets for services export in all these years, although it has never ranked among the top five. For example, in 2005, China ranked eighth among Canada's services-export markets.

Figure 6.3: Growth in Canada's exports of services and merchandise to China, 1998–2005



Note: Indices are of dollar value.

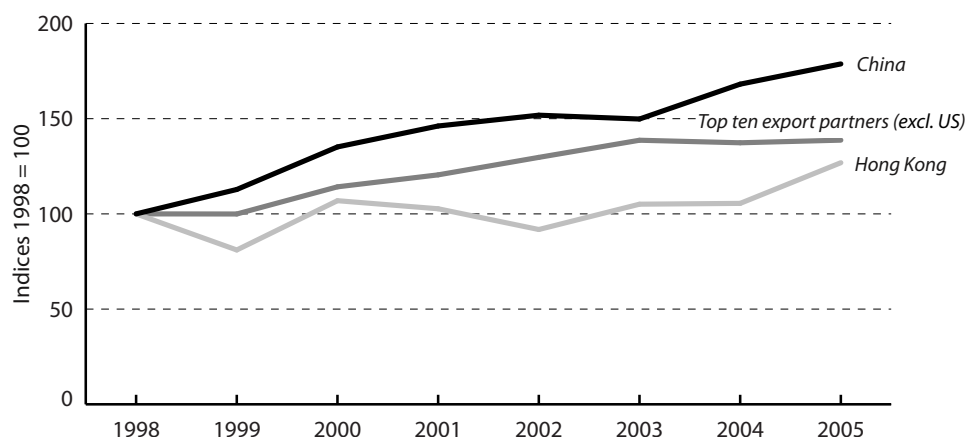
Sources: Statistics Canada, 2008; calculations by authors.

Table 6.1: Canada's services exports (CA\$ millions) to China and Hong Kong, levels and growth, 1998–2005

	China			Hong Kong		
	Exports	Growth over previous year	Average annual growth over seven years	Exports	Growth over previous year	Average annual growth over seven years
1998	546	—		707	—	
1999	616	12.8%		573	−19.0%	
2000	738	19.8%		756	31.9%	
2001	798	8.1%		726	−4.0%	
2002	829	3.9%		649	−10.6%	
2003	818	−1.3%		743	14.5%	
2004	918	12.2%		746	0.4%	
2005	976	6.3%		897	20.2%	
			8.8%			4.8%

Source: Statistics Canada, 2008; calculations by authors.

Figure 6.4: Growth in Canada's exports of services to China, Hong Kong and top ten partners (excluding the United States), 1998–2005



Note: Indices are of dollar value. In the data, top ten exports partners include United States, France, Germany, Netherlands, United Kingdom, Japan, Barbados, Bermuda. The United States was excluded from our calculations.

Source: Statistics Canada, 2008; calculations by authors.

Table 6.2: Ranking of Canada's top ten services-export destinations, 1998–2005

	1998	1999	2000	2001	2002	2003	2004	2005
United States	1	1	1	1	1	1	1	1
United Kingdom	2	2	2	2	2	2	2	2
Japan	3	3	3	3	3	7	6	6
France	4	5	5	5	5	6	5	3
Germany	5	4	4	4	4	4	3	4
Hong Kong	6	7	6	9	13	11	11	10
Bermuda	7	12	—	6	8	3	4	5
Barbados	8	—	—	—	—	—	—	—
Switzerland	9	11	12	10	7	8		—
China	10	6	7	7	9	10	9	8

Notes: Rankings based on value of service exports, where 1 = Canada's largest export market

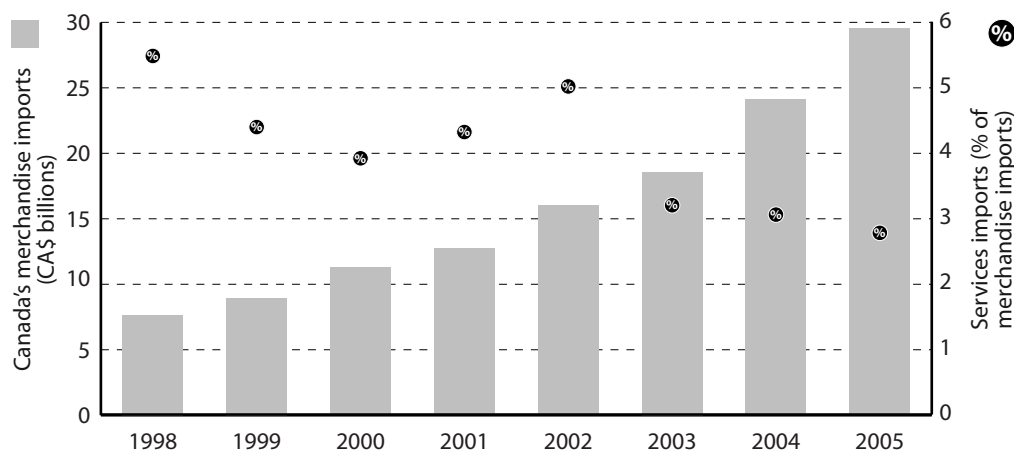
Source: Industry Canada, 2008; calculations by authors.

6.3 Imports

Canada's ratio of services imports to merchandise imports has declined over time

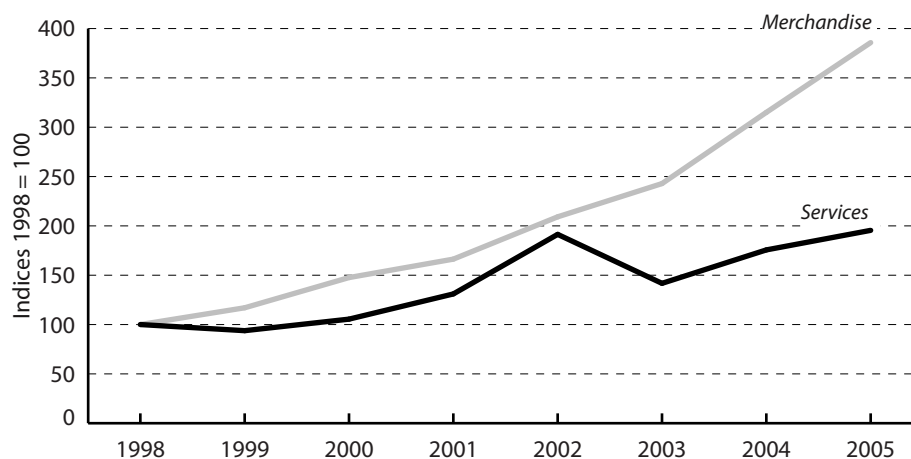
As with the ratio of services exports to merchandise exports, Canada's ratio of services imports to merchandise imports from China have declined steadily from 1998 to 2005 (figure 6.5). However, as discussed earlier, this need not imply that services imports per se have deteriorated. As figure 6.6 shows, Canada's imports of merchandise from China increased at a faster rate than imports of services from China, resulting in the deteriorating ratio of services-imports observed in figure 6.5.

Figure 6.5: Canada's merchandise imports from China (CA\$ billions) and services imports from China as a percentage of merchandise exports, 1998–2005



Sources: Statistics Canada, 2008; calculations by authors.

Figure 6.6: Growth in Canada's imports of services and merchandise from China, 1998–2005



Note: Indices are of dollar value.

Source: Statistics Canada, 2008; calculations by authors.

Canada's services imports from China have grown over time

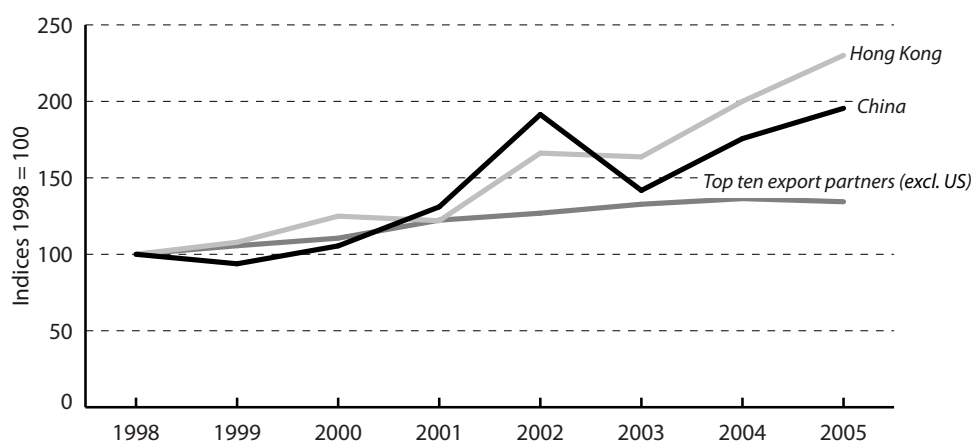
Table 6.3 lists Canada's services imports from China from 1998 to 2005. Over this period, services imports from China grew at an average annual rate of 12%. As of 2005, services imports from China stood at CA\$819 million, an increase of 11% over 2004. Moreover, Canada's services imports from China grew faster (relative to 1998) than Canada's services imports from its top ten trading partners overall, over the entire period (figure 6.7).

Table 6.3: Canada's service imports (CA\$ millions) from China, Hong Kong, levels and growth, 1998–2005

	China			Hong Kong		
	Imports	Growth over previous year	Average annual growth over seven years	Imports	Growth over previous year	Average annual growth over seven years
1998	419	—		774	—	
1999	393	−6.2%		835	7.9%	
2000	442	12.5%		967	15.8%	
2001	549	24.2%		944	−2.4%	
2002	802	46.1%		1,286	36.2%	
2003	594	−25.9%		1,267	−1.5%	
2004	736	23.9%		1,548	22.2%	
2005	819	11.3%		1,781	15.1%	
			12.3%			13.3%

Source: Statistics Canada, 2008; calculations by authors.

Figure 6.7: Growth in Canada's imports of services from China, Hong Kong and top ten partners (excluding the United States), 1998–2005



Note: Indices are of dollar value. In the data, top ten exports partners include United States, France, Germany, Netherlands, United Kingdom, Japan, Barbados, Bermuda. The United States was excluded from our calculations.

Sources: Statistics Canada, 2008; calculations by authors.

China ranks among Canada's top 20 services-import partners

China's ranking as services-import partner to Canada was not as high as its ranking as Canada's services-export partner (table 6.4). In 2005, China ranked fourteenth among Canada's top services-import partners. Though this ranking has fluctuated over time, China retained its position among Canada's top 20 import partners over the entire period.

Table 6.4: Ranking of Canada's top ten import partners, 1998–2005

	1998	1999	2000	2001	2002	2003	2004	2005
United States	1	1	1	1	1	1	1	1
United Kingdom	2	2	2	2	2	2	2	2
France	3	4	4	3	4	6	5	4
Japan	4	3	3	4	3	3	3	3
Germany	5	5	5	5	5	5	4	6
Barbados	6	7	6	7	6	4	6	10
Bermuda	7	6	7	6	9	9	8	7
Hong Kong	8	8	8	8	7	7	7	5
Mexico	9	9	9	9	10	10	9	8
Greece	10	10	10	—	—	—	—	—
Netherlands	—	—	—	—	—	—	10	9
Switzerland	—	—	—	—	8	8	—	—
Italy	—	—	—	10	—	—	—	—
China	16	16	15	14	11	15	13	14

Notes: Rankings based on value of service imports, where 1= Canada's largest import partner

Source: Industry Canada, 2008; calculations by authors.

6.4 Trade balance

Canada has run a trade deficit for services with the world but a surplus with China

While Canada has consistently run a trade deficit in services with the world (excluding China), it has run small trade surpluses with China from 1998 to 2005 (figure 6.8).³⁶ For example, in 2005, Canada's trade surplus with China stood at approximately CA\$160 million while its overall deficit with the world (except China) was CA\$12 billion. Note that the United States, Canada's principle trading partner, accounted for 68% of the total deficit in 2005 while central and eastern Asia and Europe made up 10% and 8% of the deficit, respectively.

³⁶ Note that since services exports are generally underreported, Canada's trade surplus for services with China may be understated.

Figure 6.8: Canada's services trade balance with China and the world (excluding China), 1998–2005



Sources: Statistics Canada, 2008; calculations by authors.

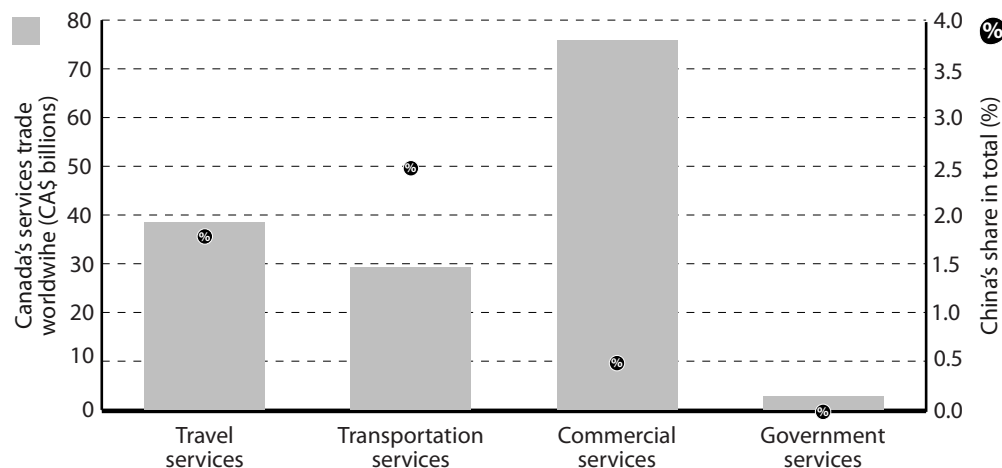
6.5 Trade in services, by various categories

Commercial services are Canada's largest services-trade category, worldwide

For measurement purposes, Canadian statistical agencies group trade in services into four main categories: travel services, transportation services, commercial services, and government services.³⁷ Of these, commercial services were, by far, the most important category. In 2005, trade in commercial services was valued at CA\$76 billion, accounting for 52% of overall Canadian trade in services (figure 6.9). This was followed by travel, valued at CA\$38.5 billion (26% of overall Canadian trade in services), transportation, valued at CA\$29.3 billion (accounting for 20% of the total) and government services at CA\$3 billion (accounting for 2% of the total). Table 6.5 shows Canada's overall trade in services by various categories from 1998 to 2007. It also shows Canada's services-trade balance for these years.

37 [1] Travel Services include business and personal services. [2] Transportation Services include Water, Air, and Land transport. [3] Commercial Services include communication service; construction; insurance and other financial services; computer and information; royalties and license fees; non-financial commissions; equipment rentals; management services; advertising and related services; architecture, engineering, and other technical services; miscellaneous services to business; audiovisual services; and personnel, cultural, and recreational services.

Figure 6.9: Canada's services trade worldwide (CA\$ billions) and China's share in total (%), by various categories, 2005



Notes: [1] Travel Services include business and personal services. [2] Transportation Services include Water, Air, and Land transport. [3] Commercial Services include communication service; construction; insurance and other financial services; computer and information; royalties and license fees; non-financial commissions; equipment rentals; management services; advertising and related services; architecture, engineering, and other technical services; miscellaneous services to business; audiovisual services; and personnel, cultural, and recreational services. [4] Government services. Sources: Statistics Canada, 2008; calculations by authors.

Transportation has dominated Canada's trade in services with China

China's share in each of these categories has been very small; its largest share was in transportation, at approximately 3%. That is, Canada's trade with China in transportation services accounted for 3% of Canada's worldwide trade in transportation in 2005. This translated into approximately CA\$736 million in trade in transportation with China. Figure 6.10 presents Canada's services trade with China by various categories and China's share in the total. Canada's trade with China in transportation represented 41% of Canada's overall services trade with China. Canada did not have any trade in government services with China while trade in commercial services accounted for 19% (at CA\$350 million) of Canada's overall trade in services with China.

Canada has run a deficit with China in transportation but a surplus in other categories

Although Canada maintained a services-trade surplus with China, trade balances have often fluctuated in value. For example, in 2000 Canada had the largest trade surplus of CA\$296 million with China; in 2002 the surplus declined to CA\$30 million and then increased to CA\$160 million in 2005. A look at the categories of Canada's services trade may help explain some of these fluctuations. For example, the increase in the surplus in 2000 was due to the widening surplus in all sub-categories: travel, transportation, and commercial services (figure 6.11). Services trade surplus with China hit a record low at CA\$30 million in 2002, followed by a sharp, 730% rebound (CA\$224

Table 6.5: Canada's trade (CA\$ millions) in services, by various categories, 1998–2007

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Exports (Receipts)										
Travel [1]	14,019	15,142	15,997	16,436	16,741	14,776	16,979	16,674	16,611	16,634
Transportation [2]	9,143	9,691	11,197	10,625	11,061	9,942	11,040	11,730	11,879	12,156
Commercial services [3]	25,882	27,483	31,101	31,545	34,246	35,512	35,765	37,044	37,007	36,775
Government services	1,180	1,320	1,423	1,457	1,436	1,550	1,595	1,683	1,730	1,714
Total	50,223	53,635	59,719	60,064	63,482	61,781	65,381	67,131	67,227	67,280
Imports (Payments)										
Travel [1]	16,029	17,092	18,444	18,487	18,400	18,728	20,237	21,865	23,402	26,663
Transportation [2]	11,760	12,307	13,916	13,970	14,439	14,510	15,920	17,585	18,695	20,033
Commercial services [3]	28,040	30,111	32,365	34,477	36,903	39,109	39,284	38,826	38,853	38,691
Government services	720	761	775	940	964	956	977	995	1,041	1,082
Total	56,549	60,271	65,500	67,874	70,707	73,302	76,417	79,274	81,992	86,468
Balances										
Travel [1]	-2,010	-1,950	-2,447	-2,051	-1,659	-3,952	-3,258	-5,191	-6,791	-10,029
Transportation [2]	-2,617	-2,616	-2,719	-3,345	-3,378	-4,568	-4,880	-5,855	-6,816	-7,877
Commercial services [3]	-2,158	-2,628	-1,264	-2,932	-2,657	-3,597	-3,519	-1,782	-1,846	-1,916
Government services	460	559	648	517	472	594	618	688	689	632
Total	-6,326	-6,636	-5,781	-7,810	-7,225	-11,521	-11,036	-12,143	-14,765	-19,188

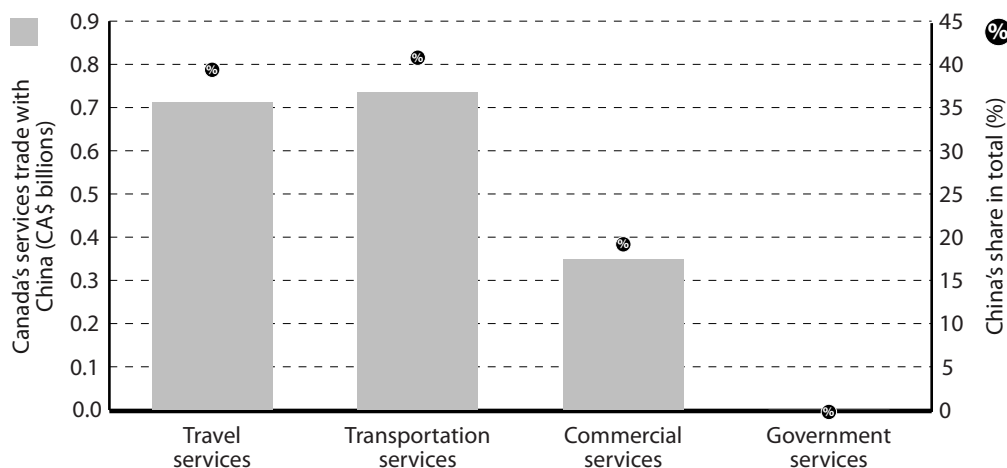
Note: [1] Travel services include business and personal services. [2] Transportation services include water, air and land transport. [3] Commercial services include communication service; construction; insurance and other financial services; computer and information; royalties and license fees; non-financial commissions; equipment rentals; management services; advertising and related services; architecture, engineering and other technical services; miscellaneous services to business; audio visual services; and personnel, cultural and recreational services.

Source: Statistics Canada, 2008; calculations by authors.

million) in 2003. The bulk of the decrease in the surplus in 2002 was largely due to the sharp increase in Canada's deficit with China in transportation, which reached CA\$223 million that year. Canada continues to run a services deficit with China in transportation although this deficit has been reduced substantially over the years. For example, in 2005, the transportation deficit was CA\$54 million, down 76% from its value in 2002.

As trade barriers continue to fall around the world, there is an increased need for Canadian firms to take advantage of growing opportunities available in foreign services markets. China today presents such an opportunity: in 2007, China realized strong growth in its services sector with services representing 40% of its GDP in 2005, up from 31% in 1990 (National Bureau of Statistics of China, 2009). In this scenario, Canada should focus on increasing its services trade with China, which would only lead to further employment and wealth creation within Canada.

Figure 6.10: Canada's services trade with China (CA\$ billions) and China's share in total (%), by various categories, 2005



Notes: [1] Travel Services include business and personal services. [2] Transportation Services include Water, Air, and Land transport. [3] Commercial Services include communication service; construction; insurance and other financial services; computer and information; royalties and license fees; non-financial commissions; equipment rentals; management services; advertising and related services; architecture, engineering, and other technical services; miscellaneous services to business; audiovisual services; and personnel, cultural, and recreational services. [4] Government services. Sources: Statistics Canada, 2008; calculations by authors.

6.6 Tourism

Canada is consistently ranked as one of the top tourist destinations in the world. The United Nations World Tourism Organization ranked Canada fourteenth for international tourist arrivals in 2007 (UNTWO, 2008). The industry generated CA\$19.7 billion in revenue for the Canadian government in 2007 (Statistics Canada, 2008, November 12). However, Canada ran a deficit in tourism, which increased from approximately CA\$2 billion in 2002 to CA\$10 billion in 2007 (Conference Board of Canada, 2008).³⁸ This suggests that Canadians were spending more abroad than tourists were spending in Canada.

Only 0.5% of tourists originated from China

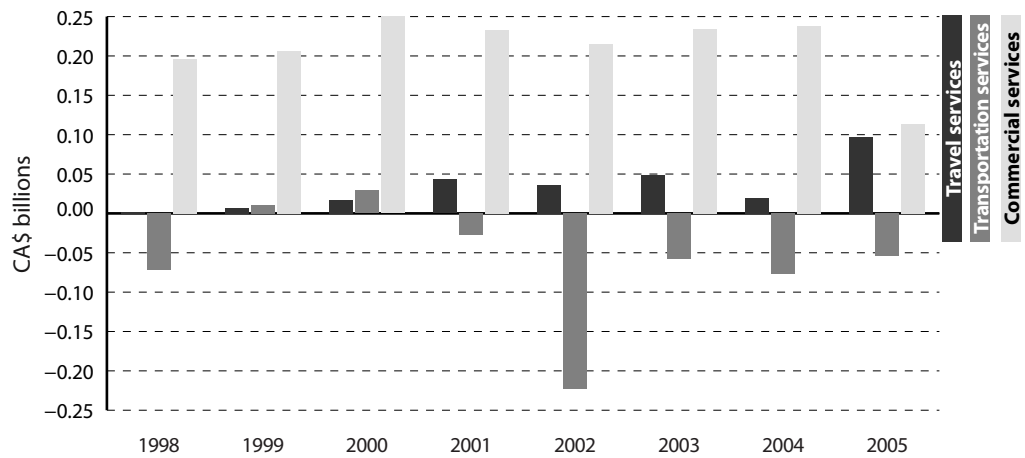
In 2007, approximately 30 million tourists travelled to Canada.³⁹ However, only 156,000 Chinese (0.5% of total inbound travelers) travelled to Canada (Statistics Canada, 2008).⁴⁰ As expected, a majority of travelers to Canada originated from the United States. As figure 6.12 shows, travelers from the United States

38 Tourism deficit = receipts from tourism (exports) – payments (imports).

39 Tourists are identified by their country of residence. For example, if a Chinese tourist enters Canada through the United States, he would be identified in the data as Chinese.

40 This includes same-day and overnight-trip travelers. Note that there were even fewer travelers from Hong Kong.

Figure 6.11: Canada's services trade balance with China, by various categories, 1998–2005



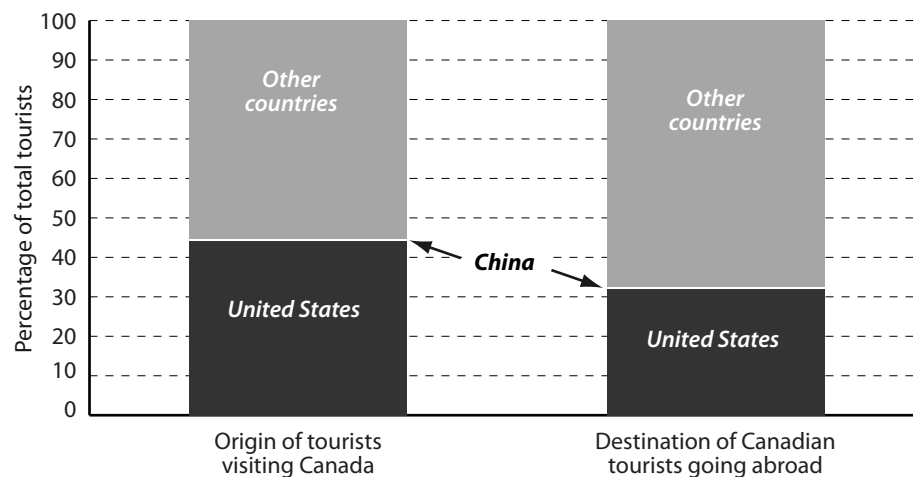
Notes: [1] Travel Services include business and personal services. [2] Transportation Services include Water, Air, and Land transport. [3] Commercial Services include communication service; construction; insurance and other financial services; computer and information; royalties and license fees; non-financial commissions; equipment rentals; management services; advertising and related services; architecture, engineering, and other technical services; miscellaneous services to business; audiovisual services; and personnel, cultural, and recreational services.

Sources: Statistics Canada, 2008; calculations by authors.

Data:

	1998	1999	2000	2001	2002	2003	2004	2005
Travel services	0.002	0.007	0.017	0.043	0.036	0.049	0.020	0.097
Transportation services	-0.072	0.011	0.029	-0.027	-0.223	-0.058	-0.077	-0.054
Commercial services	0.096	0.206	0.250	0.233	0.215	0.234	0.238	0.114

Figure 6.12: Country of origin of tourists visiting Canada and country of destination of Canadian tourists going abroad, 2007



Sources: Statistics Canada, 2008; calculations by authors.

accounted for approximately 44% of total inbound arrivals in 2007. Similarly, of the 50 million Canadians who traveled abroad in 2007, approximately 32% traveled to the United States, while only 0.5% traveled to China. Even when we look at non-US travelers, China's share remains small at 3% inbound and 1% outbound.

There has been an increase in visits from both sides

Figure 6.13 looks at Chinese tourists visiting Canada and Canadian tourists visiting China. The figure indicates that the number of Canadians visiting China has been greater than the number of Chinese visiting Canada. More importantly, there has been an increase in the number of Chinese tourists visiting Canada.⁴¹ Nevertheless, although tourists from China are slowly increasing their presence in Canada, they make up a very small proportion of tourists coming to Canada. One reason for this may be that Canada does not have an Approved Destination Status with China yet.

Canada does not have Approved Destination Status (ADS) with China

The Approved Destination Status (ADS) is a bilateral agreement between national governments that would allow the Canadian tourism industry to market Canadian travel opportunities in China and permit Chinese travel agents to advertise and promote leisure packages to Canada. More importantly, it would allow Chinese citizens to obtain tourist visas to Canada more easily. Currently, there are 134 countries that have signed ADS agreements with China but Canada, for various political reasons, has yet to sign the agreement.

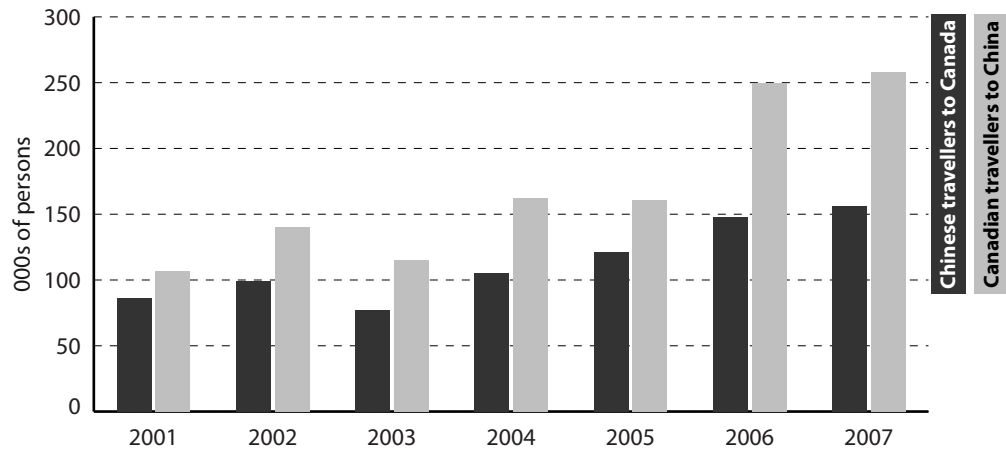
According to the Canadian Tourism Commission (CTC), a majority of current travellers from China to Canada consist of men on business trips. The commission points out that a marked increase in leisure travel to Canada is possible once Canada has an ADS with China. CTC points out that in the year following Australia's approval of an ADS with China in 1999, the number of Chinese visitors to Australia jumped by more than 20% (Tourism Online, 2005).

According to the World Tourism Organization, as disposable incomes continue to grow, China will become one of the top three outbound tourism markets in the world by 2020.⁴² Also, various surveys suggest that Canada is an attractive tourist destination for Chinese travelers. For example, a survey from Decima Research (2006) suggests that approximately 60% of 2.8 million Chinese tourists expressed an interest in visiting Canada. Keeping this in mind, it is imperative for Canada to sign an ADS with China. This agreement would enable Canada to tap into a large and expanding Chinese tourism market more effectively.

41 Table 6.6 looks at spending by Chinese tourists in Canada and spending by Canadian tourists in China. In all years, Canadian tourists have spent more in China than the Chinese tourists have spent in Canada.

42 This has been quoted in several articles. See, for example, Tourism Ireland, 2005.

Figure 6.13: Number of Chinese visiting Canada and Canadians visiting China, 2001–2007



Sources: Statistics Canada, 2008; National Bureau of Statistics of China, 2009. Data on Chinese tourists travelling to Canada have been retrieved from table 387-0004, "international travelers." National Tourism Indicator (NTI) as "inbound travelers to Canada from China." Data was seasonally adjusted. Data on Canadian tourists travelling to China retrieved from Tourism Indicator, table "Travel by Canadians to foreign countries, top 15 countries visited." Data is available for period from 2001 to 2007.

Table 6.6: Spending by Canadian travelers abroad (and in China), and spending by international and Chinese travelers in Canada (CA\$ millions)

	Tourist spending in Canada		Canadian tourists' spending overseas	
	All International tourists	Chinese tourists	All International spending	Spending in China
1998	14,019	NA	16,029	NA
1999	15,142	NA	17,092	NA
2000	15,997	120	18,444	NA
2001	16,436	163	18,487	203
2002	16,741	185	18,400	244
2003	14,776	143	18,728	197
2004	16,979	171	20,237	272
2005	16,674	219	21,865	304
2006	16,611	257	23,402	451
2007	16,634	259	26,663	455

Sources: Statistics Canada, 2008; National Bureau of Statistics of China, 2009. Data on Chinese tourists travelling to Canada have been retrieved from table 387-0004, "international travelers," National Tourism Indicator (NTI) as "inbound travelers to Canada from China." Data was seasonally adjusted. Data on Canadian tourists travelling to China retrieved from Tourism Indicator, table "Travel by Canadians to foreign countries, top 15 countries visited." Data is available from 2001 to 2007.

7 Foreign direct investment

Worldwide, China is an important source and destination for foreign direct investment

Encouragement of foreign direct investment (FDI) has been an important part of China's reform process. Investment began to pour into China after 1992 and annual inflows have been over CA\$40 billion since 1996 (Poncet, 2007).⁴³ FDI inflows into China currently represent approximately 10% of the world's overall flows. In 2007, FDI inflows into China stood at CA\$89.7 billion, up by 13.8% compared to the previous year. Similarly, China has been an important source of outflowing FDI as well.⁴⁴ Although its outward investment is smaller in value terms compared to huge inflows, China's overseas enterprises have been gaining importance as new sources of capital.⁴⁵ In 2007, Chinese outward direct investments increased by 25.3% and stood at CA\$28.5 billion (Invest in China, 2009).

Canada's investments in China and China's investments in Canada have been low

Although China has been a major destination worldwide for foreign direct investment, Canada's investments in China have been very low. China's investments in Canada have been even lower (tables 7.1, 7.2): while almost 44% of Canada's worldwide investments went to the United States, only 0.3% went to China. Moreover, while 58% of overall investments in Canada were from the United States, China's share was low at 0.1%. In general, Canada has been a net outward investor (it has invested more abroad compared to foreign investments in Canada). This was true of Canada's investment relations with China as well (figures 7.1, 7.2). China's shares in the overall Canadian stock of investment have been extremely small. For example, of Canada's total overseas investments, China's shares have ranged from only 0.16% to 0.35% over the entire period.

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- 43 In the 1980s, China had "permissive" FDI policies whereby FDI was highly concentrated in four "Special Economic Zones" that China had established in the coastal provinces of Fujian and Guangdong. The expected spillover from these zones to other provinces did not materialize and led to widening regional gaps in growth. This prompted the government to introduce broad-based economic reforms in the 1990s (Poncet, 2007).
 - 44 Note that in general, FDI data are difficult to trace since a large amount going in and out of China are now through tax havens such as the Cayman Islands and British Virgin Islands.
 - 45 A good example of this is the acquisition of IBM's personal computer division by Lenovo. Appendix 1 lists the top 15 largest Chinese multinational enterprises in terms of outward non-financial FDI in 2007.

Table 7.1: Foreign Direct Investments (CA\$ millions) from Canada to major destinations, 1998–2007

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
United States	133,267	151,775	177,943	188,481	199,992	169,605	198,460	202,670	230,405	226,147
United Kingdom	24,956	25,686	35,170	39,682	40,749	43,902	44,358	47,691	58,000	54,600
Other Europe	32,274	32,156	49,476	59,558	68,265	80,445	85,832	77,650	81,958	79,966
Hong Kong	3,425	3,616	3,739	3,020	2,642	3,037	3,086	3,362	4,988	4,519
China	446	711	565	699	721	838	1,081	1,131	1,574	1,797
Other regions	68,541	76,786	89,613	107,813	123,125	114,390	115,729	122,707	153,044	147,511
Total	262,909	290,730	356,506	399,253	435,494	412,217	448,546	455,211	529,969	514,540

Note: "Other Europe" includes all European countries except the United Kingdom. "Other regions" includes North America (except the United States), Asia, and South and Central America.

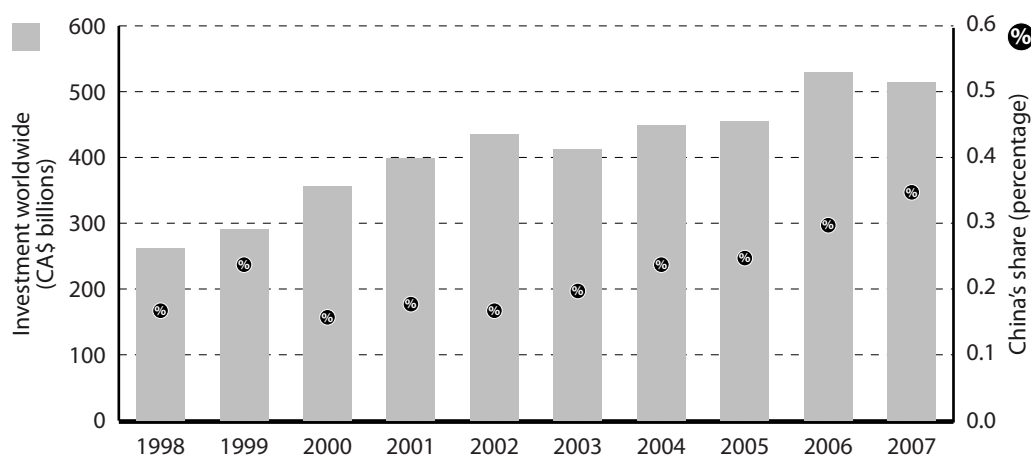
Source: Statistics Canada, 2008, year-end stocks.

Table 7.2: Foreign Direct Investments (CA\$ millions) to Canada from major destinations, 1998–2007

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
United States	146,893	176,045	193,651	219,927	231,566	238,057	243,328	248,475	267,237	288,631
United Kingdom	17,042	15,279	23,955	26,913	27,552	26,002	25,318	29,480	39,828	54,760
Other Europe	37,350	43,198	83,073	73,834	76,054	85,657	84,663	87,120	85,010	102,724
Hong Kong	2,957	2,296	3,374	3,931	4,135	4,689	5,316	6,174	N/A	N/A
China	226	214	192	219	196	216	113	928	N/A	[616]
Other regions	14,921	15,531	14,871	15,605	17,316	19,064	20,712	23,061	45,726	54,120
Total	219,389	252,563	319,116	340,429	356,819	373,685	379,450	395,238	437,801	500,851

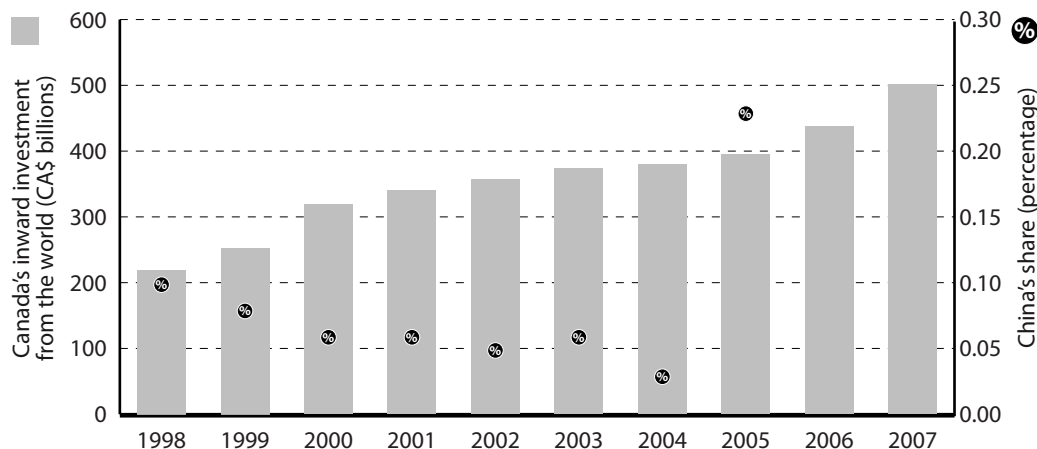
Note: "Other Europe" includes all European countries except the United Kingdom. "Other regions" includes North America (except the United States), Asia, and South and Central America. [616] is preliminary data.

Source: Statistics Canada, 2008, year-end stocks.

Figure 7.1: Canada's overall outward investment (CA\$ billions) and China's share (%) of the total, 1998–2007

Sources: Statistics Canada, 2008; calculations by authors.

Figure 7.2: Canada's overall inward investment (CA\$ billions) and China's share (%) of the total, 1998–2007



Note: Data for China were available only until 2005.

Sources: Statistics Canada, 2008; calculations by authors.

Given that there are substantial benefits to Canada of increased FDI in its economy, it is imperative that we take steps to attract FDI from China.⁴⁶

- 46 In general, FDI in any country increases productivity, competition, innovation, and access to new technologies that translate to significant benefits for consumers through lower prices and increased choice. There is substantial empirical evidence on the potential benefits of inward-FDI on the Canadian economy. Below, we highlight some key papers that have studied the benefits of inward-FDI on the Canadian economy. These papers are grouped under four categories: increases in productivity, job creation, innovation and expansion of trade. (1) *Productivity* Many studies indicate that FDI increases productivity in the domestic industries. For example, a study by Surendra Gera and colleagues (1999) from Industry Canada estimated that from 1973 to 1992, FDI contributed to the productivity growth of Canadian industries by 0.5% per year on average. In addition, their results indicated that a 1% increase in FDI in the Canadian energy, and finance and insurance sectors reduced firm costs by 0.5% and 0.16%, respectively. Another paper by Rao and Tang (2000) found that over the period from 1993 to 1995, Canadian-controlled manufacturing firms were 13% less productive than their foreign-controlled counterparts (note that it was in the resource-based industries that Canadian-controlled firms were more productive). Further, a study by Baldwin and Gu (2005) found that foreign-owned firms are more productive than domestic firms. In particular, they found that of the 1.7 percentage-point increase in annual labor productivity between the periods 1980–1990 and 1990–1999, foreign multinational companies contributed 1.1 percentage points to the increase while domestic firms contributed just 0.6 percentage points. Further, their results indicate that a 10-percentage point increase in the share of foreign-owned firms is associated with an increase of 0.3 to 0.5 percentage points in the annual labor productivity growth of domestic firms. (2) *Job creation* A study by Preston and Saiyed (1996) estimated that each \$1 billion increase in new inward investment to Canada could generate up to 45,000 jobs and \$4.5 billion in GDP over a five-year period. The study also estimated that one in

This would involve substantial efforts on the part of both the Chinese and the Canadian governments to overcome barriers to investment and to provide the right conditions to allow for investment to grow. For example, a recent OECD report by Koyama and Golub (2006) found that Canada has some of the greatest restrictions on business activity among industrialized countries: Canada ranks 25th out of 29 countries for openness to foreign business on the authors' Index of Restrictiveness.⁴⁷

Similarly, research has documented various benefits of outward investment on the domestic economy. For example, multinational firms that finance investment projects on world markets make use of their internal capital markets; also, outward FDI allows firms to enter new markets, to import intermediate goods from foreign affiliates at lower prices, to produce a greater volume of final goods abroad at lower cost, and to gain access foreign technology. In other words, outward-investing firms combine home production with foreign production to reduce costs and to increase their competitiveness both internationally and domestically, stimulating domestic output (Desai et al., 2005).⁴⁸

10 jobs in Canada is attributed to FDI. This is more than twice as many as in the United States, Germany, and Sweden (Investments Partnership Canada, 2005). (3) *Innovation* In a recent study, John Baldwin and Wulong Gu (2004) found that foreign-owned firms have a rate of innovation (measured as whether or not firms introduced innovations during the period from 1989 to 1991) that was, on average, 10 percentage points higher than that of their domestic counterparts during this period. (4) *International trade* Results from a study by Cameron (1998) showed that foreign-controlled firms in Canada appear to have a much stronger trade orientation than their domestic counterparts. For example, foreign-controlled firms had an export-to-sales ratio of 20%, more than double that of Canadian-controlled firms. Similarly, the import-to-sales ratio was about 22%, almost three times greater than for Canadian-controlled firms.

- 47 Koyama and Golub developed an Index of Restrictiveness, a composite measure based on different types of barriers to foreign business activity in nine sectors and 11 sub-sectors of the economy, including telecommunications, finance, transport, and electricity. Overall, results indicate that Iceland, Mexico, Australia, Austria, and Canada have the highest levels of restrictions. Note that foreign business activity includes FDI, foreign ownership, and foreign competition.

Further, a survey by the OECD on Canada (OECD, 2006) ranks Canada among the most restrictive countries in many industrial sectors. It recommends that Canada increase competition and efficiency by lifting restrictions on foreign businesses in heavily regulated sectors such as airlines, telecommunications, and broadcasting. The survey identified Canada as among the countries with the most regulations in major professional services such as law, accounting, engineering, and architecture.

- 48 In a recent paper, Herzer (2008) finds that for 14 industrialized countries (including Canada), from 1971 to 2005, outward FDI had positive, long-run effects on domestic output. More specifically, an increase in the ratio of outflowing FDI to GDP of one percentage point increased domestic output by 0.221% on average for all the countries (and by 0.167% for Canada).

Given these advantages of inflowing and outflowing FDI, it is essential that Canada take steps to further increase its investment in China.⁴⁹

A MOU signed by China and Canada in 2006 outlines the key sectors on which investment promotion efforts are focused.⁵⁰ For example, China's target sectors for investment from Canada are energy, mining, automotive, construction, information and communications technology (ICT), biotechnology, the environment, and services; and Canada's target sectors for investment from China are energy, natural resources, agri-food, automotive, ICT, biotechnology, medical devices, pharmaceuticals, and chemicals.⁵¹

49 Recently, it has been argued that with land and labor shortages, (manufacturing) costs in China have risen substantially and may have eroded China's comparative advantage as a low-cost manufacturing center. Based on this, it is often claimed that FDI in China may have reached a saturation point. Note however that while it is true that costs have indeed increased, such increases are primarily restricted to China's tier-one centers of commerce (Shanghai, Beijing and Guangzhou). Recent research (Pang, A. and US Commercial Services, November 2008) has identified increasing opportunities for investment in China's inland (second-tier cities) cities such as Xi'an, Nanjing, Dalian, Xiamen, Tianjin, Hangzhou, Shenzhen, Huangpu, Qingdao, Fuzhou, Shijiazhuang, Wuhan, Chengdu and Ningbo. According to this research, many manufacturers have shifted operations to these cities to take advantage of the lower costs for land, labor, and energy (for example, the cost of top-grade office space in Wuhan is one third of its cost in Beijing). These cities are still growing and this growth is largely untapped by foreign firms. This presents vast opportunities for Canadian firms that already have operations in China or for new companies looking to invest in China. For Canadian firms that have operations in China, a shift of their manufacturing base to these cities would provide lower costs of operations. Further, the growing middle class in these cities presents an opportunity for Canadian companies to set up language-training centers in China and to do business in the retail sector (which would have the benefit of diversifying trade with China, which is now heavily reliant upon trade in natural resources). In fact, according to Foreign Affairs and International Trade Canada, Canadian companies such as Roots Canada and Vancouver-based Nebur-King Coffee Group are already targeting consumers in China's inland cities (Foreign Affairs and International Trade Canada, 2007). Although the second-tier cities still face many challenges since they lack modern infrastructure, the Chinese government has taken steps—investment, targeted tax incentives, and the establishment of economic and technological development zones—to promote development in these cities. (Also, the Three Gorges Project in China has opened access to China's interior for deep-sea vessels). Less saturation in these cities implies less competition and therefore presents a crucial opportunity for Canadian firms to be among the first to tap this market. Finally, there are new opportunities for Canadian firms even in tier-one cities, where is a move up the value chain within manufacturing, from textiles and clothing to sectors such as semi-conductors and automobiles that make more intensive use of capital and technology (Yichun, 2007).

50 For more information on the MOU, see Government of Canada, 2008b.

51 A report by Woo and Zhang (2006) lists Chinese companies that have invested in Canada.

Despite increased efforts by business persons from both countries to increase investments, there has not been much change in the magnitude of investments in the last few years. There may be a number of factors accounting for the low investment flows between Canada and China. Two such factors include (1) Canada's pending negotiation with China on the Foreign Investment Promotion and Protection Agreement (FIPA) and (2) Canada's policies regarding state-owned investors, as laid out in its Investment Canada Act (ICA).⁵²

Canada and China have not signed the Foreign Investment Promotion and Protection Agreement

A Foreign Investment Promotion and Protection Agreement (FIPA) is a bilateral agreement aimed at protecting and promoting foreign investment through legally binding rights and obligations. FIPAs are key for Canadian business ventures involving very large investments abroad in sectors such as energy and mining, financial services, and infrastructure (Foreign Affairs and International Trade, Canada, 2008). Jurisdictions that have FIPAs with Canada include not only Canada's traditional partners such as Europe and the United States but also emerging markets such as India. However, Canada has not yet signed an FIPA with China.⁵³

Canada and China resumed FIPA negotiations in Beijing in September 2004. Since then, six additional rounds of negotiations have been held, the most recent in October 2007. However, as of today, the agreement is still pending approval from both sides. A number of factors has complicated the negotiations: Canada's concerns about human rights in China, and Beijing's objection to Canada's refusal to extradite those whom the Chinese claim to be "economic criminals." Presumably, unless a well-designed FIPA between Ottawa and Beijing is signed, investment flows between the two countries will remain much lower than they could be.

Canada has more stringent policies regarding investments by foreign state-owned enterprises

Another significant current issue is that of Canada's policy on investments in Canada by foreign state-owned (or -controlled) enterprises (SOEs). The

52 There are also other concerns. For example, the Ministry of Commerce's (MOFCOM) approval process in China may have created an impression in the Canadian business community that, as all projects require approval, the process is expensive and time consuming.

53 Canada has FIPAs with 25 countries including India, Jordan, Colombia, Peru, Croatia, Costa Rica, Lebanon, Uruguay, Armenia, Thailand, Panama, Venezuela, Egypt, Ecuador, Romania, Barbados, Philippines, Trinidad and Tobago, Latvia, Ukraine, Hungary, Argentina, Czech Republic, Slovak Republic, Russia, and Poland. As of 2008, Canada has been in negotiations for FIPA with nine countries including Tanzania, Indonesia, Madagascar, Vietnam, Mongolia, China, Jordan, Kuwait, and South Africa. For more information on FIPAs, see Foreign Affairs and International Trade, Canada, 2009.

Canadian government has, under the *Investment Canada Act*, issued guidelines concerning review of acquisitions by SOEs.⁵⁴ Though there is no explicit mention in the guidelines of China or the Middle East, there is little doubt that much of the concern is with investors from these areas.⁵⁵ Canada's main worry seems to be that companies controlled by foreign governments may not operate with commercial objectives. Such concerns prompted the Canadian government to question publicly a proposal in 2004 by China Minmetal Corporation (a Chinese SOE) to take over Canada's largest mining corporation, Noranda Inc.

Conclusion

It is in the interest of both countries to see that investments reach a much higher level than what they are today. In fact, a poll conducted by Toronto-based Environics Research Group in collaboration with N-Dynamic Research of Shanghai in 2008 ranked Canada fourth (at 19%, after the United States at 29%, Australia at 24% and India at 20%) as the place where the Chinese would most like to invest (Environics Research Group, 2008).⁵⁶ At a time when China is emerging as a major economic power, Canada's key strategy should be to engage China and benefit from these economic opportunities. This would also be the best way to draw China more fully into the international economy and modern business practices. Though the Chinese market and investors are as complex as they are alluring, Canada would benefit greatly from finding a way to enhance its relationship with China, while balancing its own interests at the same time.

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- 54 According to the new guidelines, the Canadian government will examine adherence to Canadian standards of corporate governance and will assess whether the SOEs are operating their businesses according to commercial dictates (International Financial Law Review, 2008).
- 55 China is perhaps the most significant bastion of state-owned enterprises, which hold vast amounts of capital (Neylan, 2008).
- 56 The poll surveyed 1,056 residents in five Chinese cities: Shanghai, Beijing, Guangzhou, Chengdu and Wuhan.

8 The Chinese community in Canada

Immigration has been an increasingly important component of net population growth in Canada. According to Statistics Canada, immigration represents close to 70% of current population growth, up dramatically from under 20% in 1976. In 2006 (according to the latest census available), 19% of Canadians were immigrants and 40% of the population was either first- or second-generation immigrants (Statistics Canada, 2007). In 2003, compared to other OECD countries, Canada ranked fifth, behind Luxembourg, Australia, New Zealand, and Switzerland, for the share of its resident population that was immigrant (Dumont and Lemaitre, 2005). Also, as per the 2006 Census (Statistics Canada, 2007), the most common country of origin of Canada's immigrants was China, followed by India and the Philippines. One possible benefit for Canada of having immigrants from China is the enhanced ability of these immigrants to invest in businesses back in China. In other words, Chinese immigrants may help establish trading relationships between the two countries and, thereby, expand Canada's economic relationship with China.⁵⁷

In this section, we describe the basic social and economic characteristics of the Chinese community in Canada: their immigrant status, their place of residence, their education, and income levels.⁵⁸ With these factors, we hope to get a sense of the variations in their human capital. This would be a reflection of whether an individual or a community is likely to be a productive contributor to the host (Canadian) country. For example, a well-educated individual is likely more skilled than an individual who has fewer years of education and would, presumably, be more employable and, therefore, a more productive member of society.

Chinese are the largest non-European ethnic group in Canada

The Chinese were the largest non-European ethnic group in Canada in 2001 and 2006 (Statistics Canada, 2002, 2007) (table 8.1). Over a span of five

57 Available evidence documenting the linkage between immigrants from China to Canada and bilateral trade between the two countries is limited and inconclusive. In a paper, Head and Ries (1998) explore whether immigrants expand trade with their country of origin. Using Canadian trade data with 136 partners from 1980 to 1992, their results indicate that a 10% increase in immigrants is associated with a 1% increase in Canadian exports to the immigrant's home country and a 3% increase in imports.

58 Although these statistics provide useful information about a certain group, caution should be exercised in making any comparisons across groups, especially if they relate to causal implications, since these data are not adjusted to take into account differences in age, education, length of residence in Canada, language, and other skills.

Table 8.1: Selected ethnic groups in Canada, other than English, French and Canadian

	Total population (000s), 2001	Total population (000s), 2006	As percentage of Canadian population, 2001	As percentage of total Canadian population, 2006	Growth rate, 2001–2006 (%)
Scottish	4,157	4,720	14	15.1	13.5
Irish	3,823	4,354	12.9	13.9	13.9
German	2,743	3,179	9.3	10.2	15.9
Italian	1,270	1,445	4.3	4.6	13.8
Chinese	1,095	1,347	3.7	4.3	23.0
Ukrainian	1,071	1,209	3.6	3.9	12.9
Dutch	923	1,036	3.1	3.3	12.2
Polish	817	985	2.8	3.2	20.5
East Indian	713	963	2.4	3.1	35.1

Sources: Statistics Canada, 2002, 2007.

years, from 2001 to 2006, the Chinese population in Canada experienced the second fastest growth (at 23%), following the East Indians (at 35%), while the overall Canadian population increased by only 5%. Thus, the proportion of Canadians of Chinese origin rose from 3.7% in 2001 to 4.3% in 2006 (Statistics Canada, 2007).

A substantial proportion of the Chinese population living in Canada was born outside the country. In 2006, approximately 83% of Chinese living in Canada were born outside of Canada, compared with 20% of all Canadians (Statistics Canada, 2007). Also, in 2006, approximately 40% of ethnic Chinese immigrants had arrived in the previous decade.

Most live in Ontario and British Columbia

In 2006, most Chinese were concentrated in Ontario (0.7 million) and British Columbia (0.4 million), representing 48% and 32% of the entire Chinese population in Canada that year (tables 8.2, 8.3). As a percentage of the provincial population in 2007, the Chinese were primarily concentrated in British Columbia (approximately 11%), followed by Ontario (5%).

Most live in Toronto and Vancouver

The Chinese were primarily concentrated in two metropolitan areas in Canada, Toronto and Vancouver. Chinese living in Toronto accounted for 40% of the overall national Chinese population while those living in Vancouver accounted for 30%. They constituted 19% of Vancouver's total population and 10% of Toronto's total population in 2006 (Statistics Canada, 2007).

A large fraction are "economic immigrants"

Under the Immigration and Refugee Protection Act of 2002, permanent residents are admitted into Canada under four main classes: (1) economic class;

Table 8.2: Chinese population in Canada, by province and territory, 2006

	Total Chinese population (000s)	As a percentage of the provincial/ territorial population	As a percentage of the total Chinese population in Canada
Newfoundland & Labrador	1.65	0.3	0.1
Prince Edward Island	0.3	0.2	0.0
Nova Scotia	5.14	0.6	0.4
New Brunswick	2.9	0.4	0.2
Quebec	91.9	1.2	6.8
Ontario	644.46	5.3	47.9
Manitoba	17.93	1.6	1.3
Saskatchewan	11.1	1.1	0.8
British Columbia	432.44	10.5	32.1
Yukon	0.54	1.8	0.0
Northwest Territories	0.47	1.1	0.0
Alberta	137.6	4.2	10.2
Nunavut	0.08	0.3	0.0

Source: Statistics Canada, 2007.

Table 8.3: Chinese population in Canada, by major cities, 2006

	Population (000s)	As a percentage of the city (metropolitan area) population	As a percentage of the total Chinese population in Canada
Toronto	537.06	10.6	39.9
Vancouver	402.00	19.2	29.9
Montréal	82.67	2.3	6.1
Calgary	75.41	7.0	5.6
Edmonton	53.67	5.2	4.0
Ottawa	36.61	3.3	2.7
Winnipeg	16.70	2.4	1.2
Hamilton	13.61	2.0	1.0
Victoria	13.55	4.2	1.0
Regina	3.87	2.0	0.3
Saskatoon	4.97	2.2	0.4
London	7.96	1.8	0.6
Halifax	3.72	1.0	0.3
Quebec City	2.25	0.3	0.2

Source: Statistics Canada, 2007.

(2) family class; (3) refugee class and (4) “other immigrants” class.⁵⁹ A majority of Chinese have entered Canada as economic immigrants (table 8.4). For example, approximately 57% of the Chinese came to Canada as economic immigrants in 2007.⁶⁰ These immigrants are considered to be those most able to participate in economic production and contribute to the Canadian economy (Wang and Lo, 2004). In the same year, 36% of all Chinese immigrants were accepted for family reunification while only 2% were admitted on humanitarian grounds. Though there may be fluctuations in each category from year to year, there has been an increase in the number of economic immigrants from China to Canada: in the 1980s, only 43% of the Chinese were economic immigrants (Wang and Lo, 2004).⁶¹

Over 40% have a university degree

Table 8.5 shows the educational attainment of the Chinese immigrants and compares it with the educational attainment of South Asian immigrants (the second largest non-European group in Canada) and with the overall Canadian population in 2006. Note that approximately 87% of Chinese working in Canada had at least a high-school degree in 2006. Further, approximately 41% had a university degree.⁶² This was six percentage points higher than South Asian immigrants (of which 35% had a university degree) and 19 percentage points higher than the total Canadian population.

Chinese immigrants have median incomes comparable to those of other immigrants

In 2005, the median income of Chinese men was lower (CA\$36,972) than that of all male immigrants (CA\$42,998) (table 8.6). However, Chinese immigrants (both men and women) earned more than corresponding South Asian men and women (the second largest non-European immigrant group in Canada) in the same year.⁶³

59 (1) *Economic class* includes skilled workers, business immigrants, live-in caregivers, provincial/territorial nominees, and their dependents. (2) *Family class* consists of spouses, partners, children, and other relatives of Canadian residents such as parents or grandparents. (3) *Refugee class* includes government-assisted or privately sponsored refugees as well as refugees landed in Canada and dependents abroad. (4) *“Other immigrants” class* consists of immigrants admitted for humanitarian and compassionate or public-policy reasons, temporary resident permit holders, immigrants facing deferred removal orders, and post-refugee claimants (Citizenship and Immigration Canada, 2004).

60 Note that this includes immigrants from Hong Kong.

61 In 2006, temporary workers from China accounted for only 4% of all temporary workers in Canada in 2006 (temporary workers from the United States were the largest group at 15%).

62 University degree refers to bachelors degree and above.

63 Note that detailed (2006) census information is not yet available. For the category “All Immigrants,” only median income figures were available from Statistics Canada. Also, these comparisons are for university degree holders.

Table 8.4: Immigrants (Permanent Residents) by class, according to the three main countries of birth, Canada, 2005 to 2007

	Economic		Family		Refugees		Others*		Total	
	000s	% of total group	000s	% of total group	000s	% of total group	000s	% of total group	000s	% of total
2005										
China and Hong Kong	32.29	72%	9.69	22%	2.38	5%	0.35	1%	44.72	100%
India	21.99	61%	12.77	36%	0.93	3%	0.28	1%	35.97	100%
Philippines	14.19	79%	3.56	20%	0.05	0%	0.24	1%	18.03	100%
2006										
China and Hong Kong	22.20	63%	10.61	30%	1.80	5%	0.49	1%	35.09	100%
India	17.46	52%	14.92	44%	1.02	3%	0.33	1%	33.74	100%
Philippines	13.37	73%	4.49	25%	0.06	0%	0.40	2%	18.32	100%
2007										
China and Hong Kong	16.34	57%	10.37	36%	1.58	5%	0.61	2%	28.90	100%
India	15.34	54%	11.99	42%	0.85	3%	0.35	1%	28.52	100%
Philippines	15.19	77%	4.14	21%	0.04	0%	0.36	2%	19.72	100%

Note*: "Others" Includes deferred removal class, post-determination refugee claimant class, temporary resident permit holders, and humanitarian and compassionate/ public policy cases

Source: Citizenship and Immigration Canada, 2008.

Table 8.5: Educational attainment of Chinese immigrants, ages 15 and over, by sex, 2006

	Chinese immigrants			South Asian immigrants ^[3]			Total Canadian population		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
Less than high school	12.8%	13.7%	13.3%	12.3%	12.8%	12.5%	16.2%	12.6%	14.5%
High-school graduate	19.6%	21.5%	20.5%	23.9%	26.2%	24.9%	20.6%	20.6%	20.6%
Post-secondary education ^[2]	22.8%	27.0%	24.9%	27.0%	27.8%	27.3%	41.6%	43.3%	42.4%
Bachelor's degree and above	44.8%	37.8%	41.4%	36.9%	33.3%	35.3%	21.7%	23.5%	22.5%
Total with university degree	100%	100%	100%	100%	100%	100%	100%	100%	100%

Notes: [1] Individuals were 15 years or older, in the labor force. [2] Post-secondary education includes some post-secondary study, trade certificate/diploma, non-university degree, and university diploma below bachelor's degree. [3] "South Asian" includes immigrants described as "East Indian," "Pakistani," and "Sri Lankan."

Source: Statistics Canada, 2007; calculations by authors.

Table 8.6: Median income (constant CA\$ 2005) of Chinese immigrants, by sex, 2000 and 2005

	Men		Women	
	2000	2005	2000	2005
Chinese immigrants ^[1, 4]	38,741	36,972	28,014	28,824
South Asian Immigrants ^[1, 2]	39,419	35,017	21,881	18,441
All immigrants ^[3, 4]	47,933	42,998	33,691	30,633

Note 1: Chinese and South Asian immigrants are first-generation immigrants (i.e., persons born outside Canada). For the most part, these are people who are now, or who have ever been, landed immigrants in Canada. Also included in the first generation are a small number of people born outside Canada to parents who are Canadian citizens by birth. In addition, the first generation includes people who are non-permanent residents, i.e., those from another country living in Canada on work or study permits or as refugee claimants, and any family members living with them in Canada.

Note 2: "South Asian" includes "East Indian," "Pakistani," and "Sri Lankan" immigrants.

Note 3: "All immigrants" refers to recent immigrants. Recent immigrants in 2005 are defined as immigrants who immigrated between 2000 and 2004; recent immigrants in 2000 are those who immigrated between 1995 and 1999.

Note 4: Due to data limitations, Chinese immigrants represent individuals who hold a bachelor's degree and are 24 to 44 years old while "All immigrants" are those who are 24 to 54 years old and hold a university degree.

Source: Statistics Canada, 2002, 2007.

Conclusion

Based on certain key indicators of human capital, the Chinese community in Canada appears to be as skilled as other immigrants, if not more so. This implies that members of the community have the requisite skills to be economically productive members of Canadian society. However, only a more rigorous analysis would reveal whether the Chinese have been successful at assimilating economically into the Canadian economy.

A note on Chinese students

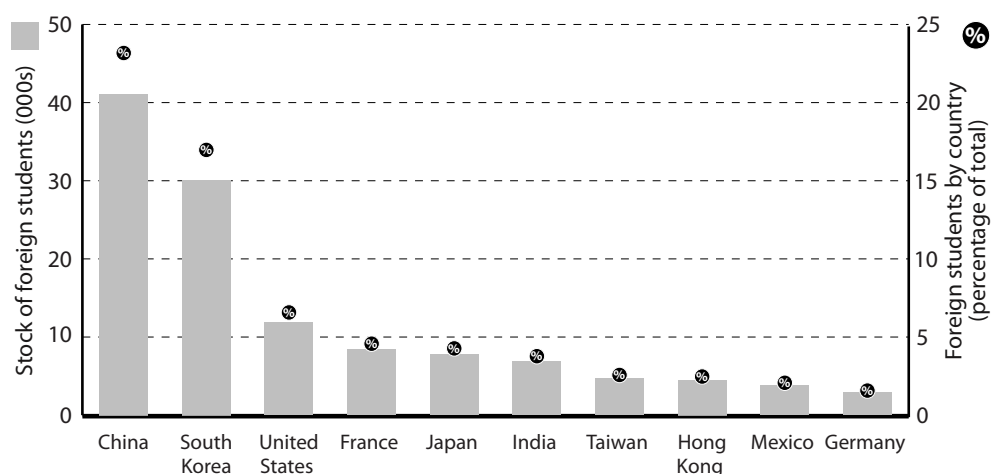
Canada has been an attractive destination for foreign students and, in particular, for students from Asia. In terms of stocks, there were approximately 179,000 foreign students in Canada in 2007. Students from China constituted the largest share (23%), followed by students from South Korea (17%) and France (7%) (figure 8.1).⁶⁴ Since 2002, China has overtaken South Korea as the top source country for foreign students in Canada (table 8.7).

Similarly, in terms of flows, Chinese students constitute one of the largest foreign-student groups in Canada (figure 8.3).⁶⁵ For example, in 2007, Chinese students were the second largest group, constituting 15% of

64 While Chinese students represented only 4% of total foreign students in Canada in 1998, this share has grown over time (figure 8.2).

65 As figure 8.4 shows, this share has grown over time.

Figure 8.1: Stock of foreign students, by top ten source countries (000s), and as a percentage of total foreign students, 2007



Sources: Immigration and Citizenship Canada, 2008; Statistics Canada, 2007.

Table 8.7: Ranking of top ten source countries by stock of foreign students in Canada, 1998–2007

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
China	7	4	3	2	1	1	1	1	1	1
Korea, Republic	3	1	1	1	2	2	2	2	2	2
United States	2	2	2	3	3	3	3	3	3	3
France	6	6	6	5	6	5	5	5	5	4
Japan	1	3	4	4	4	4	4	4	4	5
India	15	12	11	10	8	8	6	6	6	6
Taiwan	5	7	7	7	7	7	8	8	7	7
Hong Kong	4	5	5	6	5	6	7	7	8	8
Mexico	8	8	8	8	9	9	9	9	9	9
Germany	10	10	10	11	11	11	11	10	11	10
United Kingdom	9	9	9	9	10	10	10	11	10	11

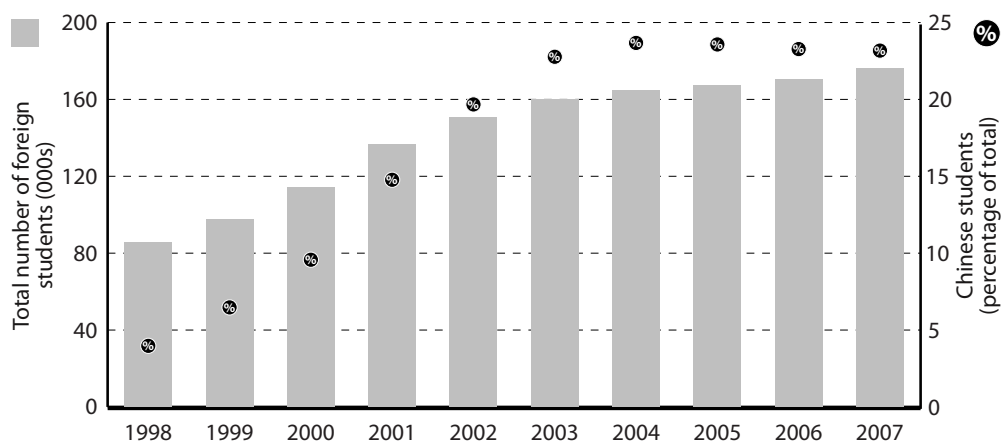
Note: Countries were ranked based on stock of students from each country for the corresponding year.

Source: Immigration and Citizenship Canada, 2008

total foreign students, following South Koreans at 22%. Further, since 2000, China has consistently ranked as the second-largest source of foreign student inflows into Canada (table 8.8).⁶⁶

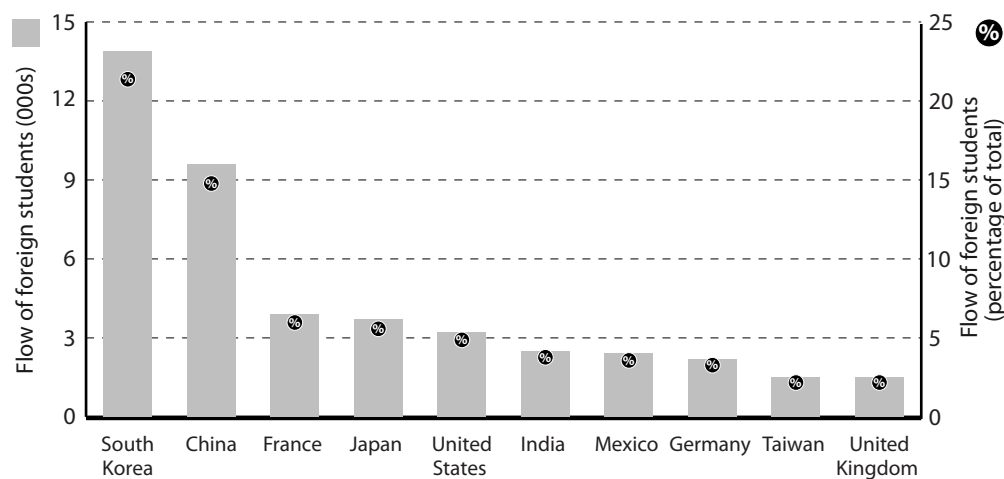
66 Note that flow refers to the number of new foreign students entering in a year, at any time during the year. In contrast, the stock of foreign students refers to the number of foreign students present at a specific time during the year.

Figure 8.2: Stock of foreign students in Canada (000s) and Chinese students as a percentage of the total, 1998–2007



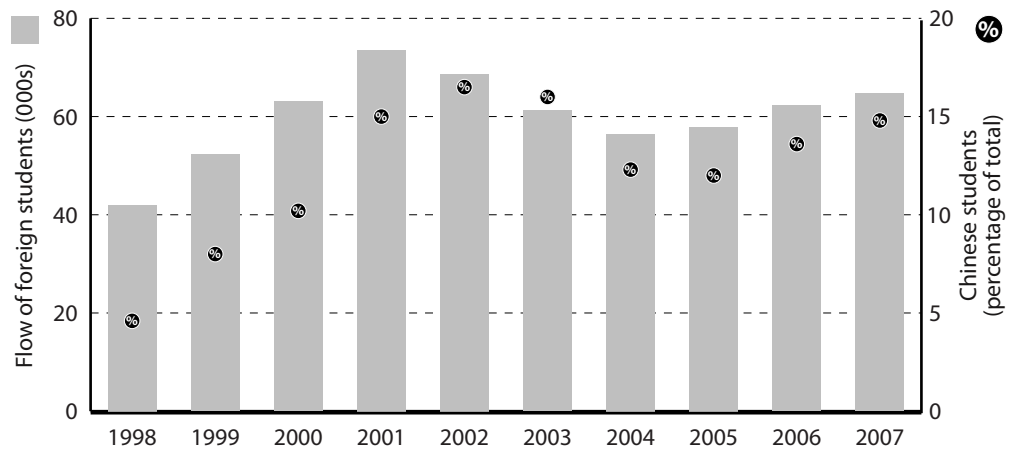
Sources: Immigration and Citizenship Canada, 2008; Statistics Canada, 2007.

Figure 8.3: Flow of foreign students, by top ten source countries (000s), and as a percentage of total foreign students, 2007



Sources: Immigration and Citizenship Canada, 2008; Statistics Canada, 2007.

Figure 8.4: Flow of foreign students to Canada (000s) and Chinese students as a percentage of the total, 1998–2007



Sources: Immigration and Citizenship Canada, 2008; Statistics Canada, 2007.

Table 8.8: Ranking of top ten source countries by flow of foreign students into Canada, 1998–2007

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Korea, Republic	3	1	1	1	1	1	1	1	1	1
China	6	4	2	2	2	2	2	2	2	2
France	4	5	6	6	6	5	5	5	3	3
Japan	1	2	3	3	3	3	3	3	4	4
United States	2	3	4	5	4	4	4	4	5	5
India	15	14	13	12	8	6	9	7	6	6
Mexico	5	6	5	4	5	7	6	6	7	7
Germany	9	8	8	8	9	8	7	8	8	8
Taiwan	7	7	7	7	7	9	8	9	9	9
United Kingdom	10	10	11	11	12	11	10	10	10	10
Brazil	12	11	9	9	11	13	13	12	11	11
Hong Kong	11	12	10	10	10	10	11	11	12	13
Colombia	8	9	12	15	15	26	32	27	18	23

Note: Countries were ranked based on flow of students from each country for the corresponding year.

Source: Immigration and Citizenship Canada, 2008.

Conclusion

Although Canada's economic relations with China have grown in the last few years, there is no report that has comprehensively documented various aspects of this relationship. This report fills this gap in the literature. It quantifies Canada's economic relations with China in terms of trade in merchandise trade, trade in services, and foreign direct investment. We also looked at the Chinese community in Canada. Our results indicate that, although Canada trades more with the United States, China has emerged as an important trading partner, replacing Japan to become Canada's third largest export market in 2007 and the second largest source of imports for Canada. Trade in services is growing, although it is much less than Canada's services trade with its other major partners. The same pattern holds true for foreign direct investment moving between Canada and China. However, bilateral direct investments should increase once Canada and China have signed the Foreign Investment Promotion and Protection Agreement (FIPA).

While Canada has historically had strong economic ties with the United States, our report suggests that Canada has begun to turn its attention to markets such as China. China's increased demand for raw materials and technological innovation positions Canada, which has a comparative advantage in these areas, as one of its natural trading partners. This is of particular relevance under current circumstances. As Canada's traditional partners such as the United States and United Kingdom face recessionary pressures, it is critical for Canada to continue diversifying its trade by fostering better economic relations with China, a strong engine of growth today.

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Appendix

Ranking of Chinese multinational enterprises in terms of non-financial outward FDI stock (to the world), 2007

Rank	Name	Industry
1	China National Petroleum Corp	Petroleum exploration./refining/distribution
2	Sinopec Corp.	Petroleum exploration./refining/distribution
3	China National Offshore Oil Corp.	Petroleum and natural gas
4	China Ocean Shipping (Group) Company	Transport and storage
5	China Resources (Holdings) co., Ltd	Retail, Real Estate and infrastructure
6	CITIC Group	Diversified
7	China Oil and Food Corporation (COFCO)	Diversified
8	China Mobile Communication Corp.	Telecommunication
9	Sinochem Corp.	Petroleum and fertilizer
10	China Merchants Group	Diversified
11	Shum Yip Holding Company Limited	Real Estate and infrastructure
12	China Shipping (Group) Company	Transport and Logistics
13	China National Aviation Holding Company	Air transportation
14	China National Chemical Corp.	Chemical products manufacturing and trade
15	China State Construction Engineering Corp	Construction, Real Estate

Source: Invest in China, 2009.

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