

Attracting Chinese Investments into Canada

Greater Toronto Marketing Alliance

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by

Sarah Kutulakos, CCBC Executive Director

Thank you Leslie, and good morning (zhu da jia zao shang hao.)

I'd like to start today with a very brief introduction to CCBC for those of you who may not know us.

CCBC is a not-for-profit business group that exists for one purpose – to enhance Canada China trade and investment.

To that end, we are:

- Trade and investment facilitators
- Business catalysts, and
- Strong advocates for the Canada-China relationship.

We provide direct services to companies entering China. We provide connections between our members and the business and government communities in both China and Canada. And we are a strong voice in Canada for bi-lateral trade and investment. We always welcome new members, and there are brochures outside with more information.

I want to thank our friends at GTMA for inviting me to be here today, and to say how honoured I am to share the stage with Madame ZHU Taoying, China's Consul General to Toronto, speaking about the important topic of attracting Chinese investment.

This topic is important because many of our members are actively involved in it. But it is also important because despite the incredible business potential for Canadian firms in China, too few of them take the plunge. And they had better, because China plays a role in their value chains somewhere, whether it be their customers, competitors, suppliers, shippers, or other links. But we find that Chinese firms are very keen to explore global opportunities. In fact, we have a delegation of several hundred coming to Toronto on June 18 to do just that. And in these turbulent times, it seems like the rulebook for the global economy has been torn up and thrown out. What will the new rulebook look like?

At CCBC we believe that China will be a big part of the new economic order. Look at its role in the G20. More than this, we KNOW that Canada has everything to gain and little to lose by developing closer relationships with China. While some of our trading partners are looking at substantive economic **contraction**, China's **growth** rate will continue to lead the world over the next few years.

If I can borrow a phrase from Bob Dylan -- *It doesn't take a weatherman to know which way the wind blows*. It doesn't take much to see that strengthening the Canada-China trade and investment relationship will loom larger over the next few years as a key strategy for any country.

So how attractive is Canada? Well the Asia Pacific Foundation of Canada recently published a study that shows that Chinese investment abroad is on the rise, albeit more slowly due to the economic downturn. Canada is viewed as the second most attractive destination after the US, beating all the other G8 peer group countries. We often compare ourselves to Australia and feel a bit behind – in fact a recent report by the Fraser Institute shows that when it comes to actual investment, we are behind, and that both trade and investment with China are pathetically small compared with their potential. But that potential exists, as does the interest by the Chinese. So how do we take the next step and really attract substantial investment?

How do we translate this opportunity into business for the GTA? While there is no magic formula, there are a few key things to think about.

Greater Chinese investment is inevitable – **if it is welcome.**

And that's a big "if."

The fact is that many Chinese companies don't feel particularly welcome in Canada. Despite federal assurances that everyone is welcome as an investor, there is a perception – and maybe some reality – that some investors are more welcome than others. And our own business culture is often a bit too hands-off in comparison to china, causing potential investors to not feel so warmly encouraged. At the local level we have tremendous power to make or break business relationships. At the end of the day, government regulations do matter a lot. They establish the framework for business. But it's the businessPEOPLE – at the local level -- that succeed or fail. Toronto has TREMENDOUS potential to be the master of its own destiny with China and I challenge all of you to make that happen.

A model we might choose to follow is one city that decided to make its own deal with China –Düsseldorf, Germany.

This city of 600,000 has 275 Chinese companies invested. In 2004, when they had 80 companies invested, their mayor decided it was time to do more with China. They established a sister-city relationship with Chongqing, an inland city of 32 million known as the Gateway to Western China. Chongqing wasn't their first choice, but it was available (and interestingly, is Toronto's sister city). Of their 275 investors, only

2-3 companies are from CQ – most are from coastal cities, and it will take 5-15 years for CQ firms to come. But the sister-city relationship provides a platform for interaction with China on a government and civil society level, enhancing the business activities. Early on, Dusseldorf's investors were from a hodgepodge of sectors, but now they most come from IT, trading (portal to European market), or heavy industry (steel, coal, mining). It's not a cheap city to do business, in the upper 10% of German cities in terms of cost. But it also has the highest GDP, is in the centre of a market of 30m people, and has headquarters of many major companies, which provides the basis for a lot of infrastructure, supporting firms, etc. A lot of this starts to sound like Toronto, doesn't it? All except the fact that Dusseldorf has 2000 Chinese residents, not even half a % of its population, while the GTA has half a million, or almost 10% who are of Chinese descent.

So I asked my friend Boris, who runs the Dusseldorf China Competence Center (the city's investor support office) why they are so successful, and he claims there are two tricks. First, their research showed that it is very hard for Chinese to understand German processes and the German market. What rules should they follow and why? They set up the China Competence Centre to teach them what they need to know, what they should and shouldn't do. What is common and what is unusual.

Like building a dormitory behind your factory is not common, and although it might not be illegal, the neighbors may complain...

Second, the office built a reputation of being reliable and trustworthy, with excellent access to all government colleagues who might make the investment difficult. For example, when a firm needs a work permit, Boris gets the info in advance and lets the permitting office know before the paperwork arrives that this is a key account. This way, work and residence permits are processed in 3-4 weeks instead of 3-4 months. Basically they see themselves as a one-stop shop. They want to be the ones who are asked the questions, even if they are silly questions, and even if they don't have all the answers. The Chinese really like the German way – knowing that there are rules and if they follow them they will succeed.

The other very useful thing I learned about Dusseldorf is that they incent their investors to integrate into the local business society. For example, the city holds various parades and festivals throughout the year and encourages its companies to set up booths, do marketing, throw candies with the company's name off a float. Now that may sound trite, but what better way to ensure a company the general public may not know becomes more of a household name, and thus is more accepted as it grows.

Secondly, they work hard to encourage that integration into business systems, particularly the use of third party service providers. Many of our members in Canada find it frustrating that Chinese firms don't seem to want to pay for a top-notch accountant, lawyer, or consultant – they want everything for free. This is a consequence of coming from a business culture where those professions have not been required in the same way they are here. So you remember how the Chinese appreciate knowing the German rules? Well when they at first balk at the thought of using service providers, my friend Boris pulls out a tall stack of German law books and says “well, it's all in here. You can take all these books and read them to understand the rules, or you can hire someone who already knows it.” Apparently this is quite effective. And although the Dusseldorf government does not subsidize investments, they do give each new investor a welcome package of 2500 euros, or about C\$4000 – it must be used for consulting services with a local company, getting these new investors on a path to integrating into a business culture that requires that sort of engagement.

Two of Dusseldorf's most notable investors are telecommunications firms Huawei and ZTE, both firms that also have a presence in Toronto.

Huawei wanted to be close to its customers, like Vodaphone, and at the beginning they were steering the process from their Euro HQ in London. They had a good experience in Dusseldorf, appreciated the government assistance, and quickly moved their German HQ to Dusseldorf. Then a few months later they moved their Euro HQ there. ZTE has done the same.

Now until about a year ago, ZTE's president for North America lived in Toronto for personal reasons but ran her business out of ZTE's North American HQ in Dallas. What a great hook -- did anyone think that "we" (the collective GTMA we) should have put two and two together and thought about how we might woo the firm to put more than just their Canadian sales office in Toronto?

We now have an interesting opportunity with Huawei, which recently was the successful bidder on a big 3G contract with Bell and Telus. They need to quadruple their staff as quickly as possible, and 200 high-tech jobs should be a very exciting thing for the GTA. Let's talk about what we can do to make that growth smoother and easier, because there are always roadblocks.

There's so much more I could say, but in a nutshell, Dusseldorf did its research, hired good, Mandarin-speaking staff, and on a very small marketing budget, has been very creative in its efforts. To great success. In fact, the initiative has spawned a private-sector investment by one of the sons of an early auto parts investor there. In 2005 the Düsseldorf-China Centre opened, constructing a major downtown building that houses Chinese businesses and includes a Chinese tea-house, a Chinese restaurant rated #1 outside China, with the former ambassador's chef, a Chinese medicine centre, cultural exchange centre, and – best of all – a Chinese business service centre. People pay to be members, like a club, and it is run as a for-profit operation.

CCBC has always offered our members an office support program in China. We'll set up a real or virtual office for a member company to help them get established. We know how vital such a service can be.

Düsseldorf is doing the same thing on a very ambitious scale. They actively pursue Chinese companies and help them set up offices at the Centre. They have hired Mandarin-speaking staff to make these businesses feel at home. And they provide all the amenities – including the social meeting places for Chinese ex-pats in Düsseldorf.

This initiative has been so successful that a local air carrier – Air Berlin – has added two flights from Düsseldorf to Beijing and Shanghai.

The last important comment that Boris made to me is that “They made good examples for others to follow.” When it comes to Chinese investment, success breeds success. The GTA has all the ingredients for successful attraction of Chinese firms – it’s a matter of how we put them together. The CCBC looks forward to working with organizations like GTMA, Invest Toronto, Ontario’s Ministry of International Trade and Investment, and many others to put our heads together and make this work.

Thank you.