

# **Nova Scotia's Trade Strategy with China**

By Zhenya Guo

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Approved: Dr. Gordon Fullerton  
Chairperson & Associate Professor

Approved: Dr. Margaret Mckee  
Assistant Professor & MBA Coordinator

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## Abstract

This paper first takes a regional approach, investigating the trade strategy of seven other Canadian provinces along with China's major trade partners (the US, the EU and Australia). It also studies New Zealand as its economic structure is similar to Nova Scotia's and it has been successful in expanding trade with China. My research indicates that all other jurisdictions have experienced substantial growth in trading with China over the past decade. All jurisdictions are targeting China for foreign direct investment and its growing middle class for exporting opportunities. They are building their China capabilities and developing relationships with Chinese governments, businesses and communities to expand trade. They are taking a regional approach to enter the Chinese market and some of them are marketing their unique value propositions to China through consistent branding. There is still much room to grow, as current trade is primarily concentrating on exchanging China's goods with raw materials and natural resources from its trade partners.

A thorough analysis follows, based on Nova Scotia's unique conditions and the major challenges it faces in expanding trade with China. This paper proposes a four-point strategy for Nova Scotia in order to expand its trade with China: 1) based on its global competitive advantage in marine industries, Nova Scotia should target the Shandong Byland city cluster to capitalize on the opportunities presented from the development of its maritime economy; 2) Nova Scotia should build its China capabilities in order to capitalize on business opportunities in China; 3) Nova Scotia should build long-term *Guanxi* (good relations) with Chinese governments, businesses and communities for success; and 4) Nova Scotia should develop a new brand so that the province can be considered by China as a partner of choice for investment and trade.

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# **Nova Scotia's Trade Strategy with China**

## **Part I: Overview**

### **1.1 Executive Summary**

The world trend is toward economic integration. Countries and regions are expanding to new markets in order to obtain better prices for their products and services, to improve efficiency, or to achieve a better return for their capital investment. International trade is crucial to Nova Scotia, as the province is a small economy with a shrinking population. Such a limited market has no choice but to expand trade to provide its inhabitants with a variety of goods and services that otherwise would not be available. Nova Scotia's trade with the outside world has been in steady decline for the last two decades, amounting to almost a \$10 billion deficit. Nova Scotia needs to improve its global trade links in order to increase trade and attract investments.

China has been identified as one of the three priority markets for Nova Scotia by the Government of Nova Scotia, yet there is no comprehensive trade strategy with China. The objective of this research paper is to provide Nova Scotia with a broad strategy to effectively engage China to increase its two-way trade and investment. Nova Scotia's future prosperity relies on its ability to build stronger trade links. The proposals are based on the province's economic reality and draw inspiration from other jurisdictions' China

strategies. Other regions facing similar challenges to Nova Scotia can adapt this strategy to increase their trade with China as well.

It is an exciting time for Nova Scotia, with its renewed interests in expanding international trade. China is on its way to becoming the world's largest economy. As the country is transforming from an export-driven and investment-led economy to one that is focused on domestic consumption and innovation, Nova Scotia needs to act now in order to capitalize on the opportunities that will emerge from China's economic transformation.

This paper first takes a regional approach, investigating seven other Canadian provinces along with China's major trade partners, the US, the EU and Australia. It also studies New Zealand as its economic structure is similar to Nova Scotia's and it has been successful in expanding trade with China. My research indicates that all other jurisdictions have experienced substantial growth in trading with China over the past decade. All jurisdictions are targeting China for foreign direct investment and its growing middle class for exporting opportunities. They are building their China capabilities and developing relationships with Chinese governments, businesses and communities to expand trade. They are taking a regional approach to enter the Chinese market and some of them are marketing their unique value propositions to China through consistent branding. There is still much room to grow, as current trade is primarily concentrating on exchanging China's goods with raw materials and natural resources from its trade partners.

A thorough analysis follows, based on Nova Scotia's unique conditions and the major challenges it faces in expanding trade with China. This paper proposes a four-point strategy for Nova Scotia in order to expand its trade with China: 1) based on its global competitive advantage in marine industries, Nova Scotia should target the Shandong Byland city cluster to capitalize on the opportunities presented from the development of its maritime economy; 2) Nova Scotia should build its China capabilities in order to capitalize on business opportunities in China; 3) Nova Scotia should build long-term *Guanxi* (good relations) with Chinese governments, businesses and communities for success; and 4) Nova Scotia should develop a new brand so that the province can be considered by China as a partner of choice for investment and trade.

## **1.2 Introduction**

The US and the Europe have been Nova Scotia's major trading partners for many decades. With the 2008 global economic crises, the province's trade with these two regions has been in steady decline. On the other hand, China, the world's second largest economy, has appeared as a viable trade partner for Nova Scotia. China represents an untapped market for the province and there is great potential for expanding trade with the country. The quote below from the former Chinese Ambassador to Canada shed lights on the magnitude of these opportunities.

“China will spend 10 trillion US Dollars on imports. Overseas investment from China will be 500 billion US Dollars. And China’s outbound tourists will reach 400 million in the next five years”.

Former Chinese Ambassador to Canada Zhang Junsai’s Keynote Speech at Halifax Ports Days 2013

What do these numbers mean to Nova Scotia? How can Nova Scotia benefit from China’s spending extravaganza? There is no need to stress the importance of doing business with China. However, it is not an easy task to describe the size of the Chinese market or the strength of China’s economy. Numbers are the easiest way for us to understand China in terms of the market size and economic power. The numbers below, from HSBC Bank, will help us to have a better idea in these regards:

- China has a population of 1.3 billion, which is 20% of the world’s population.
- By 2015, 30% of global trade will be conducted in renminbi (RMB), China’s currency.
- 25% of the world’s luxury goods are purchased by Chinese citizens.
- Chinese tourists traveling abroad are expected to reach 130 million by 2015, and may surpass 200 million in 2020, three times the current number of US tourists making foreign trips.
- Shanghai has twice as many skyscrapers as New York. Shanghai developers erected office space in the city equivalent to 334 Empire State Buildings between 1990 and 2004.



- By 2025, China will have 221 cities with more than one million people, compared with 35 cities of the same size in Europe.
- The World Bank predicts China will become the largest economy by 2030.<sup>1</sup>

Source: HSBC Bank

### **1.3 Why does Nova Scotia need a China strategy?**

China's huge middle class and massive urbanization offers tremendous opportunities for the whole world. Recent literature shows major countries and other jurisdictions have already developed strategies to capitalize on these opportunities. Research has also shown that trade with China has grown significantly over the last decade. Countries like the US and New Zealand have been actively engaging China in order to expand trade.

Unfortunately, Canada was not keenly engaged with China with respect to trade until after the 2008 economic crises. These crises caused a global recession and Canada's economy was negatively impacted due to abruptly weakened economies of its major trade partners: the US and the European Union, which led the government to look to other opportunities.

Prior to the crises, the Sino-Canada relationship had reached an all-time low when Prime Minister Stephen Harper expressed that Canada was not willing to expand trade relations with China because of its human rights record at the 18<sup>th</sup> Asia Pacific Economic Summit

in 2006.<sup>2</sup> The resulting strain in trade relations with China caused lost opportunities for Canada. With its rapid economic development, China has been rising as a growth engine in the world's economy. China overtook Germany to become the world's third largest economy in 2008 and surpassed Japan as the second largest economy in 2010.<sup>3</sup> China is projected to become the largest economy in the world between 2020 and 2030. Canadian businesses have forced Prime Minister Harper to reverse the government's trade policy with China in order to benefit from China's continuing economic success. The human rights issues are no longer emphasized when conducting commercial dealings with China.

In 2009, Prime Minister Harper visited China, when he and President Hu agreed to work together to increase bilateral trade and investment. In 2010, a joint study was conducted to assess potential economic complementarities in sectors ranging from agrifoods to transportation infrastructure. The study targeted sectors and outlined opportunities for both countries.<sup>4</sup>

In 2012, China and Canada signed the Foreign Investment Protection Agreements (FIPA) to safeguard investors from discriminatory treatments and provide fair compensation in the event of an expropriation of their investments.<sup>5</sup> The FIPA is not yet ratified in Canada, however; nor does Canada have a comprehensive China strategy to capitalize on the opportunities discovered in the study. China is deepening its market reforms and transforming its economy from an investment-led and export-driven to a consumption-driven and innovation-led economy. Tremendous opportunities will result from a huge middle class and massive urbanization in China. Nova Scotia and Canada should not miss out these opportunities. The fact that Canada does not have a China strategy should not

stop Nova Scotia from developing one. Even though Nova Scotia is just a province, it can still actively engage China to increase trade and attract more investment to itself by having an overarching China strategy of its own. Provinces such as British Columbia and Alberta have already have their China strategies in place.

Nova Scotia is a small economy with fewer than one million people. The population is aging and shrinking, with the effect that its consumer base is becoming even smaller. Nova Scotia has to trade more with the outside world to improve its economic health. Research findings from *The One Nova Scotia* report (2014) indicate that the Nova Scotia has a significant trade deficit and that the province has an urgent need to increase exports by expanding its global trade links. The report set up an ambitious goal for exports to reach \$20 billion from \$14 billion within the next decade.<sup>6</sup> It also stresses the need to increase “strategic support for market research and analysis, intelligence gathering and in-market presence” in three major markets: China, the South-east US, and Western Europe to achieve this goal.<sup>7</sup> A booming country such as China is essential to grow Nova Scotia’s trade and reduce its large trade deficit. Hence a strategy to actively engage China is highly desirable and timely.

There are growing commercial interests between China and Nova Scotia that are encouraging for such a strategy. On May 2, 2014, Victor Chu, the Founder, Chairman and CEO of the First Eastern Investment Group, met with Nova Scotian companies to identify investment opportunities. The company has invested in over 100 companies in Asia, mainly in China.<sup>8</sup> According to the *Financial Post*, the First Eastern Investment Group launched a \$500m fund to invest in small and medium-sized enterprises (SMEs) in the

UK and help them enter the Chinese market in 2010.<sup>9</sup> That they are interested in Nova Scotia is encouraging. Moreover, on May 27, 2014, Dong Du International, a Shanghai-based real estate company, announced that it intended to invest \$3 billion in Nova Scotia in real estate, technology and tourism over the next decade.<sup>10</sup> This is the first time that a Chinese company has expressed such a significant investment interest in Nova Scotia. There are also increased commercial activities between Chinese and Nova Scotian private and public sectors. Nova Scotia needs a comprehensive China strategy to turn these potentially significant trade and investment opportunities into reality.

## **Part II: Trade background information on Nova Scotia and China**

### **2.1 The importance of international trade to Nova Scotia**

International trade is important for Nova Scotia as it is a small province and its market is too small to produce everything efficiently at home. It not only enables Nova Scotians to enjoy a variety of goods and services, but also helps create jobs and increase income.

Increasing international trade would also force local companies to be innovative in order to stay competitive. It would also facilitate two-way investment. The data below

demonstrates the significance of international trade to Nova Scotia's economy as a whole:

- Over the past five years, internationally-traded sectors employed 39% of workers in Nova Scotia - an annual average of 175,000 jobs.
- Foreign Direct Investment (FDI) companies contributed to job creation and the economy.
- Every year, about 897 Nova Scotia companies produce exports worth \$16 billion.
- Nova Scotia imports almost \$23 billion in goods and services. Many of them have value added here before they are re-exported across the world.<sup>[11](#)</sup>

## 2.2 Nova Scotia's Recent Trade Performance

Unfortunately, Nova Scotia has not fully participated in international trade. Only 1 in 34 Nova Scotia firms export, compared to 1 in 23 for the Canadian average.<sup>12</sup> Despite Nova Scotia's proximity to the US Eastern Seaboard and its gateway role for European markets, its international export share of GDP is one of the lowest among the Canadian provinces. The number of merchandise exporters in Nova Scotia has also fallen significantly in the last two decades, from 819 in 1999 to just 670 in 2010.<sup>13</sup>

Nova Scotia's domestic market is also shrinking due to an aging population combined with its younger population heading to western Canada to find well-paying jobs. In a recent interview with the *Chronicle Herald*, Ann Janega, Vice President of Canadian Manufacturers and Exporters, Nova Scotia Division, mentioned that only 3% of Nova Scotia firms export goods.<sup>14</sup> According to the State of Trade 2012 report, Nova Scotia's international merchandise exports fell by 14.3 per cent in 2012, the weakest performance among all Canadian provinces and territories.<sup>15</sup> The main export products included rubber products (including tires), and fish and seafood products, which account for half of all Nova Scotia's merchandise exports.

Due to the recent global economic recession, Nova Scotia's exports to developed economies decreased by 17 per cent. Even though this group still receives the majority of Nova Scotia's exports, its share has decreased from 93 per cent in 2002 to 85 per cent in 2012. Nova Scotia's exports to the US also declined by 16 per cent in 2012, and those to

the European Union by 20 per cent, again mainly due to the continuing recession. On the other hand, Nova Scotia's exports to emerging economies have experienced remarkable growth. For example, seafood and fish exports to China almost doubled from 2011 to 2012.<sup>16</sup>

When there is a decline in exports, there is an increase in the trade deficit. In 2011, Nova Scotia's trade deficit widened by \$1.6 billion or by 3.8 percentage points as a share of GDP, to reach almost **\$10 billion**, or 27 per cent of GDP.<sup>17</sup> This level of deficit should cause great concern as it is simply not sustainable. The province has to look beyond traditional trade partners such as the US and the EU. It must expand its trade ties with emerging markets such as with other BRICS countries (Brazil, Russia, India, China, and South Africa).

### **2.3 Nova Scotia's Inward Foreign Direct Investment (FDI)**

Inward FDI helps expand trade as foreign investment can finance imports for re-exportation. It can also increase business productivity by helping them adopt to the latest business, manufacturing, and management practices. Increasing FDI will help foster a competitive and innovative business environment. Productivity and innovation in turn will enhance Nova Scotia's international trade performance.

According to a report by fDi Intelligence, a division of *The Financial Times*, Nova Scotia was the "best-performing region in North America based on a per capita ranking" for

attracting foreign investment in 2012.<sup>18</sup> Nova Scotia managed to attract three of the four largest job-creating FDI projects in Canada, namely IBM, Admiral Insurance, and Stream. These companies are in the business process outsourcing (BPO) sector, and they already had a presence in Nova Scotia before the major investments were made. As of late, only Dong Du International from China expressed investment intention by signing the memorandum of understanding with the province. Nova Scotia has not yet attracted big capital investment projects from other Asian countries.

#### **2.4 Nova Scotia: an attractive FDI destination**

Three main factors drive firms to invest in a host country: **markets, resources, and efficiency.**<sup>19</sup> Nova Scotia is not seen as a particular attractive market as it has a small domestic market base, an aging population, and negative population growth. According to Statistics Canada, Nova Scotia continued to have the second-lowest labour productivity among the ten provinces in 2012. Given the cost competitiveness of China, India, and other developing economies in both manufacturing and services, Nova Scotia will not be able to compete when it comes to labour costs. Nova Scotia's strengths are its quantity of untapped natural resources and a well-educated workforce. For example,

- It has a reserve of 120 trillion cubic feet of gas and eight billion barrels of oil
- It is the largest marketer of biodiesel and biofuels in Canada
- It has tremendous tidal power potential, with a 16-meter (52 foot) tide in the province's Bay of Fundy, the highest tide in the world



- It has over 450 researchers in Ocean technology, the world's highest concentration of scientists in this sector
- It has a high concentration of universities and community colleges, allowing for easier recruitment of a large, highly skilled workforce.

## **2.5 The State of China's Foreign Trade**

Economic reforms and trade and investment liberalization have helped transform China into a major trading power today. Chinese merchandise exports rose from \$14 billion in 1979 to \$2.1 trillion in 2012, while merchandise imports grew from \$18 billion to \$1.9 trillion.<sup>20</sup> China registered a total goods trade value of \$3.87 trillion in 2012, overtaking the United States to claim the top ranking in global trade in goods.<sup>21</sup> China is also the largest trading partner of 124 countries.<sup>22</sup> China's economy is moving from an export and investment-centered economy to one oriented to domestic demand and consumption, as is clear from the former Chinese Minister of Commerce's statement:

“In the next 10 years, we will focus on Chinese companies investing overseas; we will focus on buying more products from overseas and boosting the domestic consumption. And also we have just decided on our next five-years development plan; in that plan we make it very clear that for further opening up the Chinese market.”<sup>23</sup>

– Chen Deming (Chinese Minister of Commerce 2007-2013)

The National People's Congress of China releases a mandate every five years, which is called China's Five-Year Plan (FYP). The FYP establishes broad economic and social goals and outlines how the central and local governments are to achieve these goals for the time period under consideration. FYPs have been issued by the Chinese government since 1953. China approved its 12th Five-Year Plan (covering the years 2011 to 2015) in March 2011. The 12th FYP outlines three core areas of focus: (1) economic restructuring, (2) promoting greater social equality, and (3) protecting the environment. Seven industries of strategic importance to China's future are identified in the 12<sup>th</sup> FYP. These are:

- Biotechnology
- New energy
- High-end equipment manufacturing
- Energy conservation and environmental protection
- Clean-energy vehicles
- New materials
- Next-generation information technology.

The Chinese government reportedly intends to spend up to \$2.1 trillion on these industries during the 12th FYP.<sup>24</sup> Canada is a global leader in many of these industries and there are already collaborations with China in the fields of science and technology. As a matter of fact, The Canada-China Agreement for Scientific and Technological Cooperation was

signed on January 16, 2007, and came into effect on July 17, 2008.<sup>25</sup> The agreement aims to foster and support bilateral research projects with commercialization potential between Canada and China. It will also stimulate bilateral science and technology networking and matchmaking activities to further new partnerships and accelerate the commercialization of research and development. Fortunately, Nova Scotia has expertise and capabilities in scientific research and technology to help China advance its goal in some of these industries, and hence can gain a slice of the economic pie from China's continuous growth.

Based on data from the National Bureau of Statistics of China, McKinsey Global Institute projected that roughly half of China's projected urban population will be middle class in 2025. China's massive urbanization will create annual compound growth rate from 6.7% to 11.8% in main product categories such as food, education, housing, health care and transportation between 2004 and 2025.<sup>26</sup> For example, China became Canada's biggest export market for ice wine in 2009, and in that category it has experienced 205.50% growth between 2008 and 2011.<sup>27</sup>

**Figure 1: A bird's eye view of Hai Kou, a third-tier Chinese city (Population: 1.8 million)**



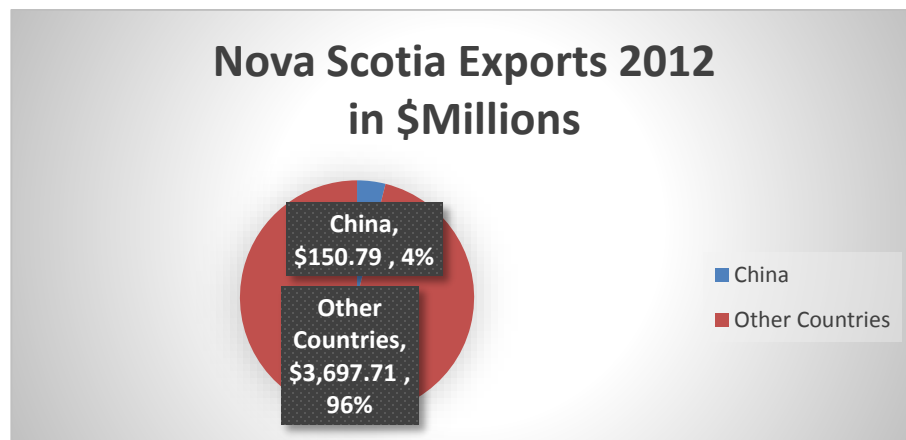
China's urbanization is driving infrastructure demand and its growing middle class means more people will have the money to spend on travelling abroad, education and insurance. There is also growing emphasis on quality of life, which will foster growth in the environment, health and culture sectors. There are many Nova Scotian companies that are particularly suited to selling high value-added goods and services to China's middle class rather than competing with other countries in high-volume trade. The province can also benefit from China's outward investment and use it to develop its own infrastructure and natural resources.

## **2.6 The State of Trade between Nova Scotia and China**

China accounted for just 4 percent of Nova Scotia's total exports in 2012 (see figure 2 below). Fish and crustacean exports to China experienced a 90% increase between 2011 and 2012. Besides fish and crustaceans, the top products were woodpulp (8 per cent), copper, and aluminum waste and scrap (12 and 7 percent, respectively). Overall, exports to China are not high in value-added components. Although Nova Scotia's exports to the

Chinese market are still relatively small, with its portion accounting for 0.85% of Canada's total exports to China in 2012, the province's share has almost quadrupled over the last decade. China has become Nova Scotia's second-largest market on a per country basis. Considering the size of the Chinese market, export growth at this speed is significant for a small province like Nova Scotia.

**Figure 2: Nova Scotia Exports 2012 (in Millions)**

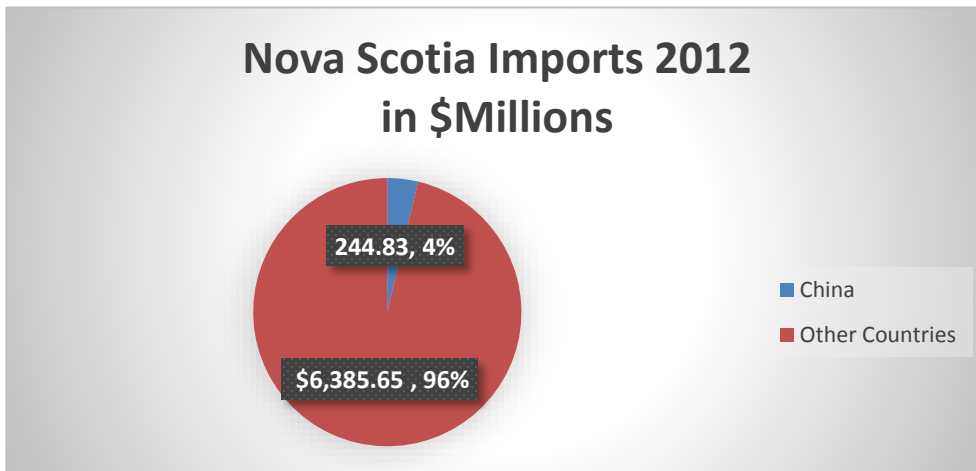


Data Source: Statistics Canada & US Census Bureau

China accounted for 4 percent of Nova Scotia's total imports in 2012 (see figure 3 below), almost doubling those of 2003. In 2012, China's imports to Nova Scotia accounted for only 0.05% of its total imports to Canada. The importing of rubber from China to Nova Scotia has increased fortyfold, a main ingredient in making tires. These tires are then re-exported to other countries. There has been a fifty-fold increase in organic chemicals including vitamins, alkaloids and antibiotics since 2003. It is also notable that meat, fish and seafood products has increased by fivefold since 2003. Seafood and tires are major exports for Nova Scotia but require certain raw materials for

their production. This is an area of fast growth: the importing of raw materials or processed products for use in Nova Scotia's value-added exports. If any lesson can be learnt from the recent global economic crisis and Nova Scotia's own demographics challenges, it is that Nova Scotia should diversify its trade destinations.

**Figure 3. Nova Scotia Imports 2012 (in Millions)**



Data Source: Statistics Canada & US Census Bureau

## **2.7 The importance of Trade and investment with China for Nova Scotia**

China is Nova Scotia's seventh largest importer, and the total imports from China almost doubled as that of 2003. The growth in exports to China has almost quadrupled from 2003-2012, while Nova Scotia's exports to the US dropped 11 % in the same period (see Table 1). By comparison, imports from the US have dropped from 9.08% to 6.96% over the last decade (see Table 2).

**Table 1. Exports to the US and China from Nova Scotia 2003-2012**

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
United States	85.74%	84.44%	83.82%	81.55%	78.97%	77.66%	75.08%	74.88%	73.69%	74.56%
China	1.26%	1.64%	1.65%	1.77%	2.11%	2.17%	3.10%	3.32%	3.76%	4.26%

**Table 2. Imports to Nova Scotia from the US and China 2003-2012**

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
United States	9.08%	6.76%	6.64%	4.05%	4.58%	7.02%	6.17%	3.53%	4.62%	6.96%
China	1.93%	2.4%	3.04%	4.6%	2.99%	2.39%	3.35%	2.61%	3.51%	3.69%

Data Source: Statistics Canada & US Census Bureau

## 2.8 China's investments in Canada

China's industrialization and urbanization generates great demand for energy and resources. To strategically gain access to the energy and natural resources, China adopted its "going out" policy in 2001 to encourage overseas investments. China's outward foreign direct investment reached \$84 billion in 2012, making it the world's third-largest outward investor after the United States and Japan.<sup>28</sup> Chinese companies have invested

over \$40 billion in the energy and resources sector in Western Canada in recent years.<sup>29</sup>

The detailed breakdown of Chinese investors and their partners can be found in table 3

below.<sup>30</sup>

**Table 3. China’s major investments in Canada 2005-2013**

<b>Year</b>	<b>Investor</b>	<b>in Millions</b>	<b>Share Size</b>	<b>Partner/Target</b>	<b>Sector</b>
2005	CNOOC	\$130	17%	MEG Energy	Energy
2005	Sinopec	\$120	40%	Synenco	Energy
2006	Jiangxi Copper	\$110	75%	bcMetals	Metals
2009	Wuhan Iron and Steel	\$240	20%	Consolidated Thompson	Metals
2009	CIC	\$1,500	17%	Teck Resources	Metals
2009	CNPC	\$1,740	60%	Athabasca Oil Sands	Energy
2010	CIC	\$200		Brookefield	Finance
2010	Sinopec	\$4,650	9%	ConocoPhillip	Energy
2010	CIC	\$1,220	5%, 45%	Penn West and Penn West Energy	Energy
2010	Yunnan Metallurgical	\$100	50%	Selwyn Resources	Metals
2010	Jinchuan	\$420	100%	Continental Metals	Metals
2011	Wuhan Iron and Steel	\$120	60%	Adriana Resources	Metals
2011	Fulida Group	\$250		Neucel Specialty	Agriculture
2011	China Guodian	\$260	70%	Farm Owned Power	Energy
2011	CNOOC	\$2,040	100%	Opti Canada	Energy
2011	Jilin Jien Nickel	\$400			Metals
2011	Yanzhou	\$260		North Atlantic Potash	Chemicals



2011	Sinopec	\$2,100	100%	Daylight Energy	Energy
2012	CNPC	\$670	40%	Athabasca Oil Sands	Energy
2012	Jilin Jien Nickel	\$100	100%	Goldbrook Ventures	Metals
2012	CIC and Sinopec	\$300		Sunshine Oilsands	Energy
2012	CNPC	\$1,030	20%	Shell	Energy
2012	Hebei Iron and Steel	\$200	20%	Alderon Iron Ore	Metals
2012	Sinomach	\$120	60%	Procon	Metals
2012	Sichuan Bohong	\$250	100%	Wescast Industries	Transport
2012	CNPC	\$1,510	50%	TransCanada	Energy
2012	CIC	\$110	13%	Brookefield	Agriculture
2012	CNOOC	\$15,100		Nexen	Energy
2012	CNPC	\$2,180	49%	Encana	Energy
2013	Sinomach	\$130		JD Development	Real estate
2013	Shaanxi Yanchang Petroleum	\$220	100%	Novus Energy	Energy

Source: the American Enterprise Institute and the Heritage Foundation

After this success in Western Canada, more and more Chinese companies are turning to Atlantic Canada for new opportunities. For example, China Minmetals Corporation and Hebei Iron & Steel Group have invested \$200 million in Alderson Iron Ore Corp in Newfoundland and Labrador for 20% of the company's shares. A total of \$115 billion worth of megaprojects are on the horizon in the Atlantic Provinces, with target sectors ranging from oil and gas, clean energy, mineral resources to mechanical manufacturing and infrastructure. These megaprojects will certainly attract Chinese investors' attention. The recently signed Foreign Investment Protection Agreement (FIPA) between Canada and China will be helpful to facilitate two-way investment once it is ratified. The FIPA is

designed to create a level playing field for Chinese companies operating in Canada, and vice versa, by eliminating barriers to foreign businesses in both countries.<sup>31</sup>

## **2.9 Conclusion**

In short, even though China is Nova Scotia's second largest trading partner on a per country basis in terms of exports and the seventh largest trading partner in terms of imports, Nova Scotia's share of Sino-Canadian trade is insignificant at the moment. However, the growth in speed and scale in the Nova Scotian economy is extraordinary. For example, exports of live lobster from Nova Scotia to China have increased by more than 20 times in the past five years. Also, the currently restricted trade in services implies that there is considerable room for Nova Scotian services trade to grow and to take advantage of new opportunities created by market liberalization in China. China could become Nova Scotia's largest trading partner and the biggest source of inward FDI. It is imperative for Nova Scotia to have an effective strategy to fully capitalize trade and investment opportunities with China.

### **Part III: Literature review on trade strategies with China in other jurisdictions in Canada, the US, the EU, New Zealand and Australia**

#### **3.1 The overview of trade between Canada and China**

In this part, my research is focused on other major Canadian provinces based on their trade volume with China in order to identify success factors for doing trade with China. For comparison with these, there then follows a literature review on the trade strategies of China's top trading partners, the United States, the European Union, and Australia. New Zealand's trade strategy with China is also examined given its great success in doing trade with China as a small country.

Canada is not in a free trade agreement with China. As a whole, Canada does not have a comprehensive trade strategy with China even though it was identified as a priority market for the country in Canada's Global Commerce Strategy as early as 2007. China and Canada signed an agreement in science and technology cooperation in 2007 and a foreign investment protection agreement in 2012. These two agreements provide a policy framework in facilitating cooperation in science and technology and overcoming barriers in investing in each other.

Canada's previously uncertain trade relations with China improved until the Prime Minister visited China in 2009. After that visit, both sides agreed to mend relations and many high level visits have taken place between top leaders from both countries. Trade

and investment activities are frequently carried out by both the federal government and the provinces, such as those trade missions to China led by either federal ministers or Premiers. At the municipal level, the Canada City Alliance (of Canada's 11 largest cities) also promote trade and investment opportunities through organized trade missions to China. All of these groups are supported by the Canadian Trade Commissioners Services offices in China.

### **Canadian Exports**

China is Canada's second-largest trading partner, while Canada ranks 13th among China's trading partners.<sup>32</sup> The trade between Canada and China is largely resources-based, as China is hungry for energy and natural resources to feed its fast-growing economy. In the last decade, Canadian exports to China as a whole has experienced a 3.5-fold growth. At the provincial level, exports to China from BC, Saskatchewan, and Manitoba all grew around five-fold. Newfoundland and Labrador and Quebec both increased their exports by three times to China, as did Alberta and New Brunswick. Nova Scotia, by comparison, grew 1.5-fold. The remaining Canadian provinces either do not export to China or the volume of the export is insignificant. See the detailed growth rate in exporting to China by province in Table 4.

### **Table 4. Exports to China from Canadian Provinces and Its Share of Total**

#### **Canadian Exports:**

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>British Columbia</b>	0.25%	0.31%	0.31%	0.35%	0.40%	0.42%	0.70%	0.97%	1.09%	1.28%
<b>Alberta</b>	0.25%	0.47%	0.47%	0.50%	0.63%	0.65%	0.76%	0.73%	0.69%	0.82%
<b>Quebec</b>	0.15%	0.17%	0.19%	0.20%	0.22%	0.21%	0.31%	0.42%	0.54%	0.58%
<b>Saskatchewan</b>	0.11%	0.19%	0.17%	0.12%	0.19%	0.24%	0.33%	0.37%	0.37%	0.53%
<b>Ontario</b>	0.36%	0.32%	0.32%	0.38%	0.39%	0.39%	0.49%	0.43%	0.54%	0.47%
<b>Newfoundland and Labrador</b>	0.07%	0.07%	0.10%	0.09%	0.08%	0.10%	0.28%	0.18%	0.23%	0.30%
<b>Manitoba</b>	0.04%	0.10%	0.07%	0.10%	0.17%	0.13%	0.18%	0.17%	0.22%	0.21%
<b>Nova Scotia</b>	0.02%	0.02%	0.02%	0.02%	0.02%	0.01%	0.02%	0.02%	0.03%	0.03%
<b>New Brunswick</b>	0.01%	0.01%	--	0.01%	0.01%	0.01%	0.03%	0.03%	0.03%	0.03%
<b>Northwest Territories</b>	--	--	--	--	0.01%	0.01%	0.01%	--	0.01%	0.01%
<b>Yukon Territory</b>	--	--	--	0.01%	--	--	--	--	0.01%	0.01%
<b>Prince Edward Island</b>	--	--	--	--	--	--	--	--	--	--
<b>Nunavut</b>	--	--	--	--	--	--	--	--	--	--
<b>Sub-total</b>	1.26%	1.64%	1.65%	1.77%	2.11%	2.17%	3.10%	3.32%	3.76%	4.26%
<b>Others</b>	98.74%	98.36%	98.35%	98.23%	97.89%	97.83%	96.90%	96.68%	96.24%	95.74%

Source: Statistics Canada & US Census Bureau

## Canadian Imports

In the past decade, imports to Canada from China have doubled. At the provincial level, imports to Alberta and Saskatchewan all grew around fivefold in the past decade, and Ontario, BC, Quebec, Manitoba, New Brunswick grew around twofold respectively. The

rest of the Canadian provinces either do not import from China or the volume of the imports is insignificant. See the detailed growth rate in imports from China by province in Table 5.

**Table 5. Imports to China from Canadian Provinces and Its Share of Total Canadian Imports**

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>Ontario</b>	2.80%	3.44%	3.94%	4.41%	5.00%	5.19%	5.83%	6.22%	6.02%	6.13%
<b>British Columbia</b>	1.37%	1.72%	1.97%	2.15%	2.13%	2.24%	2.40%	2.18%	2.09%	2.17%
<b>Quebec</b>	1.10%	1.27%	1.39%	1.58%	1.71%	1.77%	1.89%	1.89%	1.80%	1.77%
<b>Alberta</b>	0.12%	0.17%	0.26%	0.32%	0.33%	0.38%	0.44%	0.46%	0.58%	0.60%
<b>Manitoba</b>	0.08%	0.11%	0.10%	0.11%	0.14%	0.16%	0.16%	0.16%	0.18%	0.18%
<b>Nova Scotia</b>	0.03%	0.04%	0.06%	0.09%	0.05%	0.05%	0.06%	0.05%	0.07%	0.05%
<b>Saskatchewan</b>	0.01%	0.02%	0.02%	0.03%	0.04%	0.03%	0.05%	0.04%	0.03%	0.05%
<b>New Brunswick</b>	0.01%	0.01%	0.01%	0.01%	0.01%	0.01%	0.02%	0.02%	0.02%	0.02%
<b>Newfoundland and Labrador</b>	--	--	--	--	--	--	--	--	--	--
<b>Northwest Territories</b>	--	--	--	--	--	--	--	--	--	--
<b>Prince Edward Island</b>	--	--	--	--	--	--	--	--	--	--
<b>Yukon Territory</b>	--	--	--	--	--	--	--	--	--	--
<b>Nunavut</b>	--	--	--	--	--	--	--	--	--	--
<b>Sub-total</b>	5.53%	6.77%	7.75%	8.69%	9.41%	9.82%	10.86%	11.03%	10.79%	10.98%
<b>Others</b>	94.47%	93.23%	92.25%	91.31%	90.59%	90.18%	89.14%	88.97%	89.21%	89.02%

Source: Statistics Canada & US Census Bureau

From both import and export points of view, China is becoming an increasingly important trading partner with every Canadian province, with significant room for growth in the future. Each individual province has its own strength when comes to trade with China, and as a result they often adopt different strategies to advance their trade agendas. It would be beneficial for Nova Scotia to learn from their strategies in increasing trade and investment. The trade strategies of eight provinces (British Columbia, Alberta, Quebec, Ontario, Saskatchewan, Manitoba, and Newfoundland and Labrador) are examined to identify success factors in doing business with China.

### **3.1 a) British Columbia**

British Columbia (BC) and China enjoy deep historical, cultural and business ties. China is BC's second largest trade partner after the United States; its trade with China has experienced almost seven-fold growth from 2001 to 2012. In fact, British Columbia accounts for about one third of Canadian exports to China. A snapshot of trade between BC and China is as follows:

- China is B.C.'s second-largest trade partner. In 2012, B.C.'s exports to China reached \$5.9 billion, representing a 691% increase since 2001.
- Most of the growth in trade with China has been in natural resources, which at \$4.95 billion, accounts for 83% of all B.C. exports to China.

- Forest products and coal top the list of resource exports. Shipments of both commodities to China have grown more than 20 times in the last decade.<sup>33</sup>
- In 2012, BC exported metals and minerals to China valued at \$516 million (Copper is the main export at \$487 million). BC has also set new records for agriculture and seafood exports to China for the past three years. Seafood exports to China totaled \$121 million in 2012, up 10.5% over the previous year.
- Between 2012-2013, over 145 trade missions involving B.C. companies and organizations were supported by British Columbia's expanded network of international Trade and Investment Representative Offices in China, which are located in Beijing, Guangzhou, Shanghai and Hong Kong.<sup>34</sup>
- In 2013, BC issued bonds into the Chinese market (CNH), which is called the "Dim Sum" Bond. The issue of the one-year-term bond priced at 2.25 per cent raised 2.5 billion RMB, or about \$428 million Canadian, and is the largest CNH bond by a foreign issuer to date.<sup>35</sup>

BC's trade success with China builds on its long-standing connections with China and its government's long-term commitment in developing the Chinese market. BC is the only province that has had an official trade strategy for China, which is called British Columbia's Trade and Investment Strategy for China 2008-2011. The strategy outlined BC's strategic approach in engaging China through trade, investment and economic immigration to ensure it remain prosper as global economic power shifts to Asia. There are five key pillars in this strategy:



- Build BC's international platform and relationships in China
- Market BC as Canada's Pacific Gateway, including promotion of BC's competitive advantages
- Strengthen innovation partnerships, including research and development, and science and technology collaboration
- Increase the value of BC's exports to China
- Increase the value of Chinese Investment in BC in priority sectors.<sup>36</sup>

BC's China strategy does not start with business, but rather focuses on building relationships first. Relationships matters in international trade, especially in the Chinese context. If there is no trust between two parties then no business will be done. To build a trusted relationship, the BC government has built the BC Alumni Ambassadors Network/Asia-Pacific Leaders Network by engaging with alumni and influential people in government and corporate circles. These groups are an important portal into China and they can help forge lasting and sophisticated economic, cultural and social ties with China.

These ties are extremely helpful in facilitating trade and investment between China and BC. A good example is that of Shi Hao, a UBC alumni, helped locate the Agriculture Bank of China's representative office in BC in 2012.<sup>37</sup> The Agriculture Bank of China had the largest Initial Public Offering ever, with \$22.1 billion raised in 2011, and is ranked seventh among the Top 1,000 World Banks. The Vancouver location is its fifth overseas representative office, after New York, Tokyo, Frankfurt and Sydney.

Chinese-Canadians account for approximately 10% of the province’s population, which accounts for roughly 425,000 people.<sup>38</sup> Facilitated by strong people-to-people ties, BC supports the establishment of economic twinning relations between BC and Chinese municipalities. The main objective of twinning is to enhance economic and commercial interests between the two cities. Exchanging import/export information, as well as information about projects for which foreign investors are invited to participate, is a key consideration. These twinning relationships are often viewed a starting point for a wider network of co-operative arrangements (or memoranda of understanding) as Chinese cities are not allowed to enter into contractual arrangements with foreign communities and enterprises without the central government’s approval.<sup>39</sup> See Table 6 for a list BC’s twinned cities with China as of 2013:

**Table 6. BC’s twinned cities with China, 2013**

Cities in BC	Cities in China
Burnaby	Sister city: Zhongshan, Guangdong Province
Coquitlam	Laizhou, Shandong Province
Kamloops	Changping, Beijing
Maple Ridge	Dongcheng, Beijing
Mission	Zhuozhou, Hebei Province
New Westminster	Zhejiang Province; Jiangsu Province; Yanfu, Beijing; Lijiang, Yunnan Province

North Vancouver District	Xigang District, Dalian, Liaoning Province
Port Moody	Pinggu, Beijing; Tanggu, Tianjin
Prince Rupert	Canzhou, Hebei Province; Putian, Fujian Province
Port of Prince Rupert	Port of Ningbo, Zhejiang Province
Prince George	Nanjing, Jiangsu Province; Mianyang, Sichuan Province; Yichun, Helongjiang Province
Richmond	Qingdao, Shandong Province; Xiamen, Fujian Province
Surrey	Zhuhai, Guangdong Province
Vancouver	Guangzhou, Guangdong Province;
Victoria	Nanjing, Suzhou, Jiangsu Province; Changsha, Hunan Province
Williams Lake	Fusong, Changchun Province

Source: British Columbia Local Government: International Twining Inventory, 2010

BC is also expanding the operations of its international network in China, which it has done by establishing trade and investment offices in Beijing, Shanghai, Guangzhou and Hong Kong. As well, it has set up the Greater China Desk in Vancouver to provide the lead on BC's Trade and Investment programs in China and to support the trade and investment offices. In total these five offices employ 30 people, 90% of whom are bilingual Chinese staff.<sup>40</sup> Without these on-the-ground and in-the-country supports, it would not have been possible to facilitate 145 trade missions between China and BC in 2012-2013. In addition, BC implemented a China Engagement Calendar to support the visit of the Premier, ministers and senior officials. This coordinated approach not only

aligns BC's engagement in the priority sectors with China, but also helps ensure the visit is effective by engaging the right audience.

**Figure 4. Premier Clark meets the Governor of Sichuan November 2013**



Source: BC Government Website

Secondly, BC markets itself as Canada's preferred gateway for Asian trade to North America and the world through its relative proximity to Asia. BC consistently promotes its competitive advantages and welcoming business climate at high profile trade shows, industry forums, seminars and other major events in China. To make its competitive advantages easily understood by Chinese investors and Chinese business owners, its trade and investment website offers information in Chinese as well as English.

Thirdly, BC strives to begin strategic Research and Development, Science and Technology projects with Chinese institutions and companies to support innovation in BC, particularly in the technology and knowledge-based sectors. China's remarkable economic transformation has made it the second largest economies in the world, but it is

impossible to maintain double-digits growth for the next 30 years. China is facing enormous challenges as a result of its rapid economic development, such as widespread air/water pollution, rapid urbanization, an aging population, slower economic growth and increasing health care costs. Both to address the problems that rapid economic progress creates and to move the economy higher up the value chain towards a more sustainable growth model, China needs innovation more than ever. BC has more than 50 research centres, including software engineering, micro-electronics, manufacturing systems, e-learning, biotechnology, environmental and alternative energy systems and technologies. Since 2001, BC has invested in more than \$1.7 billion and attracted an additional \$1 billion to research and innovation.<sup>41</sup>

During Premier Clark's recent trade mission to China, several agreements were signed between BC and China, including:

- A Memorandum of Understanding (MOU) between the BC Centre of Excellence in HIV/AIDS and the China Centre for Disease Control and Prevention for research collaboration.
- An agreement between Ocean Networks Canada, the University of Victoria and the National Ocean Technology Center and State Oceanic Administration for complementary research activity.
- An agreement between Corvus Energy, a B.C.-based manufacturer of lithium energy storage solutions, and Dunhuang Libio, to provide energy integration of large-scale wind-and solar-energy generation to the China Guodian (State Grid).

- A MOU between the University of British Columbia and Kailuan Energy Chemical Group to develop mutually beneficial, collaborative research and development regarding the production and processing of coal, coal related chemicals and natural gas.<sup>42</sup>

These partnerships are mutually beneficial. In partnering with China's strategic industries such as new energy, renewable energy, environment conservation and ocean technology, BC will not only benefit from China's investments to develop its own innovation capacity, but also establish itself as an important partner for China's innovation plan.

Fourthly, China is BC's second-largest trading partner, and accounts for 18.1 per cent of British Columbia's commodity exports – a total value of more than \$5.9 billion in 2013. This figure is growing fast, with exports increasing by an average of 24 percent per year since 2002.<sup>43</sup> British Columbian companies still have significant potential to increase trade with China due to its high demand for natural resources and rapid growth in knowledge-based industries, international education, transportation and infrastructure and agrifoods. The BC government and businesses are working to identify and target Chinese companies with the capacity and interest to enter into trade and investment with BC companies. They are focusing on the follow target sectors, where BC has competitive advantages:

- Advanced energy, environmental technologies and services
- New media technology

- Information and communications technology
- Life science and biotechnology
- Financial services
- Education and training
- Forestry products
- Mining and minerals
- Tourism
- Transportation and logistics
- Agri-food

It is worth mentioning that BC developed the Opportunity BC website, a portal utilizing the Global Information System, where investors can search current trade or investment opportunities in the above sectors. On the website, potential investors can read “opportunity” profiles and a contact person for each “opportunity” is provided.

Last but not least, BC stresses the importance of securing Chinese investment interests in BC from the China Investment Corporation (CIC) office in Canada, which has C\$300 billion in assets. The CIC opened its first overseas representative office, in Toronto, on January 20, 2011.<sup>44</sup>

In short, BC’s trade and investment strategy has worked. Its success lies in: its long term commitment in developing the Chinese market; building a trusted relationship through many of its sister/friendship cities, having four Trade and Investment Offices in China;

forming partnerships in innovation, and adopting a targeted approach to boosting exports to and attracting investment from China.

### **3.1 b) Alberta**

Alberta's exports to China have experienced more than threefold growth from 2003-2012. China has become Alberta's largest export market in the Asia-Pacific region and its second largest market overall, with \$3.7 billion in exports in 2012, up from \$3.0 billion in 2011.<sup>45</sup> Most of China's imports from Alberta are related to agriculture, forestry and specialized machinery, while the fastest growing sector for imports from Alberta is oil products.<sup>46</sup> Alberta currently ships approximately 2% or 40,000 barrels a day of its oil to China<sup>47</sup>. Alberta alone accounts for nearly 75% of China's roughly \$50 billion total foreign investment in Canada.<sup>48</sup> This investment has been in the energy sector, which was led by three Chinese state-run energy titans: Cnooc Ltd. China National Petroleum Corp. (CNPC), and China Petrochemical Corp., also known as Sinopec.

Even though the Albertan government does not have an official trade strategy with China, it has ensured China is an integral part of Alberta's *International Strategy 2013 – Building Markets*. This strategy is a direct response to the world's economic power shifting towards the emerging markets such as China and India at the same time that Alberta is receiving below world price for its energy products from its largest trading partner, the US. In 2012, energy commodities continued to be Alberta's most important



export sector, accounting for 67% of the total value of the province's exports in that year.<sup>49</sup>

Alberta's International Strategy 2013 outlined four objectives to diversify Alberta's exports into international markets and to get the fairest price possible for Alberta's resources, products and services:

1. Diversify markets to expand the economy
2. Build Alberta's reputation as a global citizen
3. Prepare Albertans for success in the global economy
4. Prioritize and integrate government actions to take advantage of international opportunities

For objective 1, China is a priority market for Alberta. The Albertan government has expanded its presence in Greater China through four of its international offices (Beijing, Shanghai, Hong Kong and Taiwan). These offices promote trade and investment opportunities between Alberta and China. Specifically, the services on offer to Chinese businesses include:

- Connecting businesses to Albertan suppliers of products, services and technologies
- Providing information on Alberta companies
- Providing information on Alberta's economy, taxes, and regulations


- Counselling prospective investors on investments in Alberta
- Helping with site selection for Alberta-based business
- Helping business plan trips to Alberta

Its services to Albertan business include:

- Providing market studies, research reports and intelligence on opportunities for selected products and services to help companies develop and execute their marketing plans
- Providing consultation on local business practices and culture and advice on language for Albertans wishing to do business in China
- Helping Albertan companies identify potential business partners, as well as business introductions, referrals and appointments
- Providing information and assistance for complying with Chinese trade laws and regulations.

Source: Alberta China Office

These on-the-ground services in China are critical for enhancing Alberta's trade and investment, given the great difference in language and culture. The Albertan government takes a Team Alberta Approach to involve industry and Albertan institutions in designing and executing trade missions that deliver real value in China. For example, a \$250-million joint venture was established between Changjiang Investment Co. and Renergy Petroleum Canada Co. Ltd and Sun Shine Oilsands Ltd. in Premier Redford's recent trade

mission to China.<sup>50</sup> International offices in China promote Alberta within Canada brand, and the image of  is consistently adopted in all of its communications materials.

The Albertan government is also working with the federal government to create certainty for investors. In the energy sector alone, it is estimated that companies in Alberta require \$43 billion per year over the next 10 years to continue development of the Oil Sands and conventional oil and gas reserves.<sup>51</sup> Cash-rich China is obviously a great source for future investment in the Oil Sands development given its huge demand for energy resources. Canada approved China's biggest ever foreign takeover on December 7, 2012, a \$15.1 billion bid by state-controlled CNOOC Ltd for energy company Nexen Inc., but drew a line against future buys by state-owned enterprises except in "exceptional circumstances."<sup>52</sup> However the federal government has not clarified what such exceptional circumstances might be. The Albertan Government is concerned it might lose foreign investment due to uncertainty over Canada's rules for investment. The Albertan government has attracted Chinese investment by signing a non-binding framework agreement on sustainable energy development on October 18<sup>th</sup>, 2013, the first of its kind between Canada and China. The fact that the signing ceremony was in the presence of Canadian Governor General David Johnston and Chinese President Xi Jinping demonstrating the importance of such an agreement. This agreement allows Alberta to have "unprecedented access" to policymakers in China on energy trade with the Asian superpower.<sup>53</sup>

Alberta's Oil Sands are the third-largest proven crude oil reserve in the world, next to Saudi Arabia and Venezuela.<sup>54</sup> The Oil Sands have attracted billions of dollars in investment to Alberta, and also offer an opportunity for Alberta to engage in the international dialogue on future energy development. As a world-leading energy supplier, Alberta is facing increasing pressure to show leadership in responsible energy development, such as combating climate change and protecting the environment. In Objective 2 of Alberta's 2013 International Strategy, the Albertan government promotes its responsible energy development through engagement of civil societies, advancement of technology, investment and building global partnerships. This will greatly enhance Alberta's ability to continually attract investments and export its energy commodities worldwide.

Growing economies in Asia, particularly in China has created great demand for Alberta's energy and other quality consumer products including food. In Objective 3, the Albertan government is working to prepare Albertans for success in these global markets. Currently, Chinese language is offered in four cities in Alberta: Calgary, Edmonton, Ft. McMurray and Red Deer. A Chinese curriculum is taught in both private and public schools in Alberta from kindergarten to grade 12 to university level. There are over 7300 people learning Chinese in Alberta.<sup>55</sup> To help young Albertans gain awareness, experience and perspective in specific markets, the government created the Alberta Abroad Program, which provides talented young Albertans the opportunity to work in international organizations through short-term, work opportunities called "externships".<sup>56</sup>

### **Figure 5. Alberta Abroad Program**



Source: Government of Alberta Website

The Chinese language and culture training as well as real Chinese work experience through “externships” will build Alberta’s Chinese competency, which is invaluable in enhancing trade and commercial ties with China.

Alberta Energy Minister Ken Hughes stated that “China is the single most important market Alberta will have for the next 50 years”.<sup>60</sup> To ensure Alberta’s future success in this market, Alberta is building capacity and relationships through its Chinese offices, Asia Advisory Council, schools and institutions as well as businesses and cultural organizations.

In Objective 4, Alberta has made it important to prioritize and integrate government actions to take advantage of international opportunities. The Albertan government is working to develop internal expertise and is coordinating this through information sharing and shared governance as well as investments to address gaps in capacity. Externally, it enhances collaboration with partners and stakeholders including federal and municipal governments, post-secondary institutions, businesses and cultural groups. The Asia Advisory Council was established in 2012 to provide advice and make recommendations

to the Minister of International and Intergovernmental Relations on pursuing new market opportunities and supporting market entry for Alberta exporters as well as promoting Alberta as an attractive destination for international investment.<sup>57</sup> The establishment of the Council demonstrates Alberta's commitment to strengthening Alberta's commercial relationship with Asia, and particularly the Chinese market. The Albertan government also can get advice on Chinese-Canadian relations from The China Institute at the University of Alberta (CIUA). The CIUA was established in 2005 with a \$37 million endowment from the Government of Alberta to enhance understanding between Canada and China. The CIUA is focused on the study of contemporary China, including cutting-edge and policy relevant research on Chinese energy policy, politics, economy, social issues, culture and Canada-China relations.<sup>58</sup> The University of Alberta has the strongest link to China of any Canadian university, with over 3,000 students and some 100 professors from China.<sup>59</sup>

### **3.1 c) Quebec**

China is Quebec's second largest export destination. The value of exports has increased from \$690 million to \$2.6 billion in the last decade. The top five exports from Quebec to China are:

**Table 7. Quebec's Top Five Exports to China 2004-2013**

<b>Top five exports to China (in thousands of Canadian dollars)</b>	<b>2004</b>	<b>2013</b>
<b>Ores, Slag and Ash</b>	2,757	804,453
<b>Aircrafts and Spacecrafts</b>	65,576	514,054
<b>Pulp of Wood and The Like; Waste and Scrap of Paper or Paperboard</b>	151,421	282,857
<b>Nuclear Reactors, Boilers, Machinery and Mechanical Appliances</b>	109,434	201,437
<b>Meat and Edible Meat Offal</b>	19,865	128,983

Source: Industry Canada

China is a priority market for Quebec. The province aims to expand its presence through its Beijing and Shanghai offices. Quebec and China started cooperation in the field of science and technology as early as 1995. In 1995, Quebec government signed a cooperation agreement with the Science and Technology Commission of the People's Republic of China, now the Ministry of Science and Technology (MOST), and a second in 1996 with the Science and Technology Commission of Shanghai Municipality (STCSM). In October 2006, the Minister of International Relations headed a mission to China during which she signed a science and technology cooperation agreement with Shandong, whose main priority was marine sciences.<sup>61</sup> In 2011, these cooperation agreements were renewed and the following sectors were selected for inclusion in the agreements:

- Life sciences, especially genomics, proteomics, RNomics and synthetic
- biology
- Biotechnology and pharmaceuticals
- Health

- Information and communication technologies (ICT), especially green ICT and health-oriented ICT
- New bio-sourced materials and products
- The environment and sustainable development
- Renewable energies
- Marine sciences

These are sectors which China recognized as priority areas for improvement in its 12<sup>th</sup> Five-Year Plan. This kind of cooperation agreement makes Quebec a partner in China's economic transformation.

A handful of Quebec firms have already successfully penetrated the massive Chinese market. The Montreal-based Power Corporation of Canada (PCC) has been active in China since 1978 and has invested in many different sectors of the Chinese economy, including real estate, transportation, communications and power generation. It was the first Canadian enterprise to win the coveted status of "qualified foreign institutional investor," which allows it to buy and sell yuan-denominated shares on Chinese stock exchanges.

Bombardier has had links with China since 1954, and has a history of three joint ventures and seven wholly foreign-owned enterprises there. For its part, CAE has been involved in a joint venture with China Southern Airlines since 2002. Based in Guangdong province, the Zhuhai Flight Training Centre, of which CAE owns 49 percent, provides aviation



training services for more than 12,000 pilots annually, representing a variety of commercial aircraft carriers, including Air China and China Eastern Airlines.

The experiences of PCC, Bombardier, and CAE underscore the extent to which China's growth has created openings for Quebec-based enterprises. But those are only a few among many opportunities, most of which remain untapped.

Quebec does not have an official trade strategy with China. As shown previously, it is mainly focused on science and technology cooperation with the Chinese government. Quebec's rich mineral resources are especially attractive to Chinese investment, as China needs minerals to feed its economic growth. For example, Jilin Jiren has invested over \$800 million in nickel mining in Quebec. With over 30 mines now in production or under development, there will be more Chinese investment into Quebec's mining sector.<sup>62</sup>

### **3.1 d) Ontario**

China was Ontario's fourth most important export trade partner in 2012, comprising 1.21% or \$1.96 billion of Ontario's global goods exports. In the same year, China was Ontario's second largest import trade partner, with Ontario importing 10.82% or \$28.32 billion of its global goods imports from China. The majority of Ontario's exports were raw materials or metal wastes, while most of the imports from China were labour-intensive manufactured goods. Table 8 below shows Ontario's top ten goods exports and the top ten goods imports in 2012.<sup>63</sup>

**Table 8. Top 10 Ontario goods exports to China and top 10 China goods imports to Ontario  
2012**

<b>Top 10 Goods Exports 2012</b>	<b>C\$</b>	<b>Top 10 Goods Imports 2012</b>	<b>C\$ (000's)</b>
<b>(HS4 Code)</b>	<b>(000's)</b>	<b>(HS4 Code)</b>	<b>C\$ (000's)</b>
	\$209,32	<i>Telephone equipment (Includes</i>	\$4,204,53
<i>Raw fur skins</i>	8	<i>modems)</i>	0
	\$137,58	<i>Computers and computer</i>	\$3,814,05
<i>Synthetic rubber</i>	1	<i>peripherals</i>	0
	\$119,73	<i>Television receivers (includes</i>	
<i>Copper waste &amp; scrap</i>	2	<i>monitors)</i>	\$748,806
		<i>Motor vehicle parts</i>	\$676,478
<i>Polyamides</i>	\$64,254	<i>Printing machinery</i>	\$521,835
		<i>Toys - scale models</i>	\$458,596
<i>Machinery for working rubber &amp;</i>		<i>Furniture</i>	\$445,012
<i>plastic</i>	\$64,252	<i>Seats</i>	\$427,227
<i>Aluminum waste &amp; scrap</i>	\$63,003	<i>Travel goods, handbags,</i>	
<i>Soybeans</i>	\$62,979	<i>wallets, etc.</i>	\$417,318
<i>Nickel mattes</i>	\$57,526	<i>Arcade, table or parlour games</i>	\$416,527
<i>Machinery</i>	\$49,709		
<i>Paper/paperboard - waste &amp;</i>			
<i>scrap</i>	\$46,449		

Source: Government of Ontario Website

There is significant trade imbalance between Ontario and China, meaning that there are plenty of opportunities in China for Ontario companies. Ontario strives to improve its two-way trade with China in the following ways:

- Trade missions. Former Premier McGuinty led four trade missions to China in 2005, 2008, 2010 and 2013. These trade missions involved meeting with key Chinese government officials, leading investors, and business leaders. They helped open doors in China for hundreds of Ontario companies and resulted in over \$1 billion in business contracts. They also greatly raised Ontario's profile in China as a global leader in clean technology, innovation, education and life sciences.
- International Marketing Centres (IMC) in China. Ontario opened its first IMC in Shanghai in 2002, the second in Beijing in 2007, and the third one in Chengdu in 2013. The IMCs are to promote awareness of Ontario and the province's many investment and business opportunities. These centres work with Chinese companies to find investment opportunities in Ontario and provide assistance in helping Chinese companies gain access to Ontario-produced goods and services. They provide general market intelligence and refer Ontario companies to appropriate organizations in their sector. These services are very valuable to help Ontario companies explore business opportunities and bridge the culture and language gaps.

- Sister-provinces and sister-city relations. Ontario established sister-province relationship with Jiangsu province in 1985. This sister province agreement is renewed every five years. The latest agreement was renewed in 2010 to help create economic opportunities between the two provinces in areas such as international education, energy conservation, clean water technology, financial services and tourism. The Ontario Chamber of Commerce has decided to forge a permanent relationship with Jiangsu.<sup>64</sup> This well-established relationship enhances economic cooperation; for example, on Premier McGuinty's 2013 trade mission to Nanjing (capital city of Jiangsu province) he signed agreements worth over \$200million. At a city level, Toronto and Chongqing, London and Nanjing, and the Town of Gravenhurst with the Tang County of Hebei Province are sister-cities.

Clearly the above strategies have not worked well as there remains a significant trade imbalance between Ontario and China. Ontario is a leader in vehicle manufacturing, nuclear power, transportation, electronics and mining. As Canada's largest province, Ontario has rich resources and a vibrant economy. It has attracted 20 Chinese companies to set up operation in Ontario, including some big names such as China Investment Corporation (which manages a \$580-billion (US) sovereign wealth fund) and Huawei (a leading global information and communications technology (ICT) solutions provider). However, the two-way trade is limited to raw material and metal waste and manufacturing goods. There are plenty of opportunities to expand trade in science and technology, ICT, clean tech, and life sciences.

Even though Ontario and China enjoy well-established people-to-people relationships, Ontario has not leveraged these connections. There are over 600,000 Chinese in the Greater Toronto region and 36,000 Chinese students studying in Ontario, who could be recruited as connectors or ambassadors to facilitate trade and investment opportunities between China and Ontario.<sup>65</sup>

An example of a very important personal relationship between Ontario and China, was with Dr. Norman Bethune, an Ontario citizen, who contributed his life to treat sick Chinese villagers and wounded soldiers in 1930s, was a household name in China. His selfless commitment to the Chinese people left a lasting impression on Mao Zedong. The Chairman of China wrote a eulogy of Dr. Bethune which was required to be studied and memorized by generations of Chinese students. Statues in Bethune's honor can be found in cities throughout China, and they symbolize the deep friendship between China and Canada.<sup>66</sup> However, Ontario has not leveraged Norman Bethune's story to building closer relationships with China.

Last but not least, even though a dozen companies such as Magna, Celestica, Trojan, RIM, Hibar and a host of Ontario wineries have done well in China, many Ontario companies are not ready for the Chinese market due to its immense size and its huge language and cultural difference. To succeed, they must be willing to take risks, have access to up-to-date market research, develop a strong business plan, and establish collaborative relationships with local partners.<sup>67</sup>

### 3.1 e) Saskatchewan

China is currently Saskatchewan's second-largest export market. Saskatchewan's trade with China, which was about \$400 million in 2004, exploded to \$3 billion in 2013.<sup>68</sup>

Potash, canola seed, canola oil and peas comprise 83 per cent of the province's trade exports to China.<sup>69</sup> The tables below show the growth in two-way trade from 2009-2013 (in \$1000 Canadian dollars):<sup>70</sup>

**Table 9. Top 5 Saskatchewan goods exports to China**

Top 5 Saskatchewan goods exports to China	2009	2013
1205 - Rape Or Colza Seeds (Whether Or Not Broken)	612,297	844,220
1514 - Rape (Canola), Colza Or Mustard Oil And Their Fractions - Not Chemically Modified	3,533	468,675
3104 - Mineral Or Chemical Fertilizers, Potassic	121,050	394,176
0713 - Leguminous Vegetables - Dried And Shelled	106,135	367,523
4705 - Semi-Chemical Wood Pulp	141,974	138,651

**Table 10. Top 5 Saskatchewan goods imports from China**

Top 5 Saskatchewan goods imports from China	2009	2013
4011 - New Pneumatic Tires Of Rubber	9,582	15,080
8517 - Telephone Sets; Other Apparatus For Trans/Recep Of Voice/Image/Data, O/T 84.43,85.25,85.27,85.28	3,239	12,785
9403 - Furniture - Other Than For Medical, Surgical Or Dental Use	9,506	10,611

Top 5 Saskatchewan goods imports from China	2009	2013
8432 - Machinery For Agricultural Soil Preparation/Cultivation; Lawn Or Sports-Ground Rollers	1,157	10,266
3808 - Pesticides - For Retail Sale Or Formulated	2,872	8,138

Source: Industry Canada

China is the world's fourth-largest country in terms of land mass, but only 14.9 per cent of the land is arable for farming with most of the farmland is located in the east. The country, especially in the north, is prone to water shortages. China's fast economic development and rapid urbanization has put additional stress on its agriculture and environment. Since 1995, China's agricultural imports have grown by 12 percent annually. China is expected to become the world's largest importer of agri-food by 2015-2020.<sup>71</sup> This presents a great opportunity for Saskatchewan as it is Canada's natural leader in crop and livestock production. It contains 41% of Canada's arable land and is home to 30% of the nation's beef herds and also leads in hog and bison livestock production. Over 3.5 million cattle and 2 million hogs are raised each year in Saskatchewan.<sup>72</sup>

Saskatchewan promotes trade and investment through the Shanghai-based Western Canada Trade and Investment Office. This joint office is part of the New West Partnership's commitment to collaborate on cost-effective international initiatives, including sharing resources in international markets. The New West Partnership is a new and far-reaching economic partnership between the Governments of British Columbia, Alberta and Saskatchewan. The New West Partnership focuses on four areas key to

economic growth in the West: trade; international cooperation; innovation; and procurement.<sup>73</sup> Saskatchewan also partners with a Chinese trade promotion agency to enhance economic relations and advance economic interests.

Saskatchewan has focused on trading in the field of agriculture with China. But, it is expanding its trade with in China through its partnership with other Canadian provinces and China's largest international trade promotion agency CCPIT. In May 2010, Saskatchewan Trade and Export Partnership signed a trade agreement with the China Council for the Promotion of International Trade (CCPIT). With this agreement, Saskatchewan companies are able to leverage established trade and economic relations with industrial and business circles in over 800 cities and regions in China. Established in 1952, the CCPIT is the largest institution for the promotion of foreign trade in China.<sup>74</sup>

### **3.1 f) Manitoba**

China has become Manitoba's second largest trading partner, after the USA. The value of Manitoba's trade with China has grown from \$79 million in 2001 to \$1.8 billion in 2011. Exports to China were \$968 million, led by nickel, copper, canola seed, soya beans and pork. Imports from China last year were \$792 million, led by data processors, electrical components, telephone equipment, vehicle parts and tools.<sup>75</sup>

Manitoba promotes trade and investment opportunities with China through the following ways:



- Trade missions: including the Council of the Federation mission to China and the Consider Canada City Alliance Mission to China. The Consider Canada City Alliance comprises of 12 economic development agencies from Canada's largest cities working together to promote Canada as an ideal destination for global trade and investment. Economic Development Winnipeg is one of the agencies within the Consider Canada City Alliance.<sup>76</sup>
- Marketing. They are marketing CentrePort Canada as the country's first foreign trade zone and Manitoba as a North American hub of international trade for its well-established transportation network of air, rail, truck and sea routes connecting the North American Market.<sup>77</sup>
- Sister relations. In 1988, Chengdu of Sichuan province established sister-city relationship with Winnipeg of Manitoba. In 1994, Henan province established a twinning relationship with Manitoba.<sup>78</sup>

### **3.1 g) Newfoundland and Labrador**

Newfoundland's exports to China reached \$1.46 billion in 2013; top exports goods included iron ore, crustaceans, copper and fish. Imports from China were worth \$43 million in the same year with top imports including ferry boats and cargo vessels.<sup>79</sup>

Newfoundland promotes trade and investment opportunities with China mainly through forming partnerships in targeted sectors, especially mining, energy, marine industries,

education and seafoods. Over the past twenty years, they have also signed various cooperation agreements with the Chinese government agencies and Zhejiang Province:

- In 1995, Memorial University and the Chinese Academy of Sciences formed the Sino-Canadian High-tech Centre of Resources and Environment (SCH-CORE). The SCH-CORE identified 35 projects in the fields of solid waste management, water management, marine engineering and mariculture. The initiative allowed Newfoundland's technology-based industry to gain a foothold in this new market in a cost-effective manner.<sup>80</sup>
- In 1997, the Province signed a Memorandum of Cooperation with the Ministry of Agriculture for the People's Republic of China to help provincial businesses gain access to the lucrative Chinese marketplace.<sup>81</sup> The Ministry of Agriculture has responsibility for fisheries and aquaculture in China.
- In 2013, Newfoundland signed a MOU on the Mutual Recognition of Higher and Post-Secondary Education with the Ministry of Education of the People's Republic of China. Through the MOU, both parties will encourage their post-secondary institutions to formally recognize diplomas, degrees and certificates from each other's jurisdiction.<sup>82</sup>
- In 2013, a MOU was reaffirmed in support of partnership and trade opportunities between Newfoundland and Labrador and the Zhejiang Province of China. The MOU

was originally signed in 2001. The original MOU identified opportunities to strengthen cooperation for expanded opportunities in education, culture, fisheries, aquaculture and general economic development. Areas related to economic cooperation have been extended in the 2013 agreement to include trade promotion, agriculture, science and technology, forestry, small and medium-sized enterprises and oceans.<sup>83</sup>

Newfoundland is China's largest trading partner in the Atlantic region, and the volume of its exports with China is three-times larger than the rest three Atlantic Canadian province combined (see Table 4 for reference). The main exports to China are iron ore, copper and seafoods. With recent discovery of massive oil and gas reserves in Newfoundland's offshore region, the trade in the energy sector is expect to grow significantly as China needs energy to fuel its economy.

### **3.1 h) Other Canadian Provinces and Territories**

Due to insignificant trade volume with China, New Brunswick, Prince Edward Island, Yukon, Northwest Territories and Nunavut and their trade strategies with China are not examined in this research project.

### **3.2 The United States**

China is now the United States' second-largest trading partner after Canada, its biggest import market, and its third-largest export market after Canada and Mexico. China is also the largest creditor of the United States, holding \$1.3 trillion of US Treasury securities as of November 2013. The trade between United States and China has increased 280 times in the past 34 years. According to the 2014 Congressional Research Services, the total US-China trade increased from \$2 billion in 1979 to \$562 billion in 2013.<sup>84</sup> The trade between the world's largest and second-largest economies not only has profound impact to these two countries, but also affects the whole global trade. By examining the United States' strategy in doing business with China, we can determine how they expanded their trade with China in such a short time. These lessons can shed light on how Nova Scotia, and Canada as a whole, might more effectively engage China to increase trade.

#### **Trade snapshot between the US and China**

The US exported goods to China valued at US\$122 billion in 2013, representing a 10.3% increase over 2012. The top five export goods were: oilseeds and grains (US\$16.092 billion), aircraft and parts (\$12.62 billion), waste and scraps (8.765 billion), motor vehicles (\$8.614 billion), and navigational, measuring, electro-medical and control instruments (\$5.732 billion).<sup>85</sup> US exports to China increased by 349% from 2004 to 2013, making China America's fastest growing export market among its top ten export markets. China was also the US's second largest agricultural market, with exports

reaching \$27.9 billion in 2013. In addition, China was the fourth largest market for America's professional services, which accounted for \$30 billion in 2012.

The US received import goods from China valued at \$440 billion in 2013. The top five imports from China were computer equipment (\$68.123 billion), communication equipment (\$58.839 billion), miscellaneous manufactured commodities (\$32.44 billion), apparel (\$27.41 billion) and semiconductors and other electronic components (19.363 billion). Over the past decade, the imports to US have moved from low-value added and labour-intensive products such as toys and games to more technologically advanced products such as computer equipment.

### **Foreign direct investments (FDI) between the US and China**

The US Bureau of Economic Analysis (BEA) indicates that the foreign direct investments between China and the US are relatively small considering the large trade volume between the two countries. In 2012, the US FDI in China was \$51.4 billion, while China's FDI in the US was \$5.4 billion (the total FDI was \$10.5 billion if the investments through Chinese offshore locations such as Hong Kong Macau are included).<sup>86</sup> It was estimated by BEA that American's investments in China employed 1.4 million workers. Among these 690,000 jobs were in manufacturing in 2011.<sup>87</sup> According to a report by New York's Rhodium Group, Chinese investments in US reached \$14 billion in 2013. These were mainly in the food, energy and real estate sectors. These investments created 70,000 full-time jobs in the US<sup>88</sup>

## **The history of trade between the US and China**

It is unthinkable for many to believe that American trade with China has increased 280 times in the past four decades, especially since full diplomatic relations between the two countries only started on January 1, 1979.<sup>89</sup> According to the *Asia Pacific Journal*, US trade with China has gone through four growth periods between 1971 and 2012: institution building in the 1970s, reform and growth in the 1980s, discord and development in the 1990s, and cooperation and beyond the WTO in the 2000s.<sup>90</sup> These are examined in more detail below:

**Institution building in the 1970s:** During this period, the US and China worked together to build a full diplomatic relationship and lift trade barriers that restricted the flow of goods, people and technology. The major events that advanced trade between the US and China are included below:

- In June 1971, then President Nixon ended the US trade embargo on China, which lifted legal barriers that had restricted economic interaction since 1950.
- President Nixon's visit to China on February 21, 1972, ended 25 years of isolation between the two countries. This move eventually led to the full establishment of diplomatic relations between the two countries in 1979, which removed legal hurdles that had restricted the flow of goods, people and technology.<sup>91</sup>
- On January 24, 1980, the American Congress awarded China Most Favored Nation (MFN) status. MFN status exempted Chinese exports from high tariffs.

- All of these institution building activities contributed to the growth of trade between China and the US from \$4.7 million in 1972 to \$4.8 billion in 1980.

**Reform and Growth in the 1980s:** US trade with China grew rapidly with the normalization of diplomatic relations and China's economic reforms. The volume of trade grew from \$5.47 billion in 1981 to \$20 billion in 1990.<sup>92</sup> In the early 1980s, the Chinese government established four special economic zones (SEZs) in Fujian and Guangdong provinces to attract foreign investments. The SEZs provided tax incentives to foreign companies by reducing income tax to 18% as opposed to 33% for Chinese companies.<sup>93</sup> During this time, U.S companies started to form joint ventures with local Chinese companies and government agencies to take advantage of tax incentives. Some of these companies were well-known such as Coca-Cola, General Motors, American Express, Gillette and AT&T. By 1985, the US had become the largest investor in China, with \$3 billion in assets. It worth noting that Hong Kong played a critical role in facilitating US trade with China. Almost 60% of Chinese exports to the US were through Hong Kong.

**Discord and development in the 1990s:** With opportunities from expanded links in trade, culture and society there also came challenges. Human Rights issues in China have always been a major dispute between the two countries. Student protests in Tiananmen Square in 1989 put China's human rights under strict scrutiny. The US suspended almost all government to government sales and bilateral visits until 1991. Since then both countries have worked together to build constructive relations through engagements instead of confrontations.

In 2001, China joined the World Trade Organization (WTO), becoming its 143<sup>rd</sup> member. This started a new era in China's trade with the US and the rest of the world. American exports to China increased by 81% in the three years after China became a member of the WTO, while its imports from China grew by 92%. China's membership in the WTO also helped China participate in globalization and integrate its economy into the world trade system.

**Cooperation and Beyond the WTO in the 2000s:** During the first 12 years of the twenty-first century, the US and China continued to push for stronger economic collaboration and to expand trade relations at all levels. The two countries have become one another's largest or second largest trade partner. After joining the WTO, the business environment in China was greatly improved with China continuing its market-oriented economic reform. More and more American companies were attracted by the sheer size of China as a consumer market, and also came to consider it a great supplier because of its cheap manufactured goods. For example, America's largest cooperation, Walmart, established 408 stores in China between 1996 and 2014. Walmart also established its global sourcing office in China in 2002,<sup>94</sup> since 80% of Walmart's suppliers are located in China.<sup>95</sup> American companies not only take advantage of China's cheap consumer goods, but also work to leverage their professional services to help Chinese companies reach international standards in business. The total value of US professional services exported to China increased from US\$9 billion in 2003 to \$55 billion in 2011, accounting for 23% of China's total commercial services imports.<sup>96</sup> These professional services include management consulting, banking, accounting, insurance, and education.



By 2008, China had become the world's largest economy. Its membership in the WTO had enabled it to gain access to global markets. With the failure of the WTO hosted Doha Development Rounds in 2008, however, the US started free trade negotiations with the European Union and the Trans-Pacific Partnership (TPP) with Asian Pacific Rim countries. Even though China is a Pacific country it was excluded from the TPP negotiations. As China also wanted to hedge against uncertainty and diversify its markets especially after the economic crises in 2008, China signed free trade agreements with other countries including: Chile, Costa Rica, Hong Kong, Iceland, New Zealand, Peru, Taiwan, and ten ASEAN member states.<sup>97</sup> Both the US and China have diversified their trade partners to hedge against uncertainties from the development of their respective economies.

Despite enhanced economic cooperation and flourishing bilateral trade, major issues between the two countries remain. The US is concerned about its huge trade deficits with China, intellectual property rights, and China's favorable industrial policies toward domestic companies. China, on the other hand, has demanded fair business and investment opportunities in American markets comparable to those given to other developed nations. These issues have been addressed through dialogues to find mutual solutions. As early as 2006, the two countries established the first Strategic Economic Dialogue (SED) to have discussions on major economic issues between top economic officials on both sides. SEDs have been held each year from 2008-2013, during which the US and China's major positions and priorities on various issues were discussed.<sup>98</sup> At a grassroots level, the US also promotes exchanges and engagements in order to better understand China. In 2009, President Obama announced the "100,000 Strong China"

initiative, a national effort designed to send 100,000 American students to study in China.<sup>99</sup>

After four decades of development, the trade relations between the US and China have matured. Even though there remain trade issues between the two countries, there are many channels to address and resolve these issues. The overall trend in their relationship has been more towards collaboration than confrontation. There are 25 offices to facilitate trade and investment between the China and the US. China has six trade offices (including the Chinese Embassy) in the US, located in Washington, New York, San Francisco, Chicago, Houston and Los Angeles.<sup>100</sup> The US has 19 trade offices (including the American Embassy) in China, located in Beijing, Shanghai, Guangzhou, Hong Kong, Macau, Shenyang, Dalian, Nanjing, Wuhan, Chongqing, Ningbo, Xiamen, Hangzhou, Qingdao, Xi'an, Harbin, Shenzhen, Zhuhai, Kunming and Tianjin.<sup>101</sup>

### **3.3 The European Union**

The European Union (EU) is China's largest trading partner, while China is the EU's second largest trading partner behind the United States. This two-way trade reached nearly US \$590 billion in 2013. This represents a growth of 400% since China's accession to the World Trade Organization in 2001. Goods exports such as cars, planes, chemicals and luxury goods to China from European countries were valued at \$204 billion in 2013. Europe imported \$385 billion worth of textiles, electronics and other goods from China in the same year.<sup>102</sup> Despite this enormous volume of trade, the EU's service trade only accounts for about 10% of total trade according to the latest data

available. The investment flows are disproportionate to overall trade when considering the size of both economies. For example, the EU's foreign direct investment in China in 2012 was \$189 billion, just 2-3% of overall European investments abroad. Chinese investments in Europe meanwhile were only worth \$43 billion in the same year. Trade and investment levels will only increase as China opens more of its market and invests more overseas.<sup>103</sup>

There are three milestones in the development of diplomatic relationships between the EU-China since they began in 1975: from a constructive partnership in 1998, to a comprehensive partnership in 2001, and to a strategic partnership in 2003.<sup>104</sup> Since 1998, the EU and China have held 16 EU-China Summits to enhance cooperation in the fields of trade, investment, education and culture, etc. The annual summit provides strategic direction to enrich their relationship through the annual High Level Strategic Dialogue, the annual High Level Economic and Trade Dialogue, and the bi-annual People-to-People Dialogue. At the 16<sup>th</sup> EU-China Summit in Beijing in 2013, the two regions released *EU-China 2020 Strategic Agenda for Cooperation*. In this, the two sides announced that they are committed to strengthening their Strategic Partnership in the next decade and set the goal of increasing bilateral trade to one trillion US dollars by 2020.

The Agenda covers wide-ranging areas for cooperation; several areas are closely related to this research paper, including the following major points: <sup>105</sup>

**A. Trade and Investment:** to create an open, transparent market and a level playing field both sides will work together to expand opportunities for Small and Medium Sized Enterprises (SMEs). The key initiatives to achieve this goal: to use the annual

High-Level Economic and Trade Dialogue as an important forum to make progress on important trade, investment and economic issues; to negotiate and complete a comprehensive EU-China Investment Agreement to safeguard investment protection and market access; to address intellectual property infringement through the Intellectual Property Dialogue mechanism; to improve access to finance for enterprises, especially SMEs through financial cooperation.

**B. Industry and Information:** to facilitate trade in industrial products, such as the automobile industry, industrial energy efficiency products, raw materials, and shipbuilding; to collaborate on developing related strategies, policies and regulations on information communication technologies through the EU-China Dialogue on information technology and telecommunication.

**C. Agriculture:** to enhance cooperation in the fields of sustainable agricultural production, food security and safety, rural development and agricultural research. Key initiatives to achieve this goal include joint projects on food security and safety, urban and rural development. They will also collaborate on research in the field of agriculture, biotechnology and food; and cooperate on fisheries management.

**D. Transport and Infrastructure:** the Civil Aviation Administration of China (CAAC) and the Directorate-General for Mobility and Transport (DG MOVE) will collaborate in the field of civil aviation. The two sides will expand cooperation in the fields of supply chain logistics, maritime markets, sea routes, rail services, and energy

efficiency. They will also explore ways of developing infrastructure projects through co-financing and other mechanism.

**E. Science, Technology and Innovation:** to establish an EU-China cluster cooperation initiative to enhance collaboration in the fields of sustainable growth and urbanization. This is a collaboration between industries, universities and research institutions in the areas the areas of food, agriculture and biotechnology, urbanization, energy, aviation, water, health and ICT.

**F. Urbanization:** to cooperate and promote advanced technology and managerial experience in sustainable urban development planning, infrastructure, management and urban-rural integration. To ensure the success of the EU-China Urbanization Partnership Forum, the EU-China City Expo and the EU-China Mayors' Forum will help to improve the governing framework of the EU-China Partnership and support the development of city twinnings. They will also build demonstration cities, promote cooperation between cities and industrial parks and enterprises; enhance collaboration in the fields of finance and innovation to improve the quality and level of urban development.

**G. Energy:** to implement a roadmap for EU-China energy cooperation to support exchanges and cooperation in the areas of energy legislation, policy and standard design. They will further cooperate on new energy technologies that support sustainable economic growth; utilize existing cooperation platforms as the EU-China

Clean Energy Centre (EC2) to encourage enterprises to participate in EC2 enterprise alliance and work together on pilot projects.

**H. Environmental Protection:** to collaborate in the fields of air, water and soil pollution, chemical pollution, sustainable waste management and resource efficiency, as well as environmental pollution emergency action.

**I. Ocean:** to support exchanges and collaboration on sharing marine science and technology in order to utilize ocean energy to fuel the marine economy.

**J. People-to-People Exchanges:** to promote culture, education and youth exchanges and collaboration, and facilitate other people-to-people exchanges.

The EU and China not only identified the areas of collaboration to enhance trade and investment relationships, but also jointly developed a comprehensive strategic agenda to lay out terms and references on how to work together to achieve that. It is imperative for Nova Scotia to have a similar agenda to effectively engage China in order to increase the trade volume between these two regions.

### **3.4 New Zealand**

New Zealand and Nova Scotia are very similar in terms of geography and economy. Nova Scotia is surrounded by the Atlantic Ocean. Forestry, fisheries agriculture, mining,

energy, education and tourism are the backbones of the province's economy. New Zealand is surrounded by the Pacific Ocean. Like Nova Scotia, New Zealand is an export-driven economy. Its major exports include dairy products, meat, wood and wood products, fish, chemicals, wool and mutton.<sup>106</sup> However, New Zealand's economy is about 4.5 times larger than Nova Scotia and it is a sovereign state. While its volume of trade with China is 36 times of that of Nova Scotia, it will be helpful for Nova Scotia to learn New Zealand's China strategy in order to increase its own trade with China.

Both New Zealand and Nova Scotia trade extensively with their giant neighbours, namely, Australia and America. Both regions want to diversify their trade partners in order to increase the volume of international trade. China represents a great opportunity for both of them. Table 11 below shows their relative trade with China in 2012.

**Table 11. New Zealand V.S. Nova Scotia**

	New Zealand <sup>107</sup>	Nova Scotia <sup>108</sup>
Size	269,652 sqkm	55,283 sqkm
Population	4.43 million	0.94 million
GDP	US\$169.68 billion	\$38.40 billion
GDP per capita	\$38,302	\$40,473
Volume of trade with China	Exports: \$6.86 billion	Exports: \$151 million

	Imports: \$7.71 billion	Imports: \$245 million
Main exports to China	Dairy: \$2.28 billion Wood: \$1 billion Meat: \$330 million Fish and seafoods: \$269 million Wool: \$311 million Wood Pulp: \$141 million	Fish and seafoods: \$82.5 million Copper: \$18.5 million Wood pulp: \$17 million Aluminum: \$10 million Iron and Steel: \$3 million Edible fruits and nuts: \$3 million
Main imports from China	Machinery: \$1.16 billion Electrical machinery: \$1.03 billion Knit Apparel: \$414 million Furniture and bedding: \$298 million	Fish and seafoods: \$78 million Articles of iron or steel: \$20 million Furniture: \$20 million Wood and articles of wood: \$16.7 million
Immigrants from China	5,100	254
International students from China	24,414	3,507
Chinese visitors	197,000	8,200

New Zealand enjoys a very positive relationship with China, which it has built over time. Since they first established diplomatic relations in 1972, there have been “four firsts” in the Sino-New Zealand relationship: New Zealand was the first Western country to conclude a bilateral agreement with China on its accession to the World Trade Organisation (August 1997); it was the first developed country to recognize China’s status as a market economy (May 2004); it was the first developed country to enter into Free Trade Agreement (FTA) negotiations with China (announced November 2004); and



it was the first OECD country to sign a high-quality, comprehensive and balanced FTA with China (April 2008; the FTA was ratified in October 2008).

In 2012, the New Zealand government released its official China strategy: *Open Doors to China: New Zealand's Vision 2015*. The strategy states that New Zealand and China will have strong and resilient economic, political and people-to-people relationships to stimulate New Zealand's innovation, learning and economic growth. The strategy identified five strategic goals and measures on how to achieve these goals. In the strategy, New Zealand's Prime Minister John Key acknowledged that "an excellent political relationship is the foundation upon which everything else must be built."<sup>109</sup> He emphasized that New Zealand should engage China not only on the trade front, but also across all sectors to build the links that would enhance the countries' understanding of each other. These goals and measures are:

**Goal #1:** To retain and build a strong and resilient political relationship with China.

Measures to achieve this include:

- Building high-level political relationships needed to achieve the strategic goals.
- Enhancing knowledge and understanding of China through establishing a New Zealand Council, which will bring together leaders in government, business and academia. This council will host high-level bilateral Partnership Forums with Chinese counterparts.
- Establishing a financial and economic dialogue that involves central banks and important economic agencies from both countries.

- Encouraging more New Zealanders to learn Chinese in schools
- Increasing cooperation between security and law enforcement agencies in two countries.

**Goal #2:** To double trade with China to NZ \$20 billion by. Measures to achieve this include:

- The China High-Growth Companies Project: targeting 50 high growth NZ companies in China and provide advisory services and capital that are necessary for them to succeed.
- Targeting priority sectors such as food and beverages, agribusiness, high-value manufacturing, etc.
- Growing a base of China-ready exporters.
- Representing New Zealand business in China. New Zealand Central is a world-class business centre in Shanghai that facilitates exploration of opportunities for both Chinese and New Zealand businesses.

**Goal #3:** To grow services trade with China (education by 20%, tourism by at least 60%).

Measures to achieve this include:

- Developing a targeted marketing and promotion campaign for New Zealand education

- Exploring and facilitating the possibilities for mutual recognition of professional qualifications
- Increasing the private training enterprises listed on the China Ministry of Education Study Abroad website
- Developing the New Zealand tourism brand and further invest in in-market promotion as well as building capacity to cater to Chinese tourists

**Goal #4:** To increase bilateral investments to levels that reflect the growing commercial relationship with China. Measures to achieve this include:

- Allocating more resources to encouraging more Chinese investment to New Zealand
- Building on the successes of companies such as Fonterra and Rakon to increase the level of investment in China

**Goal #5:** To grow high quality science and technology collaborations with China to generate commercial opportunities. Measures to achieve this include:

- Encouraging universities to focus more on commercial and strategic research rather than pure academic research.
- Utilizing the jointly-funded New Zealand-China Strategic Research Alliance to facilitate more substantive bilateral research.

According to the data quoted by Bloomberg.com, New Zealand's two-way trade with China has reached NZ \$18.86 billion.<sup>110</sup> It is, therefore, well on its way to achieving the targeted NZ\$20 billion by 2015. New Zealand's early recognition of and active engagement with China has paid off. The current Chinese President Xi Jinping called the New Zealand-China ties "pioneering and exemplary".<sup>112</sup> In 2014, China has become New Zealand's biggest trading partner, its top source of foreign students, and the second-largest source of overseas tourists. To date there are 33 sister-city agreements between China and New Zealand.<sup>111</sup>

In conclusion, New Zealand's China strategy has focused on building political relationships, promoting the NZ brand in China, increasing trade in goods and services as well as two-way investments, and expanding commercial and strategic research collaborations between the two countries. The trade data has shown that this strategy is working. Nova Scotia could learn from this strategy and develop its own to increase its trade with China.

### **3.5 Australia**

According to the Australian government, China is Australia's largest trading partner, with total trade valued at almost A\$142 billion in 2013. Australia's exports to China reached at A\$94.7 billion, which represented a 29.8% growth compared of 2012. Its imports from China grew 6.2% from 2012, valued at A\$47.2 billion. The below table 12 shows the

goods and services trade as well as two-way investments between Australia and China in 2013 (in A\$M).[113](#)

**Table 12. Australia-China Trade and Investment Snapshot 2013**

<b>Major Australian Goods Exports</b>		<b>Major Australian Goods Imports</b>	
Iron ore and concentrates	52,697	Telecom equipment & parts	4,902
Coal	9,086	Computers	4,648
Gold	8,074	Clothing	4,610
Copper	2,065	Furniture, mattress & cushions	2,027
<b>Major Australian Services Exports</b>		<b>Major Australian Services Imports</b>	
Education related travel	3,967	Personal travel excl education	781
Personal travel excl education	1,597	Transport	453
<b>Australian Investments in China</b>		<b>Chinese Investments in Australia</b>	
Total	29,576	Total	31,899
FDI	6,350	FDI	20,832

Source: Government of Australia

The strength of the two-way trade between China and Australia lies in the complementary needs of the two economies as well as in their strong political and people-to-people relationships. On the one hand, Australia is rich in resources such as iron ore, coal, copper, oil and gas, all of which are needed by China to continually grow its economy. Natural resources accounts for almost 87% of all Australia's merchandise exported to China in 2012. On the other hand, Australia needs Chinese investment to develop its resources industry. Moreover, China is in the process of massive urbanization, which offers great opportunities for Australian's services sector. Positive political and people-to-people relationships will enhance the trade and investment between the two countries.

Australia has instituted multiple channels to strengthen its bilateral relationships with China. For example, top leaders and ministerial-level officials from both countries meet annually to discuss foreign, strategic and economic issues. The Australia-China Council promotes engagement in the fields of education, science, business and culture. For example, there are 30 Australian Studies Centres in leading Chinese universities.<sup>114</sup> Along with this, the Australia China Forum brings together government and business representatives from both countries each year to enhance their understanding of each other. There are also over 80 sister-state/province and sister-city relationships.<sup>115</sup> China is Australia's largest source of overseas student enrolments, with 149,758 students, and second largest source of visitors, with 626,000 tourists, in 2012.<sup>116</sup> These channels and links not only raise the profile of Australia in China, but also create business opportunities for both countries.

The Australian government released its *China Country Strategy: Australia in the Asian Century Towards 2025* in 2013. The vision of this strategy is to deepen and broaden Australia's partnership with China by enhancing connections with Chinese governments, communities and businesses. This strategy outlined the opportunities and measures necessary to achieve this vision.<sup>117</sup>

Firstly, the Australian government will enhance their China capabilities to deepen their connections with the Chinese government to ensure their prosperity. What they term their "China capabilities" are the skills, knowledge, experience and expertise necessary to be successful in dealing with the very different Chinese culture. Australia will attract, retain and use staff with Chinese-relevant expertise to further develop its China capacity. Australia will deepen its engagement on all fronts with China through government-to-government networks, regular dialogues, and visits among top leaders.

Some innovative measures to achieve this goal include:

- *Australia Week in China*: this will be held in Shanghai in fall 2014 to promote Australia as an ideal business destination and an invaluable tourism, trade and investment partner.<sup>118</sup>
- *The Australia-Guangdong Business Cooperation Council*: this was established in April 2013. It is a whole-of-Australia approach to advance the country's business interests in southern China.

- *China Advanced Leadership Program (CALP)*: this annual three-week program sponsored by Australia focuses on critical strategic leadership issues facing senior public sector executives in China. The main topics covered include political and economic systems of Australia and New Zealand, leadership and public management, special leadership challenges, and case studies. The participants are high-level Chinese leaders, such as Vice-Ministers from the Central Government, party secretaries, city mayors, and vice-governors. The *China Reciprocal Program* is the Chinese government's response to CALP. The participants are Australian and New Zealand public sector leaders in the senior executive ranks. These two programs work to build professional networks between the two governments, and also enhance the participants' understanding of the political, economic and strategic issues facing each other. [119](#)
- Australia has 13 trade offices in China, including: Beijing, Shanghai, Hong Kong, Guangzhou, Chengdu, Hangzhou, Kunming, Nanjing, Qingdao, Shenyang, Macao, Shenzhen, and Wuhan. [120](#)

Secondly, to enhance community connections, Australia will integrate China Literacy (knowledge of China and Chinese language and culture) to its education system, expand knowledge and cultural partnerships, and develop new ways of engagement with China.

Measures to achieve this goal include:



- The Australian government has made China literacy one of the key priorities in its education reform. The government will also provide grants through AsiaBound for Australian students to undertake studies in China.
- *Engaging China Project*: The project is an initiative by the Australia-China Youth Council to inspire, motivate and mentor Australian school students to learn Chinese language, culture and to engage with China in innovative ways. The council sends Engaging China Project Ambassadors to schools across Australia to share their experiences and knowledge of China and to encourage students to learn the language and culture. These ambassadors are Australian university students and graduates with experience learning the Chinese language and living in China.<sup>121</sup>
- The Australian government promotes engagement with China through arts and cultural exchanges. Good examples are “Imagine Australia: The Year of Australian Culture in China”-and “Experience China: The Year of Chinese Culture in Australia”.
- Australia will develop policies and programs to further develop community links between China and Australia by engaging Chinese immigrants and student networks to capitalize on these connections
- The Australian government will strengthen partnerships in research, concentrating on areas where Australia is globally competitive, such as medical and health sciences, energy, agriculture and environmental science.
- Australia and China will build joint commercialization projects by connecting Australian research institutions and business communities with China’s markets and capital.

Thirdly, Australia will establish a stronger trade and investment partnership with China by 2025. The measures to achieve this goals include:

- Building a China-capable workforce: through innovative recruitment, work placement and internships, Australian education institutions and the business community will work together to develop a China-capable workforce.
- Developing business networks in China: the Australian business community will build extensive business networks in China to help Australian firms to succeed in the Chinese market.
- Risk management: Improving common understanding of market dynamics, business practices and regulatory regimes to reduce risk in doing business in China through ongoing dialogues between Australian and Chinese communities. An initiative such as the CEO Roundtable-an annual business dialogue, brings senior government officials and business leaders together to improve understanding of each other's market and regulatory measures.
- Shifting Chinese investments from investing in joint ventures to Australian infrastructures such as ports, railways, energy and utilities.
- Easing barriers to trade: Australia will conclude a free trade agreement with China by 2025 to remove tariffs and other barriers to trade in order to increase access to the Chinese market. However, Australian firms should not wait for such agreement to pursue trade and investment opportunities in China as many other countries are actively pursuing opportunities in the Chinese market.

Australia's China Country Strategy aims to deepen its engagement with China by connecting governments, communities and businesses to capitalize opportunities presented by China's transformation from an export and investment-led economy to a consumption and innovation-driven one. It is imperative for Nova Scotia to have its own China strategy to pursue opportunities in the Chinese markets.

### **3.6 Conclusion to Literature Review**

In conclusion, the literature review has taken a regional approach to examine the strategies used by seven other Canadian provinces and China's three major trading partners, the EU, US and Australia. New Zealand has also been examined due to its unique relationship with China and its similarity in economic structure and geographic location with Nova Scotia.

The key findings are summarized below:

- All other jurisdictions have experienced significant growth in trading with China. There is still much room to grow as trade is currently mainly exchanging China's goods imports with raw materials and natural resources from its trade partners.
- All other jurisdictions are targeting China for foreign direct investment and its growing middle class for export opportunities.
- All other jurisdictions take a regional approach when targeting China and all have trade offices in China except Manitoba and Newfoundland.

- The majority of these jurisdictions are building their China capabilities to capitalize on opportunities in China.
- All other jurisdictions are working to deepen the relationship with China by connecting government, business and community.
- Some jurisdictions have developed their brands to articulate their value proposition, such as with British Columbia promoting itself as Canada's Asia-Pacific Gateway.

## **Part IV: Analysis**

Strategies such as British Columbia's *Trade and Investment Strategy for China 2008–2011*, New Zealand's *Opening Doors to China–New Zealand's 2015 Vision*; Australia's *China Country Strategy towards 2025* and the *EU–China 2020 Strategic Agenda for Cooperation* indicate that there are common ways and different approaches to overcoming the challenges and capitalizing on the opportunities to expand trade and investment with China. They all stress the importance of building relationships with China and developing their China capabilities, as can be seen clearly with Australia's China Advanced Leadership Program (CALP). They target China in the sectors in which they are globally competitive; for example, Alberta emphasizes trade in the energy sector while Quebec focuses on collaboration the fields of science and technology.

The world can benefit from China's increasing millions of middle-class consumers who can afford and are willing to pay a premier price for quality products and services. Along with this relatively untapped market, China's rapid economic development comes with a hefty price tag on its environment, resulting in degraded ecosystems, air and water pollution as well as soil contamination. China therefore needs new energy and environmental technology services to protect its environment from further deterioration and to keep its economy sustainable. This presents great opportunities for governments that are globally competitive in these fields. Countries and regions can also acquire overseas investments from China's State-owned Enterprises (SOEs) which can be mutually beneficial as China is in need of increased access to natural resources, cutting-edge technology and innovative practices to fuel its next phase of economic growth.

Even though China presents tremendous opportunities for the world, there are enormous challenges to overcome in order to exploit them. My research shows that Canadian provinces and other countries and regions have achieved some degree of success from their trade with China, yet there is so much more to be gained. In general, trade with China is characterized by importing goods and products from and selling natural resources or raw materials to China. This is a typical trade pattern between developed and developing countries, as it effectively allocates resources (including capital) to take advantage of economies of scale by making use of China's cheap labour, land, and sophisticated global supply chain. This pattern has been in place since the early 1980s when China started opening up to the rest of the world. As a result, China has emerged as the "factory to the world", the largest foreign reserve country, and the world's second largest economy. As China is transitioning itself from an export-driven economy to one led by innovation, it is producing more and more technology-intensive goods that command higher prices. Therefore, the cost of production is increased. This, along with the fact that both land and labour are getting more expensive in China, means that the old trade pattern no longer provides the desired efficiency.

As early as 2001, the Chinese government adjusted its economy to align with the trends of economic globalization by releasing its "Go Global" Investment Strategy, intended to encourage competitive Chinese enterprises to invest overseas.<sup>122</sup> China also wants its products to shift from being known to the world as "made *in* China" to "made *by* China." Chinese companies are transitioning from making cheap labour-intensive goods to high value-added products for export. For example, the Commercial Aircraft Corp of China

(Comac) is working on innovative commercial planes that can compete with those made by global giants Airbus and Boeing.<sup>123</sup> Chinese consumers are increasingly able to afford to pay premium prices for foreign products and services. Developed countries in general need to adjust their trade with China by exporting more value-added products and services and attracting Chinese investments. Nova Scotia needs to do the same.

There are four main challenges for Nova Scotia in expanding trade with China: the size of China and the scale of China's economy; the complexity of doing business with China; lack of a strong existing relationship; and that Nova Scotia is not currently considered as partner of choice for trade and investment.

#### **4.1 Challenge 1: the size of China and the scale of China's economy**

The first challenge for Nova Scotia in expanding trade with China is the scale of the Chinese economy and the size of the country. According to the Central Intelligence Agency (CIA), China's GDP for 2013 was US\$13.39 trillion, third after the US and the EU. China has the largest population in the world, with an estimated 1.35 billion citizens in 2014. There are 56 ethnic groups in China, with Han Chinese accounting for 91.6% of the total population. China is the fourth largest country with 9.6 million sq km of landmass, behind Russia, Canada and the US.<sup>124</sup> There are 34 administrative divisions in China, including:

- 4 Municipalities (Beijing, Tianjin, Shanghai and Chongqing)

- 5 Autonomous Regions (Guangxi, Inner Mongolia, Ningxia, Tibet and Xinjiang)
- 2 Special Administrative Regions (Hong Kong and Macau).
- 23 provinces ( Anhui, Fujian, Gansu, Guangdong, Hainan, Hebei, Heilongjiang, Henan, Hubei, Hunan, Jiangsu, Jiangxi, Jilin, Liaoning, Qinghai, Shaanxi, Shandong, Shanxi, Sichuan, Yunan, Zhejiang and Taiwan)<sup>125</sup>

According to the *Economist* magazine, the GDP of some Chinese provinces are equivalent to those of some countries.<sup>126</sup> The map below shows individual Chinese provinces and their nearest GDP equivalent countries. For example, Guangdong's GDP is almost as big as Indonesia's.

**Figure 6. Chinese Provinces and Nearest GDP Countries**





Source: The Economist

To achieve success in handling trade with China, a market both massive and yet distinctively diverse across regions, it is essential to take a regional approach by targeting China geographically. The countries and other Canadian provinces examined in part III have already begun this targeted approach, with the following locations for their respective trade offices, (see the map of China below [Figure 7] for the location reference): [127](#)

**Canada (federal):** Beijing, Chengdu, Chongqing, Guangzhou, Nanjing, Qingdao, Shanghai, Shenyang, Shenzhen and Wuhan. [128](#)

**British Columbia:** Beijing, Guangzhou, Hong Kong and Shanghai.

**Alberta:** Beijing, Hong Kong, Shanghai and Taiwan.

**Quebec:** Beijing and Shanghai.

**Ontario:** Beijing, Chongqing, Shanghai. Ontario also began a permanent relationship with Jiangsu province in 2013.

**Saskatchewan:** Shanghai

**Newfoundland:** Zhejiang Province

**The United States:** Beijing, Chongqing, Dalian, Guangzhou, Hangzhou, Harbin, Hong Kong, Kunming, Macau, Nanjing, Ningbo, Qingdao, Shanghai, Shenyang, Shenzhen, Tianjin, Wuhan, Xiamen, Xi'an and Zhuhai.

**The EU:** The EU is composed of 28 European countries, such as Germany, UK and France. Each country has its own trade office in China.

**New Zealand:** Beijing and Shanghai.

**Australia:** Beijing, Chengdu, Guangzhou, Hong Kong, Hangzhou, Kunming, Macao, Nanjing, Qingdao, Shanghai, Shenyang, Shenzhen and Wuhan. As mentioned in Part III, Australia has also established the Australia-Guangdong Business Cooperation Council to target Guangdong Province to expand trade activities.

**Figure 7. China City Map**



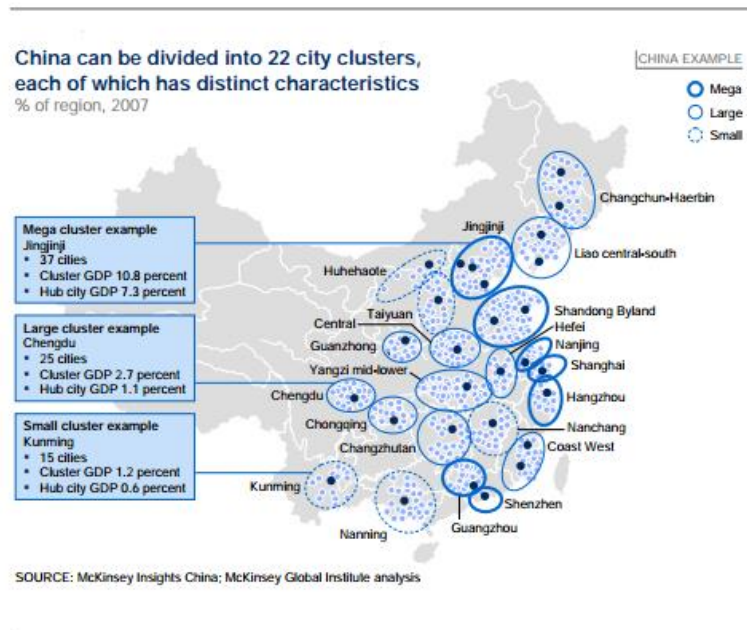
Source: China Highlights

Beijing is China's capital and its political, economic, high-tech, cultural and educational centre. Shanghai is China's financial and commercial centre. These two cities are on the top list for all countries and regions that aim to expand trade with China. Beijing, Chongqing, Guangzhou and Shanghai are considered megacities for their large populations and robust economies. For example, Shanghai has a population of 24.2 million and a GDP of US \$350 billion in 2013.<sup>129</sup> In that year, Shanghai's population was almost 70% of Canada's and its GDP closed to 16% of Canada's, to give an indication of relative size. According to CNN, in 2012 there were over 160 cities in China with a population over one million.<sup>130</sup> With the increasing income of city dwellers, they can pay a premium price for international brands. This represents great opportunities for exporting.

McKinsey, a global consulting firm, categorizes Chinese cities into 22 city clusters based on their demographics, industry structure, and consumer profiles (see Chinese city clusters in Figure 8).<sup>131</sup> Using the city cluster method to identify regions will help countries and regions market their products more effectively. Taking mega cluster Jingjinji-Beijing-Tianjin-Heibei as an example, the cluster is in the capital region; the level of income of its inhabitants is high, with the cluster accounting for 10.8% of China's GDP, which makes it a suitable market for luxury goods. With 37 cities in this cluster, countries can start from its hub city, Beijing, and then expand outwards to other cities. In this way, they can market their products and services more efficiently as consumers share similar

characteristics, such as having a high income and being well-travelled and educated in international brands.

**Figure 8. China City Clusters**



Countries and regions around the world want to export more to China and attract more investment from China. They target Chinese cities where their goods, products and services are globally competitive and promote themselves as attractive investment destinations. Australia, along with Canadian provinces such as British Columbia, Ontario, and Saskatchewan, focus on increasing natural resources exports to China and attracting Chinese overseas investment; Alberta and Newfoundland focus on the energy sector; Manitoba, the US and the EU concentrate on exporting agricultural products and agrifoods; Ontario, Quebec, the US, the EU, New Zealand and Australia emphasize

cooperation in the fields of science and technology. All jurisdictions are interested in expanding educational and tourism services with China.

As a small province, Nova Scotia should target Chinese city clusters where its products and services can be globally competitive in order to grow its trade with China. Nova Scotia has a variety of thriving business sectors, ranging from fisheries, aquaculture, and ocean technology to energy, clean technology and tourism. There are plenty of opportunities for these sectors in China. For example, Nova Scotia has a marine industry cluster of over 200 companies, including world-class firms such as Irving Shipbuilding Inc.—the winner of a \$25 billion contract to build Canada’s next generation of combat ships; DSM—the world’s largest supplier of Omega-3 EPA/DHA; Clearwater Fine Foods—North America largest vertically integrated harvester, producer and distributor of premium of shellfish; and Acadian Seaplants Limited (ASL)—a global leader in the processing of seaweed-based products for food, biochemical, agricultural and agricultural purposes.

Nova Scotia is also home to three federal research labs: the Bedford Institute of Oceanography, Canada’s largest centre for ocean research, the Institute for Marine Bioscience, the “world’s most versatile marine research facility”; and Defence R&D Canada.<sup>132</sup> These large research facilities offer significant opportunities for partnership in marine science industry. In addition, Nova Scotia’s offshore region has an estimated reserve of 120 trillion cubic feet of gas and eight billion barrels of oil. Two world leaders in oil and gas, Shell and BP, are investing a total of \$2 billion in Nova Scotia’s Offshore to explore these reserves.<sup>133</sup> Nova Scotia also has tremendous tidal power potential, with

a 16-meter (52 foot) tide in the province's Bay of Fundy, the highest tide in the world.<sup>134</sup> The ongoing \$1.2 billion Maritime Link Transmission Project and the Fundy Bay tidal power research and development initiatives will make Nova Scotia a global leader in the marine renewable energy sector. China announced that it would increase the use of renewable energy in its 12<sup>th</sup> Five-Year-Plan in 2011. Tidal power would be of great interest to the Chinese government as well as the technology and expertise to explore their offshore oil and gas reserves. These represent great opportunities for Nova Scotia.

China is a major maritime country with 3 million square kilometers of offshore waters and 32,000 kilometers of coast. China's marine output was \$627 billion in 2010, which was close to 10% of the country's GDP. In 2011, the State Council of China (equivalent to the Cabinet in Canada) set up three ocean economic zones to develop China's marine economy. One is in Shandong Province; the other two are in Zhejiang and Guangdong Provinces.<sup>135</sup> In 2012, the State of Oceanic Administration reported that the output of the marine industry surpassed \$802.6 billion and forecasted that it would reach US \$1.6 trillion by 2020.<sup>136</sup> China's marine economy is largely concentrating on fishing, transportation and tourism. Emerging marine industries include biomedicine, power, chemicals and seawater utilization, which presently only makes up 5% of the country's marine output. China also has a confirmed marine oil reserve of 168 billion barrels and natural gas reserve of 56.5 billion cubic feet.<sup>137</sup>

There are significant opportunities for Nova Scotia in China's development of its maritime economy. Nova Scotia should target the Shandong Byland city cluster to capitalize on these opportunities. The reason to choose this city cluster (See Figure 8

above) is because these two maritime regions economically complement each other. Shandong city cluster is composed of 67 cities,<sup>138</sup> including the major cities of Jinan, Qingdao, Yantai, Zibo, Weihai, Weifang and Rizao. Qingdao and Yantai are two major ports in China. This city cluster represented 63.3% of the Province of Shandong's GDP in 2012, accounting for US \$507 billion. The total population of Shandong Byland was 96.9 million in 2012. This city cluster is rich with agricultural and marine resources, making it an industrial base of food manufacturing and processing. Qingdao, one of the three ocean economic zones identified by the Chinese government, is also within Shandong Byland. The city cluster also has a strong energy industry with abundant natural resources such as oil and coal. With its long coastline, it has potential to develop an offshore petroleum industry. Along with being the second largest consumer market in China, behind Guangdong alone, Shandong Province's central location makes it easy to access other markets elsewhere in China.<sup>139</sup>

Strategy 1: Based on its global competitive advantage in marine industry, Nova Scotia should target the Shandong Byland city cluster to capitalize on the opportunities presented from the development of its maritime economy. Suggested initiatives to achieve this goal include:

- Setting up a trade office in conjunction of Canada's trade office in Qingdao to explore and facilitate business opportunities.

- Establishing a China desk in Nova Scotia to coordinate trade and investments activities among governments, businesses and universities as well as research institutions.
- Creating an Annual Mayors Ocean Forum between Nova Scotia and the Shandong Byland. Mayors in China have significant power and influence and an annual Mayors Ocean Forum will help identify and facilitate business opportunities around the marine industries.

#### **4.2 Challenge 2: the complexity of doing business with China**

The second challenge for Nova Scotia is the complexity of doing business with China due to the country's unique historical, political, legal and cultural contexts. The prerequisite to succeed in China is to have an appropriate understanding of these contexts and the institutions that have developed from them. Nova Scotian businesses must also be aware of the changes happening in China today and how they influence the way Chinese business is conducted.

China is a country with over 5,000 years of history, one of the four most ancient civilizations in the world. According to historian James Petras, China transformed from a world economic power (1100-1800) to a broken semi-colonial country (1800-1911), to a war-torn republic (1911-1949), to a communist country (1949-1979), and to finally re-emerge as a global power and hybrid capitalist communist country (1980-present).<sup>140</sup> China's history is mixed with humiliation and pride which has a profound impact on its



current foreign trade policy. China adheres to a strict “non-interference” policy in handling relationships with its trading partners.<sup>141</sup> This policy has two implications for trading with China. One is that foreign countries and regions need to appreciate China’s past history when doing business with China and to not interfere with its internal issues, such as human rights and territory disputes. Secondly, be aware of colonial and previous predicaments.

Chinese culture is very different than that of Western countries. Western culture is mainly shaped by different religions. Freedom and individualism are the core beliefs of the Western society. Chinese culture has been shaped by 5,000 years of civilization and has been influenced by many schools of thoughts, such as Confucianism, Mohism and Daoism. Among these, Confucianism has had the most profound influence on Chinese culture even up to today. It emphasizes ritual, harmony, and the proper order of social relationships, especially within the family. It also stresses obedience to authority.<sup>142</sup> Under the influence of Confucianism, collectivism and hierarchy are the cornerstones of Chinese culture. These are fundamental differences in one’s relationship with society in China and Western countries. Different value systems certainly affect how business is conducted. Countries and regions including Nova Scotia have to be mindful of these differences when doing business with China.

Along with its Confucian influence, Chinese culture is strongly shaped by its political system. China has been led by the Chinese Communist Party since 1949. The Party’s power comes from four sources: it is in charge of the People’s Liberation Army (approximately 2.25 million person-strong military); it controls personnel appointments

across all political institutions, including the military, state-owned corporations, and public institutions; it has 100% control of the media; and it assigns officials to all judiciary appointments and the internal security apparatus.<sup>143</sup>

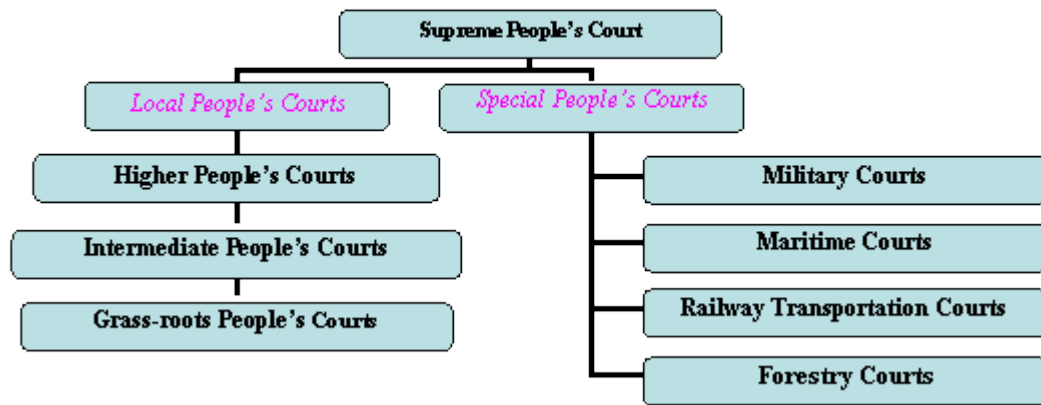
The Party provides leadership to the following four most important political institutions:

1) the State Council, which implements the party's policies and manages the country on a day-to-day basis; 2) The National People's Congress (NPC) initiates and shapes legislation and oversees the State Council, as well as four other institutions (the Presidency, the Supreme People's Court, the Public Prosecutors' Office, and the military); 3) the People's Liberation Army, which is responsible for national security; and 4) the Chinese People's Political Consultative Conference (CPPCC), which incorporates other parties that pledge loyalty to the Communist Party and consult and cooperate on policy issues under the Communist Party's leadership.<sup>144</sup> The implication of one-party rule in China means that the Party is in charge of all three government branches: legislative, executive and judiciary. This is fundamentally different from Western political systems, which are based on the separation of those three powers. The Chinese government, then plays a vital role in every aspect of Chinese society. It can decide which businesses succeed or fail. Therefore, it is important for foreign businesses to establish a collaborative relationship with the Chinese government in order to succeed in China.

Under one-party rule, the Party assigns judges and court administrative staff to different levels of courts. China's legal system is based mainly on the Civil Law model. There are four levels of the court system in China: the grassroots, intermediate, higher and supreme people's courts, as well as special courts such as the military, maritime, railway and

forestry courts (see the chart below).<sup>145</sup> The Chinese legal system is currently facing three significant challenges. The first is to build a modern legal system including legal institutions (law schools and courts) and train competent legal personnel (judges, lawyers, prosecutors, court administrators, legal experts, etc.). The second is to catch up with the rapid economic and social development in China. The third is to retain its independence under one-party rule.

**Figure 9. China’s Court Systems**



Source: Library of Congress

Prior to China’s Opening and Reform in 1978, China was in turmoil because of the Chinese Cultural Revolution (1966-1976), a massive grassroots movement aiming to revive revolutionary spirits, which was described at the time as an era “in praise of lawlessness” by the Chinese government newspaper *People’s Daily*.<sup>146</sup> At this time, there was no formal legal system except for collections of political slogans and general principles. In 1978, the government decided to establish a legal system to bring China back in order and facilitate domestic economic development and international trade and

investment. Chinese legal staff were chosen from ex-military officers and police officers without formal legal education. Over the past thirty years, China has established law schools. By 2005, China had 3000 courts nationwide and close to 200,000 judges and 120,000 lawyers. Recruitment of legal personnel is increasingly from the 400 law schools in China. Since China joined the WTO in 2001, nearly 200 cities have established their own arbitration organizations to settle domestic and foreign-related commercial disputes. China has come a long way in establishing a modern legal system even though there is more work yet to do.<sup>147</sup>

China's industrialization has happened at a massive scale and rapid speed due to the size of its economy. It took China several decades to achieve what took many developed Western countries several centuries. Western legal systems have also been developed over hundreds of years. China will need time to catch up in developing its legal system. Global economic integration, social movements, information technology and E-commerce add new dimensions into the development of China's legal system, and the country will need to adapt its legal system to these changes. It will take time for China to have a legal system that is comparable to the Western countries. As the Chinese judiciary still answers to the Communist party, the law will be open to interpretation. The incomplete legal system under one-party rule will present challenges to the countries and regions seeking opportunities in China. Nova Scotia should avoid getting into circumstances where law is required to intervene. It is always helpful to work with reputable law firms in China who understand how the legal system works and get assistance when situations arise.

China is the fastest growing market in the world. While developed countries were still struggling to get their economies back on track during the global economic crises, China managed an average annual growth of GDP 7.8% from 2009-2013.<sup>148</sup> China is quickly adapting the world's best business models and management practices to sustain this rapid growth. However, it is still a developing country and there are many challenges and risks associated with doing business in China, such as intellectual property rights protections, corruption, weak rule of law and variable access to finance. The transition between the new model and the old creates uncertainty and sometime causes confusion. Countries and regions have to be patient and persistent to navigate these changes in order to succeed. Nova Scotia will need to do the same.

To overcome the challenges mentioned above, countries and regions should build their China capabilities to benefit from the fastest growing market in the world. "China capabilities" refer to the skills, knowledge, experience and expertise necessary to be successful in dealing with the very different culture of China. Various initiatives have been undertaken to develop their China capabilities, including:

**British Columbia:** BC operates five trade offices with 90% of the staff speaking Mandarin.

**Alberta:** From kindergarten to university, 7300 Albertans study Chinese; a \$37 million of endowment to establish a China Institute to enhance understanding of China, and "externships" to send young Albertans to China to gain awareness and experience of and perspective on China.

**The US:** “100,000 Strong China” initiative, a national effort designed to send 100,000 American students to study in China.

**The EU:** member countries promote youth exchanges with China.

**New Zealand:** New Zealand encourages more New Zealanders to learn Chinese in schools.

**Australia:** The Australian government has made China literacy one of the key priorities in its education reform. *AsiaBound*, the government provides grants for Australian students to undertake studies in China. *Engaging China Project*: The project is an initiative by the Australia-China Youth Council to inspire, motivate and mentor Australian school students to learn Chinese language, culture and to engage with China in innovative ways. Australia’s *China Advanced Leadership* and China’s the *China Reciprocal Program* to help top officials from both countries to enhance their understanding of each other. Australia also attracts, retains and uses staff with China-relevant expertise to further develop its China capabilities.

Strategy 2: Nova Scotia should build its China capabilities in order to capitalize on business opportunities in China. Suggested initiatives to achieve this goal include:

- Working with Confucius Institute at Saint Mary’s University to integrate Chinese literacy into the K-12 education curriculum.

- Recruiting, retaining and using executives and professionals that have knowledge and experience in Chinese markets.
- Establishing a China–Atlantic Canada Leadership Program, a two-week training program for senior Chinese government officials and business leaders to enhance their understanding of Canadian governance, economic challenges and opportunities in the region.
- Starting an Atlantic Canada–China Leadership Program, a two-week training program for senior Atlantic Canadian government officials and business leaders to improve their knowledge of China’s government model, economic challenges and opportunities.

### **4.3 Challenge 3: Nova Scotia does not have an existing strong relationship with China**

Nova Scotia has not established a very strong relationship with China, which is a major challenge for the province in expanding trade with China because China is a relationship-based country. Nova Scotia’s first official visit was during 2012’s Canadian Council of Federation’s trade mission to China. For many Nova Scotian business leaders and senior government officials, including Premier Dexter, this was their first visit to China. In comparison, the former Ontario Premier McGuinty’s first trade mission was in 2005. He visited China five times during his premiership. Even earlier, Ontario had established a sister-province relationship with Jiangsu province in 1985. Ontario has trade offices in Beijing, Shanghai and Chongqing while one of the four Chinese Consulate General

offices in Canada is located in Toronto. 20 Chinese companies to set up operation in Ontario, including the China Investment Corporation, a \$580-billion (US) sovereign wealth fund, and Huawei, the world's third largest information and communications technology (ICT) solutions provider. There is no Chinese trade office in Atlantic Canada; none of the Atlantic Canadian Provinces have a trade office in China either. There are no Chinese investments or major Chinese companies that had established offices in Nova Scotia before Dong Du International announced its investment intention on May 27, 2014. With China's "Go Global" policy, Chinese companies actively invest around the world. Nova Scotia should be a place that is attractive to Chinese investors considering its rich natural resources and well- educated workforce.

A few Nova Scotian companies have succeeded in doing business with China, such as Clearwater, Acadian Seaplants, DHX Media and Canadian Tire (Nova Scotia division). Their growth will be at much faster rate with further penetration of Chinese markets. The value of trade between Nova Scotia and China was close to \$400 million in 2012, which was 1/75 of that of Ontario's trade with China in the same year. Given its strong assets and its expertise in marine industries, natural resources and energy, education and tourism, Nova Scotia's trade with China could reach a much higher number if the link with China is made stronger.

Building trusted relationships with Chinese stakeholders is the key to improving Nova Scotia's trade with China. China is a relationship-based country. Chinese people like to do business with those they know and can trust. Business is often conducted at tea parties or dinner tables after trust is established. Chinese people do not put much value on formal



meetings, such as presentations or trade missions, in the absence of a trusted relationship. They believe trusted relationships produce better returns in the long run. It doesn't mean presentations or trade missions are not important, they want to know you and your company well enough before any serious consideration is given to your value propositions. If they feel you can provide value and you are trustworthy then it is the right time to start serious discussions about entering commercial relationships.

This approach of developing personal relationships first is quite different with how business is conducted in Nova Scotia. In general, Nova Scotians start to explore business opportunities through informal coffee meetings and networking events. Then following up with formal meetings or presentations if there are real opportunities for mutual benefits. The reason behind these two different approaches can be explained by the rule of law. As the legal system can safeguard Nova Scotian's commercial interests in the absence of a personal relationship, it is nice to have but not a "must-have". On the other hand, because the rule of law is perceived weak in China, a trusted relationship hedges against future risks and potential conflicts and it therefore is commonly regarded by Chinese people as a "must-have" for establishing business relationships. Chinese people do not believe there are real winners from law suits either as they are time-consuming and very costly to undertake. This why it is so important for Nova Scotia to build trusted relationships with China in expanding trade.

*"Guanxi"* means a trusted relationship in English. Good Guanxi is based on respect and trustworthiness. Most effective types of Guanxi stem from family, friends, classmates and colleagues. Guanxi takes time to develop and cultivate, which presents special challenges

for Nova Scotia and China due to the different languages, cultures and the long distance. Nova Scotia has to be patient and persistent to build Guanxi.

The initiatives that the examined regions and countries have used to build Guanxi with China, include:

**British Columbia:** sister cities relationships, BC Alumni Ambassadors Network/Asia-Pacific Leaders Network, inbound and outbound trade missions, and partnerships with Chinese companies and universities.

**Alberta:** sister-cities relationships,<sup>149</sup> the Asia Advisory Council, trade missions, the China Institute, and the Energy Pact allows Alberta to have unprecedented access to policymakers in China.

**Quebec:** partnerships with the Ministry of Science and Technology (MOST) of the People's Republic of China, the Science and Technology Commission of Shanghai Municipality (STCSM), and S&T cooperation agreement with Shandong.

**Ontario:** sister-cities relationships and trade missions.

**Saskatchewan:** partnership with the China Council for the Promotion of International Trade (CCPIT). The CCPIT is the largest institution for the promotion of foreign trade in China with a network of over 800 cities and regions.

**Manitoba:** sister-cities and trade missions

**Newfoundland:** partnerships with the Chinese Academy of Sciences, Ministry of Agriculture,  
Ministry of Education, and Zhejiang Province.

**US:** annual strategic and economic dialogue

**The EU:** annual EU-China Summit, EU-China Urbanization Partnership Forum, the EU-China City Expo and the EU-China Mayors' Forum

**New Zealand:** established New Zealand China Council, building the high-level political relationships, will host economic dialogue that involves central banks and important economic agencies from both countries.

**Australia:** connects Chinese governments, businesses and communities; initiatives include sister cities, Australia-China Council, China Advanced Leadership Program, annual CEO Round Tables, the Australia Year in China, as well as engaging Chinese immigrants and student networks.

Strategy 3: Nova Scotia should build long-term Guanxi with Chinese governments, businesses and communities for success. Suggested initiatives to achieve this goal include:

- Establishing sister-city relationship between Halifax and Qingdao to jointly explore and facilitate trade opportunities.
- Partnering with Chinese government agencies such as the Chinese Embassy in Ottawa and the China Investment Corporation, and the China Council for the Promotion of International Trade to enhance trade and investment cooperation.
- Engaging Chinese immigrants and students to connect Nova Scotia with China.

#### **4.4 Challenge 4: Nova Scotia is not currently being considered as partner of choice for investment and trade**

Due to the fact Nova Scotia does not currently have a strong relationship with China, it is not well known in China. When I accompanied the Premier's trade mission to China in 2012, I observed that it was first time that many Chinese government officials and business leaders had heard about Nova Scotia. This puts Nova Scotia at a disadvantage as it will not come up as a top investment destination or trade partner, especially since China is trading globally and is the No.1 trade partner for 124 countries in the world. Nova Scotia needs to develop a strong brand to articulate its value proposition to China. Promisingly, Chinese government officials and business leaders were interested in exploring business opportunities in Nova Scotia.

If Nova Scotia wants to stand out as an investment destination, it has to tell investors why the province should be their top choice. For the same reason, Nova Scotia needs to communicate to its visitors why Nova Scotia is a great destination to visit if it wants to

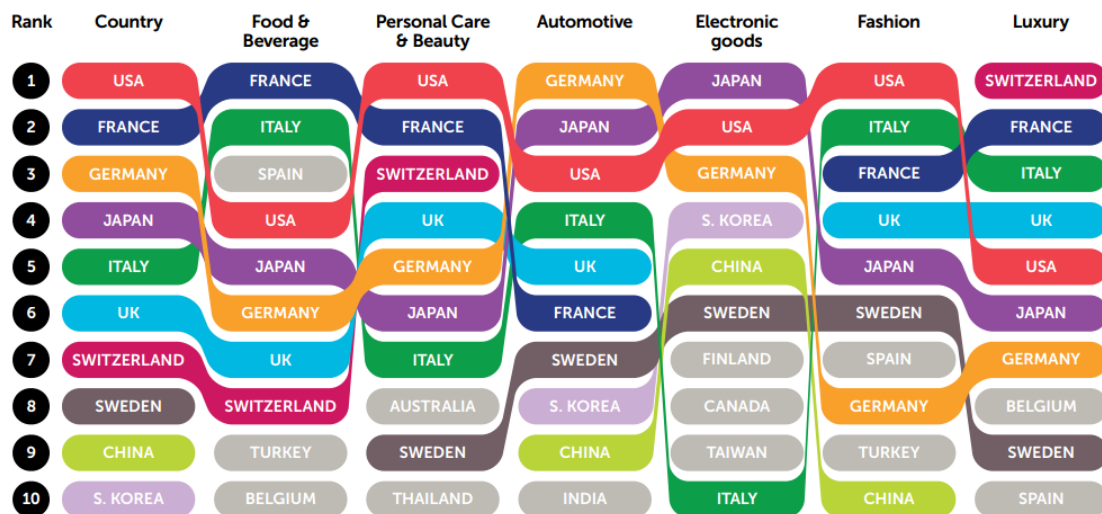
become a tourist destination. Nova Scotia was once called “Canada’s Ocean Playground”<sup>150</sup> to appeal to ocean lovers. The image of the lighthouse at Peggy’s Cove has become the most recognized representation of Nova Scotia. In 2005, Nova Scotia adopted the “Come to life” campaign to promote a clear and positive image of the province.<sup>151</sup> In 2010, Nova Scotia became “Canada’s University Capital.”<sup>152</sup> Despite these initiatives, Nova Scotia does not enjoy a strong brand overseas when compared to other Canadian provinces. The *Economist* magazine has consistently ranked Vancouver, Toronto and Calgary among the top 10 most livable cities in the world for many years, ignoring Halifax.<sup>153</sup>

Canada was ranked as the second most popular country in the world in the BBC’s annual Country Rating Poll in 2013.<sup>154</sup> However, Canada did not make to the top 20 in the 2014 Overall Country Brand Index Report, which is conducted annually by the influential brand strategy firm FutureBrand to measure the value of Country of Origin of brands based on authenticity, differentiation, quality standards and expertise.<sup>155</sup>

This gives an impression that Canada is a beautiful and friendly developed country, but is not recognized as a powerhouse for innovation and productivity. China is transforming itself from being known as “made-in-China” to “designed in China”; it actively searches for countries that are advanced in innovation and technology to help with this transformation process. Obviously, Canada will not be considered a top choice because it ranks low in authenticity, differentiation, quality standards and expertise. This will affect Canada’s ability to attract China’s investments and to export more value-added products and services to China.

It is worthy of noting that China is ranked 9<sup>th</sup> on the top 20 country brands. Canada only made 8<sup>th</sup> under the Electronics Goods category (see figure below). Country of origin is a driver behind Chinese consumers’ purchasing decisions. Due to the low rank in consumer goods categories such as automotive, luxury goods, electronics, fashion, personal care and food beverage, Chinese consumers will not put Canadian goods as their top purchase choice. This represents a lost opportunity for Canada given that China is the largest consumer market in the world. Consumer goods with strong brand names can often command price premiums in China, therefore Canada should develop a strong “made in Canada” brand in the country. Nova Scotia also needs to build a strong brand in order to be considered as a partner for innovation and technology and export more value-added products and services to China.

**Figure 10. “Made-in Country” Ranking across Industry Sectors**



Source: FutureBrand

The Canadian government announced that it would develop a “Made in Canada” campaign in February 2014 and has allocated money in its 2014-2015 budget for it. The campaign draws inspirations from Australia’s “Australia Unlimited” brand-building to improve the “Made in Canada” brand globally. The “Made in Canada” campaign will be a private-sector led initiative and a steering committee comprised of marketing experts from major Canadian industries which will be established in the coming months. The Australian government launched the Building Brand Australia Program in 2009 to improve the country’s reputation and to help Australian companies build business relationships abroad. “Australia Unlimited” is now used across government agencies and industry groups and includes a website showcasing the country’s diverse talents and contributions to the world.<sup>156</sup>

Brand matters significantly in the Chinese markets. The artifacts of the KFC and McDonald’s restaurants, Nokia phones, iPods, England’s Premier League and MTV can be seen in even the most remote Chinese cities.<sup>157</sup> Millward Brown, a leading global research agency, found that Chinese consumers are increasingly looking for international brands because of higher living standards and falling trust in local brands resulting from the tainted milk scandal and other similar events in China. According to Millward Brown, thirteen of the top 20 brands in China are from the US, two are from Germany, two from France, one from Italy and one is from the Anglo-Dutch corporation Unilever. Samsung is the only Asian brand on the list.<sup>158</sup> There was not even one Canadian brand on the top 20 list. To the Chinese market, international brands represent better quality and higher standards. As a result they often yield price premiums. It takes time to develop a brand in China; all 20 of these brands entered the Chinese market before 2000. Nova Scotian

companies should start to build their brand now if China is to be part of their growth strategy.

A new brand **HALIFAX** was recently created for the municipality of Halifax to better define the city and promote itself as a great place to do business, live, work and play. As the federal government is developing the “Made in Canada” campaign this year, it is a good time for the province to develop its own brand to help market Nova Scotia for investment, tourism and exports. British Columbia markets itself as Canada’s Asia Pacific Gateway, Alberta leverages the Canada brand to build its reputation as a global citizen; and Manitoba promotes CentrePort Canada as Canada’s first foreign trade zone. Along with these other Canadian examples, New Zealand’s 100% PURE campaign (1999-present)<sup>159</sup> and “Australia Unlimited” (2009-present) brands are great examples for Nova Scotia in developing its own brand. Nova Scotia should leverage Canada’s brand and think globally when developing its own.

Strategy 4: Nova Scotia should develop a new brand so that the province can be considered by China as a partner of choice for investment and trade. Suggested initiatives to achieve this goal include:

- Establishing a Nova Scotia Brand Steering Committee that is composed of all three levels of government and along with local business leaders to define Nova Scotia’s value proposition.



- Hiring an international brand strategy firm that understands both Nova Scotia and Canada to develop a Nova Scotia Brand.
- Communicating the brand by using both Canadian and Chinese media channels.

## **Summary**

In short, this section has provided a thorough analysis of the major challenges that Nova Scotia faces in increasing trade with China. To recap it, these challenges are: the size of China and the scale of its economy; the complexity in doing business with China due to its unique historical, political, legal and cultural contexts; that Nova Scotia has not established a very strong relationship with China, a major challenge because China is a relationship-based country; and that Nova Scotia is not a partner of choice for investment and trade as it does not have a strong brand in China. Drawing lessons from strategies that are used by other jurisdictions and considering Nova Scotia's reality, an effective strategy for Nova Scotia to increase trade with China should include the following components: targeting Chinese city clusters such as the Shandong Byland City Cluster for its economic complementariness with Nova Scotia; building China capabilities to better understand China; building long-term Guanxi with China across governments, businesses and communities; and articulating Nova Scotia's value proposition to China through developing a brand for Nova Scotia.

## **Part V: Strategy and Conclusion**

International trade is crucial to Nova Scotia as it is a small economy and its population is shrinking. With a global trend towards economic integration, a limited market like Nova Scotia has no choice but to expand trade to improve its economic health. Trade also provides Nova Scotians a variety of goods and services that otherwise would not be available to them. Trade helps create jobs and increases income. It also forces local companies to be innovative to stay competitive. Nova Scotia's trade with the outside world has been in steady decline for the last two decades, amounting to close to a \$10 billion of deficit. Nova Scotia needs to improve its trade links in order to increase trade and attract investments. China holds great potential for Nova Scotia with its massive growing middle class and enormous amount of foreign reserves. There are, however, many difficulties standing in the way of Nova Scotia of turning this potential to reality. To achieve this goal, a comprehensive China strategy is required.

This paper first took a regional approach, examining seven other Canadian provinces together with China's major trade partners the US, the EU and Australia. It also examined New Zealand, since its economic structure is comparable to Nova Scotia's and has been successful in expanding its trade with China. This research showed that all other jurisdictions have experienced significant growth in trading with China. There is still much room to grow as present trade is mainly in exchanging China's goods imports with raw materials and natural resources from its trade partners. All jurisdictions are targeting China for foreign direct investment and its growing middle class for export opportunities. They are building their China capabilities and developing relationships with Chinese

governments, businesses and communities to expand trade. They are taking a regional approach to enter the Chinese market and some of them are marketing their unique value propositions to China through consistent branding.

After reviewing the major jurisdictions, a thorough analysis of Nova Scotia's unique conditions and major challenges was then conducted. This paper proposed a broad trade strategy in order for the province to expand its trade with China. This proposed trade strategy includes four integrated parts: targeting the Shandong Byland city cluster; building China capabilities; building Guanxi; and building a Nova Scotia brand in tandem with the federal government's "Made in Canada" campaign.

Strategy 1: Based on its global competitive advantage in marine industry, Nova Scotia should target Shandong Byland city cluster to capitalize on the opportunities presented from the development of its maritime economy. Suggested initiatives to achieve this goal include:

- Setting up a trade office in conjunction of Canada's trade office in Qingdao to explore and facilitate business opportunities.
- Establishing a China desk in Nova Scotia to coordinate trade and investments activities among governments, businesses and universities as well as research institutions.
- Creating an Annual Mayors Ocean Forum between Nova Scotia and the Shandong Byland. Mayors in China have significant power and influence and an annual

Mayors Ocean Forum will help identify and facilitate business opportunities around the marine industries.

Strategy 2: Nova Scotia should build its China capabilities in order to capitalize on business opportunities in China. Suggested initiatives to achieve this goal include:

- Working with Confucius Institute at Saint Mary's University to integrate Chinese literacy into K-12 education curriculum.
- Recruiting, retaining and using executives and professionals that have a knowledge and experience of and expertise in Chinese markets.
- Establishing a China–Atlantic Canada Leadership Program, a two-week training program for senior Chinese government officials and business leaders to enhance their understanding of Canadian governance and economic challenges and opportunities in the region.
- Starting an Atlantic Canada–China Leadership Program, a two-week training program for senior Atlantic Canadian government officials and business leaders to improve their knowledge of China's government model and economic challenges and opportunities.

Strategy 3: Nova Scotia should build long-term *Guanxi* (trusted relationship) with Chinese governments, businesses and communities for success. Suggested initiatives to achieve this goal include:

- Establishing sister-city relationship between Halifax and Qingdao to jointly explore and facilitate trade opportunities.
- Partnering with Chinese government agencies such as the Chinese Embassy in Ottawa and the China Investment Corporation, and the China Council for the Promotion of International Trade to enhance trade and investment cooperation.
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- Hiring an international brand strategy firm that understands both Nova Scotia and Canada to develop a Nova Scotia Brand.
- Communicating the brand by using both Canadian and Chinese media channels.

This paper has presented a broad strategy on how Nova Scotia can effectively increase trade with China. The proposed is based on the province's economic reality and draws inspirations from other jurisdictions' China strategies. Other regions facing similar challenges to the province can adapt this strategy to increase their trade with China as well.

It is an exciting time for Nova Scotia with its renewed interests in expanding international trade. China is on its way to becoming the world's largest economy. As China transforms itself from an export-driven and investment-led economy to one that is focused on domestic consumption and overseas investments, Nova Scotia needs to act now in order to capitalize on the opportunities that will come from China's economic transformation.

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