Globe Special Report

Canada and China at 40

COURTING CHINA

A complicated, long-distance relationship: On the 40th anniversary of diplomatic relations between Canada and China, an overview of where we've been – and where we're headed. **Page 2**

Counterfeits, pirated goods, fakes exposed: As the Edmonton Oilers jersey sold in a market stall shows, the sale of copied goods is booming in Shanghai. However, experts say China is making progress in protecting intellectual property rights. **Page 5**

Doing business in China – a personal perspective: A Former Canadian diplomat sees opportunities for entrepreneurs after witnessing incredible change in the past 12 years. **Page 12**

PHOTO BY FRED LUM/THE GLOBE AND MAIL

613 million

PEOPLE FIT FOR MILITARY SERVICE IN CHINA, AGE 16 TO 49

13 million

PEOPLE FIT FOR MILITARY SERVICE IN CANADA

DIPLOMATIC TIES

Turning point came at time of turmoil

STEPHEN NORTHFIELD
snorthfield@globeandmail.com

The watershed moment in China-Canada relations came at a time of dramatic distraction for Canadians: "Ottawa is prepared to go any distance to stop the FLQ, Trudeau says" blared the headline across the top of The Globe and Mail on Oct. 14, 1970.

Down page that day, but still prominent, was a story that arguably has had longer-term implications for Canada: "Canada, Peking, establish diplomatic links." The previous day, in Parliament, then external affairs minister Mitchell Sharp announced that Canada and China had agreed to establish diplomatic ties, a step that only a handful of countries in the West had taken. It was not only the first step in normalizing relations with China, but was part of a process of international recognition of the People's Republic by other countries. China, isolated from swaths of the international community following the establishment of the Communist regime in 1949, was slowly coming in from the diplomatic cold.

The Globe was in well ahead of Ottawa in this regard. We established our bureau in Beijing more than a decade earlier, making us the first Western newspaper to have a presence in China. Frederick Nossal, who opened the bureau, had his first story published on the front page of The Globe and Mail on Oct. 5, 1959; 51 years and 17 correspondents later, coverage of China remains a staple of the newspaper's daily offering. In addition to a full-time correspondent in Beijing, The Globe has had for the past few years an Asia Pacific reporter dedicated to exploring the business and economic issues in China and the region. Given China's quick ascent economically – and increasing clout politically – the reports from our correspondents have become a vital pipeline of information to our readers.

For Canadian businesses, China remains a huge opportunity, one that has been under-exploited. This special section is dedicated to examining the issues facing Canadians trying to do business in China. To gain a different perspective, we have commissioned four pieces by writers from the China Daily, the country's main English-language newspaper. The press in China face restrictions that newspapers in Canada and other democracies do not typically face; China Daily is a state-backed enterprise known to tread lightly around sensitive issues such as Tibet and Taiwan. But, as China develops, its nascent media is playing an increasing role in national debates – we offer a sample of their work here.

Turning points are always obvious looking back, but hard to see in the moment. In 1970, China remained quite isolated; it would be years yet before the reforms championed by Deng Xiaoping would help set the economy on its upward trajectory. Now the world's second-largest economy, China has become impossible to ignore. Economically, its startling growth has been a critical counterpunch to the debt-addled malaise that grips much of the West. It has leveraged off its growing wealth to spread its influence around the world. Few of the MPs gathered in the House of Commons that day 40 years ago could have imagined how large China would loom today.

Stephen Northfield is The Globe and Mail's foreign editor

The Globe and Mail

Ottawa is prepared to go any distance to stop FLQ, Trudeau says

PCs rebuffed, Liberals surge to N.S. victory

Wants further mandate from FLQ

Lemieux threatens to quit talks

Bourassa reaffirms stand taken Sunday

Bourassa stands firm with doctors

Northwest gets plan for growth

Canada, Peking establish diplomatic links

Plane crashes on 401; one dead, 20 injured

The front page of The Globe and Mail on Oct. 14, 1970.

In their historic 1973 visit, Pierre and Margaret Trudeau arrive at Beijing airport where the PM talks with Chinese Premier Chou En-lai with the aid of an interpreter.

BILATERAL AFFAIRS

A complex, long-distance relationship

On the 40th anniversary of diplomatic relations between Canada and China, an overview of where we've been – and where we're headed

CHRIS TAYLOR

By definition, a 'Chinese box' is a set of ornamental boxes of increasing size, each fitting inside another. Open one, and you only discover another box.

It's an apt metaphor for the Canada-China relationship, which has come to feature many layers of complexity in the 40 years since the Canadian government recognized the People's Republic. There are compartments of politics, of economics, of culture and human rights, all related and interlocking.

The dominant tone of the relationship, though, has been one of warmth – ever since former prime minister Pierre Trudeau became one of the first Western leaders in 1970 to embrace China, two years before U.S. president Richard Nixon made his famous trip to Beijing. In fact cozy relations date back even further, to figures such as Norman Bethune, a Canadian doctor who worked alongside Mao Zedong and is still held as a national hero.

"Canadian governments have done a very good job at cultivating China, ever since Trudeau," says Pierre Pettigrew, the former Liberal cabinet minister whose portfolios included International Trade and Foreign Affairs. "We were the second country to sign their World Trade Organization accession treaty, and Jean Chrétien met their leadership 16 times in 10 years."

The more recent political season, though, has been a chillier one. With Prime Minister Stephen Harper's ascension to office, Canada adopted a more frank tone in its relations. Whether via pointed remarks about China's human-rights record, Mr. Harper's non-attendance of the Beijing Olympics, his embrace of the Dalai Lama, or the four years it took to arrange an official state visit, Mr. Harper ruffled the usually circumspect Chinese leadership.

In the ensuing years, China's influence has only grown larger. Think of it as a breakup with your long-time high-school sweetheart, who subsequently develops into Angelina Jolie.

"Canada and China used to have a special relationship, but now (China has) become a global power with many suitors," says Yuen Pau Woo, president and CEO of the Vancouver-based think tank Asia Pacific Foundation of Canada. "In a period where China is being courted by many countries, Canada now has to work even harder to get their attention."

> ***Canada and China used to have a special relationship, but now they've become a global power with many suitors.***
>
> **Yuen Pau Woo, president and CEO of the Vancouver-based think tank Asia Pacific Foundation of Canada**

But seasons turn, and observers say the relationship is righting itself once again. Mr. Harper has apologized for the infamous head tax on early Chinese immigrants, deported accused Chinese criminal Deng Xinzhi (Canada has been seen as a safe haven for lawbreakers), and visited China at the end of 2009.

Mr. Harper absorbed some barbs for his efforts – outspoken Chinese Premier Wen Jiabao described relations as "estranged," and groused that the official visit had taken "too long" – but the relationship was effectively rebooted.

"The government had a pretty bad start, and we lost a lot of points with China," says Mr. Pettigrew, now an executive adviser with Deloitte. "At the beginning Harper adopted a very ideological stance, which didn't serve Canada's interests well. So we've lost some ground, but finally the government seems to be catching up, and realizes we have to be more constructive."

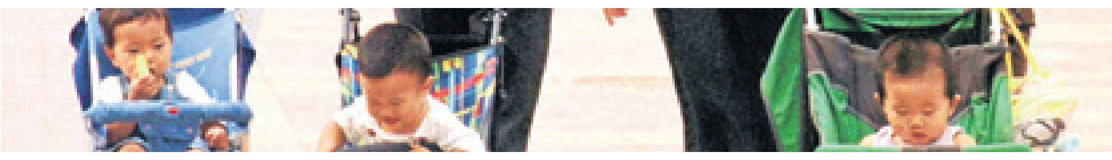
Not least because China's juggernaut is a potential gold mine for Canadian companies, especially in comparison to the wretched American economy. Manulife Financial Corp., Royal Bank of Canada, Sun Life Financial Inc., Bank of Nova Scotia and Research In Motion Ltd. are a few examples of Canadian firms that have made significant inroads into Chinese commerce, despite the notorious bureaucratic headaches.

So have individual entrepreneurs such as Bruce Hicks of TPIZ Resources, a green-energy firm, and Rick Siemens of e-Kong Group, who became a telecommunications kingpin after moving to the region in 1979. And the 300 member companies of the Toronto-based Canada China Business Council, a non-profit association, read like a Who's Who of Canadian business: Bombardier Inc., Barrick Gold Corp. and Power Corp. among them.

Mr. Chrétien was an early proponent of the relationship's bottomless business potential, with his Team Canada trade missions. First in 1994, and culminating in 2001, when the former prime minister brought along 600 business leaders and eight provincial premiers to ink an array of trade deals. (Canada even deployed a secret weapon in those trade missions: "Dashan," an Ottawa-born comedian who has become a massive celebrity in China thanks to his fluent Mandarin.) Such a Sino-Canadian alliance seems like a natural fit.

China, Page 4

CANADA AND CHINA AT 40



818,315,000
POPULATION OF CHINA IN 1970

1,338,612,968
POPULATION OF CHINA IN 2010

BOLSTERING BUSINESS

Are trade missions a thing of the past?

As countries compete for China's attention, some say political support is still useful to help firms land major contracts

APRIL FONG

China is a crowded arena. And not just in terms of the country's massive 1.3 billion population, but also its business environment – where an onslaught of foreign companies and governments are vying to show off their economic might.

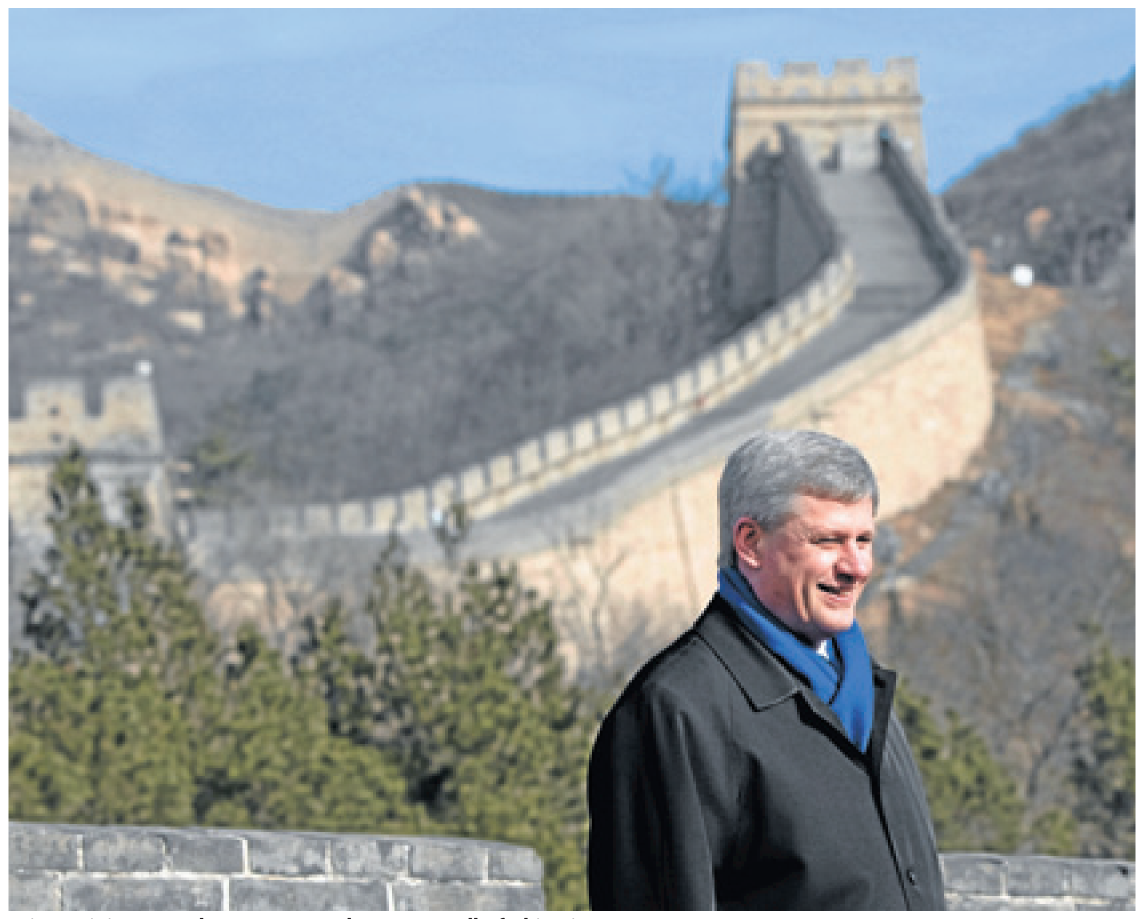
Canada has joined the pageantry with a number of trade missions this year.

New Brunswick's Minister of Business Victor Boudreau led a delegation to China in February, funded by a $110,000 Atlantic Canada Opportunities Agency contribution and a $99,000 provincial government investment. In September, Vancouver Mayor Gregor Robertson embarked on a 12-day trade mission to cities including Beijing, Shanghai and Guangzhou that cost taxpayers an estimated $120,000.

But do Canadian trade missions to China really pay off – or are they now passé in a country of breakneck change? Arguably, sending missions give *mianzi*, or face – an ever-important cultural tradition in China – demonstrating Canada's recognition of China's prestige in business. Trade missions may also help to boost Canada's weak business reputation in China, which primarily focuses on natural resources and leaves innovative made-in-Canada businesses unnoticed.

"[Chinese businesses] will go to the U.S., or countries in Europe first, because they are familiar with brands there and what they are capable of," says Richard Choi, executive director of the Canadian Chamber of Commerce in Shanghai. "Those countries have done enough to show off their muscle."

The problem of putting Canada into the Chinese spotlight is hardly new. That was the purpose, after all, of former prime minister Jean Chrétien's four separate Team Canada trade missions to China. Utilizing face-to-face communication – and a force of nearly 500 Canadian political and business representatives – Team Canada made a splash during its first visit in November of 1994, which was also the largest delegation of any kind to China following the Tiananmen Square massacre in 1989.



Prime Minister Stephen Harper at the Great Wall of China in 2009. SEAN KILPATRICK/THE CANADIAN PRESS

But that was then. According to a report published in the Canadian Journal of Economics in August, Canadian foreign trade missions – which are designed to bolster business relationships and increase bilateral trade – have been ineffective.

University of British Columbia researchers Keith Head and John Ries studied federal government-led trade missions between 1993 and 2003, examining trade before and after a mission, as well as trade of the target country compared with other nations where the government did not send delegations. The report contends there was no noticeable rise in trade as a result of Canadian trade missions.

Some in the business community disagree.

"They're useful on a number of levels," says Peter Harder, president of the Canada China Business Council. "It helps get mind share among decision makers. A Canadian trade mission reminds business and government leaders in China of our business interests and the opportunities we offer."

Yuen Pau Woo, president and CEO of the Asia Pacific Foundation of Canada, says political support can make a difference in the case of Canadian companies looking to land major state procurement contracts in China. At the same time, Mr. Woo adds that while the Team Canada model was creative and successful 10 to 15 years ago, that isn't the case today. "It's a much more crowded arena with many delegations going to China every day," Mr. Woo says.

While Prime Minister Stephen Harper hasn't led trade missions similar to those of the Chrétien era, provincial governments appear to be increasing their efforts. Three of Canada's Western premiers – British Columbia Premier Gordon Campbell, Saskatchewan Premier Brad Wall and Alberta Premier Ed Stelmach – visited Beijing and Shanghai as the "New West Partnership" in May, pushing trade and investment in the region's energy and natural resources.

Mr. Robertson's business mission showcased Vancouver's work in clean technology and digital media industries. Homing in on specialized sectors may help Vancouver businesses not only make contact with potential partners in China, but also market specific Canadian brands and strengths.

"If you don't create the focus for the discussion, then you're not going to get the audience you need to move ahead," says Jeanette Jackson, CEO of Light-Based Technologies, an LED light control company based in Vancouver, which was one of 22 businesses participating in the mission.

More promotion of Canada's brands is also required at the consumer level, says Phil Tozer, China general manager of Synaps International, a sales, marketing and distribution firm that works on bringing Canadian food products to China. He says countries such as Australia, New Zealand, Italy, France and Germany promote their food products more aggressively to people in China, whose spending power continues to rise. Other countries' governments and food producers are using a variety of marketing tools ranging from "A Taste of New Zealand" sampling booths at supermarkets, to large-scale food product shows for Chinese buyers. Mr. Harder adds: "At the moment, we're just not there; we're not in China's mind and not in that sense of excitement in being part of today's global opportunities."

Special to The Globe and Mail

PARTY OF FIVE: THE KEY PLAYERS WHO SHAPED OUR RELATIONSHIP

PIERRE TRUDEAU

The long-time Liberal prime minister established relations with the People's Republic in 1970, when most Western countries still declined to open ties with the Communist regime. Mr. Trudeau followed that up in 1973 with the first official visit to the PRC by a Canadian prime minister.

PAUL DESMARAIS SR.

Powerful Quebec billionaire and CEO of Power Corp. recognized China's potential early, investing back in the 1970s long before the country was on most investors' radars. The founding chairman of the Canada-China Business Council holds a valuable stake in steel-and-mining giant Citic Pacific.

JIANG ZEMIN

China's president as the country grew into a global power in the 1990s and early 2000s. He led an official state visit to Canada in 1997, the first for a Chinese president since 1985, and once described himself as an "old friend" of Mr. Chrétien.

JEAN CHRÉTIEN

Prime minister and unabashed trade-booster led the popular Team Canada missions to power up business ties between the two countries. Visited China a total of six times during his time in office, a period generally seen – along with that of his successor Paul Martin – as the high watermark of Canada-China relations.

HU JINTAO

Current Chinese leader has overseen a roller coaster of bilateral relations. Visited Ottawa to sign a "strategic partnership" with Paul Martin's government in 2005, and has remained in power through the icier period of the Conservative era, finally welcoming Stephen Harper to Beijing in 2009.

CONTINUED FROM PAGE 2

China: Canada has been slow-footed in courting China, experts say

» Perhaps foremost because China, the world's most populous nation with its 1.3 billion people, has a thirst for energy which seemingly cannot be slaked.

"There's a natural complementarity between the two economies," says Howard Balloch, Canada's former ambassador to China who now runs The Balloch Group, one of the region's premier boutique investment banks. "Energy and minerals are what the Chinese are most interested in right now – and Canada has those natural resources, in abundance."

The marriage of mutual energy interests is already taking place. Witness the state-owned Sinopec Group, which in May acquired 9 per cent ownership of Canada's Syncrude (and its valuable stake in Alberta's tar sands), in a deal worth $4.65-billion (U.S.). China's Sinochem Group is also mulling over a play for fertilizer giant Potash Corp. of Saskatchewan, potentially blocking rival Australian bidder BHP Billiton in the process.

A second potential "anchor" for the Canada-China relationship is the multiplicity of human ties, notes Asia Pacific Foundation's Mr. Woo. "Canada has a full 20 per cent of the overseas Chinese community, outside of Asia itself," he says. "And Vancouver is the most Asian city outside of Asia. Those linkages are enduring and material, and that's where we can build our relationship."

Even so, we haven't pressed those natural advantages – relative proximity, a resource-rich economy, and a thriving Chinese-Canadian community to build cultural and business bridges – the way we might have, experts say. In fact, we've been somewhat slow-footed in courting a country whose economy is slated to become the world's largest as early as 2030.

"I really think we're missing the boat," says Kathleen Slaughter, dean of the Hong Kong campus for the University of Western Ontario's Richard Ivey School of Business. "Canada has to think more seriously about how to prepare our next generation for the fact that China is an emerging superpower. More Canadians need to travel there, to understand the culture, to learn the language. We're not putting enough time into it, and so many people still believe it's a Third World outpost under Chairman Mao."

While there are a number of Canadian success stories in China, it's not good enough, Ms. Slaughter says. Especially when China's stated goals in its economic Five-Year Plans – such as sustainable development and renewable energy – often play to Canadian strengths. Canada could be a playing a dominant role in helping China ramp up its infrastructure and technological capabilities, and instead we seem to be playing catch-up, Ms. Slaughter notes. With a Chinese economy that's set to grow by another 10.5 per cent this year, Canadian entrepreneurs shouldn't be too ponderous in making their moves.

"I go there at least five times a year, and every time I think, 'My God, this place is changing fast,' " Ms. Slaughter says. "When I first went 20 years ago, it really did have Third World elements, and there were still signs saying 'No Foreign Devils Allowed.' Now it's clean, vibrant, technologically advanced, with a burgeoning middle class who believe the opportunities for them are limitless."

Observers agree the Canada-China relationship is improved, and improving, since Mr. Harper's rather rocky start. But as the saying goes, be careful what you wish for. A tighter relationship could invite thornier issues in future: Blossoming trade could lead to rising tensions regarding the valuation of the yuan, as it has in the United States, where Congress has long complained about unfair advantages for Chinese exporters. A continued Chinese hard line toward both Tibet and its Muslim minorities could rankle right activists.

Ramped-up Chinese ownership of Canadian energy firms, meanwhile, could raise nationalist hackles. In fact it already has with the potential Potash Corp. deal, over which Saskatchewan Premier Brad Wall recently voiced concerns. And on the other side of the $53-billion in two-way commerce – second only to Canada's trade with the United States – barriers to foreign ownership of Chinese enterprises raise questions of fairness from Canadian investors.

Canada might also face the delicate situation of the Chinese becoming our bankers, as they have already essentially become for the Americans. With the U.S. dollar sliding south as the Federal Reserve prints more and more money, the Chinese will likely become more prominent buyers of Canadian dollars to hedge their exposure to the greenback. Mr. Balloch predicts: "China will absolutely become a significant holder of Canadian debt."

As with any long-term relationship, prickly issues are bound to emerge. But on the 40th anniversary of official relations with the People's Republic, the current trend is one of repair and rejuvenation. "China's now so big on the global stage, and it's only getting bigger," Mr. Balloch says. "China is a player on so many items that could affect the well-being of the world – the environment, the Middle East, North Korea – that it's crazy for a country like Canada not to have a robust relationship with it. So I guess I'd say, 'Get used to it.' "

Special to The Globe and Mail

CANADA AND CHINA AT 40

21,324,000
POPULATION OF CANADA IN 1970

34,108,752
POPULATION OF CANADA IN 2010

Chinese business administration officers cut fake Louis Vuitton handbags during a mass elimination of counterfeit products in southwest China's Chongqing city. AP

INTELLECTUAL PROPERTY

Counterfeits, pirated goods, fakes exposed

Edmonton Oilers jersey shows sale of copied goods is pervasive, but China is increasing penalties against it

ANDY HOFFMAN
ASIA-PACIFIC REPORTER
SHANGHAI

The attention to detail on the throwback Edmonton Oilers jersey for sale amid a maze of stalls at the fake market on Nanjing Road in Shanghai is stunning.

From the raised orange number 99s on the back and the sleeves, to the Gretzky nameplate and a label claiming "Made In Canada" by CCM – it is a brazen and skilled work of counterfeit.

The forgery is so meticulous, in fact, that the attached cardboard tag is in two languages – English and French.

"900 yuan," says the shopkeeper when asked how much he wants for it. With some hard-nosed bargaining, he is soon willing to reduce the price to 150 yuan ($23 Cdn.).

Amid the barrage of bogus goods that are brazenly hawked here, intellectual property protection in China can seem a lost cause. From Louis Vuitton bags, to Rolex watches, to Canada Goose Parkas, to Arc'Teryx outdoor gear, fake merchandise – called *shanzhai* – is everywhere in China.

It's not just clothing. An estimated 90 per cent of the copies of Microsoft's Windows operating system in use in China are believed to be pirated. Counterfeit Canadian ice wine can be found in China and Research In Motion's BlackBerry has a competitor in the form of a Chinese-made device dubbed the Blueberry.

The term *shanzhai* literally translates as "mountain fortress," and in popular Chinese culture, some counterfeit goods are now being celebrated. This summer, a 22-year-old computer programmer in Shenzhen unveiled a *shanzhai* product called the Apple Peel 520 which received attention around the world. The Apple Peel is a skin that wraps around an iPod Touch and transforms it into an iPhone.

When asked why he created the unlicensed product in an interview with CNN conducted via text messaging, the Apple Peel's creator said it boiled down to economics. "Because I love the iPhone, but it's too expensive in China," he explained.

China's booming fake goods sector doesn't just sell into the domestic market. Bogus shoes and handbags manufactured in China can be easily found in Europe and North America.

Still, despite the pervasiveness of counterfeiting, progress in protecting and enforcing intellectual property rights is being made in China, according to legal experts and Canadian companies that operate there.

When China was admitted to the World Trade Organization in 2001, it overhauled its IP laws to comply with international standards. China's patent protections, for example, are now considered relatively strong.

"China's IP laws regarding patents are as every bit as modern as North American standards. The intellectual property office in China is staffed with competent examiners and they do a pretty good job of examining foreign and domestic applicants," said Brian Lee, an IP specialist at Gowling Lafleur Henderson LLP based in Vancouver.

The major issue, however, remains enforcement, particularly for foreign companies.

Just like the massive but still evolving Chinese economy, China's ability to impose its economic protection laws is still very much a work in progress. Government bodies have dual roles of enforcement and granting of IP rights as do the courts and the police.

"It is quite confusing. Add to that the fact that, until recently, the damages awarded for infringement were quite low so it didn't make a lot of economic sense to try to get a judgment when it amounted to a slap on the wrist," Mr. Lee said.

Penalties for IP infringement have been increasing in recent years and more cases are being filed against infringers.

Gucci, the Italy-based luxury goods maker, won its first intellectual property case in mainland China earlier this year. It successfully sued Ningbo Outlets Co. Ltd. for trademark infringement after the Chinese retailer used Gucci's logo in one of its shops and in its online advertising.

The damages awarded to Gucci, however, which first registered its trademark in China in the 1980s, were minuscule. It had been seeking 500,000 yuan in damages but the Intermediate People's Court of Ningbo, a coastal city in Zhejian province, ruled that Ningbo Outlets should pay just 50,000 yuan or about $7,500 (Cdn.).

Canada's Neo Material Technologies Inc., which produces powders and other products used by the high-tech and automotive industries, has had more positive experiences protecting its intellectual property in China. In 2002, several laptops were stolen from a Neo office in a case of corporate espionage. Chinese authorities soon apprehended the culprits, however, and one was sentenced to several years in prison.

More recently, Chinese authorities went after a company that had copied and built an exact replica of one of Neo's patented machines. Neo officials were able to watch as Chinese authorities destroyed the machine.

"It looked just like ours right down to the smallest details," one of Neo's executives said. "When the Chinese copy something, they tend to do it very well."

IP lawyers advise Canadian clients operating in China to take all available precautions against IP theft by registering trademarks and patents with the relevant authorities.

"When Canadian companies want to seek IP protection in China, they have to think beyond today," Mr. Lee said.

"China has made phenomenal developments and improvements in its legal structure and you would be a fool to think that won't continue."

THE GLOBE AND MAIL • WEDNESDAY, OCTOBER 13, 2010 SPECIAL REPORT • E7

China Daily

MARKETING

Planning to sell to the Chinese? Take the bland out of Canadian brands

'Spacious, healthy, natural, friendly.' Canadian firms selling goods in China could build on these selling points, marketing experts say

ANDREW MOODY BEIJING

Chinese consumers tend to view products from Canada as coming from the Scandinavia of North America, a perception that could give some companies a competitive edge.

"They tend to see it [Canada] as clean, green, with plenty of open spaces which might benefit companies in the new energy and technology fields," says Martin Roll, who runs the Singapore brand consultancy Martin Roll Company, formerly known as Venture Republic.

"Canada as a brand comes across quite positively but it is not going to sell products or services in the same way as being a fashion designer from Italy or a cosmetics brand from Paris, so in that way it is relatively neutral."

Mike Bastin, a professor at the China Agriculture University in Beijing who has researched how country of origin affects brand perception in China, believes Canadian companies often fail to leverage the country brand.

"The perception of Canada's country image is extremely positive. Chinese people come up with adjectives such as 'spacious,' 'healthy,' 'natural' and 'friendly.' I think Canadian companies ought to make more use of this when building brands," he said.

Work he has done with his MBA students suggests Canadian companies have made very little impact on the consciousness of young consumers.

"My students readily acknowledge Canada as one of the richest countries in the world but struggle to name a single, globally competitive Canadian brand. They are well aware of American, German and Japanese ones, however," he said.

"Canada is only really associated in China with winter sports such as ice hockey and skiing. Even Toronto is not seen as the financial and business centre that it clearly is, which I think has to be a weakness."

Many big Canadian players in China choose not to emphasize their national identity, however.

The likes of RIM, makers of the Blackberry hand-held device, Bombardier, the aircraft manufacturer, SNC-Lavalin, the construction giant and Thomson Reuters, the business information company, trade as global, rather than Canadian, brands in the world's second-largest economy.

This is in contrast to McDonald's, which is happy to be seen as delivering to Chinese consumers the great American burger experience or both BMW and Mercedez Benz, which do not disguise that they stand for German precision engineering.

James B. Heimowitz, president and chief executive officer, North Asia, of the international public-relations firm Hill & Knowlton, which advises RIM, said the positioning of major Canadian companies has nothing to do with hiding national identity.

"They want to be seen as a local company in China. They are not marketing or positioning themselves as representing Canadian technology," he said.

"All companies have to decide whether country of origin is a seminal part of the brand or just an add-on. I think most of them have decided it is largely the latter."

Mr. Heimowitz insists there is nothing particularly negative about the Canadian brand.

"It is not to do with negative perceptions. I think Chinese people are neutral about Canada because it has a relatively low profile," he said.

Mr. Roll points out that in the Far East there has been a general trend to take the country out of brand perception.

"Samsung, the Korean car manufacturer, for example, over the past 10 years has been trying to build a global platform so that it is no longer seen as just Korean. The company sees value in making this shift," he said.

David Donnan, vice-president and partner of international management consultants A.T. Kearney, based at the company's Chicago office, has researched how Canadian and other Western food brands go down with Chinese consumers.

"There are more Canadian and other Western food brands entering supermarkets in China and this is likely to have a big impact on the buying habits of Chinese people who emigrate to Canada over the next five to seven years," he said.

He said there is evidence to show that Canada's large Chinese populations in Vancouver and Calgary prefer local food brands over traditional established ones.

"This is certainly true of second-generation Chinese immigrants in Canada. You see the trend both ways, however. Canadian people go to Asian supermarkets in Canada and buy Chinese food. People are just getting more adventurous with their food. My dad wouldn't have eaten curry but most people do today."

The problem for Canadian companies could be that they are overshadowed in China by their brasher and much larger neighbour.

Mr. Heimowitz at Hill & Knowlton sees this as almost inevitable.

"Part of the problem is probably the sheer size of the United States and its place on the global stage. American companies can't really escape being seen as anything but American. Canada is relatively anonymous by comparison. The population of Canada is just a small fraction of that of the United States," he said.

Mr. Heimowitz said while there are many successful Canadian companies, he struggles to recall any which are famous for their Canadian-ness.

"Even in the United States, the only brand I know that is perceived as being Canadian is Molson beer," he said.

Mr. Roll adds that this is a lost opportunity. "I think there are many commercial areas where the brand qualities of Canada would work well and they should be perhaps developed and exploited more," he said.

Special to The Globe and Mail from the China Daily

THE CANADIAN BRAND IN CANADA

Positive perceptions	Negative perceptions
» Clean and healthy	» Relatively unknown on the global stage
» Western	» Overshadowed by brasher neighbour
» Reliable	» Not cutting edge
» Friendly	» Bland
» Not seen as engaged in conflicts like the U.S.	» Few companies that are global players
» Home of many Chinese immigrants	

EMERGING REGIONS

Western frontiers open for business

In the recent past, the eastern coastal region has served as China's economic locomotive; now it's time to tap the inland west

XIN ZHIMING BEIJING

Investors are looking beyond the coastal regions of China to the emerging markets in the country's inland western frontiers for new opportunities.

"Indeed, these markets and their businesses are developing so rapidly and powerfully that not exploiting them represents a huge risk to long-term profitability," Grant Thornton International, a U.S.-based accounting firm, said in a July report commenting on business opportunities in China.

The eastern coastal regions have led the nation and have served as the locomotive for the Chinese economy and a major base for multinationals' production and sales. However, because of rising production costs in the east, some investors have shifted their focus to the new western frontiers.

The Yangtze River Delta and the Pearl River Delta regions, which used to attract more foreign capital than the rest of the country as a whole, have lagged behind in terms of growth of foreign direct investment since 2008, according to a September report by the China International Capital Corporation. The Chongqing municipality in southwest China, meanwhile, registered an impressive year-on-year growth of 47 per cent in terms of foreign investment in 2009.

Apart from Chongqing, Chengdu, the capital of southwest Sichuan province and Xi'an, capital of the northwest Shaanxi province, are also playing host to an increasing number of foreign multinationals, such as U.S.-based HP and Intel.

"Those capital cities generally boast accommodative high-tech or economic development zones, which have relatively sound management and commercial infrastructure," said Zhou Minliang, a researcher on regional economy at the Chinese Academy of Social Sciences.

Hyun-Chan Cho, country manager of China and Mongolia for the International Finance Corporation , says, "One of our strategic priorities in China is to support balanced rural and urban development, especially in frontier regions.

"In the past decades, the main economic growth was from the coastal regions. However, we believe the growth in the frontier regions will be strong in the future," he added in an e-mail interview.

China poured large amounts of investment into the inland areas in the 1960s and early 1970s in the so-called "third-line" construction campaign. But the regions still lagged far behind the eastern coast in the ensuing decades, partially because the latter had taken advantage of the favourable reform policies from the central government to achieve an economic takeoff. At the turn of the century, the nation renewed its effort to develop the west, a turn that has been noticed by investors.

"We have devised our investment strategies in line with the country's new development blueprint," Zhao Xiaoyu, vice-president of the Asian Development Bank, said in an interview.

For private investors, it is also a rational philosophy.

China has made it clear that it would build the western regions into four major industrial bases – in energy, resource processing, equipment and new materials.High-end manufacturing, high tech, modern tertiary, new energy, pharmaceutical and information technology sectors are also what the nation encourages in its latest investment guidelines for foreign investors.

"Foreign investors generally have the technological competitive edge in those areas, which have all been opened to non-state capital," Mr. Zhang Baotong, deputy director of the academic committee of the Shaanxi Academy of Social Sciences, said.

Another Chinese national strategy is to turn from a main export-oriented economy to a domestic consumption-driven one and raise the level of social welfare and rural services.

"Hence we see the biggest growth can come from third-tier cities and rural areas and more opportunities in agribusiness, consumer goods and rural access to finance," Mr. Hyun-Chan said.

Investing in a faraway country with different cultural and political systems, however, is always challenging for North American businesses.

"The western regions are economically less developed and, generally speaking, their awareness of market-based rules needs to be improved," said a macroeconomics analyst of a major securities firm in Shanghai. "And some local governments need to learn how to deal with foreign investors; it's somewhat risky [for outside investors]."

Infrastructure is a bottleneck, too. "Those areas are far from coastal ports and other business centres of the east. Therefore, costs are high for export-oriented enterprises," said Mr. Zhou of CASS. Talent is another challenge. "The multinational corporations that we have interviewed expressed the lack of management and business talent as the main challenge," Mr. Hyun-Chan said. "Often they need to import the manager from the coast or internationally. That has increased the operation costs."

Special to The Globe and Mail from the China Daily

A modern mall in Chongqing city in southwest China. At the turn of the century, the nation renewed its effort to develop the west, a turn that has been noticed by investors. BORIS SPREMO FOR THE GLOBE AND MAIL

INVESTING

Canadian firms see China as their biggest growth engine

Country is regarded as highly desirable destination for investment in part because of its quick recovery from the global recession

DING QINGFEN AND LAN LAN BEIJING

Thanks to its ballooning consumption capacity and comparatively lower labour costs, China is replacing the United States and European Union as the most attractive destination for Canadian investors over the past two years.

"China has become our most important overseas market outside [of] North America," said Albert Yu, president of Bank of Montreal (China) Co. Ltd. and also Asia chief executive officer of the Bank of Montreal.

The United States and Canada have long been BMO's top two markets. One year ago, the Canada-based banking group decided to identify Beijing as its Asian headquarters, and this July, BMO China got official approval from the Chinese government on starting local business.

"The timing [of the decision] is very interesting," Mr. Yu said. During the recession, many companies retreated, but BMO is advancing its business in China, he added.

BMO's presence in China dates back to 1982 when the group set up a representative office. During the past few years, local business has been "consistently very profitable," Mr. Yu said. The bank plans to expand to the second-tier cities in China. It expects a "profitable and progressive profile" for the future and that business in China will "make [a] significant contribution" to the BMO's global business.

Not only are Canadian service-sector businesses closely eyeing the Chinese market, but so are those in the manufacturing sector.

Agrium, Canada's second largest fertilizer producer and seller, is considering making a foray into China in the near future.

While the developed markets are still under economic recovery, Agrium is "diversifying its overseas markets and shifting focus to especially China, the largest fertilizer consuming nation," said Mark Wong, president of Agrium (China) Inc.

"China has the largest population worldwide, and more than that, the nation has rich resources and raw materials for making fertilizer," Mr. Wong said.

Two years ago, Agrium appointed a team to investigate and research the Chinese market. The team recently sent a proposal to head office that recommends a "large volume of investment here on building up or co-operating with local partners on factories."

Mr. Wong and his team are confident the proposal will get the nod from Canada, for the simple reason that the Chinese market is "huge enough to surpass North America some day."

Huge opportunity

With China's quick recovery from the global economic recession, Canadian companies are "increasingly seeing China as their biggest growth engine and a highly desirable destination for investment," said Daniel Cheng, managing director China at Canada China Business Council.

From 2004 to 2009, Canadian investment in China increased by an average annual rate of 25 per cent. In 2009, Canada's direct investment into China was $959-million, ranking the tenth largest source of foreign direct investment (FDI).

Canadian investment in China still accounts for less than 1 per cent of China's total FDI, but the momentum of future growth is expected to be striking.

"There will definitely be more organic investment," said Duane McMullen, commercial minister at the Canadian Embassy in Beijing.

It could cover a wide range of sectors, including "auto, high tech, pharmaceuticals, manufacturing and education," Mr. McMullen said.

He said investors are motivated by cost advantage and the fast economic growth of the huge Chinese market.

Despite the slowdown of GDP growth during the second quarter, the Chinese economy has grown much faster than the majority of the other economies worldwide. From April to June, China's GDP growth eased to 10.3 per cent, from 11.9 per cent in the first quarter. World Bank predicted China's GDP growth will stand at 9.5 per cent this year, and the Chinese government is strengthening efforts on stimulating domestic consumption and imports.

SME flow

Currently, the majority of Canadian companies doing business in China are big companies, mainly in the insurance, natural resources, transportation and high-tech sectors, but China will see "more small- and medium-sized enterprises come to China in the coming years, as Canada's strength and volatility lies in its SMEs," Mr. Cheng said.

"They will be more in tune with China's rapid rhythm," he added.

Canada Forestry Innovation Investment, Canada's official forestry bureau representing the nation's forestry companies including many SMEs, set up its first office in Shanghai in 2005 to promote Canadian wood exports, FII's first of its kind overseas. During the past four years, number of FII staff in China has rapidly grown to 50, and so have the exports.

"From 2005 to 2009, Canada's wood exports has been doubled every year," said Mike Hogan, general manager of FII China.

With the help of FII China, Canada has become the largest exporter of wood to China with 1.1 billion board feet last year.

Regulatory restrictions?

During the past few months, China's investment environment has been criticized by foreign business as turning worse. Chinese Premier Wen Jiabao has repeatedly clarified the complaints are not universal and the argument is not true, and Chinese Minister of Commerce Chen Deming also said in the Financial Times that China is and will be more open to the world, which will benefit the foreign enterprises.

Mr. Cheng did not agree with the argument either. "China's overall investment environment continues to improve in most areas, thanks to the government's consistent efforts to reform and open up the Chinese market," he said.

Mr. Yu from BMO also said there are regulatory restrictions in all nations, no matter if is the United States, Europen Union and Latin America, and this is understandable. "So far we have seen great achievements and tremendous support from government. The help is reasonable and the experience, favourable," he said.

But improvements in few specific areas are also suggested. "Our concern is on mining sector where there are still restrictions," Mr. McMullen said.

China "owns a lot of resources and the problem is the nation lacks technologies to tap it. Canadian companies are good at developing natural resources, but the challenge is they are not allowed to enter China," Mr. McMullen said.

Business philosophy

Mr. Yu from BMO said Canadian companies operating in China, no matter what areas they are involved in, share one thing in common. "We are keen in long-term development" and do not deny "co-operation."

Mr. Cheng agreed. "A lot of Canadian companies share the same philosophy that they don't go for quick money and tend to look for long-term projects that are fundamentally important."

But "China is a quick-changing market that Canadian companies need to participate in the growth more actively."

BMO has been developing business through co-operation with local partners and the co-operation has gone well along. Mr. Yu said BMO China will not dump such a model in a short-term as both are highly complementary to each other. "Local players have good access to distribution and customers, and we have strong management expertise."

"We will do business step by step."

With a report from Zhou Siyu

Special to The Globe and Mail from the China Daily

TOURISM

Group travel to Canada packaged for vast market of Chinese citizens eager to explore

YU TIANYU BEIJING

In the Bejing dining room of Liu Mingjun, 64, a world map is dotted with red stickers marking the places where she and her 67-year-old husband have travelled – from Thailand to France.

Ms. Liu, formerly an engineer at a state-owned enterprise in the capital, is ready to put another red sticker on Canada, the home of medical innovator Norman Bethune, the spiritual icon of her younger years. The couple will be among the first to travel since the June 24 signing of the Approved Destination Status agreement between China and Canada.

"I'm pretty excited about launching of the ADS since my husband and I speak very little English and we have no relatives living in Canada," said Ms. Liu, who is going to visit Niagara Falls. "We have booked a travel package in middle of September and so many marvellous resorts I desire to go to cannot be all included during one trip."

Under the agreement, it will be easier for Chinese citizens to obtain tourist visas to travel to Canada for leisure purposes. Previously, Chinese travellers to Canada were eligible to obtain exit visas to Canada only if travelling for study, visiting friends and relatives, business or independent tourism activities.

The agreement also has authorized Chinese travel agencies to market and promote leisure group tours for travel in Canada.

The Canadian Tourism Commission and trip operators are gearing up to grasp the opportunities from the world's fastest growing outbound tourism market.

"In the past five years, we have been striving to build up relationships with Chinese travel agencies which have much influence in the Chinese tourism market, in consideration of its huge buzz and dynamic economic growth," said Derek Galpin, managing director of CTC in China.

"We have invited about 400 Chinese travel agencies to Canada along with 200 media agencies . . . to get closer to our potential customers," he said. "Many Canadian tourism operators also visited China showing their commitment to the Chinese market."

Buffeted by the global economic turndown and the H1N1 flu virus outbreak, international visitors made 15.6 million trips to Canada in 2009, down 22 per cent from the peak year in 2002, according to CTC's year-in-review 2009 snapshot.

China was the only one of the CTC's key markets to record a rise in trip numbers with a modest 0.4-per-cent increase over 2008, the report said.

Mr. Galpin said that even without the ADS, Chinese visitors made 159,400 overnight trips to Canada in 2009. And the CTC expects to see a 3.5-per-cent year-on-year increase in arrivals from China in 2010.

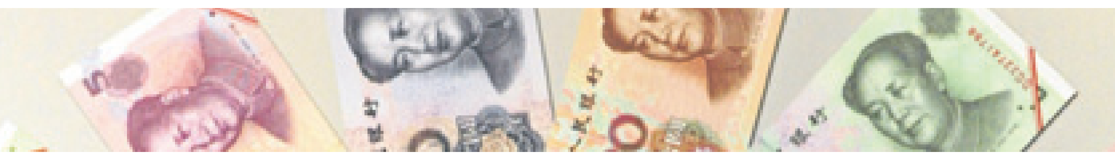
After the first batch of about 230 Chinese ADS tourists departed to Canada in middle of August, the Conference Board of Canada estimates that Chinese tourist visits to Canada will increase by up to 50 per cent over the next five years, boosting the Canadian tourism industry.

The Annual Report of China Outbound Tourism Development 2009-2010, recently released by the China Tourism Academy, estimated that 54 million Chinese will venture out to see the world in 2010. Additionally, the UN's World Tourism Organization predicted that China will be the world's fourth-largest source of outbound tourists by 2020, with 100 million Chinese tourists travelling abroad.

Special to The Globe and Mail from the China Daily

Tourists at Lions Gate Bridge in Vancouver. JOHN LEHMANN/THE GLOBE AND MAIL

CANADA AND CHINA AT 40



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CHINA'S GLOBAL GDP RANKING IN 1970

2
CHINA'S GLOBAL GDP RANKING IN 2010

BUSINESS TIES

How to succeed in China today

Take time to build relationships and trust, say Canadian pioneers who followed in Trudeau's footsteps

TARA PERKINS
FINANCIAL SERVICES REPORTER
TORONTO

Years after former Canadian prime minister Pierre Trudeau went out on a limb and established diplomatic relations with Chinese Chairman Mao Tse-tung's regime, he got annoyed.

Ottawa had effectively built Canadian corporations a bridge into a wondrous world of opportunities. Mr. Trudeau didn't understand why more of them weren't crossing it.

He reached out to Paul Desmarais Sr., who was the chief executive officer of Montreal-based Power Corp. at the time.

"My father said 'You know what, you're right. You have led the way and we're going to follow behind you,'" Andre Desmarais, the current CEO of Power Corp., recounts. "That's what led him to set up his first mission there, and I was lucky enough to be his executive assistant, so I was on that trip and had the fun of preparing it with some other Power executives and others."

The year was 1978, and a Who's Who of Canadian business wound up making the trek, including Ian Sinclair, then the CEO of Canadian Pacific Ltd., David Culver, the head of Alcan, Robert Scrivener of Nortel, Cedric Ritchie, the CEO of Bank of Nova Scotia, and Petro-Canada CEO Wilbert Hopper.

The groundbreaking trade mission led to the creation of the Canada China Business Council, and promises to dramatically boost the amount of business that Canada did with China.

"That was a very fortuitous thing as it turned out, because it ended up being the first really senior trade delegation ever going there from any country," Mr. Desmarais says.

The relationships that Canada forged in the 1970s gave this country's corporations a head-start in what is now a full-on sprint to do business in China. But, as any company that has sought to enter the Chinese market can appreciate, the road was far from smooth.

Indeed, Power Corp.'s first real breakthrough didn't come until 1986. The company wanted to invest money in China, but it was nervous that another revolution might wipe out its investment. Thanks to the ties that it had worked at establishing, it was able to arrange a meeting with Deng Xiaoping, then the leader of the Communist Party of China, through CITIC, a state-owned investment firm.

"We suggested to them that what they should do is buy a plant in Canada – a pulp mill, a business that they need, a business that they knew," Mr. Desmarais says. "Then we would invest the same amount of money in China…

"The idea was that if there was a revolution in Canada, they could take our assets in China, and if there was a revolution in China, we could take their assets in Canada."

It's a tripartite lesson that many business people have learned: to succeed in China, relationships, patience and trust are paramount.

Following those talks, CITIC made its largest investment to date outside of China, buying a half-interest in a pulp mill in Castlegar, B.C., in a joint venture with Power Consolidated (China) Pulp.

The investment was a major breakthrough for Power Corp., and marked the beginning of a series of deals that each turned a profit, but the company learned lessons along the way.

"I went back so discouraged so many times you wouldn't believe it," Mr. Desmarais says.

In the early days, the company was offered the chance to buy a piece of land right next to the Forbidden City. Chinese officials were adamant that it had a bright future. "This was 1978, we said, 'It will be at least 50 years before that will ever happen.' Well, we couldn't have been more wrong," Mr. Desmarais says.

When Power Corp. had the chance to team up with CITIC and develop a plot of industrial real estate in Pudong, it took it.

"One of the things that I've learned about China is be very very careful, because there are a million arguments about why they can't do something," Mr. Desmarais says. "For many years I doubted them a lot, saying 'There's no way they can achieve these plans at the speed at which they're able to achieve them.' But I think I've found, with the history of having to be able to go so often, that they have a fantastic planning system, they have tremendous determination, they have courage, and a huge amount of brain power to achieve their goals."

These are lessons that Power Corp. has been able to impart to other Canadian businesses. Over the years, it has paired up with a number of companies to smooth their entry into China – and make money, by selling its investment in the ventures to the other firm once the project is established.

For instance, Power Corp. partnered with Bombardier Inc. on its original train deal in China, Mr. Desmarais noted. The companies worked together to win the contract. Bombardier then built the trains and bought out Power Corp.'s stake in the joint venture that the two firms had established with China National Railway Locomotive and Rolling Stock Industry Corporation.

"It took some time, I don't think we saw any significant business until four or five years ago, so it required a lot of patience," says Pierre Beaudoin, CEO of Bombardier Inc. "Because we believed in the long-term growth potential, we invested a lot to build relationships there."

For Bombardier's businesses, China is the country where Mr. Beaudoin sees the most growth potential of any in the world. And that means that Bombardier's relationship with the Chinese government is of the utmost priority, because items such as trains and planes are largely bought by state-owned companies.

"In many ways in China it is very clear who is the customer," Mr. Beaudoin says. "It is a communist country, the government does centrally control decisions."

While that might have been self-evident to Bombardier, not everything was.

"The challenge is understand, understand, understand," adds Jianwei Zhang, the president of Bombardier China. "Be clear. Understand the needs of the customer, understand the Chinese needs."

He recalls being asked by a Chinese customer why there wasn't a return clause in the contract for a train, enabling that customer to return the train to Bombardier if something was wrong with it. "For them it was very difficult to understand that you can't return a train," he says. "In practice, it's impossible. If there's a problem then you correct it, but how do you return a train?"

Another anecdote: A few years ago Bombardier executives were ready to sign a contract that had been under negotiation for several weeks. Just before the signing ceremony was scheduled to take place, they stumbled upon the realization that the two sides had different understandings of when the delivery date would be. The problem stemmed from a mistranslation of the English word "shipment." Bombardier's negotiating team thought that referred to the delivery from its facility to the port, while the Chinese translation was that the trains were put on the ship to China at that time. They had to renegotiate.

There are other hurdles. Chinese companies in a number of industries have quickly learned from their foreign competitors, and they are increasingly forces to be reckoned with. Bombardier's main competitor in China is now a Chinese firm. It can deliver an order in months, not years, and has lower costs.

Bombardier has more than 4,000 employees in China now, and by and large it requires them to understand both Chinese and English. As a result, its labour costs are higher than its Chinese competitor.

But the immensity of the Chinese market means there's enough business to go around. And for all of the energy that they've poured into China, Canadian companies are starting to reap rewards.

Nevertheless, most still describe their ventures in the country as investments for the next generation.

"China is a long-term play for us," says Bob Cook, who heads up the Asian business of Manulife Financial, which has made tremendous inroads in China's insurance and wealth management industries. "The contribution to the bottom line is not going to be huge in the next few years, but I think our shareholders know that. I think they know that what we're trying to do here is lay a foundation."

Manulife broke into China in the mid-'90s, and worked hard to promote the still-relatively-foreign concept of life insurance. Manulife-Sinochem Life Insurance Co. Ltd. is the first Chinese-foreign joint venture life insurance company established in China. Former Chinese premier Li Peng and former Canadian prime minister Jean Chrétien attended an opening ceremony for the company in 1996.

Manulife executives quickly learned that while labour might be abundant in China, professionals who could work in the life insurance business were not.

When Mr. Cook came to Asia, he says, "I told my colleagues back in North America, 'You guys are engaged in a mild skirmish for talent, the real war is going on out here in Asia.'"

What Manulife realized it had in its back pocket were employees with a Chinese cultural background who happened to be living in eight different countries. It was also able to move some sales people from its operation in Taiwan to China, taking advantage of their language skills.

"Long term, in order to feed the ongoing growth of the business, you have to be able to develop local talent," Mr. Cook says. It's a sentiment shared by Bombardier, which invests a significant amount of money and resources into training Chinese staff.

Manulife-Sinochem is now in more than 40 cities, but it's been tough slogging.

Canadian executives say that Ottawa's relationship with Beijing is crucial. "We love it when there's things like the minister of finance comes over to visit, because that often is just the last little push we need to get the approval in order to expand our business," Mr. Cook says.

In March of this year, Manulife bought a 49 per cent stake in what is now called Manulife TEDA Fund Management Co., an asset management firm. For Mr. Cook, that deal is the most exciting thing that Manulife has accomplished in China thus far.

"The reason we won is because of the investment we've been making over the last 15 years in partner-relations and in government-relations," he says. "We paid a full and fair price, but price alone was not why we won the deal. It was the investment we had made in relationships in China that we were able to leverage in order to get this deal."

Marc Sterling, who was hired by Manulife 17 years ago to get the company into China and who is now the chairman of Manulife-Sinochem Life Insurance Co., says the realization that Manulife had made it in China dawned on him about three years ago.

That's when Chinese officials allowed Mr. Sterling to take a four-hour drive with a police escort – and sirens wailing – to the Wolong Panda Reserve, where he and his family were allowed to play with six giant pandas.

Paul Desmarais Sr. meets with Yu Qiuli, then vice prime minister of China, in 1978.

CANADIAN ADVICE

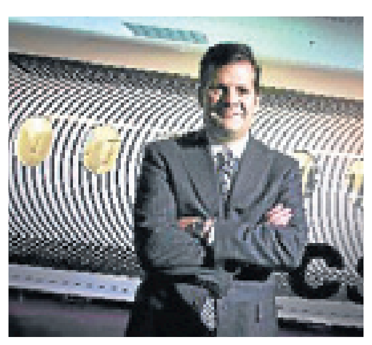
Canadian executives whose firms have succeeded in China all tend to agree on the most important piece of advice for those who want to follow in their footsteps: patience

ANDRE DESMARAIS

CEO of Power Corp., honorary chairman of the Canada China Business Council

"We believe that if you do things well over the long-term, you can make a lot of money there and really build a fantastic franchise. But don't go if you're going to go quickly, because you'll have problems.

"If you look at who blows their brains out in China and gives a bad reputation to investing in China it's the people who see huge opportunities, get absolutely excited about them, and then put in the money without doing proper due diligence. You need to take the time to meet the people, start small, and as you get the confidence, as you move along, then grow your business."



PIERRE BEAUDOIN

CEO of Bombardier Inc.

Mr. Beaudoin says companies that want to succeed in China must continually prove to their local partners and government that they're there for the long haul.

"Sometimes you need to repeat it very often, so that you get to a point where you're believable and you develop a trust," he says. "Don't expect that you can come to China, land, land a contract of billions and make money and just go on," he adds.

"It's going to take a few years, they've got to make sure that you're honest, that you can be trusted. I understand that, because many people came to their country thinking that they'd make a fortune and left."

JIANWEI ZHANG

President of Bombardier China

Mr. Zhang tells people that more than 60 per cent of the problems that foreign corporations have in China stem simply from misunderstandings.

"If we use a North American way to understand Chinese practices, they're very difficult to understand," he says. "The culture, the background, the practices, the languages are different."

The solution: Double-check and triple-check that you are on the same page in negotiations.

CANADA AND CHINA AT 40

7
CANADA'S GLOBAL GDP RANKING IN 1970

15
CANADA'S GLOBAL GDP RANKING IN 2010

MANUFACTURING

Child's play is big business in China

A former Torontonian based in Hong Kong navigates the latest wave of manufacturing that focuses on safety, reliability

ALEXANDRA A. SENO
HONG KONG

In his office in Kowloon, Hong Kong, Jon Meyers remembers fondly how as a young boy in Toronto he was the first kid on the block to have a Chitty Chitty Bang Bang, the pedal-powered child car-version of the magical vehicle immortalized in the 1968 hit musical movie.

Of course it helped, he chuckles with some pride, that the toys were made in the United States by a company that his father co-owned. With an attractive offer in the 1980s, the family sold the firm – which became famous for what became the Power Wheels brand, now a part of Fisher-Price.

The younger Mr. Meyers, now based in Asia for almost 20 years, is still very much in the toy trade, working on Jonando, a company his father started and named for his three children: Jon, Donna and Ann.

But as his story and his experience in Hong Kong indicates, the toys and the ways of the industry have changed dramatically between the generations. Jonando, which has been Mr. Meyers's focus for the past decade and a half, specializes in consulting with brands and helping them make goods in China.

In the past two decades, the global toy industry's factory base has largely moved to China.

The International Council of Toy Industries estimates the Canadian retail market to be $1.8-billion. Of that, an overwhelming majority of goods are produced in China.

According to Statistics Canada, last Christmas, of the $23-million in imported wheeled toys, the kind that Mr. Meyers's father used to make, more than half now come from China. Of the $180-million in plush toys that were brought into the market, 97 per cent came from China. For dolls, it's 80 per cent.

Though toys represent a small portion of the $39.7-billion in products that Canada buys from China, they, along with food, require the most care because they go to children. The choice of factory can make or break a company.

Consultant Steve Hardy, who is often retained by Jonando to ensure suppliers comply with standards, says: "Reputation is hard to earn and can easily be lost in a second."

Three years ago, toys produced in factories in China caused injuries and deaths among children. The public outcry from a series of discoveries about design lapses and toxic materials resulted in millions of toys being taken off the shelf, and since then, more stringent certification and testing rules.

In October, Fisher-Price, now one of the world's major toy brands, enforced its biggest product recall since the introduction of new regulations in 2008. In this recent exercise, which affected more than 10 million products, the problems appear to be in design, rather than the fault of Chinese factories which make an estimated 85 per cent or more of the world's toys.

Decades of investment and expertise have made southern China the epicentre of the toy-manufacturing world, luring brands from all over the world. The advantage is no longer so much cheap labour – workers in other countries like Indonesia make less – but the critical mix of affordable costs and a concentration of components and technical skill. "A lot of the shady businesses closed in the last three years," says Mr. Meyers, as the Chinese government cracked down because of safety concerns and the economies in Western Europe and North America slowed down.

"As the toy manufacturing world shifted to China, Mr. Meyers moved to Hong Kong in 1991 to join Bandai. For the Japanese toy maker, he worked on the English-speaking accounts of Western brands just beginning to outsource to Asia, getting their production done.

Five years later, wanting to be on his own, he concentrated on Jonando, which captured the next wave of toy businesses wanting to use Chinese factories.

Today, while he still works with companies he's been dealing with for years, Mr. Meyers is seeing fewer new clients. "People just go on the Internet now. It has become easier to work directly with factories in China. Just go on alibaba.com and find suppliers," he says.

As toy companies increasingly go the direct route and health agencies in the United States, Canada and the European Union enforce more safety regulations, there has been more demand for product inspection services.

Mr. Meyers points out that the new rules have added significantly to production costs. Regular testing for simple toys can cost thousands of dollars and tens of thousands for products with electronics.

Jonando works with Mr. Hardy's company, Sino Quality Consultants, to make sure worker conditions are up to par – absolutely no child or forced labour – and that products follow specifications.

To Mr. Meyers, it is clear the fundamentals of making toys are shifting again. Though he continues to be very active with Jonando, he has used his wealth of experience as a long time businessman in Hong Kong to explore other ventures.

He has invested in a small, recently started toy brand. It is run by his sister's son, who followed Mr. Meyers to Hong Kong a few years ago. The art of play is more than a family business, it is a legacy.

Special to The Globe and Mail

Jon Meyers represented Basic Concepts, the commercial brand of Jonando, to buyers at the Toy Industry Association's fall toy preview in Dallas, Tex., last week. COURTNEY PERRY FOR THE GLOBE AND MAIL

CANADA AND CHINA AT 40

4.20

UNEMPLOYMENT RATE IN CHINA

7.99

UNEMPLOYMENT RATE IN CANADA

What would a Cirque du Soleil show be without a contortion act? Circus acts have has a long and distinguished history in China. CAMIRAND/CIRQUE DU SOLEIL

ENTERTAINMENT

From its start, Cirque du Soleil drew on China's deep well of talent

Today, about 20 per cent of its 1,500 performers worldwide are Chinese. To achieve the same balancing act, businesses must learn to read a nation that is both introspective and thirsty for outside novelty

NICK ROCKEL

Since Expo 2010 opened in Shanghai this spring, Cirque du Soleil and China have been getting to know each other better.

Through the end of October, upward of 35,000 visitors a day should keep filing into the Canada Pavilion, a cedar-clad colossus dreamed up by Cirque's Johnny Boivin. Outside the 6,000-square-metre space, performers from the Montreal-based entertainment company entertain the waiting crowds.

For Chinese visitors to the Canada Pavilion, Cirque du Soleil's world-famous blend of circus and theatre is just part of the draw. People also endure the long lineups in the hope of glimpsing Mark Rowswell, Canada's commissioner general for Expo 2010. The hugely popular Ontario-born entertainer – who goes by the stage name Dashan – is arguably the most famous foreigner in China.

Cirque du Soleil mounted its first and only mainland China show in 2007, when it launched a two-month run of Quidam in Shanghai. But the firm is no newcomer to the Middle Kingdom, where circus has a long and distinguished history. For almost 25 years, Cirque has drawn on China's deep well of talent by recruiting artists from throughout the country. Today, about 20 per cent of its 1,500 performers worldwide are Chinese.

"It has helped us to understand the culture, it has helped us to understand the way they do business in China," says CEO Daniel Lamarre of this staffing strategy. "And so therefore when we went in 2007, we were well prepared."

As Canadian entrepreneurs, Cirque du Soleil and Dashan have found a way to stand out in China while fitting in with the local culture. Businesses hoping to achieve the same balancing act must learn to read a nation that is both introspective and thirsty for outside novelty and sophistication.

"It's always intriguing in China, because on one side they're looking for someone that is very close to their community, which we are," Mr. Lamarre says. "On the other hand, they're also looking – and more so now than ever – for people who have an international brand."

Capitalizing on the momentum from Expo and its current Macau show, Cirque du Soleil aims to have a presence in Beijing and Shanghai by as early as next year. It laid the groundwork for these plans through a long-standing relationship with the China Performing Arts Agency, a branch of the Ministry of Culture.

Mr. Lamarre says importing performers through the CPAA has been a way for Cirque to show its respect. "Because we were using a lot of Chinese artists for many, many years ... it was normal that if we go into China we would be considered not only as a business venture, but more importantly as a friend of China."

Respect for China's many-layered bureaucracy is another key to success. "That's the way they do business, and everything they do obviously is totally influenced by the government," Mr. Lamarre says. "If you want to do business the North American way, it won't work."

Cirque du Soleil's most powerful government ally in China is President Hu Jintao, who was instrumental in winning support for the 2007 Shanghai show. The company has cultivated strong ties to local business partners too. It put on Quidam with the Chinese division of Los Angeles-based entertainment presenter ThemeSTAR (now called AEG ThemeSTAR), and teamed up with domestic investors to cover the roughly $12.6-million in production and marketing costs.

Getting middle-class Chinese consumers to spring for foreign goods and services is a matter of appealing to their aspirations, says Yuwa Hedrick-Wong, economic adviser to MasterCard Worldwide for the Asia-Pacific region.

"Fitting in culturally does not mean making whatever you have to offer more Chinese-like," adds the Vancouver-based business strategist and economist. "Fitting in culturally is to understand, from a cultural point of view, what they aspire to."

Because Chinese urbanites live in a fiercely competitive social environment, Prof. Hedrick-Wong explains, they crave an escape from that constant pressure. Cirque du Soleil fits the bill by immersing them in a fantasyland that is very different from traditional Chinese acrobatic shows.

"Elements of that skill are incorporated into the new productions, but it really is a tremendous escape valve for these hard-working middle-class urban households who are yearning for new experiences," Prof. Hedrick-Wong says.

Another advantage for Cirque du Soleil is that senior Chinese officials and business people often have artistic hobbies. Sarah Kutulakos, executive director and COO of the Toronto-based Canada China Business Council, says the typical Chinese hierarchy doesn't give them the same creative outlets that a Western organization might. "And so they find these other ways to express themselves, and that then creates an opening for something like Cirque."

Chinese audiences of all social stations can't get enough of Mr. Rowswell, a tall, bespectacled Caucasian who rose to fame by mastering the comic performance style known as *xiangsheng*. Ms. Kutulakos notes that this art form – its name can be translated as "crosstalk" – is difficult even for native Mandarin speakers.

Like Cirque du Soleil, the gifted Mr. Rowswell is an old China hand. He's spent more than two decades building his empire, which includes television hosting duties, endorsements and a line of ESL products.

"When you're at it that long, you develop an understanding of the culture that can really be sensed by the Chinese people," says Ms. Kutulakos, who is fluent in Mandarin.

Agreeing with that assessment is Kenny Zhang, senior research analyst at the Asia Pacific Foundation of Canada, a Vancouver-based think tank. "That's why people in China actually call Dashan a foreigner, but not an outsider," Mr. Zhang says. "Through his performance and through his life for over 20 years now, [he] is actually considered part of China rather than part of Canada."

As it looks to expand into China, Cirque du Soleil comes from a similar position of strength. "I think our people understand that culture very, very well," Mr. Lamarre says. "And it's very rare that you can walk into our studio here in Montreal without meeting Chinese people. So it's part of who we are."

Special to The Globe and Mail

APPEALING TO THE CHINESE AUDIENCE

To succeed in China, know your audience

Who is the Chinese consumer? According to Yuwa Hedrick-Wong, there's no easy answer to that question. Prof. Hedrick-Wong, a Vancouver-based business strategist and economist who has advised more than 30 multinational firms in the Asia-Pacific region, warns that China's dynamic consumer market is highly fragmented. "What you have to do is tap into the right segment," he says.

For a company hoping to entice Chinese consumers with its creative products or services, as Cirque du Soleil has done, the first step is to identify the urban middle class. Prof. Hedrick-Wong's research team defines this group as city households earning $6,000 (U.S.) – anything less leaves no room for discretionary spending – to $15,000 a year. A prime audience for bigger-ticket items is China's mass-affluent class, whose top household income Prof. Hedrick-Wong pegs at $30,000.

The next step is to find the risk-takers. Among the urban middle class, Prof. Hedrick-Wong explains, people are delaying marriage. One result is what could be China's most compelling market segment for creative businesses: well-educated, well-travelled young singles who like to spend money on themselves and are willing to try new things. "Creative products and services are by definition new, so you have to tap into risk-taking consumers," Mr. Hedrick-Wong says.

Two experts share their thoughts on making an impression in China

SARAH KUTULAKOS

Executive director and COO, Canada China Business Council

"You do need to think about where your product fits with what you're competing against in China. But I do find that many companies take a bit of a myopic approach to it, saying, 'I don't want to go to China. Somebody will copy me.' Your product is on the international market. If they want to copy you and your product is good, they're going to go buy one and reverse-engineer it and copy it anyway. So get to China, register your IP, and work in a very competitive environment, because it will make you stronger."

YUWA HEDRICK-WONG

Economic adviser to MasterCard Worldwide, Asia-Pacific; adjunct professor, Sauder School of Business, University of British Columbia

"Once you have your niche, if you try to go too far to [appeal to] Chinese tastes, then you begin to lose your differentiation. And then very quickly, you become a look-alike to local competitors. And that's a danger, because then you can no longer command a price premium. Once you can no longer command a price premium, you're dead, because Chinese competitors are so, so aggressive at copying what you do and then selling it at half the price. ...The only way you can prevent that from happening is to retain a certain differentiated quality that cannot be copied."

CANADA AND CHINA AT 40

502

AIRPORTS IN CHINA

1,332

AIRPORTS IN CANADA

REFLECTIONS

Doing business in China – a personal perspective

Former Canadian diplomat sees opportunities for entrepreneurs after witnessing incredible change in the past 12 years

MURRAY KING SHANGHAI

Murray King walks his dog, Bian Bian, outside his house in the old French Concession of Shanghai. KEVIN LEE/GETTY IMAGES FOR THE GLOBE AND MAIL

I have lived in China for 12 years, the past 10 years in Shanghai. In those years, first with the Canadian foreign service and then in the private sector, I have advised hundreds of companies on doing business in China, initially only Canadian companies, but then after moving from government into a private sector consulting role in 2004, I have had the opportunity to work with companies of all nationalities and sizes.

Surprisingly most companies face the same challenges, no matter what the size or scope of investment – trying to understand the market, navigating the bureaucracy, keeping up with the incredible change, attracting and retaining good talent, and explaining China to their own corporate leadership, shareholders, and family and friends back home.

Role of government

When I first travelled to China in the early 1990s the Chinese government imposed many restrictions on foreign visitors. Even the money foreigners were allowed to use was different.

So much of that has now disappeared as state controls have receded, yet vestiges remain below the surface, and understanding the role of government and its challenges are key to doing successful business in China.

From a business perspective, China's regulation of foreign investment in the early 1990s remained highly regulated and bureaucratic. Most foreign investment was centrally regulated, and only certain industries were open to foreign investment. Usually you needed to choose a joint venture, and your partner was inevitably chosen for you under direct government ownership and control.

So much of that has changed now, with World Trade Organization accession and a vast increase in the number of "encouraged" sectors for which 100-per-cent foreign investment participation is permitted. For many projects, the approval responsibility has devolved to the regional government level.

But in those days the central government in Beijing kept tight control over everything, with the exception of industry parks in special economic zones along the south coast of the country. So if you were in business in China, you inevitably were headquartered in Beijing.

Picture Ottawa as housing the decision-making headquarters for corporate Canada and you get an idea of how artificial the role of Beijing was as China's business capital.

By the late 1990s things were changing quickly, and at the commercial section of the Canadian embassy my colleagues and I were in the thick of it. A vast downsizing of government and state-owned enterprises was taking place, a painful but necessary dose of economic medicine that saw millions of people lose their iron rice bowl of guaranteed jobs and social security for life.

As part of this process, some of the state's best assets were either being dramatically restructured or were for sale. Some of the most tightly regulated sectors became open to foreign investment including rail, energy, automotive, aerospace and telecom, creating unique opportunities in the history of China's economic transformation.

Canadian and other foreign multinationals were moving in to establish investment beachheads, and there were frequent high-level government-to-government negotiations and trade missions. These were the heady days of Team Canada trade missions.

In 2001, my job was to organize a dinner party for the last Team Canada mission to China, but it was no small dinner party. Hosted by then prime minister Jean Chrétien for the Chinese leadership at the Great Hall of the People, it featured dinner for 2,750 including 800 of Canada's senior government and corporate leaders, and a vast range of China's senior leaders, a chance to break bread with decision makers and seal deals.

It is perhaps fitting that the last Team Canada mission bridged the transition to a new century and millennium, for it marked the end of a long practice which dated back to dynastic China of foreign government-led trade forays into China (some more friendly than others). The United Kingdom, France, Germany, Russia, the United States and other countries were all busy undertaking similar grand government-led missions, but none were able to succeed in quite the same way, and many factors have made mega-trade missions far less relevant for doing business in China today.

Nevertheless, some of the deals made during the Team Canada missions paved the way for the incredible successes that China and Chinese people now enjoy, including its vast modern network of high-speed rail, subways, modern airports, telecom and energy infrastructure.

Today the government still plays a key role, but more as a regulator. China has passed more legislation in the past five years than the previous 50, as it seeks to build up a modern regulatory framework.

Businesses are now being consulted by government for their expertise, and while the ever-changing regulatory environment can be frustrating, the changes will help pave the way for a far better place to do business in the future.

Rise of Shanghai

The changing role of government in regulating business has also changed where business is done in China, with Shanghai re-emerging as China's business centre.

For the first half of the 20th century, Shanghai had been China's New York, a dynamic and cosmopolitan centre of commerce and trade and industry. But it also represented many of the problems plaguing China at the time and which eventually brought the Communist Party to power. Choosing the right time to "re-open" Shanghai to foreign trade while maintaining social stability and the power of the Communist Party was a subject of intense discussion. But that changed in 1993 when Jiang Zemin became the new leader of the country. Mr. Jiang had served as mayor of Shanghai; he recognized the need to have the city re-establish itself as China's commercial hub.

A massive infrastructure build-out of new bridges, roads, airports, housing, commerce and industry resulted, and is now being showcased to the world in the Shanghai 2010 World Expo.

Many Canadian companies have participated in the dramatic development of Shanghai, particularly in architecture services, with some of the best residential, commercial and even city parks being designed by Canadian architecture and design firms. Participation in those signature Shanghai projects has also now helped these firms win opportunities in the newly developing second- and third-tier cities.

New frontiers

While everyone knows Beijing and Shanghai, China has almost 200 cities with populations of more than one million people, and some 70 cities with populations of more than four million people (though each "city" has both an urban and rural population).

China's second-tier cities, mostly coastal medium-sized cities such as Xiamen, Qingdao and Dalian, have already been under the development spotlight for many years, and are themselves becoming some of the best places to invest, do business and live. But then there are many third- and fourth-tier cities, each with a hunger for development. Expect to hear more about opportunities in cities such as Zhengzhou, Shijiazhuang and Hefei.

If I were arriving in China today for the first time, and looking for personal and business development opportunities, then I would forsake the lure of China's big coastal cities and go straight to where the action is now. These interior cities hold out some of the best business opportunities today.

Of course there are challenges too, and the adventurous business person needs to undertake due diligence and seek good local partners to succeed.

But a business person also needs to invest time and resources to build relations and establish a reputation in these markets. Learning a little Chinese and breaking bread with local hosts will help achieve those goals. Remember to return the hospitality when they visit you in Canada.

Balanced growth will be the key to China's social stability and economic success, so they have established a series of policies and projects designed to develop central, western and northeastern China. Special incentives are available for foreign investors and there are some major development projects behind the policies which themselves may present good business opportunities.

One of the biggest is China's high-speed rail build-out, which will add thousands of kilometres of high-speed rail to the nation's rail grid, and will permanently change these cities from frontier towns to attractive places to live, work and invest. Cities that used to be 20-40 hours away from the coast by rail are now becoming only two-four hours away.

On a smaller scale, cities around Shanghai which used to be two-three hours away are now becoming short 30-minute commutes. The transformation of these cities into bedroom satellite communities for people working in Shanghai will change their roles in the local economy, and by doing so present new business and investment opportunities.

Post-80s generation

Businesses are also beginning to focus on new demographic markets too, namely the *Ba-Ling-Hou* or post-80s generation.

These young Chinese perhaps represent the most dramatic generation gap ever seen in the history of the modern world. While their parents suffered the worst of the Cultural Revolution and the state-owned enterprise employment gulag that followed, their children, almost all of whom were born into one-child families, were raised in a new China, one which is strong, more open and connected to the world, bombarded by the commercialization of a brand-savvy society eager to forget the suffering of the past.

Their confidence in themselves is shaped by their own protected upbringing, spoilt by parents and grandparents who themselves went without, the success of China as an economic powerhouse, and the opportunities for work, study, travel and consumerism that now surround them.

To the outside world they are fierce nationalists yet they are also harsh critics of their own government.

Understanding how to market to this generation, how to sell to them, inspire them, hire, manage and retain them, will all become key skills for the coming years.

Final thoughts

If China sounds like an exciting, complicated and rapidly changing place, it is. If you have a thirst for adventure, and appetite for risk, and great business acumen, then China still holds much opportunity.

Although the country has now been "open" for foreign business for more than 30 years, and Canada has enjoyed 40 years of diplomatic relations, the opportunities remain vast. The only way to truly appreciate this, however, is to come and see for yourself.

Murray King is the managing director (Greater China) of APCO Worldwide, a public affairs and strategic communications firm. Mr. King has also worked as a Trade Commissioner at the Canadian Embassy in Beijing and then at the Canadian Consulate General in Shanghai.