Expanding Mutually Beneficial Investment Between Canada and China

The issue

Canada's economic ties with China—the world's second largest economy—are essential to our future prosperity. China recently overtook the U.K. as Canada's second largest destination for exports. An expanding consumer class and ongoing urbanization will continue to drive demand for Canadian products.

While trade has been growing strongly, there is unrealized potential on the investment side. To develop our resources and get them to market, Canada needs hundreds of billions in patient capital that China is well-placed to provide. And many Canadian companies need to establish or expand their operations in China to support sales and marketing efforts, take advantage of local productions capabilities, and plug into the region's competitive supply chains. Yet, according to Statistics Canada, China accounts for only 2.4% of total foreign investment in Canada, and only 0.6% of Canadian investment abroad. There is clearly room for growth.

The barriers

Policy and regulatory uncertainty is a big part of why the investment relationship remains limited. A 2012 survey of Canadian companies by the Asia Pacific Foundation of Canada found that 70% considered doing business in China to be more difficult than in other foreign markets. The top challenges they identified related to the rule of law: the protection of intellectual property, inconsistent regulations and laws and limited access to dispute settlement mechanisms. It's even harder for small companies that find it hard to navigate the system and can't distribute risks over their global operations. Likewise, the announcement in December 2012 that Canada would increase its scrutiny of acquisitions by state-owned enterprises has made Canada's investment climate more uncertain for Chinese investors.

The way forward

In September 2012, Canada and China signed a Foreign Investment Protection Agreement (FIPA) that would address concerns about policy and regulatory uncertainty. Without jeopardizing either government's ability to review in-bound acquisitions or regulate company activities, the FIPA ensures a minimum standard of treatment for investors and protects them against discriminatory measures and expropriations. Protections also apply to intellectual property rights and the open transfer of profits and other financial flows. However, despite its potential to boost investor confidence, the FIPA has not been ratified by either country.

Recommendation

That the federal government undertake the necessary steps to ratify the Canada-China FIPA and bring it into effect as soon as possible.