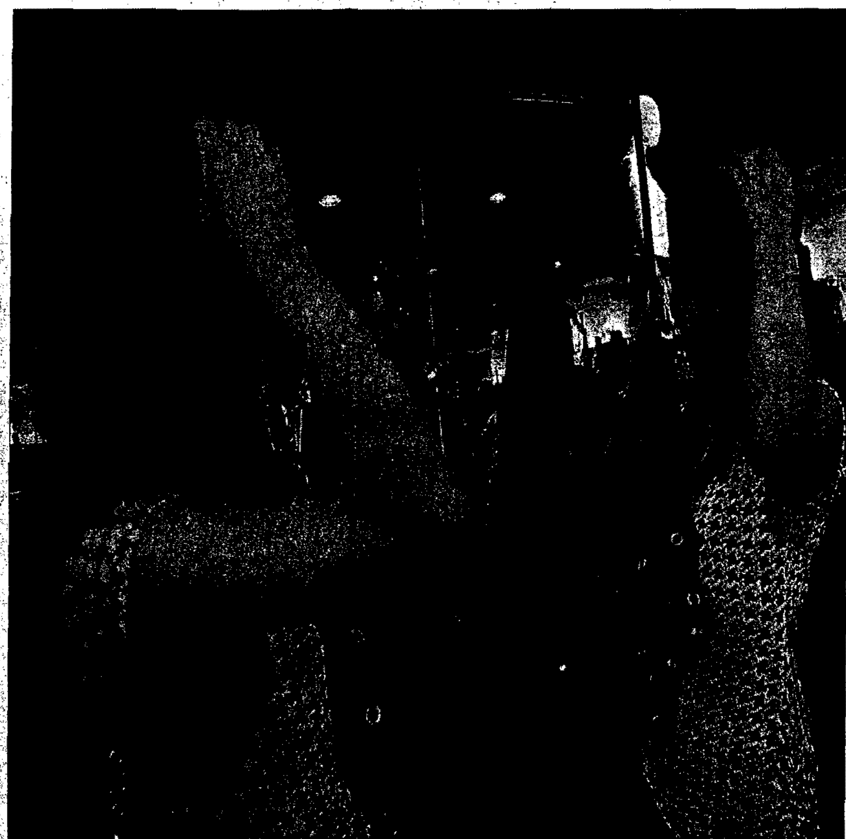
Chinese economy may matter more to B.C. than to the rest of Canada

China is moving away from simple low-cost products to more advanced manufacturing

By Nicolas Schmitt



NATALIE BEHRING/BLOOMBERG

A woman shopper tries on a red hat at a newly opened H&M shop in Shanghai, China.

The Paralympic Games in Beijing are now complete and the images that have come from China since August are showing a country that is moving forward at a rapid pace.

We knew this already, at least in an abstract way, from the financial reports coming out of China before the Games. It is indeed difficult not to change quickly when year after year the rate of economic growth exceeds nine per cent.

But most pictures we had in our mind still had more to do with the Forbidden City, the Great Wall and farming villages than with booming cities and dazzling buildings. Sure, we knew that Shanghai was becoming the New York City of Asia, but Beijing? After all, it is the capital city and Ottawa or Washington, D.C., are not exactly known to be among the most exciting cities in the world.

The Olympic Games, whether it is through the opening and closing ceremonies or the pictures from the streets of Beijing, with its shiny new buildings, have shown forcefully that China and the Chinese people are becoming increasingly confident and are ready to embrace the world, and to play an important role at every level and in all fields.

Still, as Canadians, we seem to be quite passive if not ignorant of what is happening. For Canada, this shift has key economic implications. This is even more so for Vancouver and for British Columbia, as the economic gravity of the world is gradually moving toward the western part of the Pacific Rim.

For instance, did you know that last year China became the second biggest exporter and the third biggest importer of merchandise in the world? It will not be long before China becomes the largest exporter of merchandise in the world and second only to the U.S. on the import side.

Of course, Canada is taking advantage of the Chinese boom since China has now become its third largest trade partner. Between 2002 and 2007, Canada has roughly doubled its exports to China. With the recent slowdown in the U.S., the share of total Canadian exports shipped to the U.S. has suddenly sharply decreased.

It will not be surprising to anyone that Canada mainly exports resource-based products to China, such as potash, oil, nickel or forest products. But in the other direction it would be wrong to think that Canada imports from China only low-cost consumer products, even if we find a lot of those in our grocery, department and toy stores.

Imports from China are now predominantly composed of machinery and equipment, including computer, electronic and telecommunication equipment. Even automotive products are imported from China. The value of imports has multiplied by nearly a factor of eight since 2002.

China is already moving away, at least in relative terms, from technologically simple, low-cost consumer products into more advanced manufacturing products, while Canada, and Western Canada in particular, is increasingly being pushed into resource-based activities. In other words, a rich country like Canada sells mainly resource-based products to a still relatively poor country like China in exchange for increasingly sophisticated manufacturing products.

Although Canada is not the only rich country engaged in this type of exchange with China (think Australia, for instance), this is probably a first from a historical point of view. Surely this has great economic benefits in the short and even medium terms, but are the long-term consequences only positive for Canada?

If the nature of the trade between Canada and China is changing fast, the massive imports of consumer products coming from China also have a significant impact.

Consider the following research — though it was from the U.S., it probably has some validity for Canada as well. It shows how trade with China may even have contributed to social peace.

The recent study by two American scholars has shown that despite falling incomes near the bottom of the wage distribution relative to those at the top, the poor in the U.S. have not really felt left behind.

This is because to measure inequality adequately it is important to take into account how the rich and the poor spend their income.

Not surprisingly, the rich spend a much higher fraction of their income on services, including financial services, personal care or services associated with leisure and culture. And the rich pay a much lower fraction of their income on products such as food, clothing or footwear.

It matters because prices have increased a lot on services and they have generally fallen on many consumer products. When this difference is taken into account, the significance of the rise in inequality between rich and poor in the U.S. that has taken place over the last decade is reduced dramatically.

But why have prices of services and of these consumer products evolved differently? Precisely because a lot of the products consumed by the poor are coming from China. Indeed, an astounding 18 per cent of all U.S. imports from China end up on the shelves of Wal-Mart alone.

Some might argue that even if this is true, the increase in income inequality is simply due to outsourcing jobs to China and is thus caused by globalization itself. Globalization has undeniably increased the demand for skilled labor around the world. The new book *Unequal Democracy*, by Larry Bartels, shows in no uncertain terms that government domestic policies critically influence how income distribution evolves in a country. Simply put, since the Second World War, income inequalities have on average increased when the Republicans were in power and decreased with the Democrats. For income inequality, like for many other things, it is a matter of choice, not of economic fatality.

These two examples show that economic ties with China have already had deep effects on North American consumers and they are evolving rapidly. It is only the beginning.

What does this mean for Western Canada? Only economic benefits and more activities? What does this mean for Vancouver and the mix of jobs in the Lower Mainland in 10 to 20 years?

A better understanding and knowledge of these and many other economic forces that are linking Canada and B.C. to China and Asia are essential, especially in Vancouver, the Canadian gateway to the Pacific.

This is in part why Simon Fraser University, through its department of economics, and the Asia-Pacific Foundation are in the process of setting up the Jack Austin Chair in Asian Economies.

It is only a small step. But, right now, there is simply not enough general awareness or research or public debate on these issues.

Moreover, we should not wait for Ottawa to do this for us. It should take place here.

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