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# The New Challenge of Globalization to China and its Impact on the Trends of Immigration to Canada

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## I. Accession to WTO: A Turning point of China's Process of Globalization

By the end of year 2000, China had concluded almost all of the bilateral deals with all WTO members, but the multilateral accession negotiation over how and when China would implement the commitments made in its bilateral agreements remained unresolved, postponing the date of the "imminent" accession.

Since WTO rules involve not only the trade of goods, but also the trade of services and foreign direct investment, it has even gone beyond border measures and reaches into areas of domestic policy such as opening distribution channels and dismantling monopoly structures; thus the completion of the WTO negotiation would send a strong signal of confidence to the outside world. Giving a clear timetable for liberalization of trade and deregulation to foreign investors, China would begin the process from functional open economy to institutional open economy in order to integrate the country fully into the world trade and investment regime. This means that, in contrast to the past 20 years, the laws governing international business operations should become effective in China and the rules-based system necessary to implement WTO commitments such as national treatment will be put into place. During the transition period, while the open policy is still not stable nor easily changed in different times as well as in different industries, China's globalization strategy will be targeting global resources-seeking and allocation rather than the increase of exports and inflow of foreign capital.

## II. Changing Pattern of China's Trade and Investment Regime

China still has a "dualistic" trading structure, with limited cities in coast areas having an open "export processing regime," which permits exporters to bring goods into the country duty free and with a minimum of administrative interference and regulation. The second part is still under the "ordinary trade regime," which was run primarily by state-owned trading companies until 1999 where trading rights are tightly regulated, specifically the right to sell imports in the domestic Chinese market. Thus, at this point the domestic market could scarcely be characterized as "open" despite the fairly high share of GDP accounted for by exports and imports and which easily ranked China among the largest exporting economies in the world in 2000. (At almost 50%, China's economy reached US$1.072 trillion in 2000; while two-way trade was US$ 474.3 billion; merchandise exports totalled about US$249.2 billion and imports rose 35.8 percent to US$ 225 billion.) Therefore, the challenge for further trade liberalization would include three aspects — the removal of tariff and non-tariff measures that have typically been addressed in bilateral WTO agreements, deregulation of trade rights to private and joint-venture trade companies, and liberalization of trades of service.

China's FDI policy, typically co-existent with super-national fiscal incentives and operating restrictions to foreign firms, has been challenged by WTO's principle of national treatment. Liberalizing its foreign investment regimes by way of opening the service sector, removal of market access obstacles and discrimination against foreign companies, including the phasing out of mandatory joint venture requirements, will be the most important changes. At the same time, internationalization of China's capital market and allowing foreign investors access to M&A is a major requirement.

**III. Sino-Canada trade structure and pattern of investment**

What is the implication of China's liberalization of its trade and investment regime? In general, the trade structure between China and Canada is more supplementary than competitive. China has maintained a trade surplus for some time with evident advantages in exports of labour-intensive goods, while Canada has dominated the bilateral FDI flow, especially since the 1990s when China began to concentrate on absorbing the inflow of FDI from western multinational corporations. Now, the commitment of China to free-trade agreements and continuous opening to the global economy will lower both the financial and operational risks faced by Canadian firms and allow MNCs more flexibility in their choice of entry to China between green-field investment and mergers and acquisitions, as well as in operating modes, such as wholly-owned, joint venture, or non-equity-based modes. That is why most of the multinational corporations that have invested in Shanghai accelerated their business expansion plans in the first half of 2000. At that time, most people thought China would complete the intensive negotiations sooner rather than later.

For Canada, a large potential expansion of its two-way trade can be expected with China's deregulation of government restrictions in selected areas of foreign involvement in business support services, those primarily comprising the legal, accounting, technological, finance, distribution and management education systems. For example, in its negotiation to join the WTO, China has committed to the liberalization of its financial services including banking, insurance and security investment in two to five years of the transition period. Opening up capital markets, increasing the number of listed firms and accession to M&A will increase the need for professional accountants. With only 60,000 practicing CPAs in China, the demand for accounting service is not being met. That means a large potential market for development for Canadian financial service providers.

China's government has also committed in its bilateral agreement a series of further opening of market-distribution systems. So far, the prohibition of foreign wholly-owned subsidiaries in distribution was a major deterrent to foreign firms. Although the entry of foreign ventures in the retail sector has created some fundamental and far-reaching changes, that will also provide market potential to Canadian business service providers. For China to retain its annual input scale of $40 billion FDI in the next five year, it will have to compete for more long-term investment commitment from Canadian MNCs, especially those from service sectors and high-technology intensive industries, in order to transfer global resources and technological spillover.

**IV. Impacts on trends of immigration flow**

Now the question is: What will be the impacts of such above-mentioned bilateral trade expansion and investment enlargement on the trends of immigration to Canada? Unlike the trade of merchandise, the process of trades of service really is both one of production and consumption. The most important input of service production is human resources, especially those with special experience and know-how. If the expected deregulation of government restrictions on selected areas of foreign involvement in service will be effective after China's entry to the WTO, then high-skilled and business-oriented immigration can be attracted to China because of its huge market potential. At this point, perhaps we can see a similar picture in mainland China in the next decade as what exists in Hong Kong today. Many professionals and highly skilled immigrants moving out of Hong Kong in the first half of 1990 increasingly returned in the latter half, with the confidence of Hong Kong still being an international financial center and the first selected city in Asia for regional headquarters of MNCs.

Although no bilateral agreement of the WTO membership covers labour market integration, movement of labour is an adjunct to investment whereby enterprises may bring with them management and specialized employees on a temporary basis. There are two ways that MNCs stimulate the immigration flow between China and Canada. Firstly, with China's entry into the WTO and its associated institutional developments, MNCs are likely to adopt a longer-term perspective towards operations in China. An increasing number of multinational corporations with advanced technology, like Microsoft and Motorola, have adopted a long-term view of operations and have set up R&D centres and joint business schools in China to assist in managerial, professional and technical training. Thus, the inter-corporate transfer of human capital will substantially increase. MNCs find it increasingly necessary to localize their middle and senior staff so as to offer competitive services sensitive to local language and conditions. For that reason, training for local graduate students has been one choice, but seeking the return of immigrants from the U.S., Canada or the rest of the world with business experience would be a better choice as it would not only save time, but also take advantage of their social resources, such as relations with government officials and access to business networks.

Secondly, trade and investment liberalization has encouraged MNCs in different industries to include China in their global expansion path. From Merrill-Lynch in the financial sector to Microsoft, Kodak and Alcarte in the high-tech manufacturing sectors, many are already expanding from a dual regional organization for Japan and the rest of Asia, to a tri-regional organization with China being the new component. Over past 20 years, foreign investors sent much of their manufacturing to China. Now due to the salary gap between China and Hong Kong or Singapore, China has high hopes for and encourages more multinational corporations to recognize China as part of their global supply chains being the back office of MNCs. Such outsourcing to China will produce growing affluence and expand  Chinese influence and opportunity internationally. It will decrease the possibility of income-driven, or income expectation-oriented immigration of the highly skilled to Canada.

In closing, I would like to summarize several conclusions:

- Globalization is creating new challenges for China's institutional reform, especially in foreign trade and foreign investment-related policies as China ascends to the WTO.
- Trade expansion and investment liberalization will promote more flow of human capital between China and Canada.
- Competition to attract and keep highly skilled human resources through incentive policies is strong and pervasive in China. Not only are more and more provinces and cities using a greater variety of incentives to attract international human resources, but now the competition for incentive policies is even more intense than it had been ten years earlier.

According to the news issued from the conference of international human resources development held this month in Beijing, China will enlarge the enlistment of technical and administrated support from foreign professional bodies not only in the financial industry, but also in the manufacturing industries by way of granting five year multi-entry visas, special living licenses, and other incentives. We therefore can expect policy incentives to facilitate both of immigration return and global resource acquisition.

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