



MOVING FORWARD:

Issues in Canada-China Relations

Edited by

ASIF B. FAROOQ

Vanier Scholar, Phd Student, University of Toronto

SCOTT MCKNIGHT

SSHRC CGS Fellow, PhD Student, University of Toronto

**MOVING
FORWARD**
45 Years of
Canada-China
Relations

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China Open Research Network (CORN)
At the Department of Political Science
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Edited by: Asif B. Farooq
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Table of Contents

2	1 Dobson & Evans: Living with Global China
	CHINA IN CANADIAN POLITICS
12	2 Paltiel: Restoring Strategy to the Strategic Partnership
24	3 Massot: The Political Economy of Canadian Public Opinion on China
	ECONOMY & SECURITY
36	4 Dewitt & Welch: Canada and the South China Sea
46	5 Potter: Legal Challenges in Canada-China Relations
56	6 Malkin & Zhang: Old Burdens, New Trends and the Future of Canadian and International Business in China
66	7 McKnight: Buyer's Remorse or Buy-and-Hold?
	SOFT ISSUES
80	8 Zakus: Canada-China Health Sector Relations
92	9 Ong & Flynn: The Importance of Youth Engagement in Enhancing Canada-China Relations
102	10 Ruan & Yan: From Within
	CONCLUSION
112	11 Mulroney: After 45 Years, It's Time to Grow Up

Foreword

JOSEPH WONG

When Canadian Prime Minister Pierre Trudeau reached out to the People's Republic of China in 1972, he pried open the door to China and set in motion a process that eventually led to China's opening to the rest of the world. Canada was a pioneer then, a global first-mover. It appears, however, that Canada has not fully embraced over the past 45 years those first-mover advantages. Relations between the two countries have been warm at times, and chillier during others. Specifically over the past decade, precisely when China emerged an economic giant and diplomatic power, Canada's relationship with China has been lukewarm: a relationship viewed by the Canadian government and by many Canadians with suspicion at worst, and cautious trepidation at best, rather than a relationship between two important countries that needs strong leadership and to be nurtured among Canadian and Chinese citizens.

Despite taking the lead nearly a half-century earlier by first reaching out to China, Canada today has much ground to make-up in engaging the world's second largest economy and most populous nation.

This important volume is an effort to re-boot Canada-China relations at the start of the twenty-first century, which most will agree is Asia's century. *Moving Forward* is the result of a collective enterprise, made possible only through the generous support of the University of Toronto's Faculty of Arts and Science, School of Graduate Studies, School of Public Policy and Governance, Rotman School of Management, Asian Institute and St. Michael's College, as well as York University's Asian Research Centre.

The chapters in this volume, carefully curated and edited by Co-Editors Asif Farooq and Scott McKnight, offer both a retrospective take on our two countries' relations as well as a prospective blueprint for reviving and then deepening Canada-China relations. *Moving Forward* features Canada's very best and most prolific China watchers and scholars of international relations and foreign policy. The chapters are short, but insightful. They exemplify extraordinary academic scholarship, but are chiefly intended to provoke policy discussion. This volume will impact how Canadian and Chinese decision-makers approach the two countries' relations.

The collection of chapters in *Moving Forward* examines a variety of topic areas important to Canada and China: from security to investment, and from health collaboration to informal diplomacy. The authors highlight Canada's important leadership role in multilateral engagement in the international arena, but stress that Canada must learn to manage multilateral relationships in which China is a major power. Canada and China must find ways to complement our countries' political, economic, legal and social institutions. Mutual trust needs to be restored as well, so that periodic challenges in the relationship can be effectively defused. And the authors emphasize that Canada-China relations must not solely be the work of government, but rather build upon a meaningful relationship between governments and citizens. As Wendy Dobson and Paul Evans put it in their opening chapter, what is needed is a "whole of country" approach to Canada-China relations.

A word about timing. The *Moving Forward* book project began several months before the 2015 Canadian federal elections. The contributors to this book did not know that Canada's government would change at the end of 2015. In this respect, this volume is intended to speak to all Canadians and to all levels of government in Canada, regardless of partisanship. That Canada appears, however, to have begun to chart a new course under Prime Minister Justin Trudeau is fortuitous coincidence, but one which nonetheless ought to be welcomed.

Joseph Wong
Ralph and Roz Halbert Professor, Munk School, University of Toronto
Professor and Canada Research Chair, Political Science

Essays

ABSTRACT: Canada must learn to live with and prosper with global China. A new Canadian approach requires a whole of country effort with determined leadership at the most senior levels of government and bipartisan support. The chapter looks at how this can be accomplished in the face of rising public anxiety about China and outlines a set of objectives and specific actions in the realms of both economy and security.

WENDY DOBSON is a Professor and Co-Director for the Institute of International Business at Rotman and former Canadian Associate Deputy Minister of Finance. She chairs the Pacific Trade and Development (PAFTAD) research network and has published in English and Mandarin on a diverse range of topics, including: Asia's rise, the future of the Indian and Chinese economies in the world economy, the Chinese financial system, and Chinese innovation. *Ya Zhou Xin Shi Li* (亚洲新势力), the Mandarin translation of her book *Gravity Shift* (Rotman / UTP Publishing, 2009), won the Annual Award for the Best Book in Finance and Economics by China's public affairs website Hexun.com. Professor Dobson's most recent book is *Partners and Rivals: The Uneasy Future of China's Relationship with the United States* (Rotman / UTP Publishing, 2013).

PAUL EVANS has been a Professor at the University of British Columbia since 1999, where he teaches Asian and Trans-Pacific international relations. An advocate of cooperative and human security, he has been studying and promoting policy-related activity on track-two security processes and the construction of multilateral institutions since 1988. He is a co-founder of the Council for Security Cooperation in Asia Pacific (CSCAP), the Canadian Consortium on Human Security, and the Canada-Korea Forum. He has directed exchange and partnership projects with more than fifteen institutes in Asia and the Chinese Ministry of Foreign Affairs and funded by governments and foundations in Canada, Japan, the United States, China, Taiwan, South Korea, Thailand and Indonesia. A member of the International Council of the Asia Society in New York and the Asia Pacific Centre for the Responsibility to Protect, he also sits on the editorial boards of *The Pacific Review* and the *Chinese Journal of International Politics*.

Living with Global China: *Agenda 2016*¹

WENDY DOBSON AND PAUL EVANS

INTRODUCTION

The Liberal government has come to power having said almost nothing about China during the election campaign or in its platform. China was not mentioned in the December Speech from the Throne. The only way in which Asia has figured even indirectly is the promise to review the agreed text for the Trans-Pacific Partnership, an agreement which does not include China.

Expectations nevertheless are high that China and Asia will figure prominently in the Liberal government's foreign policy. The inclinations, instincts and worldview of the leadership are significantly different from those of their Conservative predecessors as seen in the style and tone of Justin Trudeau's first two meetings with President Xi Jinping on the margins of recent multilateral forums.

There have been calls for a quick and substantial set of policy adjustments to put Canada back on track after a decade in which the engagement of China was intermittent, conflicted, and narrowly economic. While deeper and broader engagement of China is in Canada's national interest, simply turning back the clock to the strategic partnership of a decade ago is neither wise nor likely. Rather than a restoration we need a reinvention based not merely on past foundations but on a new narrative that is more ambitious and more strategic.

China matters for Canadian prosperity, security, and values in unprecedented ways. It has emerged as a global presence and force in economic, security, diplomatic and institutional terms. Its economy is slowing as it is restructuring but is already the second largest in the world and likely to surpass that of the United States within a decade. It is the largest trading partner of every major country in Asia. It is the largest exporter of goods, holder of the largest foreign exchange reserves, the largest car sales market, the largest carbon emitter and soon to have 20% of the world's middle class with an urban population of more than a billion.

Chinese defence spending is second only to that of the United States. Beijing has become more assertive in matters of sovereignty and maritime disputes even while emerging as a leader in addressing several global issues and building international institutions. Political space for civil society and

dissent has been reduced under President Xi. In an era of geostrategic transition, geopolitics is central to Asia's future and China is both central to what will unfold and difficult to predict.

Like other countries, Canada faces complicated choices in dealing with a China that is big and important, that is coping with an encyclopedia of domestic problems, that is uncertain about its future role in world order, and that embraces a distinctive form of authoritarian capitalism unlikely to change in the foreseeable future.

THE DOMESTIC CONTEXT

No Canadian government can pursue an ambitious China agenda without rebuilding the foundations of public understanding and support. At the moment, public anxiety is palpable. Canadian surveys in the past two years reveal that while more than two-thirds of Canadians believe China will be more powerful than the United States, only about a third see China as highly important to their economy and support a free trade deal. Only 14 % support the prospect of a Chinese state-owned enterprise (SOE) owning a controlling stake in a major Canadian company. A majority believe that the human rights situation in China is deteriorating, that it does not respect the freedoms of its people, and that its growing military power is a threat. More than half believe that China's influence is threatening the Canadian way of life (*see the chapter by Massot*). The words most frequently chosen to describe China are *authoritarian, growing, corrupt, threatening, strong* and *disliked*.

Wariness about China is not unique to Canadians; mixtures of admiration, anxiety, and fear appear in attitudes in other countries. What is distinctive is the speed and direction of the change. By comparison, Australian views of China are more positive and stable despite sharp differences of opinion about China policy. In a multi-country poll taken in 2015, 57 % of Australians held a favourable view of China, close to 20 points *higher* than the Canadian figure and similar to a global median that has been slowly increasing over the past five years. Other polls indicate Australians hold a strongly positive views of the impact of China on their economy and are less worried that their national interests are threatened by a more powerful China.

Public negativity in Canada rests on three foundations. The first is experiential, a product of the fact that interactions are multiplying rapidly and not always positive. Rising house prices in Canada are attributed to Chinese investment; business practices of Chinese firms operating in Canada are under fire; Confucius Institutes are criticized for infringing on academic freedom, and alarm bells are ringing about cyber attacks on Canadian targets. The second element includes attitudes about the nature and domestic policies of China's political system, the role of the state in its economy, and societal values and practices are very different than our own (*see chapters by Malkin and Zhang*). On issues ranging from human rights, democracy and political freedoms to population and labour policies, some Canadians question not just specific policies but the basic legitimacy of the Chinese state (*see also the chapter by Potter*). The third relates to worries

about China's rising international presence, its influence in Africa and Latin America, its rapid military modernization, its assertive stance to maritime border issues, and its potential threat to an international order that Canadians have helped build since the Second World War (*see chapters by Dewitt and Welch, and Paltiel*).

Though business and academic elites tend to view China more positively, public ambivalence has policy implications. Negativity can feed on itself, building an emotional undercurrent that prevents an informed national debate about risks, opportunities and interests. This can become even more limiting when government leaders share and amplify the ambivalence. Leadership, informed dialogue and a new narrative are required.

THE ECONOMIC AGENDA

Long-term collaboration is possible and essential because of significant complementarities between the two economies. Many Canadians are unaware of Asia's growing global economic footprint and the urgency of increasing Canadian participation in these dynamic markets. The Chinese do more than trade: they produce, innovate, lend, invest, and are the major drivers of global growth.

The economic complementarities between the two countries are evident in that Chinese seek security of supply of food, energy and natural resources and Canada seeks security of demand for its rich natural resources. China is increasingly turning to clean energy sources, conservation and renewables — sectors where Canadians are becoming innovators.

Canada has been slow to recognize and build on these opportunities. A joint study by officials in both countries published in 2012 as the *Canada-China Economic Complementarities Study* was subsequently shelved. Proximity to the US market has encouraged complacency among Canadians, who mistakenly assume that our location and natural resource abundance will assure our future living standards. Headlines about China's slowing growth are often misinterpreted as signals of potential crisis and collapse. It would be a major mistake to give up on China at a time when it is restructuring its economy to sustain long-term growth.

Such thinking also neglects the dynamism and potential of Asia as a whole — and fails to grasp the growing competition for these markets. China is a central player in the region's growing production and transportation networks and global value chains. Chinese producers are moving up the value chains in manufacturing industries and services and learning to do what Canadians do well. Chinese firms are becoming international and winning contracts at the expense of Canadian firms. Simultaneously, US demand for Canadian energy is shrinking as production of nonconventional energy liquids and natural gas surges at home, turning American producers into what some in the Calgary-based energy industry call Canada's greatest competitor (*see the chapter by McKnight*).

Other competitors including Australia, New Zealand, South Korea and several countries in ASEAN are lining up to supply China with natural resources and food products assisted by recently-implemented free trade agreements (FTAs).

A cleaner environment is a high priority for the Chinese people and leadership. Canadian clean-tech and uranium suppliers are already active in the Chinese market, supplying wind generators and equipment for smart grids. Managing the environmental impacts of energy production and its use could shape the future bilateral relationship; twinning energy and environment can be a signature item in the next phase of Canada-China relations.

Middle-class demand is increasing pressures for food security and high-protein diets. These factors, along with shortages in animal feed, are changing import and investment patterns. As China modernizes its agriculture, Canadian producers are investing heavily in technology and practices to increase productivity. Middle-class demand is also creating major opportunities for collaboration in service industries such as tourism, education (*see chapters by Ong and Flynn, and Ruan and Yan*), insurance, and health care (*see the chapter by Zakus*).

Infrastructure and transportation industries also have high potential for market development over the long term, especially as China strives to improve linkages along the historic land and sea routes between China and Europe. Canadian firms have globally recognized expertise in land- and marine-based transportation technologies, construction, construction machinery and building materials. The potential for new business is significant in transportation services including aerospace products. Canadian firms have competitive advantages to be tapped in the surge of infrastructure and connectivity projects planned for One Belt One Road (OBOR) (一帶一路) projects. Future collaboration is also possible, linking our own Asia-Pacific Gateway initiatives — but only if we actively participate in these projects and the accompanying value chains.

Collaboration can take many forms. One possibility is equity investments by Canada's large pension funds in Canadian and Chinese agricultural firms aiming to expand food production and promote innovation; another is to organize mechanisms in Canada to enter into long-term supply contracts as part of the traditional cross-border trade in goods and services. Collaboration on energy security depends in large part on Canada addressing transportation bottlenecks. In 2012, the APFC's Canada-Asia Energy Futures Task Force recommended a public energy transportation corridor, created by governments, regulated like a public utility, and operated by the private sector. The proposal is an innovative way to recognize and mediate among the multiple interests concerned with new pipelines in British Columbia. The benefits of collective action in the national interest outweigh individual interests and can be constructed in ways that minimize risks, maximize public gains, and fairly share the benefits.

Cross-border investment is another dimension of complementarity. While Chinese investment inflows to Canada grew rapidly between 2008 and 2014, China's share is still only 6.5% of the total foreign stock. An ongoing policy debate about Chinese FDI has three elements: worries about firm ownership, specifically that SOE decisions will be based on political rather than commercial factors; symmetry of access to each other's market; and national security concerns (*see the chapter by Massot*). While market access and national security concerns are well understood, SOEs are a contentious topic.

Canada's opaque and restrictive FDI screening system is a major issue, creating a chilling effect that has disadvantaged the energy industry at a time of major oil price uncertainty. It has also reduced competitive pressures on Canadian firms, increased the cost of capital, and increased transaction costs in Canada relative to those in countries with more transparent and predictable review regimes.

Meanwhile, in China, private firms are growing in number and size, providing badly needed competition in the home market and abroad. Service industries, traditionally dominated by SOEs, are being opened to competition from non-state firms. SOEs continue to exist in sectors designated as strategic or as natural monopolies (also a common practice in OECD countries). But government ownership of SOEs is gradually being separated from management, with modern corporate governance being introduced, and assets divested to (state) asset management companies more subject to rules of transparency. Accounting and external audit practices are gradually becoming more independent and transparent as well.

While the commercial objectives of many Chinese firms resemble those of other multinationals, their understanding of host countries' regulatory regimes and rules of the road in international business is not (*see the chapter by Malkin and Zhang*). Canadian companies could engage with Chinese partners and assist them in going global. One way to proceed is to use a "zipper" strategy, in which Chinese companies are fully integrated into strategic partnerships in different parts of the global value chain. While negotiations on terms for such partnerships can be protracted, in the end they have the potential for good returns and security of supply.

SECURITY

China's resurgence both regionally and globally pose significant security concerns for Canadian policymakers. Some of these concerns relate to protection of Canadian citizens at home and abroad, including with respect to cyber attacks and espionage that have received considerable media attention. Less discussed concerns exist in the geopolitical domain in which Canada has been a silent spectator for the past decade (*see the chapter by Dewitt and Welch*).

Asia is at a formative geopolitical juncture. American primacy, critical to Asia since the Pacific war, is being actively contested by China. Geostrategic competition between the United States and China is intensifying as the two seek to manage a difficult, important and very complex bilateral relationship. Asians are searching for leadership, institutions and norms to manage a dangerous strategic transition as well as manage a host of dangerous hot spots, bilateral tensions, arms build-ups, and threats to human security ranging from extremism and terrorism to environmental degradation and climate change. All require collective solutions and all are complicated by resurgent nationalisms, unsettled historical memories and the absence of effective multilateral security institutions.

By most indicators Chinese global influence and power do not come close to matching those of the United States. But in its Asian neighborhood, China has emerged as a great power with significant interests, involvement and

influence. The barrage of major initiatives in the past year—the creation of the Asian Infrastructure Investment Bank, the OBOR program, the Silk Road Fund, the New Development Bank—are testament to Chinese efforts to place itself at the centre of a more tightly integrated and networked Asia.

China's regional centrality, its quickly developing military capabilities and its occasionally muscular and assertive approach to advancing its maritime claims, especially in the South China Sea (*see the chapter by Dewitt and Welch*), have deepened anxieties about Beijing's long-term strategy and intentions. China is now a major global presence beginning to shape international norms, rules and institutions. While Chinese leaders benefit from the current American-anchored world order, they do not see it as the global order and are pushing for changes that suit Chinese interests and influence.

Canada's closest partners in the region—the United States, Australia, Japan and South Korea—all pursue some form of strategic hedging policies—both *engaging* and *containing* China's diplomatic and military influence. The Obama administration is systematically strengthening defence relations with its allies, expanding US naval capabilities and insisting that American-underpinned international rules must prevail. Some in Washington argue for a grand strategy to balance and contain China. Others urge the creation of a common strategic framework, requiring a high-level political effort to build the strategic trust necessary for collaborative action to pursue common interests and address common problems. But overall, attitudes are hardening on what to do about China.

Canada's position on the strategic implications of China's rise and the appropriate response to it have not been articulated or seriously debated. Historically, Canada has taken intermittent and sometimes imaginative and constructive roles in addressing Asian security issues, mainly through diplomatic and dialogue channels and in rare instances by military means, such as in Afghanistan. Ottawa maintains limited defence cooperation with Japan, South Korea and Singapore but without formal alliances. It is a member of some of the region's security institutions but not all of them. For example, Canada has been unable to join the ASEAN Defence Ministers Meeting Plus and the East Asia Summit. For more than a decade, Ottawa has not made a major statement or launched a major institutional initiative in the region.

Canada's silence and diminishing visibility undermine our credibility. Academics, journalists and officials in Beijing and across Asia frequently signal that Canada is no longer viewed as an engaged and full partner. Canada is perceived as distant, aloof and reactive, focused narrowly on our own economic advantage.

Going forward the issue is what Canada, working with others, is prepared to do to prevent miscalculations, accidents and escalating rivalry that could spill over into conflict with devastating impact including on regional production networks. Our middle-power role and credentials need to be refurbished, though in a very different strategic setting (*see the chapter by Paltiel*). Canada's traditional middle-power role was to bridge great power differences whenever possible. The bridging role today—to find common ground—requires judicious decisions and a search for ways to adjust rules

and institutions to reflect the views and interests of Asia's rising powers, China chief among them. The challenge is to assist the transition from an order premised on American primacy that can no longer be maintained to an order that has not yet taken shape. Where ending the Cold War in Europe was our earlier objective, today's is preventing a Cold War in Asia.

Unless we are a multidimensional player, Canada will not be accepted as a participant in regional initiatives to dampen geopolitical rivalry or to set the region's rules and framework. Even if we choose a reactive approach, it should be articulated so that partners know what to expect.

NATIONAL LEADERSHIP

Canada should raise its game in Asia and in engaging China. Recognizing the inseparability of economic and security policy, Canada needs a more comprehensive, bold and long-term framework. It should be one that explains Canadian goals with heavy economic focus and a commitment to participate in managing the rapidly evolving security equation.

Our recommendations are as follows:

1. Leadership is required at the highest levels to build long-term relationships with Chinese leaders. In Asia, more so than in the West, fruitful state-to-state relationships are built on the foundations of strong relationships between prime ministers and presidents. High-level interactions should include a stronger and more robust presence in multilateral forums as well as better-orchestrated bilateral visits and institutional connections. Examples of such bilateral mechanisms used by other countries include the US-China Strategic and Economic Dialogue and the Singapore-China management committee that is headed on China's side by one of the seven members of the Politburo Standing Committee. Leaders from Australia, Germany and the United Kingdom not only accompany missions to promote trade, resulting in landmark commercial deals; they directly encourage building trust and understanding through deepening ties among cities, citizens and businesses. They engage with China on broader global and geopolitical issues.
2. Ottawa should play an active role as communicator and connector in setting the tone for the relationship, consistently communicating how and why China is crucial to Canadian interests, and convening and coordinating stakeholder meetings that include provincial and municipal governments, the private sector, and educational institutions in what can be called a whole-of-country approach. A special leadership group should be established, whether in the form of a special Cabinet Committee or the initial focus of the House Committee on Global Affairs. A national commission or panel could be created to define the challenges and opportunities of deeper bilateral relations. Its activities could include moderated forums for individual citizens to interact with experts over what is at stake, how to manage irritants and risks, and find effective solutions. Here universities have a special role to play, especially in frank discussion of concerns and navigating differences in values, institutions and practices.

3. New policy initiatives are desirable, including five-year and ten-year goals for expanding bilateral flows of trade and investment; reforming the FDI screening system; joining the AIIB; encouraging and assisting China's entry into a second round of the TPP while pushing for a Free Trade Area of the Asia Pacific. Negotiating a bilateral FTA should also be a priority.
4. An Asia-Pacific Security and Defence White Paper is needed which assesses regional dynamics and threats, weighs strategic options, and outlines steps for Canada's re-engagement with regional institutions and partners. It would need to consider what kinds of assets — military, diplomatic, non-governmental — Canada needs to play a constructive role in building peace and stability at a time of a shifting balance of power and a resurgent China.
5. The narrative for deeper engagement should be rewritten. It should prepare for a much larger Chinese presence in Canada and on the global stage; it should help address public ambivalence and the expanding list of irritants, frictions and anxieties. It should also recognize the opportunities and shared interests in providing global public goods in areas including climate change and clean technology, stabilization of the international financial system, and disease control.

10

The most difficult part is explaining the necessity of living with China rather than expecting or requiring major changes in its basic institutions even as we try to advance concepts like the rule of law and good governance and protect Canadian values and institutions at home. With a new government, we have a constructive moment for formulating a strategic approach that can take shape in early 2016 and be rolled out in the bilateral visits expected to follow.

NOTES

- 1 This chapter draws heavily on our IRPP *Policy Horizons Essay*, "The Future of Canada's Relationship with China" (Montreal: Institute for Research on Public Policy, November 2015).

ABSTRACT: The election of a new Liberal government provides an appropriate vantage point on which to reflect on the past decade of Sino-Canadian relations and to provide a blueprint for building a stronger relationship in the future. The nine years of the Harper government cycled through periods of suspicious antagonism and wary welcome of trade and investment opportunities. Even when relations reached superficial warmth they lacked an underlying foundation of trust, with this ambivalence reflected and amplified in public opinion. Canadians must recognize that maintaining our role in multilateralism and global governance requires us to recognize the strategic shift in international relations promoted by the rise of China. Instead of reacting with fear, we must engage more deeply and adapt our traditional middle—power diplomacy to China's initiatives in global governance. We need first to institutionalize our bilateral relations through broader and deeper direct government to government exchanges that will build trust by having officials work side by side towards common goals and at the same time partner more effectively with China's efforts to supply more global public goods. Paralleling these efforts we need to put in place mechanisms that will defuse tensions that periodically build up due to differences in our institutions and value systems.

JEREMY PALTIEL is Professor of political science at Carleton University in Ottawa and was visiting professor at the department of international relations at Tsinghua University in Beijing in 2009. He has published widely on China and its foreign relations. This includes articles on human rights and the Chinese culture, the elite politics of the Chinese Communist Party, Civil-Military relations and Sino-Canadian relations. He coordinated the Chinese domestic background theme of the Canadian International Council's China Working Group and authored two of its papers: *Canada in China's Grand Strategy* and *Structure and Process in China's Foreign Policy Making—implications for Canada*. More recently he published "Reimagining Canada's Present and Future in the Shadow of China's Rise," the concluding chapter in Huhua Cao and Vivienne Poy eds., *The China Challenge: SinoCanadian Relations in the 21st Century*. He is the author of *The Empire's New Clothes: Cultural Particularism and Universality in China's Rise to Global Status* (Palgrave, 2007) and *Mencius and World Order Theories* (2010), *China's Regionalization Policies: Illiberal internationalism or Neo-Mencian Benevolence?* (2009), *Peaceful Rise? Soft Power? Human Rights in China's New Multilateralism* (2007). In 2014 he was awarded an SSHRC Insight grant in the amount of \$425,000 to study Canada's relations with China and the Asia-Pacific.

Restoring Strategy to the Strategic Partnership: *Canada and China Reimagined*

JEREMY PALTIEL

INTRODUCTION

Canadians have long congratulated themselves on their “special relationship” with China. We celebrate our contribution towards bringing the People’s Republic of China into the international community through establishing diplomatic relations more than 45 years ago. Unfortunately, as China carved out a much larger role in international society, we have been much slower to adapt our diplomacy to that new reality. We relish China’s integration with international society but are much less adept at partnering with China to enhance our own global role. Even China’s modest efforts to participate in our economy provoked anxiety and suspicion, notably over large-scale investments by state-owned corporations in our oil sands. Recently it has seemed like Canadians have second thoughts about our role in promoting China’s rise.

And yet, China’s role in promoting our prosperity is far more important today than it was when we first sold wheat more than half a century ago. Today, China’s prosperity and stability are key factors in promoting *global* prosperity and stability as well as peace and security. As China’s economy begins to slow, now we are perversely filled with anxiety and dread. Our challenge is to transcend differences between the two countries in order to leverage Canada’s advantages to enhance both our bilateral relations and Canada’s role in the world. As Canada and the liberal West as a whole confront the constraints to our hard and soft power in the face of China, we need to intelligently leverage China’s increased global capacities to advance global stability, peace and prosperity. We must start by acknowledging the contributions that China is making and seek new ways to complement China’s hard power with our soft power to the benefit of both countries. There is no downside to partnering with China in the service of common goals like climate change, regulating global finance, global poverty reduction, global health, peacekeeping and disarmament.

THE CONTEXT

With the election of the new Liberal government, Canada looks to resume middle-power multilateralism. Even before the new government was sworn in, the selection of Peter Harder as head of the transition team hinted at the thrust of the new government's foreign policy. Not only was Mr. Harder the Deputy Minister of Foreign Affairs at the time of the 2005 Foreign Policy Statement, he was also the President of the Canada-China Business Council. Given the need to recalibrate Canada's role to the shifting international landscape of the past decade, this selection was fortuitous. For a long time, our multilateral diplomacy—centred on the North Atlantic triangle, NATO and the G-7—has lagged behind the rise of China and the emerging markets of the BRICS. The scope of our engagement with China remained narrowly bilateral at a time when China became the world's second largest economy and largest trading power in possession of the world's largest foreign exchange reserves.

14

China policy under Stephen Harper was stiffly ambivalent, cycling through cold and warm phases. Only as alternatives collapsed was he lured by trade and investment prospects. After sustained resistance, in June 2010, Prime Minister Harper finally acknowledged the relationship as a “strategic partnership” but never truly imbued this with substantive content. Diplomacy under Harper centred on Western values and traditional allies in the North Atlantic. The Asia-Pacific loomed as a voracious consumer of our abundant resources but peripheral to our core values and key political concerns. Not surprisingly, echoing our own Prime Minister's skepticism, surveys demonstrated that attitudes towards China grew more suspicious and alarmist (*see the chapter by Massot*).

Since Xi Jinping assumed power in 2012, China has embarked on a more assertive and ambitious regional and global role. Xi Jinping has articulated a new vision of global order based on the notion of “a community of common destiny.”¹ Far more significant for Canada, China backs this up by recycling its economic clout in the provision international public goods, most notably in the “One Belt One Road” (一帶一路) and the Asian Infrastructure Development Bank as well as through enhanced contributions to UN activities.² In tandem, China has continuously expanded the reach of its bilateral and multilateral free trade agreements.

China's aspirations to build “win-win” relationships with common security as a key value should be taken to heart. Backing the notion of a “community of destiny” could enable us to exercise positive leverage despite serious asymmetries of hard power between Canada and China. There is no downside to partnering with China in areas of common concern and using this partnership to enhance our influence on China's direction. Partnering with China is a daunting challenge, given our ideological differences, institutional incompatibilities and distinctive value orientations. However, cooperation is possible *without* compromising our core liberal and democratic values—and indeed *necessary* if Canada is to maintain a significant role in global governance.

A COMPREHENSIVE DEFENCE AND FOREIGN POLICY REVIEW SHOULD HIGHLIGHT RELATIONS WITH CHINA

It has been more than 10 years since we had a comprehensive Foreign and Defence review. The last document was shelved by the incoming Harper government.³ Since then, the world has changed radically, and China has been at the heart of this transformation: the end of unipolarity; the partial emergence and institutionalization of the BRICs group; a global recession that casts a lingering shadow of a debt overhang and anemic growth over the global economy; a crisis of the Euro currency and European integration, exacerbated by a refugee crisis from the Middle East; the emergence of the G-20 as a key policy co-ordination forum; the dynamic rise of India; and NATO withdrawal from Afghanistan without immediate prospect of the country's stabilization. Canada needs to position itself in relation to these developments, firmly keeping our relationship with China in context.

Past foreign policy reviews viewed China and the Asia-Pacific as a region of opportunity. But any future strategic focus requires us to adapt to a hard reality: the world economy—along with political power—is shifting to Asia. China is at its centre. This shift coincides with the trend that has seen the Canadian economy shifting westward. These twin shifts should inform our foreign policy restructuring. More than a “pivot” modeled on our neighbours to the south, we require a *paradigm* shift. We should not underestimate our assets. The value of the Canadian brand is consistently high in China. Half a century of effort to develop relations are generally appreciated, as is the example of our own multicultural society. We are seen as a welcoming society of clean air and fresh water. A strong Chinese ethnic and cultural presence, along with the contribution that Chinese-Canadians make in our public life reinforces our image as an open society. At the same, inclusive strength through diversity demonstrate the values that China seeks to project onto the global order. Because of our success in integrating newcomers, we should not be put off by—nor shy away from—differences in ideology and values. Taking a leaf from the Chinese policy of “emphasizing commonalities while reserving differences” (保同存异), we should seek to *sustainably institutionalize* common ground while frankly acknowledging areas of difference. Core common interests will consolidate a relationship and make it less vulnerable to differences that will occasionally divide us.

RECOMMENDATIONS

Our strategic goal should be to institutionalize bilateral relations and partner with China to further institutionalize the global order. To achieve this means enhancing bilateral cooperation in all areas, by substantiating our strategic partnership through joint projects decided in annual meetings at the deputy minister level. In multilateral settings and global governance, we should establish common goals for which we can join in mutual support with Canada in the G-7 and China in the BRICS group within the G-20. Our overall aim should be to restore relations to the level where Canada once again becomes China's premier partner of choice among G-7 nations.

Institutionalizing Relations

Exchanges of visits at the head of government or state levels need to take place annually. While the Martin government talked of making the relationship with China a whole-of-government effort, this was never put into practice. In fact, the Martin team didn't even have a mechanism to do so.

The Chinese have a plan. We need to insert ourselves into that plan. Canadian officials should examine the blueprint of China's 13th Five Year Plan to identify complementarities and common projects. We should then engage China in cooperation with the appropriate provincial government participation and private sector partners. More importantly, we must build a long-term agenda of cooperative initiatives that will not only solidify relations but build and cement linkages among our respective administrators and public servants. Our CIDA programs trained hundreds of Chinese public servants in Canada and in China over 25 years. A key goal of our CIDA programs was to facilitate China's internationalization and global entry through training and collaboration in legal and institutional reform.⁴ Chinese officials are still being trained at Chinese expense in Canadian universities today. We should take the next logical step to move towards public servant exchanges. We should not be hamstrung by fear and suspicion of security risks. Our goal should be to raise the level of cooperation among government and industry actors to a level where the risk to cooperative outcomes makes predatory behaviour not worth pursuing. Deeper collaboration will encourage mutual familiarity, self-restraint, and mutual trust.

Canada is well positioned to forge a positive relationship with China that transcends ideological differences, thereby helping China to consolidate a role as a key supporter of global order. The reason is because so many Canadians have been involved in the transformation of China and so many people of Chinese origin have integrated successfully into the fabric of Canada.⁵ We are the most "Chinese" country outside of Asia and face no military challenge from it. We can be a stakeholder in the security of the Western Pacific while avoiding entanglement in its challenges. Our role instead should be to make available modalities of dispute resolution.

Within the strict confines of diplomacy, we can offer our experience and diplomatic software in tackling issues where China is embroiled, such as the maritime disputes in the East and South China seas (*see the chapter by Dewitt and Welch*). This does not mean getting entangled in China's disputes with its neighbours. Instead, we can and should resume the role we once played in the South China Sea seminar, the Northeast Asia Security dialogue — partnering, engaging, eliciting creative solutions that seek common ground and provide institutional grounding in international law and normative diplomatic practice. While eschewing a direct role in the provision of security in the Western Pacific, we should, as in the immediate post-Cold War era, declare ourselves a stakeholder and promote the construction of a security order in the region.

Global governance and multilateralism form part of Canada's genetic makeup as a middle power and a core of our identity. An important reason why Canada pushed for early recognition of the People's Republic of China

was our belief that, for global institutions to function effectively, China needed to be involved. While China has long since graduated to becoming a global power in its own right, Canada has a role in China's great power *transition*.

While China desires a more inclusive world order, proclaiming its own benign role based on win-win partnerships, complex collective action problems stand in the way of releasing the synergies that China's rise can offer. Canada played a pivotal role as broker in the immediate post-war world, positioned between our major allies, Great Britain and the US. To maintain a role as a principal power in the twenty-first century, we must rethink and re-engineer that role as broker in the new power configuration.

ECONOMIC INITIATIVES

We must use every available tool to increase our market share of imports into the Chinese economy and reduce our bilateral deficit. To do so, we should conclude a free trade agreement as soon as practicable (*for more on trade see the chapter by Potter*). This is another way to *institutionalize* relations. In this, as in other files, the way to resolve problems in our relations is to deepen interdependence and further institutionalize ties. Forward momentum in bilateral relations should look towards enhancing our regional and global roles. We should commence free trade discussions with an explicit agenda to further integrate the Trans Pacific Partnership (TPP) with the Free Trade Area of the Asia Pacific (FTAAP), using membership in the TPP and our free trade agreement with the Republic of Korea to leverage our position in the FTAAP to consolidate a role in multilateralizing trade in the Asia Pacific.

In resources and energy (*see the chapter by McKnight*), we need to work cooperatively to restore a positive climate for investment while allaying suspicion. While we work to tweak Investment Canada Act regulations to restore clarity to the process and remove provisions that implicitly single out China, we should also work with Chinese corporations, especially state-owned enterprises, to encourage better dialogue and collaboration with First Nations stakeholders and enhanced environmental standards and accountability. We should take advantage of the current trough in the resource cycle to reemphasize social and environmental stewardship. From our complementary positions, with China as the world's leading resource consumer and Canada as a leading supplier of resources and as an important finance and capital market for resource exploration investment, we should join together to build a profile of responsible resource stewardship. An image of responsible management is a key to getting Canada's energy resources to tidewater.

INDUSTRY

Rail transportation, particularly high-speed rail infrastructure development, is an area we should jointly explore domestically and internationally. We should explore partnering with Chinese construction and capital with our own engineering, project management and finance expertise to build "ppp" partnerships domestically and abroad.

Our troubled transportation giant Bombardier has a long track record in China. Canada needs to defend and preserve this aerospace and transportation giant because experience shows that global technology and manufacturing hubs sustain an innovation ecosystem vital to technology innovation and manufacturing. Our own market alone cannot sustain demand for its products, but China continues to expand its demand for civilian aircraft while looking to manufacture its own. More than cash, Bombardier needs customers. As Bombardier has a successful history of partnering in China, we should enlist China to help rescue the C series, by expanding the order book and providing investment capital. At the same time we can engage in judicious technology- and manufacturing-sharing that will not hollow out our manufacturing capacity and which will insulate profitable and sustainable divisions of Bombardier from the troubled C series project. Comac's C919 has yet to fly, so it may still be possible to exploit synergies in technology and manufacturing to expand the Bombardier order book.

18

FINANCE AND BANKING

Financial services, banking and insurance are a growth area for partnership and service exports. Given regulatory hurdles in China, strong bilateral relations, a favourable regulatory environment and good working relations between public servants are crucial. China has rapidly improved its capacity in capital and technology, but service development also requires a favourable regulatory environment to be financially sustainable. Canada can assist in building the infrastructure to make this possible, through private consultation, public development assistance and training, with long-term institutional linkages.

We should build a cooperative environment for the internationalization of the RMB in exchange for a stronger foothold in the Chinese market, encouraging Canada to serve as a platform for the overseas expansion of Chinese financial service firms in expectation of favourable treatment in China. Here, the growing cohort of money managers, investment and finance professionals among our immigrant Chinese population serve as an asset and as a potential entry-point into the Chinese marketplace by facilitating transparent two-way transactions that abide by both countries' laws. We should look to become a financial hub for Chinese individuals and firms second only to Hong Kong and Singapore outside the global hubs of London and New York.

INNOVATION AND BIG SCIENCE

China has announced wide-ranging reforms to its innovation strategy as well as a number of "Big Science" projects for which it is soliciting international participation. Canada should partner in these efforts even if our financial contribution is modest. We should declare our interest as a stakeholder and work cooperatively with the provinces and higher education institutions to maximize participation and to leverage our own experience in international collaborative research. We should aim to continuously expand the bandwidth of collaborative ventures so that they can eventually become

routine. As China struggles to build an innovation economy, we should take sober stock of our own shortcomings. Given the capital that the Chinese government is prepared to devote to this economic thrust into innovation, we should search out synergies and work to build a common ecosystem for innovation.

SECURITY

Fostering healthy exchange, joint innovation, investment and human interaction does not mean turning a blind eye to security and industrial espionage. We do require ongoing vigilance. Nonetheless, a future where we become stakeholders in each other's success is the best means to discourage predatory activities and exploitive or unremunerated collaboration. When the price of predation endangers valuable and rewarding collaborative relationships, it will encourage self-restraint. Only then will Chinese authorities work to discourage unscrupulous public agents and private freelance espionage activities. We can never eliminate the threat, so we must be forthright in denouncing such activities once they occur and sanction the perpetrators, but closer cooperation can also lead to shared information that may result in more timely and effective detection of predatory initiatives. Information is a two-way street. We should aim to build a monitoring mechanism of unauthorized and predatory use of information into collaborative research mechanisms.

MILITARY TO MILITARY EXCHANGES

Canada has been a laggard in this area. We should make a priority to broaden military-to-military exchanges, strengthen cooperation in areas like peace-keeping, non-traditional security, search and rescue, disaster relief and humanitarian assistance while funding these collaborative activities accordingly (see the chapter by Dewitt and Welch). We should aim to build a cohort of officers who are on a first-name basis with Chinese counterparts. The shortcoming has not been in goodwill, but rather in the absence of funding to support better exchanges. As part of a broad-based effort to refocus our attention on the Asia-Pacific, funding for military exchanges and joint exercises must be budgeted on a priority basis.

BRIDGING DIFFERENCES ON HUMAN RIGHTS, RULE OF LAW, CORRUPTION & TRANSNATIONAL CRIME

We have seen improvement in law enforcement collaboration in recent years which should be continued. Since the end of our CIDA program in China with its rule of law component, our focus should move to judicial, legal and law enforcement exchanges, where we exchange best practices and focus on common problems of law enforcement. Some revived version of a human rights dialogue is possible if better focused on management of mutually recognized problems with a clear agenda of collaborative learning rather than empty speeches and visits. This type of dialogue might be better managed in cooperation between Justice Ministries rather than between Foreign Affairs ministries. A planned agenda could be set out as part of the strategic partnership with a periodic review.

Given differing social, ideological, political and legal systems, friction between the two countries is inevitable. Over the past decade relations have been soured by consular and diplomatic friction over the Lai Changxin case, the case of Huseyin Celil and the fate of the Garrett couple.⁶ While striving to keep our differences respectful, we must nevertheless recognize that some cases may breach a level of notoriety that is difficult to contain. I suggest that we take a leaf from the dispute resolution mechanisms in international trade, and constitute a board of review where each side nominates representatives to study cases of criminal detention and sanction involving each other's nationals. This board of legal experts (such as retired judges and lawyers) could study procedures in the cases referred to it to see whether these were properly adjudicated under each country's laws. Unlike trade dispute arbitration, *only* if the board reaches a unanimous consensus would the report be made public. In the case of no unanimous conclusion being reached, the conflicting reports of the members of the board will be made available to the respective government but be kept confidential unless both countries agree to make them public. The pressure to resolve cases through unanimous reports would encourage cooperation rather than conflict. The board of review would not be considered a judicial body, and could only call to reopen a case to settle in a manner consistent with the national laws of the country in question, or recommend ways to prevent abuses in the future. When cases are settled in accordance with the unanimous recommendations of this board, it would draw a line under cases that achieve media notoriety. Even where abuse was noted, expert opinion by legal scholars and professionals from both countries would serve to depoliticise cases and remove them from diplomatic controversy. This process should be open to initiation only by the governments concerned and not to private individuals. Such a body would help to foster understanding and mutual respect for judicial processes in each other's jurisdiction, thereby serving to enhance perceptions of the legitimacy of the rule of law in each other's country.

20

INTERNATIONAL DEVELOPMENT ASSISTANCE

Given both China's visible role in international development and its operation outside OECD-DAC norms, partnering with Chinese development aid and projects could serve the dual purpose of leveraging our own more modest contributions, while *also* helping to exchange views on norms and modalities of providing developmental aid. A feature of the Canadian model of development assistance apparent in our own CIDA program in China was the partnership with NGOs to provide assistance at the grassroots. Chinese will be familiar with this model from our own engagement in China in the 1980s and 90s.

Beyond China's own dialogues with the World Bank and the OECD over development assistance, Canada should look towards partnering with China to refine and extend China's own development assistance activities using this model in Chinese projects in Africa and the Caribbean. By building partnerships among aid professionals, enhancing and improving stakeholder-driven, community-based aid delivery at the grassroots level, Canada can complement China's weaknesses and extend the reach of our

own assistance. We can also partner in feasibility studies, community impact assessments and stakeholder consultations. At the same time that we enhance our own role in the provision of development assistance, we can help improve Chinese project delivery while providing feedback channels that might enhance project selection and design.

GLOBAL GOVERNANCE

China has no security allies, and is still emerging from an inward-looking civilization that habitually invokes binary oppositions between East and West, North and South, Developed and Developing. Resistance to universal values constitutes a fundamental weakness in China's soft power. An inclusive world requires linkages across dichotomies. Canada embodies those linkages, and is well-placed to build on past diplomacy through our network of multilateral relationships. We should partner with like-minded Asian countries like the Republic of Korea, a US ally which enjoys a strong relationship with Beijing and a strategic partnership with us. Our Commonwealth cousins in Australia and New Zealand are potential partners as well as sometime competitors in constructing a new multi-lateral architecture for the Asia-Pacific. We need to raise our own game and reassure our Asian partners who sometimes question our commitment that we are there for the long haul with a stable and permanent presence on the trans-Pacific diplomatic scene.

Peaceful rise demands strategic trust. A diffident great power, China lacks trust and has trouble gaining it. China needs to jettison an isolated mindset of civilizational and security self-sufficiency to partner more sustainably and interdependently within an expanding diplomatic circle. Trust is more than an idea. It is gained through routine interaction in familiar settings that builds a conviction that decisions take the interests of the other into account. Canada should aim to transform Chinese formalistic aspirations into institutions with substantive cooperative content.

China's ambitions as a great power focus on a set agenda of domestic goals, foreign policy objectives and image-building initiatives on the global stage. As befits a one-party state that still works within a framework of Five Year Plans, China tends to stick with its own agenda and operates cautiously, selectively and reluctantly outside this framework. Hesitant reaction in the face of outside events is an important source of the diffidence that China evokes. However, the agenda of a great power must be global order itself. Perforce, no agenda set far in advance can eliminate uncertainty entirely.

China needs partners, not just to build consensus around its own goals but also to gently coax it to address issues beyond its pre-set comfort zone. Middle powers, like Canada, that are neither global nor regional rivals, stand a better chance to broker such roles than competitive great powers. We should invest diplomatic capital into building "epistemic communities" that include China and then work to include China in the evolving international consensus. Our previous government's willful embrace of outsider status on issues like climate change is a tragedy that we must at all costs avoid repeating.

MOBILIZING OUR CULTURALLY ADEPT WORK FORCE

While Canadians rightly celebrate our multicultural society and our attraction and social integration of immigrants, we have systematically undervalued and underexploited the abiding linkages that we have created through immigration and education. Not only are our skilled and well-educated immigrants typically underemployed in their professions and earn less than equally educated Canadians, we neither value nor do we properly employ their social capital in their home countries to extend the reach of our own industries and further our exports. The federal government, in cooperation with the provinces, must act together to unleash the talent and *guanxi* ties that sit latent within our immigrant community as well as the social capital of those who graduated from university and training programs in Canada. This includes the hundreds of thousands of Chinese students who have come to Canada with the support of the own families as well as the thousands trained in Canada and China through CIDA support and training programs financed directly by the Chinese government. The federal government should take the initiative to finance and support ongoing linkages and a database that will allow those who have gone back to China to maintain contact with Canada and allow Canadian companies and policy makers to find counterparts in China who have broad familiarity with us. Such data bases should be shared among HRDC Canada and the provinces and perhaps available for our trade commissioner service and EDC in order to enable linkages with skilled personnel and public and private actors.

22

SOFT POWER AND PUBLIC DIPLOMACY

Canada has long had a positive image in China not only through the hoary images of Dr. Norman Bethune and Da Shan, but also as a prime destination for tourism and immigration. The only dark spot in Canada's image as far as Chinese are concerned is an association with fleeing corrupt officials; otherwise the Canadian brand is benign, positive and friendly.

One of the deplorable aspects of the diplomacy of the Harper period was the abandonment of the Canadian Studies program as a core component of public diplomacy. We should look to revive this in some form and to give our embassy in China as well as our other posts a role in expanding our reach to new audiences, especially among Canadian alumni.

In the Chinese culture, while relationships, *guanxi* have an affective or emotional base in *renqing* "human feelings," are significant or salient only for the instrumental purposes for which they can be deployed. Here, the instrumentality of a relationship is predicated on the power or status of the person being engaged. For Canada to become a "significant other" in a relationship of *guanxi*, it needs to articulate much better what kind of capital—social or material—it contributes to the relationship (*more on people-to-people relations see the chapter by Ong and Flynn, and Ruan and Yan*). In the early days of China's reform and during the heyday of our CIDA program, when China was anxiously trying to "link-up rails to the world" (向世界接轨), Canada's capital was significant and its contribution substantial. No wonder Premier Zhu Rongji could proclaim in 1998 that Canada was "China's best friend in the world".

Since then, however, we have failed to articulate what we bring to the relationship. A would-be energy superpower, we were a reluctant partner who could not deliver oil to tidewater. Using the same railroad metaphor, we should switch from helping China to engage the global railway to joining with China to lay tracks around the globe. We need to articulate a message consistent with the new Chinese dream. This includes respect for varying traditions, but also modest and sincere effort at bridging cultural, ideological and developmental divides. We have much to offer a China that seeks to sell a “win-win” world to a skeptical audience. Chinese officials, under the somewhat nativist leadership of Xi Jinping who is more skeptical of universal values than some more cosmopolitan colleagues, will not be able to articulate well a vision that is truly inclusive and mindful of difference even when the desire for “win-win” inclusiveness is honest and sincere. The leadership simply lacks the worldliness and experience of diversity to carry it off. Canada can offer a buy-in program that is consistent with our internationalist tradition and liberal values, actively seeking the common ground that can forge more sustainable and durable engagement. If we are able to build strongly institutionalized links we will be a model to others. That is where Canada can shine.

NOTES

- 1 This concept was elaborated in a speech on diplomatic work with neighbouring countries with the members of the Politburo Standing Committee in attendance on October 25, 2013. http://www.fmprc.gov.cn/mfa_eng/wjb_663304/wjbz_663308/activities_663312/t1093870.shtml of diversity to carry it off. Canada countries be brought in formation, ica 1940s, 50s) rganisms
- 2 See Xi Jinping’s Speech to the APEC Conference in Beijing, “Chinese president proposes Asia-Pacific dream,” *Xinhuanet* (9 November 2014). http://news.xinhuanet.com/english/china/2014-11/09/c_133775812.htm; for the speech at the 2015 United Nations General Assembly see “Chinese president advocates new type of int’l relations,” *China.org.cn* (29 September 2015). http://www.china.org.cn/xivisit2015/2015-09/29/content_36708416.htm
- 3 See, Jennifer Welsh, “Immature Design,” *The Walrus* (June 2010). <http://thewalrus.ca/immature-design/> A later attempt under Foreign Minister Baird to adopt a ‘China Strategy’ was killed in cabinet. “China-Canada trade ties stall over cabinet divisions,” *CBCNews* (21 April 2014). <http://www.cbc.ca/news/politics/china-canada-trade-ties-stall-over-cabinet-divisions-1.2611129>
- 4 See Maire O’Brien, “The Implementation of CIDA’s China Program: Resolving the Disjuncture Between Structure and Process” PhD Dissertation York University, 2000. See also David Zweig, *Internationalizing China* (Ithaca: Cornell University Press 2002) esp. Ch. 4 and 5.
- 5 I urge you to read the new book by Ruth Hayhoe, Julia Pan and Qiang Zha, *Canadian Universities in China’s Transformation: An Untold Story* (Montreal: McGill Queens University Press, 2016)
- 6 For more on the background to some of these disputes see Yuchao Zhu, “Political-Legal Disputes Between Canada and China and their Implications,” *the Korean Association for Canadian Studies*. <http://www.kacs.kr/pdf/16yuchao.pdf>

ABSTRACT: Canadian public opinion of China has grown more wary in recent years. It is also polarized, forcing multidimensional dynamics into a simplistic dichotomous interpretation while obscuring the complexity of issues at play. This also makes the development of a sophisticated China policy in Canada very challenging. This article recognizes the need to take Canadian public opinion seriously, while parsing tougher, interest-based or normative concerns from those that would likely dissipate with increased familiarity and exposure to Asia. How can we move towards a nuanced and multidimensional discussion on the future of Canada-China relations? Disentangling classical political economic debates from debates surrounding the rise of China is a first step. Likewise, it is time to challenge long-held perceptions of developed countries' firm behaviour as *liberal* and of Chinese firm behaviour as *illiberal*, while rethinking the relationship between markets, states and economic performance.

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3

The Political Economy of Canadian Public Opinion on China

PASCALE MASSOT

INTRODUCTION

The rising global significance of China should be sufficient reason to foster a sophisticated debate about our relationship¹, but it has been challenging to do so. Canadian public opinion of China remains wary, a trend that has worsened in some ways over recent years. Many survey responses are limited in the picture they portray of Canadian's views of China because of their emphasis on dichotomous answers. Nevertheless, they give us some sense of the underlying dynamics. This article uses multiple surveys conducted on the topic over the recent past to interpret some of these broad patterns.

In the following sections, I identify five interrelated sub-debates that are buried under apparently one-dimensional positions on China that come out of public opinion surveys. They are China related, but not exclusively so, and warrant a discussion on their own. The five sub-debates are: deep shifts in global power relations, international trade, foreign investment, the role of state-controlled enterprises and broader norms of economic engagement.

DEEP SHIFTS IN GLOBAL POWER RELATIONS

Canadian public opinion has not moved in parallel with global rebalancing trends toward a Pacific-based centre of gravity. The number of Canadians who think engagement with Asia should be Canada's top foreign policy priority has actually *declined* over the years, from 55 % in 2012 to only 37 % in 2014. Likewise, the number of Canadians who think that China is highly important to their economic prosperity has declined from 45 % in 2013 to 35 % in 2014.² A strong majority (61 %) of Canadians even disagreed with the suggestion that provincial governments could "place more emphasis on teaching Asian languages."³

In 2008, 33 % of respondents considered Canada to be part of the Asia-Pacific region, compared to only 22 % in 2014.⁴ At the same time, attitudes towards China specifically remain quite negative. The Pew Research Center revealed that only 39 % of Canadians had a favourable view of China in 2015, having fallen 19 percentage points since 2005.⁵ In 2013, the same survey revealed that 79 % of Canadians viewed China as a "major" or "minor threat".

Figure 1: Canada is part of the Asia-Pacific region
(percentage agreement)



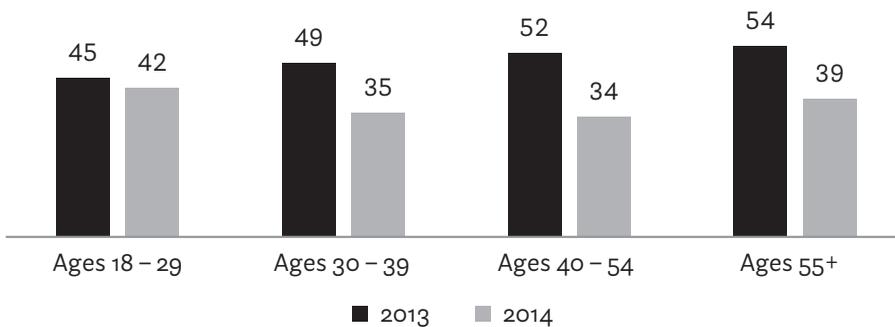
Source: Asia Pacific Foundation of Canada, 2014 National Opinion Poll. <https://www.asiapacific.ca/surveys/national-opinion-polls/2014-national-opinion-poll-canadian-views-asia>

26

These downward trends in public opinion of China set Canada apart from other developed economies such as Australia.⁶

Public opinion has not been entirely unreceptive to global shifts in the distribution of power. A majority of Canadians think that China has become the leading economic power ahead of the US⁷ Likewise, 47% think that Asia is important to their province's economic prosperity.⁸ In 2013, 77% of Albertans⁹ thought Chinese tourism was good for the province (down from 80% in 2011, however), and 56% thought China will play an increasingly significant role in the future opportunities of Albertans (up from 52% in 2011).¹⁰

Figure 2: Asia should be a top foreign policy priority
(percentage agreement)



Source: Asia Pacific Foundation of Canada, 2014 National Opinion Poll. https://www.asiapacific.ca/sites/default/files/filefield/national_opinion_poll_2014_final_o.pdf

Discussion

Like in other issue-areas, public opinion on China is often the result of: 1) a mixture of interest-based or normative concerns that need to be taken seriously, and 2) perceptions and concerns that would dissipate with greater contact with the region or increased familiarity with Asia.¹¹

Separating the two is not easy. For instance, Canadians have an exaggerated perception of China's economic presence in the country. Canadians estimate that around one quarter of total foreign investments come from China, whereas the official figure is lower than 5 % (more on this below).¹² But misperceptions are not the only — or even seemingly the *main* — drivers of Canadian skepticism. Indeed, Canadians with the most accurate understanding of the situation (those who answered a series of preliminary questions on the topic correctly) remain divided, with only 53 % supportive of Chinese investments.¹³ Likewise, one third of these relatively informed respondents continue to associate Chinese investments with security risks.

Still, at the very least, increasing Asia competence nationally would serve to gradually eliminate perceptions borne out of fear of the unknown. On this, some responses are encouraging: in 2014, 53 % of Canadians supported the increase of the number of student exchanges and university agreements between their province and Asia.¹⁴ Greater exposure and education on Asia cannot do away with all of Canadians' concerns about the region, but it will sharpen the articulation of narratives grounded in reality, which, in turn, will enable more effective public policy development.

INTERNATIONAL TRADE

Canadians are generally supportive of free trade agreements (67 % according to a 2014 survey).¹⁵ But Canadians' support for free trade agreements vary *depending on* the country with whom to partner. In 2014, Canadians held favourable views of the prospect of signing a free trade agreement (FTA) with the European Union (over 60 %). Support for FTAs with Brazil and Japan was also high, and stood at 45 % and 56 % respectively, though down from the year before. By contrast, 36 % supported an FTA with China,¹⁶ down from 42 % a year earlier.¹⁷

In Alberta in 2013, 63 % of respondents thought Alberta should diversify its economy by trading more with Asia (down from 72 % in 2011), whereas 77 % of respondents considered China important as an export market for Albertan goods and services.¹⁸ A majority of Canadians (almost 60 %) support trade and investment missions for Canadian and Asian companies to visit both sides of the Pacific, even if the numbers are falling year on year.¹⁹

Discussion

Since the 1960s, the Canadian economy has steadily diversified, moving away from reliance on primary commodity exports and towards value-added products and services, including steel, automotive and aviation industries. By 1999, natural resources accounted for only 36 % of total Canadian exports. However, the commodities boom that preceded the 2008 global financial crisis and the rising demand of emerging economies brought natural resources back to the fore. The share of natural resources in Canadian exports was

back to 53 % by 2010.²⁰ In 2014, natural resources continued to account for more than half of Canada's merchandise export.²¹ The apparent return to a resource-based export economy is not welcomed by all Canadians.

Canadian popular fears of "losing control" over the economy are nothing new. During the negotiations between Canada and the US for the signing of the North American Free Trade Agreement, similar concerns were expressed. Since then, the acceptance of US investments in Canada has grown (although 28 % of Canadians still think that the government lets in too much American investment).²² There is likely a component of public opinion that is linked to the novelty of China's (re)emergence. As such then, time and exposure will likely favour acclimatization.

Another development that may accelerate Canadians' eagerness for increased trade with Asia relates to a shifting trade relationship with the US. The most obvious recent example of this has been the rejection of the Keystone XL pipeline by the US government. A less heralded yet equally significant sign of this transformation also occurred in 2015: China surpassed Canada as the first trading partner of the US.

Canada can draw benefits from the deepening of commercial and investment relations and further integration in regional trading regimes with Asian economies. As Dani Rodrik indicates, the key debates should concentrate on the choice that we can continue to make in the management of our openness to the global economy, on the value of gains from trade relative to redistributive impacts, and on the ways we choose to manage the cost and opportunities of adjustment, which inevitably arise from new trade relationships.²³

FOREIGN INVESTMENT

China still holds a relatively small share (less than 10 %) of the stock of foreign direct investment around the world.²⁴ Nevertheless, we are at the very beginning of China's capital-exporting era. The Heritage Foundation estimates that Chinese total FDI to Canada to date reached \$ 39.4 billion in 2015, a figure very close to that offered by Canada's current ambassador to China,²⁵ up from \$ 113 million in 2004. The Chinese Embassy in Ottawa estimates that Chinese direct investment in Canada has now reached \$ 50 billion.²⁶

Increased Chinese investments have been matched by increased wariness. In June 2015, 49 % of Canadians said they would oppose a foreign investment from a Chinese company, against 42 % who said they would support it.²⁷ Only 15 % of Albertans consider full ownership by Chinese investors acceptable.

This wariness is even more pronounced when it comes to natural resources. An Abacus poll conducted in September 2012 revealed that 65 % of Canadians feel uncomfortable about Chinese investment in Canadian natural resource companies and 73 % are uncomfortable about Chinese companies buying Canadian resource companies (more on this below). However, only 32 % of respondents in the Alberta survey think that more restrictions should apply to Chinese investment than to foreign investment from elsewhere.

Figure 3: Alberta should welcome Chinese investment in the Province (2013)

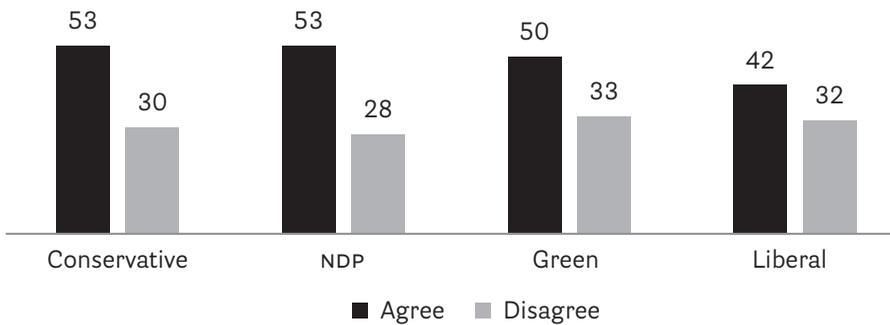
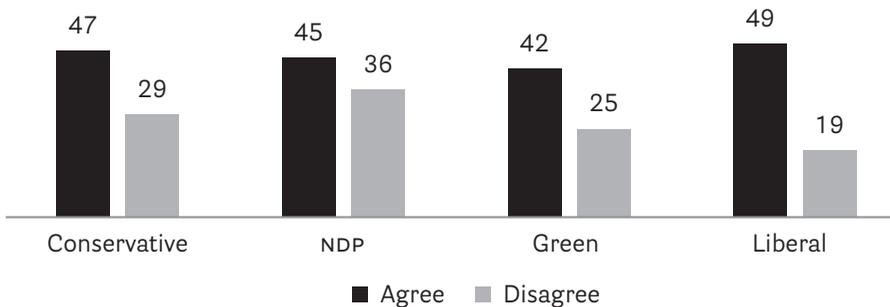


Figure 4: Alberta should welcome Chinese investment in the Province (2015)



One of the most interesting characteristics of the Annual China Institute Survey is that responses are categorized by (federal) political affiliation. At least two trends are evident from these results.²⁸ First, interestingly, public opinion on China is split *across* party lines, where each party faces a sizeable portion of the electorate wary of China. Second, whereas opposition to Chinese investment in Alberta has mostly declined, so has overall support. Opposition went down for Conservative, Green and Liberal Party supporters, and up for NDP supporters. Support has declined over the past 2 years among Albertans of all political affiliation except Liberal.

Discussion

Cross-party split in public opinion may explain why no one was particularly keen to bring up China during the 2015 electoral campaign. Lack of popular support for deeper engagement with China can also be seen in the surprising—and for some Canadians, confusing—policy statement made at the time of the Canadian government’s acceptance of the CNOOC-Nexen deal in 2012, immediately followed by the statement from then Prime Minister Harper that this would be the last such state-owned investment in the Canadian oil

sands. The Prime Minister was speaking to both sides of the Canadian public opinion divide, *at once*. An Abacus poll from 2012 investigating Canadians' support for the deal confirmed this reality: "There were few regional or partisan differences. In fact, respondents who said they voted Conservative in 2011 were almost as likely to say the deal should be rejected as those who voted Liberal or NDP (Conservative 68 %, NDP 72 %, Liberal 73 %)."²⁹

Still I would argue that there is a silver lining to the distribution of Canadian public opinion on China. The importance of our relationship is such that multi-partisanship is essential, and the current landscape of Canadian public opinion may just provide the foundation for multi-partisan support for engaging China and the Asia-Pacific region more fully.

STATE-CONTROLLED ENTERPRISES – ROLE OF THE STATE IN THE ECONOMY

73 % of Canadians oppose Chinese state-owned investments; while only 14 % support it.³⁰ Canadians' perceptions of state-controlled investments vary depending on the country of origin. Only 37 % and 40 % of Canadians surveyed opposed SOE investments from Great Britain or Australia, respectively. According to the same poll, Quebec is the province most supportive of investment by state-owned foreign companies; 48 % of respondents moderately or strongly support it, compared to the Canadian average of only 30 %.

30

Discussion

Some of the original concerns about Chinese SOE investments, such as concerns that Chinese SOE management could take directions from the leadership of the Chinese Communist Party regarding daily operations have been shown to be overly simplistic. But the discussion can be framed from a broader angle. Every new era in the history of globalization brings with it a new set of specific challenges. It is possible for gaps to emerge between the challenges brought by an increase in emerging economies' SOE investments, best corporate governance practices, and our existing regulatory system. Discussions around the future of foreign investment regulations are distinct from discussions about the extent to which companies are currently compliant.³¹

Treating (Chinese) SOEs as exceptional is a misreading of the industry (National oil companies control around 90 % of proven oil reserves in the world).³² The fostering of state-of-the-art corporate governance can be a shared objective for home and host countries. This debate has crystalized around the proponents of the inclusion of SOE specific guidelines versus the proponents of the development of guidelines irrespective of ownership. It seems to me that there may be more than one effective way to reach desired outcomes — harnessing investments to make them work within the Canadian reality and ensuring that they benefit large communities³³ — which should be our prime focus. We need to move beyond assumptions about country of origin and ownership structures and towards a discussion of the best combination of state and market dynamics to achieve desired outcomes.

Chinese state-owned investments have also brought to the fore deeper debates about the nature of the Chinese political economic system, the value

of state ownership and the role of the state in the economy in general. Public opinion surveys tend to bundle those—quite conceptually distinct—debates together in their polls. As a result, we are presented with what seems like a two-dimensional debate (“yes” or “no” to Chinese state investments), while there is a lack of discussion about the rationales underlying each of these positions.

Some Canadians wary of Chinese state investments have concentrated on the perspective of “foreign influence.” This state of affairs explains a statement like that of NDP Leader Tom Mulcair, who claimed in October 2015 that under Conservative Leader Stephen Harper “we’ve sold out control of our oil and gas sector to China”³⁴ (see Table 1, box 3).

Others have concentrated on the nature of ownership itself. Some Canadians are skeptical of state ownership in light of the recent era of privatizations in Canada. Rationale for privatization relied on a strong narrative linking it with increases in overall economic efficiency and productivity, as well as economic welfare more generally. The logical consequence of that line of argument should be that state-owned enterprises—on top of it, owned by a government, in this case China—are not as competent a manager of resources as the private sector. Indeed, comments made by former Prime Minister Stephen Harper on the subject channel exactly this line of reasoning: “To be blunt, Canadians have not spent years reducing the ownership of sectors of the economy by our own governments, only to see them bought and controlled by foreign governments instead”³⁵ (see Table 1 below, box 4).

One way to hold the position that private actors are better economic stewards than state-owned ones *and* to welcome Chinese state-owned investments is to argue that Chinese state-owned enterprises behave in fact *as if* they were private actors. This line of argument—that the nature of ownership does not matter in the end because Chinese SOEs are “profit-driven to their core”³⁶ (see Table 1, box 2)—dominates the debate on state-owned investments from China. This has led to interesting dissonances among communities that find themselves defending the performance of state-owned enterprises coming from China—because we cannot find evidence of reduced performance or reduced benefit to the Canadian economy—but that otherwise support a reduction in the role of the state in the economy at home.

The emergence of Chinese SOEs on the global sphere is forcing us to reconsider long-embedded assumptions regarding the relationship between markets, states and economic performance. China’s emergence, as well as the 2008 global financial crisis, have highlighted the fact that the “dichotomy between markets and states—between trade and rule—is false”.³⁷

NORMS OF ENGAGEMENT (LIBERAL VS. ILLIBERAL)

Canadians’ perception of corporate behaviour and broader norms of behaviour by Chinese stakeholders are markedly different from those associated with Japan or the US. Asked to pick three words or phrases that describe Chinese investments, 48% of respondents picked “loss of control over our resources”, 42% picked “poor labour standards” and 40% picked “environmental damage”. Only 7% of respondents picked “improved

Table 1: Nationalist and Market-Based Rationales For and Against Chinese State-Controlled Investments

	Nationalist rationales	Market based rationales
Supportive	1. State-controlled investment from China is ok because we need to diversify our economy away from the US.	2. State-controlled investments is ok because these enterprises behave like private actors.
Wary	3. State-controlled investment is ok, but not coming from China as we have concerns about foreign ownership.	4. State-controlled investment is not ok because these enterprises do not operate along market lines.

32

competitiveness” as one of their three choices, only 19 % picked “economic growth” and only 2 % picked “trusted partner”. Asked to pick three words or phrases that describe Japanese investments, 66% of respondents picked “new technologies”, 39% picked “increased trade” and again 39% picked “economic growth”. For the US, the results were a mix: 44 % picked “loss of control over our resources”, 47 % “increased trade” and 42 % “economic growth”, whereas 18 % picked “improved competitiveness”.

Focusing on the challenges brought by developing countries’ corporate governance standards should not prevent us to recognize the challenges *developed* countries’ economic structures present to developing countries. In a survey of Chinese companies’ outward investment intentions, 33.6 % of respondents identified their weakness in international competition and 53.2 % identified low levels of international cooperation as major challenges in going global.³⁸

Discussion

Our assumptions regarding the perception of developed countries’ firm behaviour as *liberal* and the perception of Chinese firm behaviour as revisionist or *illiberal* obscure more complex realities.³⁹

Chinese firms started interacting with the global economy after decades of isolation, and found themselves facing significant levels of industry concentration worldwide, including in the resource sector. The oil industry saw a series of significant mergers and acquisitions in the 1990s, which gave rise to powerful oil majors. By the early 2000s, a handful of giant firms from high-income countries in high value-added, high-technology and strongly branded sectors, occupied upwards of 50 % of the global market.⁴⁰

This state of affairs should force us to reconsider the current structure of global markets from the perspective of Chinese market stakeholders. The Chinese see no “level playing field”. Chinese perceptions of oligopolistic practices and significant government influence in the global economy are a reflection of this reality. Thus the debate we face lies beyond simply encouraging Chinese firms to “liberalize”. We have to move beyond basing our criticisms of Chinese SOE behaviour on the notion of the preservation

of an existing liberal and fair economic order. In fact, it is in China's interest to unsettle the dominant position of existing international oligopolies. This, under certain conditions, could be a welcome development for consumers and small businesses around the world.

CONCLUSION: THE GROUND IS SHIFTING BENEATH OUR FEET

Disentangling core classical political economy debates from each other is a critical step towards the development of coherent narratives in each of the different policy areas now reframed by China's emergence. A perpetually renegotiated relationship between states and markets lies at the core of debates on the future of natural resources governance, China's engagement with the global economy and economic development in Canada itself, in a world that is shifting beneath our feet.

Recommendations include:

1. Taking Canadian public opinion seriously, while parsing interest-based and normative concerns from those that would most probably dissipate with increased familiarity and exposure to Asia, and encouraging the latter.
2. Ensuring Canada draws benefits from a deepening of commercial and investment relations with Asia through active management of our openness to the global economy, redistribution of gains from trade, and of the adjustments necessary to fully benefit from new trade relationships.
3. Leverage the wide distribution of Canadian public opinion on China across political affiliations to build multi-partisan support for the necessity to more fully engage China and the Asia-Pacific region.
4. Transcend rigid assumptions regarding the relationship between markets, states and economic performance and work towards innovative discussions of the best combination of state and market dynamics to achieve desired outcomes.
5. Challenge our perception of developed countries' firm behaviour as *liberal* and of Chinese firm behaviour as *illiberal* while encouraging global and sustainable Chinese competitiveness.

Finally, nudging polarized public opinion on China beyond dichotomous debates requires moving beyond a strictly bilateral paradigm to situate ourselves firmly within a global affairs paradigm. China is emerging rapidly as a fully-fledged global player, and just as we see other traditional partners as both bilateral counterparts and multilateral actors, so we need to see China in the same light. A constructive way forward is to see China as a potential collaborator in the pursuit of the many goals Canada is seeking to achieve at the international level. The pursuit of global public goods by China ⁴¹ — and with China — will resonate with the Canadian public. China's unique international position means that it is better positioned than some traditional partners to work towards certain global endeavours, a sort of multilateral comparative advantage. Working towards deepening multilateral collaboration on global health, or tax evasion, may be interesting examples. Encouraging such joint initiatives would work to

productively recast our relationship with China from a bilateral context to a global, multidimensional context, and recast our perception towards that of an actor with whom it is productive to work with on given global issues of common interest.

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ABSTRACT: The South China Sea is at once a major thoroughfare for the global economy, a source of food and income for millions who live along “its shores, a complex and delicate marine ecosystem, and one of the world’s most dangerous geopolitical flashpoints. No place on Earth is the scene of so many conflicting and overlapping maritime and territorial claims, and as a site of contestation over historical right, international law, influence, and prestige, it has no peer. China’s recent, spectacularly rapid construction of military outposts on artificial islands has destabilized an already fragile security environment, unnerved rival claimants, and spurred a frenzy of balancing behaviour. Canada is a player in none of this, largely by choice: once an active participant in regional security governance efforts—primarily, though not exclusively, at the Track 1.5 and Track 2 levels—in recent years Canada has focused its foreign policy priorities elsewhere, confining its efforts in the Asia-Pacific region as a whole largely to trade promotion. This represents a loss both for Canada and the region, as Canada has a great deal to contribute to regional security governance. This chapter explains how and why.

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Canada and the South China Sea

DAVID B. DEWITT AND DAVID A. WELCH

BACKGROUND

In recent years the South China Sea has emerged as one of the world's most dangerous places. It is at once one of the world's most valuable bodies of water—tens of millions of people depend upon its fisheries for food or income, and some \$ 5 trillion in ship-borne trade passes through it annually, including almost all the oil destined for Japan, China, and South Korea¹—and the site of an unprecedentedly complex set of overlapping maritime and territorial claims, rapid militarization, and increasing hostility. The good news is that everyone recognizes the importance of trying to avoid conflict. The bad news is that everyone understands that sometimes conflicts erupt that no one actually wants. Small wonder that there are so many energetic behind-the-scenes efforts to maintain channels of communication, build confidence, and avoid accidental or inadvertent confrontation.²

Canada has never been a central player in the politics of the South China Sea although for geo-political, diplomatic, security and trade concerns, Canada often has pursued its interests in the South China Sea arena both through bilateral and regional efforts. In fact, Canada has never so much as taken a position on its various disputes.³ It has, however, played a constructive supporting role from time to time. Its first major attempt to contribute to Southeast Asian security—its service with the International Commission for Supervision and Control in Vietnam, tasked with monitoring and encouraging compliance with the 1954 Geneva Accords that ended the First Indochina War⁴—did not concern the South China Sea in particular, but helped cement Canada's reputation as a helpful middle power. For most of the Cold War period, Canada was merely a cheerful bystander, lending moral support to the efforts of others but not centrally engaged. Thus Canada welcomed the creation of the Association of Southeast Asian Nations (ASEAN) in 1967, for instance, but was neither asked nor offered to play an active role in regional institution-building. In 1977, Canada became an ASEAN Dialogue Partner, establishing the foundation for future formal linkages, including Canada being invited to participate in the early post-Summit meetings.⁵ This began to change only in the 1980s, when

Canada developed a genuine and abiding interest in East Asia and began cultivating a critical mass of home-grown expertise.⁶ An important impetus for this was demographic, as immigration patterns shifted from Europe to Asia; but rapid economic growth in East Asia was obviously important as well. Canada was made to feel very welcome: it was a founding member of the Asia-Pacific Roundtable in 1987; in 1989 it established the Canada-ASEAN Centre (CAC), providing Canada access to many of ASEAN's significant emerging actors; it was invited to the first Asia Pacific Economic Cooperation (APEC) forum in 1990; and it became a dialogue partner in the ASEAN-Post Ministerial Conference (PMC).⁷

Canada's first forays into proactive engagement on East Asian security issues were near-simultaneous Track 2 efforts that began in 1990: the North Pacific Cooperative Security Dialogue (NPCSD), and the South China Sea Dialogues. The former had a fairly traditional "hard" security agenda; the latter — a joint venture with Indonesia, initially funded by a grant from the Canadian International Development Agency — focused primarily on functional cooperation on "soft" security issues such as maritime safety and what would later come to be called "human security" challenges. In part the difference of agenda reflected Canada's deference to both UN processes and US preferences in Southeast Asia, but Canada did have relevant functional expertise to contribute as a result of its leadership role in the United Nations Convention on the Law of the Sea (UNCLOS).⁸ Canada was also present at the 1992 creation of the Council for Security Cooperation in the Asia Pacific (CSCAP), whose study groups on various hard and soft security issues have from time to time provided valuable analysis and advice both to governments and to regional organizations, notably the ASEAN Regional Forum (ARF).

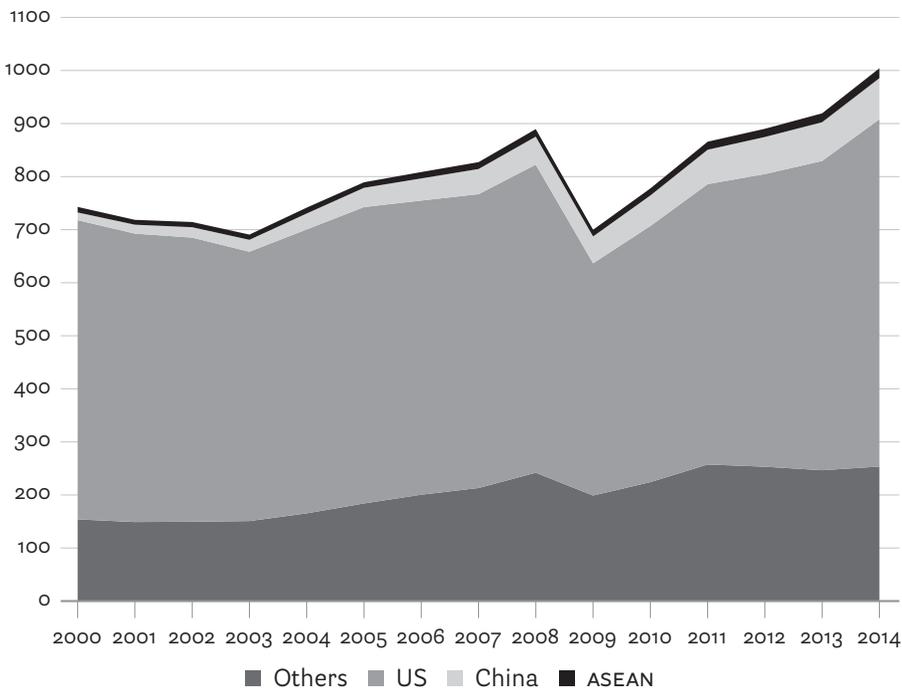
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CANADA'S ASSETS AND INTERESTS

Canada's warm reception and its ability to play a constructive role in Southeast Asian security governance were a function of an unusual combination of assets and interests. On the asset side, Canada brought to the table not hard power resources, but ideas, expertise, talented diplomats, global connections, goodwill, and a reputation for fair dealing.⁹ On the interest side, Canada's geographical remoteness and the fact that it had no tangible stake in many of the local issues meant that its overwhelming goals were milieu goals: peace, order, stability, and robust governance — in effect, public goods. Of course, Canadian engagement was not motivated solely by altruism. These particular milieu goals contributed significantly to global economic growth, which stood to benefit Canada, and by being seen to play an active and constructive role Canada hoped to secure economic opportunities that might not otherwise materialize. Canada's early and successful effort to craft a template for Western liberal democracies' normalization of relations with the People's Republic of China, for example, paved the way for a dramatic increase in trade between Canada and the PRC, and arguably contributed to the opportunities for enhanced relations between the PRC and other Western countries.

In the 1990s, for reasons not yet fully understood, Canadian governments began to lose interest in providing public milieu goods and began to focus almost single-mindedly on economic opportunity, beginning with Prime

Figure 1: Canada's two-way merchandise trade
(billion)



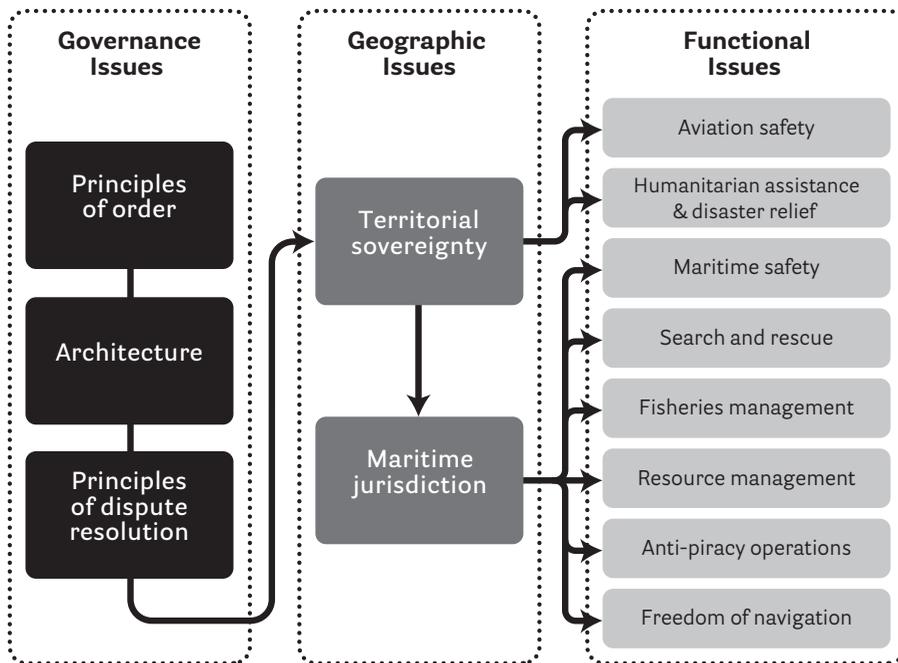
Source: Statistics Canada, Canadian International Merchandise Trade Database, <http://www5.statcan.gc.ca/cimt-cicm/home-accueil?lang=eng>

Minister Jean Chrétien's first "Team Canada" trade mission but culminating in Stephen Harper's overwhelming economic focus in his government's Asia-Pacific policy.¹⁰ Canada began to engage selectively, closed a number of consulates, and dropped official support for Track 2. Canada's inability to maintain its CSCAP membership for lack of funds in 2012 was a national embarrassment and caused considerable bewilderment and concern in the region. It also came with a significant opportunity cost. The Asia-Pacific is not a region in which one can engage à la carte according to one's own tastes. The expectation is for everyone to be present and to try to contribute something to all major issues.¹¹

Not surprisingly, Canada's abrupt change in policy failed to pay off. As Paul Evans puts it, "Despite the economic focus and the absolute growth in the levels of trade, in relative terms Canada's significance in Asia continues to slide and further notes,"

The paradox of these 25 years is that Canadian policymakers have aimed at commerce while the real fields of Canadian success often have been elsewhere. Chief among these have been the enormous human flows in immigration from Asia to Canada, the presence of Canadians in Asia, travel and tourism, and student recruitment. Historians may have difficulty pinpointing a major economic triumph but little problem finding a vast array of people-to-people contacts and Canadian initiatives in building the sinews of international society within Asia and across the Pacific.¹²

Figure 2



40

Thus Canada now finds itself, curiously and unfortunately, with a seat at few of the key diplomatic tables and none involving defence and security in the Asia-Pacific region, and a diminished player at some of the tables at which it has seen its greatest successes and has had the most to contribute. It is still too early to determine whether the new Liberal government of Prime Minister Justin Trudeau will reverse course and seek to reestablish Canada's role and standing in the region. The general signs for a return to liberal internationalism and broad-based engagement are positive,¹³ but the Asia-Pacific did not figure heavily in Trudeau's 2015 election campaign and it has not yet emerged as an evident foreign policy priority. Once having absented itself, Canada may now find it somewhat challenging to recover its earlier position.¹⁴

MOVING FORWARD

What, specifically, can and should Canada seek to contribute today with respect to the South China Sea? How can it best do so?

A good way to answer these questions is to begin by mapping the various issues under contention in the region. As Figure 2 suggests, there is a natural issue hierarchy and a natural problem-solving flow. Governance issues are primary; no other issues can be solved if governance is fundamentally contested. The greatest "bang for the buck," therefore, can be found working governance issues. Unfortunately, Canada does not have any particular purchase on these — at least, not at the Track 1 level. Canada is not seen as a player here, and indeed is not even admitted to the inner sancta.¹⁵ If, as Ottawa desires, Canada manages to secure membership in the East

Asian Summit and the ASEAN Defence Ministers Meeting (ADMM) Plus, this may change; but for the moment, Canada's most valuable contributions to governance issues are taking place at the Track 2 and Track 1.5 level, with the lead being taken by the University of British Columbia's Cooperative Security 2.0 project, an international collaboration run jointly with the Shanghai Institutes for International Studies.¹⁶

While governance issues are logically primary, most of the tension in the South China Sea — and the lion's share of the attention paid to it — concerns geographic issues: namely, territorial sovereignty and maritime jurisdiction. Here Canada has no leverage and nothing to contribute at either the Track 1 or Track 2 level. It is safe to say that Canada's attempt to weigh into the debate on the substance of territorial or maritime disputes would be unwelcome all around, inevitably perceived as meddling by those who do not believe that high politics issues of this kind are the concern of geographically-remote middle powers.¹⁷

Canada has a great deal to contribute to several functional issues, however. As the host country for the International Civil Aviation Organization, Canada is an acknowledged player when it comes to aviation safety and has considerable expertise to offer, both at official and unofficial levels. While Canada has limited capacity when it comes to humanitarian assistance and disaster relief (HADR), it does have a well-organized and highly professional Disaster Assistance Response Team (DART) that has performed well in very difficult circumstances.¹⁸ Not surprisingly, analysts have flagged HADR as an issue on which Canada could make a particularly significant contribution.¹⁹ Canada has similar experience and expertise in maritime safety,²⁰ search and rescue²¹ (though with presently strained and somewhat dated equipment), fisheries,²² and resource management,²³ although critics would argue that the latter two are areas in which Canada's own house used to be in better order,²⁴ somewhat undermining Canada's case for leadership by example. Finally, Canada has some — albeit limited — anti-piracy experience, deploying HMCS Winnipeg and HMCS Fredericton in support of NATO operations off the coast of Somalia.²⁵ This is one area in which Canada is unlikely to contribute more than symbolically (if at all) in the South China Sea, given its severely constrained capacity for extended overseas deployments and an already ample supply of vessels from other countries.

The one functional issue area in which Canada is not well-positioned even to make a symbolic contribution — and where it would perhaps be wise not even to try — is freedom of navigation. This issue is unique among those listed in Figure 2, for several reasons. First, while the other issues are current and can be expected to be ongoing concerns, freedom of navigation is not at present a problem, although the United States, Australia and Japan have expressed concerns about recent Chinese activities and pronouncements and how that might affect freedom of navigation challenges in the coming years. It would only become a problem if someone in the region sought to restrict the access of one or more countries' ships and planes, and that would almost certainly only occur in the context of a serious international crisis. In the ordinary course of events, freedom of navigation is a club good: in principle excludable, but non-rivalrous. In a serious conflict, however, it becomes a private good: excludable and very much rivalrous.²⁶

This means that as a functional issue it is uniquely bound up with high politics. Perceptions that the rules, norms and procedures around freedom of navigation could be eroded or abrogated creates the potential of an environment of insecurity, one more prone to unintended consequences. In the event that forces were required to maintain freedom of navigation, Canada could, of course, come to the aid of its friends and allies, but in a limited way, and very likely not in a cost-effective way given the Royal Canadian Navy's limited interoperability.²⁷ In any case, the same reasons that speak against Canada attempting to take a forward role on geographic issues also speak against it attempting to take a forward role in securing freedom of navigation. While freedom of navigation is a core interest of Canada's principal ally the United States, other countries of the region would interpret a strong Canadian statement as meddling. In addition, it would be challenging for Canada to craft an appropriate message. While freedom of navigation in the South China Sea is very much in Canada's interest—vital as it is to the smooth functioning of the global economy—Canada opposes freedom of navigation in the Northwest Passage, where its chief opponent is precisely its closest ally the United States. The two positions are not necessarily inconsistent. As James Manicom notes, the relevant legal issues are quite different in the two cases.²⁸ The South China Sea is an artery of global commerce where UNCLOS rules (which Canada helped fashion and which it champions) clearly apply; the Northwest Passage is only potentially an artery of global commerce—one whose potential is extremely unlikely to be realized in the foreseeable future²⁹—where the overriding legal concern is environmental protection. Nevertheless, given the difficulty of Canada projecting itself into the issue without making things worse for Canada, for the region, or both, it is, as Manicom notes, perhaps wise to maintain a studied, quiet ambiguity. At most, Canada should consider issuing “a diplomatic statement supporting navigational freedoms through regional seas and, perhaps, acknowledging an international interest in peaceful resolution to the disputes in the South China Sea.”³⁰

There is one last respect in which Canada can play an important role in the South China Sea: namely, as an ideational entrepreneur, dialogue facilitator, and purveyor of relevant information that is useful for promoting understanding and accommodation. In principle, Canada could do this through Track 1, Track 2, or both. At present, Track 2 is the more active channel. We have already referred to the Cooperative Security 2.0 project, which is seeking novel ways of working through the governance challenges associated with the region's shifting power dynamics. In addition, the Centre for International Governance Innovation (CIGI) in Waterloo, Ontario, is host to a complementary project on “Confidence, Trust, and Empathy in Asia-Pacific Security,” which seeks to disentangle and disambiguate these important but intimately related concepts and use them to reduce the incidence and severity of misperceptions of threat.³¹ A good example of the information-provision function Canada can play is the CIGI project's study of air defense identification zones, which for the first time compiled and clarified their history, use, purposes, value, procedures, and international legal standing and significance.³² CIGI researchers briefed their study to the State Department and National Security Council in Washington, and to CSCAP members in Kuala Lumpur.

Supporting Track 2 is a relatively cheap and easy way for Canada to play a role in the South China Sea that stakeholder countries will welcome. It therefore represents a natural entrée for the new Canadian government. But regional stakeholders would no doubt also value the official contributions of a reenergized and broadly-engaged Canada, particularly with respect to the functional issues upon which Canada has so much to offer.³³ As has been noted many times over the last two decades by scholars and practitioners alike concerned with Canada's relations with the countries of the Asia Pacific, and as Evans noted in 2009, the trick is to avoid "intermittent attention and funding from government, interagency rivalries, shifting priorities, and domination by 'the usual suspects.'"³⁴

POLICY RECOMMENDATIONS

1. Reenergize official support for Track 2 initiatives
2. Identify and prioritize functional issues on which Canada can make a valuable contribution in the South China Sea (e.g., aviation safety, HADR, and maritime safety)
3. Signal renewed and ongoing interest in deeper engagement on the full set of regional issues
4. Continue to seek membership in the East Asian Summit and ADMM-Plus

NOTES

- 1 Greg Torode, "Vietnam Builds Military Muscle to Face China," *Reuters* (18 December 2015), <http://www.reuters.com/article/us-vietnam-china-conflict-insight-idUSKBN0U000320151218>. An informative report highlighting the scientific evidence of the importance of fish stock and management and the economic significance of fisheries to the South China Sea claimants can be found in U. Rashid Sumaila and William W. L. Cheung, *Boom or Bust: the Future of Fish in the South China Sea* (Vancouver: University of British Columbia Press, 2015), note especially pp. 19–30; accessed at <http://www.oceanrecov.org/news/ocean-recovery-alliance-news/boom-or-bust-the-future-of-fish-in-the-south-china-sea.html> With thanks to Paul Evans for bringing this to our attention, along with other comments he has provided regarding the players in the scs.
- 2 Ralph Cossa, *Security Implications of Conflict in the South China Sea: Exploring Potential Triggers of Conflict* (Honolulu, HI: Pacific Forum csis, March 1998); Paul Evans, "Canada and Asia Pacific's Track-Two Diplomacy," *International Journal* 64, no. 4 (2009), p. 1030.
- 3 James Manicom, "Canada and the South China Sea Disputes: Challenges for Re-Engagement in East Asia," *Canada-Asia Agenda* No. 26 (Vancouver, BC: Asia Pacific Foundation of Canada, 2012), https://www.asiapacific.ca/sites/default/files/filefield/canada-asia_agenda_26v6.pdf
- 4 Douglas Alan Ross, *In the Interests of Peace: Canada and Vietnam, 1954–1973* (Toronto: University of Toronto Press, 1984).
- 5 Thanks to Richard Stubbs for pointing this out; personal communication 03 January 2016.
- 6 A noteworthy sign of Canada's enhanced interest was the creation of the Asia Pacific Foundation of Canada in 1984. Evans, "Canada and Asia Pacific's Track-Two Diplomacy," p. 1028.
- 7 David B. Dewitt, "Security Implications of Conflict in the South China Sea: A Canadian Perspective," in *Security Implications of Conflict in the South China Sea: Perspectives from Asia-Pacific*, ed. Carolina G. Hernandez and Ralph Cossa (Quezon City: Institute for Strategic and Development Studies, 1997), pp. 195–196.
- 8 Carolina G. Hernandez, "Security Implications of Conflict in the South China Sea: An Introduction," in *ibid.*, p. 4; Hasjim Djalal and Ian Townsend-Gault, "Managing Potential Conflicts in the South China Sea: Informal Diplomacy for Conflict Prevention," in *Herding Cats: Multiparty Mediation in a Complex World*, ed. Chester A. Crocker, Fen Osler Hampson, and Pamela R. Aall (Washington, DC: United States Institute of Peace Press, 1999), pp. 107–133; Lai To Lee, *China and the South China Sea Dialogues* (Westport, CT: Praeger, 1999); Dewitt, "Security Implications of Conflict in the South China Sea," p. 195.

- 9 Evans, "Canada and Asia Pacific's Track-Two Diplomacy," 1034; Manicom, "Canada and the South China Sea Disputes: Challenges for Re-Engagement in East Asia," p. 6.
- 10 During the first few years of Harper's tenure as prime minister, there was a strong human rights theme as well, which worked at cross-purposes with Canada's trade agenda and, following pushback from China, withered on the vine. Jeffrey Simpson, "Better Late Than Never, the Harperites Get the Hang of China," *The Globe and Mail*, 19 August 2009, p. A15.
- 11 Of interest here is an op-ed by John Baird in the *The Vancouver Sun* on 11 October 2013 entitled "Ties to ASEAN countries key to Canadian Prosperity" at <http://www.vancouversun.com/mobile/story.html?id=9027917> and his announcement on 04 August 2014, of the appointment of Canada's first ambassador to ASEAN, to be co-located with Canada's mission in Jakarta. <http://www.international.gc.ca/media/aff/news-communiques/2014/08/04a.aspx?lang=eng>
- 12 Evans, "Canada and Asia Pacific's Track-Two Diplomacy," p. 1028. China has become a more important trade partner over time, but two-way trade with ASEAN countries has been anemic and shows no signs of improvement (See Figure 1). This may, of course, change if the Trans-Pacific Partnership (TPP) is duly ratified and implemented.
- 13 Mike Blanchfield, "Justin Trudeau to Diplomats: It's a 'New Era' for International Engagement," *The Huffington Post (Canada)* (5 November 2015), http://www.huffingtonpost.ca/2015/11/05/trudeau-relaxes-conservative-control-of-diplomats-urges-them-to-engage_n_8477032.html; John Ivison, "Where Will Trudeau's Foreign Policy Lead Us? Even the Liberals Probably Don't Know," *The National Post* (Toronto; 3 November 2015), <http://news.nationalpost.com/news/canada/canadian-politics/john-ivison-where-will-trudeaus-foreign-policy-lead-us-even-the-liberals-probably-dont-know>; Andrew Cohen, "In Foreign Policy, the Liberals Can Break Quickly with the Past," *The Ottawa Citizen* (17 November 2015), <http://ottawacitizen.com/opinion/columnists/in-foreign-policy-the-liberals-can-break-quickly-with-the-past>; Peter McKenna, "Trudeau Would Revert to Classic Pearsonian Foreign Policy," *The Chronicle Herald* (Halifax; 8 October 2015), <http://thechronicleherald.ca/opinion/1315657-mckenna-trudeau-would-revert-to-classic-pearsonian-foreign-policy>
- 14 Manicom, "Canada and the South China Sea Disputes," p. 7.
- 15 In 2010, Canada acceded to the Treaty of Amity and Cooperation (TAC), a foundational ASEAN document, one to which China and India signed in 2003 and thereby introduced hesitation among western countries. When Canada did accede, this addressed one of the necessary ASEAN conditions for allowing Canada to become a member of the East Asian Summit. "... it has been viewed by ASEAN members as a political commitment to the region's stability and security." (p. 934) Whether Canada will pursue these sorts of opportunities remains to be seen. For appropriate background, insight, and policy recommendations, see Richard Stubbs and Mark Williams, "The Poor Cousin? Canada-ASEAN Relations," *International Journal* 64:4, (Autumn 2009), pp. 927–939.
- 16 Paul Evans and Dongxiao Chen, "Advancing Cooperative Security in Asia Pacific: Ingredients of a 21st Century Security Order," *Concept paper for the third meeting of the Canada-China project on "Cooperative Security 2.0" to be held in Shanghai, 6–7 December 2014* (11 November 2014), http://www.iar.ubc.ca/LinkClick.aspx?fileticket=Y_Gkug6-TbE%3D&tabid=675; Paul Evans, "From Security Architecture to Security Order: Prospects for Cooperative Security 2.0," paper presented at the 29th Asia-Pacific Roundtable, Kuala Lumpur, 3 June 2015, http://www.isis.org.my/attachments/apr29/PS_g_Paul_Evans.pdf
- 17 That said, it is worth noting that Canadian allies such as the governments of France and the United Kingdom have made statements concerning the more recent tensions in and around the South China Sea, and they along with the G-7 have made note of the international legal issues as well as the concern around management of disputes. We thank James Manicom for this observation as well as a number of helpful comments on related points; private email 11 January 2016.
- 18 "The Disaster Assistance Response Team (DART)," Department of National Defence (last updated 14 December 2015), <http://www.forces.gc.ca/en/operations-abroad-recurring/dart.page>.
- 19 Jesse MacLean, Andrew McCauley, and Emily Newcombe, "Disasters and Dividends: An Asia-Pacific Strategy for Canada," *Embassy* (Ottawa; 23 July 2014), <http://www.embassynews.ca/opinion/2014/07/23/disasters-and-dividends-an-asia-pacific-strategy-for-canada/45840>
- 20 *Canada: Committed to the Goals of the International Maritime Community*, No. TP-14916 (Ottawa: Transport Canada, May 2011), <http://www.tc.gc.ca/Publications/en/TP14916/PDF/HR/TP14916E.pdf>
- 21 "Search and Rescue Canada," Department of National Defence (last updated 26 November 2014), <http://www.forces.gc.ca/en/operations-canada-north-america-current/sar-canada.page>
- 22 "Fisheries," Fisheries and Oceans Canada (last updated 1 October 2012), <http://www.dfo-mpo.gc.ca/fm-gp/index-eng.htm>

- 23 “Natural Resources Canada,” Natural Resources Canada (last updated 18 December 2015), <http://www.dfo-mpo.gc.ca/fm-gp/index-eng.htm>
- 24 E.g., “Canada, Ocean Management and the Law,” David Suzuki Foundation, <http://www.davidsuzuki.org/issues/oceans/science/government-regulations/canada-ocean-management-and-the-law/>
- 25 “NATO Operations,” Global Affairs Canada (last updated 18 March 2013), <http://www.international.gc.ca/nato-otan/operations.aspx?lang=eng>
- 26 See Sarah Raine and Christian Le Mière, *Regional Disorder: The South China Sea Disputes* (London, UK., Routledge for the International Institute of Strategic Studies, 2013), chs. 2–4 and Conclusion.
- 27 The RCN would have no difficulties operating jointly with other NATO members’ fleets, but the only NATO member with an important potential role in safeguarding freedom of navigation in the South China Sea is the United States and the US Navy is fully capable of handling the challenge—and likely would prefer to handle it—on its own.
- 28 Manicom, “Canada and the South China Sea Disputes,” p. 6.
- 29 David A. Welch, “The Arctic and Geopolitics,” in *East Asia-Arctic Relations: Boundary, Security, and International Politics*, ed. Kimie Hara and Ken Coates (Waterloo, ON: Centre for International Governance Innovation, 2014), pp. 183–197.
- 30 Manicom, “Canada and the South China Sea Disputes,” p. 7. For the reasons mentioned above, the suggestion that Canada should “adopt China’s position that military surveys and reconnaissance are hostile in nature, in contradiction to the ‘peaceful purposes’ principle of UNCLOS, and should thus be subject to due regard to the rights of coastal states,” is a complete non-starter. Zhiming Chen and Dominique Caouette, “China’s South China Sea Policy and Its Implications for Canada: Claims, Strategies and Consequences,” *Canadian Foreign Policy Journal* 18, no. 3 (2012), p. 311.
- 31 “Confidence, Trust and Empathy in Asia-Pacific Security,” Centre for International Governance Innovation, <https://www.cigionline.org/activity/confidence-trust-and-empathy-asia-pacific-security>; David A. Welch, “Crisis Management Mechanisms: Pathologies and Pitfalls,” *CIGI Paper No. 40* (Waterloo, ON: Centre for International Governance Innovation, 2014); David A. Welch, “The Yawning Gap between Threat and Threat Perception in Northeast Asia (and How to Bridge It),” in *The 11th Canada-Japan Symposium on Peace and Security Cooperation* (Ottawa, ON: Department of Foreign Affairs, Trade, and Development, 2014), pp. 20–28. Major themes of the CIGI project found their way into the speech of Fu Ying, Chair of the National People’s Congress Foreign Affairs Committee, at the University of Chicago, 19 May 2015. Fu Ying, “China’s Growth and the Debates on Order,” *China-US Focus* (21 May 2015), <http://www.chinausfocus.com/foreign-policy/chinas-growth-and-the-debates-on-order/>
- 32 David A. Welch, “What’s an ADIZ? Why the United States, Japan, and China Get It Wrong,” *Foreign Affairs* (9 December 2013), <http://www.foreignaffairs.com/articles/140367/david-a-welch/whats-an-adiz>; Joëlle Charbonneau, Katie Heelis, and Jinelle Piereder, *Putting Air Defense Identification Zones on the Radar*, CIGI Graduate Fellows Policy Brief No. 1 (Waterloo, ON: Centre for International Governance Innovation, June 2015), <https://www.cigionline.org/publications/putting-air-defense-identification-zones-radar>; Joëlle Charbonneau, Katie Heelis, and Jinelle Piereder, “Why an Adiz in the South China Sea Is a Bad Idea for Everyone—Including China,” Centre for International Governance Innovation (last updated 11 June 2015), <https://www.cigionline.org/blogs/asia-pacific-security/why-adiz-south-china-sea-bad-idea-everyone-including-china>.
- 33 The Government of Canada’s position on and debates within the Canadian domestic arena to the Trans-Pacific Partnership will be watched with some care not only by others deeply involved in the TPP process, but notably those Asian countries—especially China, but also South Korea and India—not (as yet) within the TPP fold. To the extent the TPP overwhelms Canada’s attention to the Asia Pacific without new commitments in the non-economic, security and functional areas we’ve identified, the perception by many in Southeast Asia may yet complicate Canada’s role in the region. For but one among a recent set of comments, see Kevin Lynch, Tiff Macklem and Daniel Trefer, “TPP is an evolution, not a revolution, in Canada’s journey,” *The Globe and Mail*, Report on Business, B4 (08 January 2016). There also is an argument for Canada seeking membership in the Regional Comprehensive Economic Partnership (RCEP), a proposed free trade agreement (FTA) among the ASEAN ten along with those countries who have existing FTAs with ASEAN as a way to pre-empt a perceived divide in a US-TPP vs a China-RCEP environment. See also Barry Sookman, “Why Canada has nothing to fear of TPP and Intellectual Property,” *Financial Post*, 06 January 2016; found at <http://business.financialpost.com/fp-comment/why-canada-has-nothing-to-fear-over-tpp-and-intellectual-property>
- 34 Evans, “Canada and Asia Pacific’s Track-Two Diplomacy,” p. 1034.

ABSTRACT: China's socialist legal system is an important component of relations with Canada. Over the past forty-five years of Canada-China diplomatic relations, China has expanded its engagement with international legal standards, including participation in the UN system, membership in the GATT/WTO, and engagement with various international treaty regimes of public and private international law. China's relations with Canada on a wide range of issues — ranging from foreign trade and investment to repatriation of fugitives and cooperation on climate change — are heavily influenced by the People's Republic's legal standards, institutions, and processes. Marked differences between Canadian and Chinese legal institutions and norms also pose obstacles to cooperation. This paper will examine issues of Chinese law as they affect the increasingly complex relationship of China with Canada.

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Legal Challenges in Canada-China Relations

PITMAN B. POTTER¹

INTRODUCTION

China's legal relations with the People's Republic of China are an essential component of the broader relationship. Bilateral consultations on law enforcement and judicial cooperation have continued since 2008.² Prime Minister Harper's 2009 visit to China was seen by many as a partial reversal of prior policies of resistance and distancing.³ Subsequent visits in 2012 and 2014 resulted in a number of achievements including agreements on bilateral investment, travel and aviation, food inspection and safety, and combating transnational crime.⁴ The current Liberal majority government in Ottawa faces the challenge of managing relations with China under conditions that are significantly different from those faced by the previous Liberal governments of Paul Martin and Jean Chretien. Despite the temptation to describe Canada's relations with China in terms of positive business links and troublesome human rights issues, the reality is quite a bit more complex. At the heart of the matter are significant differences in normative outlook and institutional structure that affect both business and human rights.⁵

BUSINESS RELATIONS

Legal dimensions of Canada-China business relations involve trade matters under the General Agreement on Tariffs and Trade (GATT) and the World Trade Organization (WTO), and investment relations under the new bilateral Foreign Investment Promotion and Protection Agreement (FIPA). These provide useful context for discussion of a possible Canada-China free trade agreement.⁶

Trade Relations Under the GATT/WTO

Canada's trade relations with China may be assessed in terms of aggregate numbers (*see the chapter by Massot*), but these tell only part of the story. Qualitative dimensions are perhaps more telling as the number and range of Canada-China trade disputes reflect the extent of normative conflict over basic standards and operations. Of particular importance to Canada's trade relations with China are the GATT provisions on dumping and subsidies.⁷

Through 2014, China had been the subject of the largest number of anti-dumping measures (759) by WTO members,⁸ and the largest number (56) of anti-subsidies measures.⁹

Canada's trade investigations concerning China often combine anti-dumping and anti-subsidies claims.¹⁰ Of the 29 instances of antidumping measures in force by Canada, 18 (62%) involve China, while 16 of 20 (80%) instances of countervailing duties imposed by Canada involve China.¹¹ The range of products involved suggests the wide scope of Canada's responses (anti-dumping duties and countervailing duties) in response to dumping and subsidies in China's export methods.¹²

Concerns over China's export practices extend more broadly, as Canada joined the US in actions against general export subsidy programs in China's manufacturing sector.¹³ Canada has joined challenges to China's export restrictions on rare earth metals¹⁴ and other raw materials.¹⁵ Canada's trade disputes with China extend to intellectual property protection, with Canada participating in a broad-ranging complaint over interpretation and enforcement of China's IP laws, especially copyright.¹⁶ Canada's disputes with China also involve claims of protectionism against Canadian exports of cellulose pulp,¹⁷ auto parts,¹⁸ and financial services.¹⁹

These disputes reflect not simply business-as-usual conflicts between major trading partners, but suggest instead a rather more serious set of normative conflicts over the role of government in international trade (*see the chapter by Massot*). Despite claims to have transitioned to a market economy,²⁰ PRC trade behavior suggests significant ambivalence for the norms of market liberalization that are at the heart of the GATT / WTO system.

Investment Relations: The FIPA Agreement

As with Canada-China trade, investment relations can also be assessed by reference to aggregate numbers (*see the chapter by Massot*). The Canada-China foreign investment promotion and protection agreement (FIPA) sets the standards for bilateral investment relations.²¹ FIPA contains many standard bilateral investment treaty (BIT) features such as national treatment (subject to limitations such as for existing non-conforming measures) and most favoured nation treatment (subject to exceptions provided through pre-existing free trade and customs union agreements). FIPA reaffirms China's and Canada's obligations under the GATT / WTO agreement on trade-related investment measures (TRIMS) and establishes a minimum standard of fair and equitable treatment for investments, with full protection and security. FIPA applies only to investments approved after ratification, and excludes projects subject to the Investment Canada Act. The FIPA agreement addresses issues of expropriation that are a common focus for BITs generally. Expropriation must be for a public purpose, follow due process, be non-discriminatory, and provide compensation at fair market value.²² The agreement extends not only to outright expropriation but also "measures having an effect equal to" expropriation.²³

The FIPA agreement's dispute resolution provisions follow the International Centre for Settlement of Investment Disputes (ICSID) treaty for state-investor arbitration.²⁴ Both China and Canada have the right to receive notice and to attend and make submissions to the arbitral tribunal handling

an investor complaint. Arbitral awards shall be public. Hearings may be public if the host state determines it is in the public interest to do so, although confidential information (including business secrets) is protected from disclosure (albeit still subject to local laws on access to information). Canada's freedom of information laws would prevail over an arbitral tribunal's confidentiality order in cases brought by PRC investors, but FIPA does not require information disclosure by a host state where contrary to essential security interests, raising questions about the application of China's expansive State Secrets Law in cases brought by Canadian investors. The dispute resolution provisions of the FIPA agreement do not apply to matters of initial approval of proposed investment projects or national security review (Art. 34, Annex D.34), thus excluding reviews of Chinese investments under the Investment Canada Act and PRC approvals of Canadian investments.

The FIPA agreement contains a number of general exceptions. It does not apply to measures in respect of cultural industries. Consistent with the general exceptions in GATT Article XX, FIPA does not restrict measures (including environmental measures) necessary to protect human, animal, plant life or health, or to protect living, non-living exhaustible natural resources if combined with restrictions on domestic production or consumption. However, such measures may not be applied in an arbitrary or unjustifiable manner or constitute a disguised restriction on international trade and investment.

Much of the debate around the FIPA treaty concerns protection of human rights and environmental conditions in Canada in the face of burgeoning Chinese investment.²⁵ Even before FIPA was ratified, PRC mining investments in Canada had come under scrutiny for labour issues²⁶ and mine safety.²⁷ Implementation of FIPA will require robust attention to human rights and environmental protection under Canadian law. But FIPA also raises questions about institutional capacity in China's regulatory system, as mining operations in China by PRC subsidiaries based in Canada seem no less prone to human rights violations.²⁸ Questions about policy consensus, bureaucratic and geographic location, and the orientation and cohesion of regulatory agents and processes will require ongoing attention to secure effective implementation of the FIPA treaty.

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Thus, Canada-China business relations involve normative and operational challenges. Normative issues in Canada-China trade disputes mandate efforts to build consensus around market-based behavior by businesses and governments. Operational questions under FIPA mandate attention to institutional capacity of China's investment regulators. These normative and operational questions will require keen attention as Canada-China relations enter a new chapter.

HUMAN RIGHTS

Complementing business relationships, human rights are an important dimension of Canada's relations with China.²⁹ Human rights remain at the centre of discussion on a possible judicial cooperation / extradition treaty to augment the 1994 agreement on cooperation in criminal matters³⁰ and the 2012 agreement on repatriation of illegal assets.³¹

China's Human Rights Challenge

China continues to face criticism over its handling of human rights.³² In the area of civil and political rights, the imprisonment of Nobel Laureate Liu Xiaobo, imprisonment of economics professor Ilham Tohti, and the detention and abuse of defense lawyers³³ suggest a pattern of disregard of internationally agreed standards. Despite regime claims to support the rule of law, judicial independence is sharply limited, and abuse by police and security forces is widespread (*see also the chapter by Malkin and Zhang*).³⁵ In the socio-economic sphere, corruption remains a problem despite efforts at reform.³⁶ Major economic enterprises in China are controlled by family members and close associates of regime leaders.³⁷ Declining disposable income, increasing unemployment, and income inequality remain serious.³⁸ Environmental degradation continues at an alarming rate.³⁹ The horrific chemical explosion and fire in Tianjin in August 2015 illustrated overlapping problems of lax regulation, corruption, and lack of transparency.⁴⁰ Socio-economic challenges combine with authoritarian repression of political and civil rights to create a general climate of human rights deprivation.

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China's Human Rights Orthodoxy

While China's human rights challenges are painfully evident, China's human rights orthodoxy expresses resistance to international standards. As a signatory of the Universal Declaration of Human Rights, China is bound to protect freedom of thought, conscience and religion (Art. 18); freedom of opinion and expression (Art. 19); freedom of peaceful assembly and association (Art. 20); the right to form and join trade unions (Art. 23), and other internationally recognized human rights.⁴¹ China is also bound by various international treaties on economic, social, and cultural rights, women's rights, rights of minorities, and prohibitions against slavery, and torture.⁴² As a signatory to the International Convention on Civil and Political Rights (ICCPR), China is committed to respecting its provisions.⁴³

Despite these commitments, China's official human rights White Papers express resistance to international standards.⁴⁴ China's most recent human rights White Paper (2014) claims that human rights in China should depend on domestic political arrangements, and links human rights improvements to conditions of development,⁴⁵ contrary to the widely accepted principles to the contrary. Paralleling official White Papers, China's human rights "Action Plans" have framed human rights as subject to authoritarian rule by the Communist Party of China, effectively ruling out progress on a wide array of human rights.⁴⁶ The 2012 Action Plan's provisions that civil and political rights should be balanced against economic, social and cultural rights under the principle of "coordinated development," and that individual rights should be balanced against collective rights under the principle of "balanced development," contradict widely accepted principles.⁴⁷

Resistance to international standards is also evident in China's 2013 presentations to the UN Human Rights Council under the Universal Periodic Review (UPR) process.⁴⁸ China dismissed as "already implemented" recommendations on protection of human rights lawyers, legal rights to

appeal, treatment of detainees, protection of religious belief and ethnic minorities, and protection against arbitrary detention and torture.⁴⁹ China rejected recommendations involving minority nationality policy, arbitrary detention and torture; ratification of the ICCPR; freedoms of belief and expression; and protection of the rights of lawyers.⁵⁰

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China's human rights policy and practice reflect normative and operational challenges. Government persecution of critics and harassment of legal professionals suggest active resistance to international human rights norms. Operational questions of institutional capacity arise in China's failure to curb corruption and torture or to resolve environmental problems and disparities of income and opportunity. Responding to the complexity and gravity of these issues should be a key feature of Canada's relations with China going forward.

LOOKING FORWARD

China's policies and practices regarding business and human rights suggest normative and operational challenges in Canada-China legal relations will continue. The mandate issued at the 4th Plenum of 18th CPC Congress in 2015 that China should "vigorously participate in the formulation of international norms" signaled a commitment to adjusting international legal standards to meet China's policy goals.⁵¹ The record of the Xi Jinping regime so far suggests a deep unwillingness to sacrifice political capital to achieve meaningful institutional reform.⁵² Yet Canada's national interests depend on China's responsible participation in the international legal system, not least in trade and human rights. China's performance of its trade obligations under the GATT / WTO will be essential. The FIPA treaty offers important opportunities to expand two-way investment, but compliance and reciprocity will be necessary conditions for success. Canada-China relations also depend on China's performance of its human rights obligations under international law.

1. Canada should encourage China's more robust performance of international standards in business and human rights by responding to the normative and operational challenges involved.
2. Normative engagement should involve initiatives on training and education exchanges for trade and human rights officials and specialists in government and civil society. Canada should promote best practices that integrate trade policy with human rights. Canada should discourage and resist efforts by China to formulate international trade and human rights norms that conflict with Canadian values and interests.
3. Operational engagement should focus on improving the capacity of China's trade and human rights institutions, including courts, arbitral bodies, trade policy and regulatory bodies, and human rights organizations in government and civil society. This should involve training and education, expanding access to information, dissemination of best practices models, and facilitating international government and civil society cooperation.

NOTES

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ABSTRACT: Does China remain a top destination for foreign investment and business? What are the main challenges for foreign companies running a business in China? This article argues that China currently offers more rhetorical than practical support towards the creation of a better business environment for foreign companies. Doing business in China still entails two categories of risk. First, institutional challenges—including inadequate legal enforcement, non-legal investment barriers, regulatory discrimination, a lack of transparency, and inadequate IPR protection—are persistent. Second, China's business environment is affected by non-institutional trends in Chinese politics, such as President Xi Jinping's anti-corruption campaign. The future of a positive business environment for foreign companies operating in China thus depends on both the speed and depth of the domestic reform agenda, including the efficacy of the current anti-corruption campaign, the establishment of a market-oriented legal institutional framework, and China's compliance with international trade and investment rules.

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6

Old Burdens, New Trends and the Future of Canadian and International Business in China

ANTON MALKIN AND LINTING ZHANG

INTRODUCTION

This chapter provides an overview of the challenges facing foreign businesses in China, with the aim of giving Canadian businesses an overview of the present and foreseeable legal-institutional and political developments affecting market access and investment in China. We ask: Does China remain a top destination for foreign investment and business? What are the main challenges for foreign companies running a business in China? We argue that China currently offers more rhetorical than practical support towards the creation of a better business environment for foreign companies. At the same time, past experience and the promulgation of new laws governing business competition and intellectual property protection have real potential for the improvement of China's business climate. Doing business in China still entails two categories of risk. First, institutional challenges — including inadequate legal enforcement, non-legal investment barriers, regulatory discrimination, a lack of transparency, and inadequate intellectual property rights protection — remain persistent. Second, China's business environment is affected by more recent trends in Chinese politics, such as President Xi Jinping's anti-corruption campaign, and China's re-commitment to maintaining an important role for state-owned enterprises in the allocation of resources in China's economy. The future of a positive business environment for foreign companies operating in China thus depends on both the speed and depth of the domestic reform agenda, including the efficacy of the current anti-corruption campaign, the establishment of a market-oriented legal institutional framework, and China's compliance with international trade and investment rules.

DOING BUSINESS IN CHINA IN THE MIDST OF AN ANTI-CORRUPTION CAMPAIGN

Following the announcement in the 18th Party Congress in late 2012 that fighting corruption would be a paramount prerogative of the Chinese Communist Party (CCP), Xi Jinping famously began to implement an anti-corruption campaign that saw hundreds of thousands of officials arrested, stripped of their party status, jailed or, in some cases, even put to death.

The campaign has, over the last four years, altered the political, legal, and business environment in China, for domestic and foreign businesses alike. President Xi expressed and continues to express the idea that “Preventing the Party from being corrupted in its long-term rule of the country is a major political mission” of the CCP.¹ To those doing business or hoping to do business in China, understanding this campaign—and where it might lead—should not be merely a subject of intellectual curiosity; rather, it should inform and frame the baseline of their approach to investing and expanding operations in the country.

The aims and dynamics of the anti-corruption drive are complex and multifaceted. There are good reasons to believe that at least part of the logic of this policy proposal is to consolidate and centralize power in the hands of the Presidency and Party Chairmanship, and to revitalize and give direction to a party ideology gone adrift.² But the campaign is clearly much more than a nation-building project. Looking at the totality of legal and procedural changes implemented by the various agencies involved in the campaign—which include specific guidelines about what cars party cadres can drive (and when), what types of hotel rooms they can stay in on business trips, and bans on a multitudes of “gifts” and privileges they have, for decade, been the mainstay of both local and central governance in China³—it is becoming increasingly clear that Xi Jinping and his allies intend to transform the way that China is governed and the way that business is done in the country.

But while the prospect of a more predictable, less bribe-prone, future for foreign business in China might have seen the expat community breathe a collective sigh of relief, the reality has been much more complicated. In August 30th, 2007, China adopted the Anti-Monopoly Law at the 29th meeting of the Standing Committee of the 10th National People’s Congress. Xi’s anti-corruption campaign has seen this law applied swiftly and unceremoniously to a number of multinational corporations (MNCs), many of which have faced charges of price-fixing activity and monopolistic market behaviour. Companies ranging from General Electric to Siemens, and most infamously GlaxoSmithKline (which was fined \$ 492 million in September 2014 for bribing doctors) have faced unannounced raids—often carried out at dawn, lasting almost until dusk—from officials of the National Development and Reform Commission (NDRC) and the State Administration of Industry and Commerce (SAIC). In 2013, nine MNCs in the pharmaceutical industry and five involved in the manufacture and distribution of infant formula have been fined or investigated for suspicion of price-fixing and antitrust activities.⁴

To be sure, Chinese authorities insist that foreign companies are not being deliberately targeted⁵ and insisted that the anti-corruption measures would only have a limited impact on the commercial environment in China (People’s Daily Online 2013).⁶ However, the campaign presents a number of uncertainties for foreign companies. Government Affairs (GA) departments, an important component of doing business in China for foreign companies (as well as domestic private firms), have noted that securing land-use rights and investment approvals has become an increasingly challenging endeavor: local officials are hesitant not only to meet with representatives of foreign firms—for fear of staying in the wrong hotel or improperly documenting

travel and other business expenses — but to come to agreements at all (Marro 2014). In a country where the operating environment is not always predictable, MNCs have often had to, in part, rely on interpersonal relations to secure contracts and deals, commonly known as *guanxi*. But increasing reluctance on the part of government officials to continue to do business in this way creates subtle but salient barriers to market access — especially for smaller firms, who lack the legal and financial resources to manage the risks of operating in an increasingly uncertain environment. As a research report by the US-China Business Council puts it, “Local officials are much more hesitant to take decisive actions, and meetings with [foreign business representatives] — whether for conducting outreach, securing project approval, or maintaining government relations — are now harder to secure.”⁷

Additionally, compliance with China’s new anti-monopoly and anti-corruption measures has proven to be a challenge for foreign companies. Because the process by which investigations are carried out, i.e. which behaviors are specifically targeted, is not always clear and ambiguity in compliance mechanism creates additional barriers to entry. Simply put, many MNCs have gotten used to doing business by one set of rules and customs. But now, with these rules and customs under scrutiny, there isn’t a clear set of new rules to abide by. Even some domestic commentators have begun to express the sentiment that monopolistic behaviour and price-fixing activities will continue to prevail until authorities change the rules with respect to state-mandated or permitted monopolies in protected sectors.⁸

Another problem associated with China’s anti-corruption investigations is China’s legal system itself. The CCP is not directly subject to the rule of law in the same way that the accused are. Moreover, hiring a lawyer and defending oneself against price-fixing or corruption charges is not necessarily an easy endeavor: China’s judiciary is not considered independent and due process is not always transparent and predictable (*for more see the chapter by Potter*). Not surprisingly, few companies have challenged the NDRC’s raids and charges, considering the act futile and fearing unintended political retaliation (Martina 2013).⁹

LONG-TERM, PERSISTENT INSTITUTIONAL CHALLENGES

Although the Chinese government seems quite determined and ambitious to build a modern market economy and at least in rhetoric welcomes foreign investment and business by committing further “opening up”, its political and economic realities lead to some persisting, systemic challenges for foreign business.

To begin, since China’s leaders still officially identify the country as a socialist state and insist that public ownership plays a dominant role, the Chinese government is expected to keep using the “visible hand” to intervene in the market economy. There is no doubt that China is marching towards the direction of more market-based resource allocation, but what remains unclear is how far it might go in this direction. For foreign business, this reality suggests that they still need to live with a strong government that could impose various limits and restrictions on their activities. For instance, China recently received the second highest score in OECD’s FDI Regulatory

Restrictiveness Index among 57 countries, second only to Saudi Arabia.¹⁰ To access China's domestic market, foreign companies need direct approval from the National Development and Reform Committee (NDRC) and the Ministry of Commerce (MOFCOM). Although the majority of industries in China have been "allowed", if not "encouraged" to be open to foreign investment, there are some key industries, including the financial sector, energy, and telecom, that remain relatively restricted to foreign investment. When the Shanghai pilot free trade zone was established in 2013, there were high expectation following the leadership's promise to create a "negative list" to clarify which sectors and sub-sectors remained closed to foreign involvement. But so far, the outcome has been somewhat disappointing to interested parties. The current negative list is said to be merely a copy of the restricted items on the "positive list" — a list of areas where foreign investment is welcome — with minor adjustments, and the new mode of management of the zone is yet to produce an effective framework for attracting foreign investment.¹¹

60

Moreover, the continued strong presence of the government in the economy also implies uncertainty in terms of maintaining a fair environment for competition. It may surprise many observers today that foreign business used to enjoy favoured treatment in China due to the country's thirst for foreign capital. The manufacturing exports sector, for instance, nearly shut out domestic and state firms entirely in favour of multinational companies. But as the economy grew and China accumulated more and more (physical, as well as financial) capital, the need for foreign invest become increasingly less urgent. Important segments of the CCP thus came to question the role played by FDI in China's growth and development, and voiced increasingly louder criticism in this regard.

As one consequence of this turning political tide, since 2010 foreign companies no longer enjoy any tax exemptions or favored tax rates on their operations. The loss of favored treatment, however, does not indicate that foreign companies now face a level playing field with their domestic counterparts — especially state-owned enterprises (SOEs). One basic characteristic of China's political economy is the intimate and complex relationship between the government and its SOEs. On one hand, the leaders want to reform the SOEs and make them more market-oriented and efficient. On the other hand, these SOEs are also politically important since they are one venue through which the government executes control of the economy and distributes goods and social services to the public. The SOEs' dual role of profit maximization and service provision results in a public policy paradox: market competition should be enhanced to improve efficiency; but enhanced market competition also disadvantages those very same SOEs, whose role extends beyond profit-maximization. As a result, what the government has been doing is introducing market forces while cautiously providing various forms of protections to support its SOEs, including easier and cheaper financing from state-owned banks, direct government subsidies, faster (relative to the private sector) administrative approval for projects, lower utility costs and priority in government procurement.¹²

Another reality is that China remains a party-state, lacking an objective and de-politicized rule of law. This implies two additional institutional

challenges for foreign business. The first one concerns the law-making process. Under China's current system of drafting laws, foreign companies have little, if any, inputs into legislation and regulations, which nevertheless have direct and profound impacts to their business interests. Besides denied access, such process lacks transparency. Even worse, the legal system can be so confusing that companies often stumble in trying to stay in compliance with frequently contradictory laws and regulations. For instance, the three major laws covering foreign investment and business — the Law on Chinese-Foreign Equity Joint Ventures, the Law on China-Foreign Contractual Joint Ventures, and the Law on Foreign Capital Enterprises — are considered to be outdated and in conflict with other business laws, such as the Company Law and Law on Partnerships. The good news is that a new unified Law on Foreign Investment has been drafted and is under review at the present moment. The passing of this new law should make the legal system more mature and consistent, but the changes it will bring in practices are yet to see fruition.

The Legal enforcement of existing laws is an even *more* serious challenge. The political system in China makes law enforcement especially difficult. Political interferences are pervasive and frequent. Meanwhile local governments often have strong incentives to evade or even go against national laws. The trouble of legal enforcement is best illustrated in the issue of intellectual property protection (IPP). In China IPP is widely considered to be an “old and enduring problem,” and foreign companies have been complaining about poor protection for decades. Admittedly, since its entry into the WTO in 2001, China has been improving and strengthening its IPP legal framework in order to comply with the World Trade Organization's Trade-Related Aspects of Intellectual Property Rights (TRIPS) requirements. Now there are four laws and nineteen administrative regulations that are specifically targeted at IPP, in addition to articles in more general laws such as the Civil Law and the Criminal Law. Additionally, several IPP courts have been established in major cities. Nevertheless, local protectionism, ambiguity in jurisdiction, and lack of personnel have limited the real positive effect of these changes.

LOOKING TO THE FUTURE

The Anti-corruption Endgame

It is not our task here to settle the debate on whether or not China's anti-corruption campaign is disproportionately targeting foreign businesses. Certainly, some provisions of the new policies implemented by the Xi government suggest that this may be the case. For instance, as part of the new anti-extravagance rules that the CCP has implemented, China's military personnel are no longer allowed to purchase foreign-made vehicles.¹³ At the same time, counter-examples are not hard to find. China's state-owned enterprises (SOEs) have also been the subjects of NDRC raids, with many SOE managers losing their jobs as a result. What is sure, however, is that in order to remedy real or perceived discriminatory measures now faced by foreign businesses, China's anti-corruption campaign should be more clearly implemented, communicated, and executed. Such changes do not rest

on the resolve and wisdom of Xi Jinping and Wang Qishan — the Politburo Standing Committee member tasked with implementing Xi's campaign — but on the development of China's rule of law more generally.

As anti-corruption policies have made relationship-based business more precarious — especially for foreign firms, who lack the deep, familial and local ties of their domestic counterparts — a vacuum has been created and has yet to be filled. In other words, if the marginal utility of acquiring good *guanxi* continues to diminish, transaction- and contract-based business should become an ever-significant feature of doing business in China. This means that the list of forbidden activities should be accompanied by a clearer list of acceptable formal business practices. If local officials and foreign companies are nervous about whether or not their business dealings are acceptable, the NDRC and other agencies should work hard to clarify which types of behaviour are, in fact, acceptable. Because, like most other policies in China, the anti-corruption drive is rolled out in a gradual, pilot-like manner, such as a list of “do's” to accompany a list of “don'ts” might well be forthcoming. Simply put, the future of foreign business in China will be in large part a factor of procedural and institutional clarity.

62

As such, the future of foreign business in the country also depends on the speed and success of the government's plan to reform China's legal system — the better implementation of the rule of law in commercial transactions. This is not to say that the rule of law is not enforceable or not enforced. Indeed, China has its own procedures and rules for writing business contracts that are enforced successfully by Chinese courts.¹⁴ The issue is less one of private arbitration, but one of a firm's rights vis-à-vis the government. As noted above, it is difficult to mount a defense against NDRC charges because corruption and antitrust investigations are still largely secretive and follow new sets of rules and procedures that are not well understood by foreign companies. Perhaps the remedy to this problem is also a matter of time and patience. But until foreign businesses have a clearer idea about how to comply with China's new anti-corruption environment and until *guanxi* is more clearly replaced by rules and contracts, the aforementioned informal, systemic barriers to foreign investment will persist.

Legal Evolution

The business environment in China will continue to change in step with the promulgation and enforcement of new laws that accompany regular leadership handovers, much like it has in the past few decades. What kind of changes, then, should Canadian and other foreign companies pay particular attention to? What might be the source of momentum that can drive China to become more attractive to global FDI? Clearly, as emphasized above, domestic legal and political developments are always important to keep an eye on. But in today's global economy, nothing — not even Chinese politics — evolves in a vacuum.

Given the scope and intensity of interactions between China and the world today, at least some of the relevant developments may come from the outside. More specifically, the country's business environment will likely to improve if China continues to find itself obliged to comply with international norms, treaties and standards. The effect of the WTO's Trade Related Aspects of Intellectual Property Rights (TRIPS) on China's intellectual property rights protection provides strong evidence for this: in 2001, following its WTO accession, China amended its patent and copyright laws to fit the treaty's Articles of Agreement. A more recent example is China's decision in 2014 to adopt the Special Data Dissemination Standard (SDDS) by the IMF, which undoubtedly will require the government to improve the quality of data and increase the transparency of the financial system.

China's compliance with international agreements could be driven by either a consideration of its international reputation, or a strategy of using external constraints to push for domestic reforms. Whatever the reason, the implication is significant for foreign companies. In fact, business organizations and chambers of commerce from across the world have already realized that this is an opportunity and started lobbying for bilateral investment treaties as a solution to problems like market access and unfair national treatment (USCBC 2015). Meanwhile, China already seems willing and prepared to comply with treaties, old and new. In the latest 2015 version of *Catalogue for the Guidance of Foreign Investment Industries*, the government cautiously announced that if trade or investment treaties with other countries set out different standard of regulations, they would override domestic ones.

MOVING FORWARD: POLICY RECOMMENDATIONS

1. Make sure China abides by the Canada-China Foreign Investment Protection and Promotion Agreement (FIPPA). Establish a joint working group / committee to review compliance each year.
2. Provide legal assistance to Chinese bureaucrats, prosecutors and judges regarding IPP by dialogues and other types of exchanges.
3. Seek a Canada-China free trade agreement to solve the problems of market access, unfair competition, and ensuring Canadian businesses are offered protection in the same areas that Chinese law protects Chinese SOEs.
4. Create an online portal (maintained, perhaps, by the Canadian embassy in Beijing) to help Canadian businesses keep track of the most significant legal developments and policy decisions made by China's central government that could impact their operations.
5. Negotiate information exchanges with the Chinese government for the purposes of promoting Canadian investment in China, and vice versa.

CONCLUSION

Many of these challenges notwithstanding foreign companies, including Canadian ones, can find many reasons to uphold their optimism about the prospects of running business in China. After all, data shows that FDI from all around the world continues to flow into China, making it the very top destination in 2014.¹⁵ The fact of being a top destination, however, does not necessarily indicate that it is the most ideal one. To the contrary, foreign companies will continue to face unique challenges and considerable uncertainty in China, due to the enduring nature and characteristics of the legal and institutional regime as well as the changing dynamics of domestic political climate. Market restriction and unfair competition are likely to be slowly improved if China stays in the “open and reform” track, but the longer-term implications of the anti-corruption campaign are still unclear and await firmer institutionalization. Perhaps the greatest uncertainty is how the gradual improvements in the rule of law can be sustained in the face of the political challenges they create for the Communist Party.

64

The great Chinese military strategist Sunzi once famously said: precise knowledge of self and precise knowledge of the threat leads to victory. Foreign companies seeking long-term success should remember that the more things change in China, the more they remain the same: awareness of the political institutions and process at the macro-level, as well as the nuances of the Chinese society such as *guanxi* at the micro-level are essential. The Chinese government will likely keep making promises of a better future to foreign investors, but questions such as when, how and to what extent are likely to remain. As a result, given China’s opaque political process, there are many things we do not and will not know about China’s plans for the future. As such, to a certain (not insignificant) extent, foreign companies need to rely on their own ingenuity and assessment of events to discover the facts behind the rhetoric.

NOTES

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ABSTRACT: The energy sector seems like a natural meeting ground for deeper China-Canada cooperation. After all, Canada is a major producer and exporter of crude oil, while China is the world's largest importer of crude oil. But several obstacles prevent greater energy cooperation. First, nearly all of Canada's oil exports go to the United States since Canada does not have the export infrastructure to send crude and natural gas elsewhere. Second, although deep-pocketed Chinese national oil companies (NOCs) poured more than US\$ 40 billion into Canada's energy sector between 2005 – 2015, many of these investments have consistently under-performed, hamstrung by operational issues, regulatory delays and low prices.

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Buyer's Remorse or Buy-and-Hold? *Chinese National Oil Company Investments in Canada's Oil Sands*

SCOTT MCKNIGHT

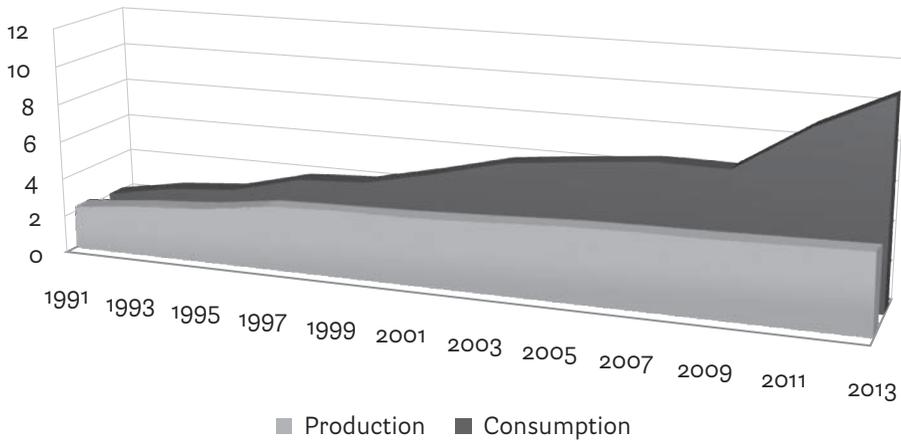
This paper examines the obstacles that have curbed NOC profitability in the oil sands and have thus obstructed deeper energy-based cooperation between Canada and China: 1) low energy prices and high production costs in the oil sands; 2) regulatory hurdles and contradictory policies; 3) lack of infrastructure, especially a pipeline to tidewater; 4) fallout from the power struggle in the Chinese Communist Party (CCP), which includes the purging of executives tied to investments in the Canadian oil sands. As a result, Chinese NOC investment behaviour now places greater emphasis on returns and efficiency as well as on integrating assets, as opposed to merely acquiring as many reserves as possible. Overall, these obstacles have made Canada's oil sands less appealing to capital-rich Chinese NOCs. While the golden era of China feasting on assets in Canada's oil sector seems behind us, it is still too early to call China's energy shopping spree a bust because profit horizons in the oil sands need to be measured in *decades*, not *years*.

67

WHY CHINESE NOCS HAVE "GONE OUT"

China's rising oil demand shows no sign of levelling off. Between 1997 and 2015, China's oil demand nearly *trebled*, from 4.2 million to over 11 million barrels per day (bpd) (Figure 1). Meanwhile, oil imports into China have skyrocketed, from 1 million in 1997 to over 7 million bpd in 2015.¹ China is now the world's largest importer of oil (Table 1). By 2030, China's oil demand is projected to be 16.6 million bpd, with imports accounting for three-fourths of total demand at 12.5 million bpd—a far cry from 1993 when the country was a net *exporter*.² Most disturbing for security-minded Chinese leaders, China's economy simply cannot grow without a steady supply of oil. And for China's leaders, continued economic growth is vital to social stability and the CCP's hold on power.

Figure 1: China's Oil Production and Consumption, 1991 – 2003
(Millions of barrels per day)



68

Table 1: “Achievements” in China’s Rising Oil Demand

Year	“Achievement”	Demand (bpd)
1993	China becomes net oil importer	2.1 million
2003	China becomes world’s 2nd largest oil consumer (behind US)	5.7 million
2004	China becomes world’s 3rd largest oil importer (behind US & Japan)	5.9 million
2014	China becomes world’s largest oil importer	11 million

The hydrocarbon shopping spree undertaken by China’s national oil companies (NOCs) is more than just about assuaging the fears of the Chinese political leadership. But for these NOCs — China National Petroleum Corporation (CNPC) (中石油), Sinopec (中石化), and China National Offshore Oil Corporation (CNOOC) (中海油)—perhaps *more* important is the NOCs’ push for greater profits (Table 2). For one, every barrel worth of oil pulled out of the ground and sold is one taken off the asset sheet—a challenge faced by *all* oil companies, private or state-owned; therefore, China’s NOCs need to continuously acquire new reserves to replace depleted ones.

Part of the problem is that China, despite being among the world’s top five in crude output (Figure 2), is actually *oil-poor*—relative to its staggering size and soaring demand, that is. China’s domestic reserves account for just over 1 % of the world’s proved oil reserves; its proved natural gas reserves are even less. Why China’s NOCs are “going out”³ to purchase exploration and production assets abroad can be explained by the *political* imperative

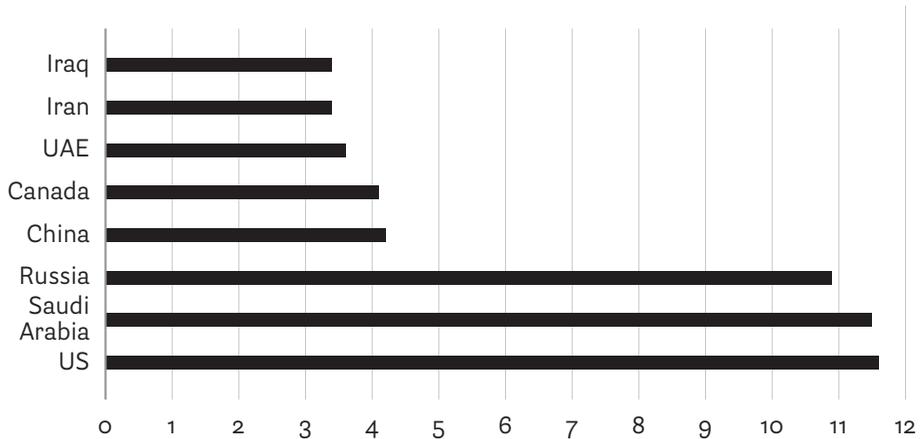
Table 2: Who are China's nocs? — An Overview

	China National Petroleum Corporation (CNPC)	China Petrochemical Corporation (Sinopec Group)	China National Offshore Oil Corporation Ltd. (CNOOC)
Established	1988	1983	1982
Level	Ministry (部)-level	Ministry(部)-level	Bureau(局)-level
Main tasks	Production of oil and gas (largest oil producer in China); exploration of oil and gas overseas	Exploration of oil, gas, and other chemicals; transportation and processing of oil and gas (largest refining capacity in China)	Offshore exploration and production of oil and gas; forming JVs with foreign companies; operations in territorial waters
Internationally listed subsidiaries	PetroChina	Sinopec Corporation	CNOOC Limited China Oilfield Services
NYSE symbol	PTR	SNP	CEO
Market cap	\$106.64 bn	\$70.62 bn	\$44.79 bn
NYSE 52-week high (1/16)	\$136.98	\$105.88	\$175.60
Chairman & CEO (1/16)	Wang Yilin (王艺霖)	Fu Chengyu (傅成玉)	Yang Hua (杨华)
Number of employees	1,637,000 (as of 2014)	360,000 (as of 2015)	99,000
Major overseas assets	Iraq, Kazakhstan, Sudan, South Sudan, Ecuador	Algeria, Angola, Gabon, Sudan	Gabon, Nigeria, Uganda

of satisfying leadership demands — after all, these NOCs are state-owned — but more importantly, to diversify and *grow* their reserves of oil and natural gas. Understandably then, Chinese NOCs have especially targeted the upstream sector, the most profitable part of the oil business.⁴

Acquiring *quality* exploration and production assets abroad hasn't been easy for China's NOCs, who are relative latecomers to the game, having first started to purchase overseas assets in the early 1990s. As a result, these

Figure 2: Top producers of crude oil and natural gas
(millions bpd)



70

NOCs have ended up with the proverbial leftovers, where costs and political risk tend to be high—whether in Libya, Venezuela, Ecuador, Sudan-South Sudan or Iraq. Here is where Canada’s unique combination of vast reserves, private ownership *and* political stability appears like a natural draw for capital-rich Chinese NOCs to make major investments.

CANADA’S OIL SECTOR FROM 30,000 FEET

Canada produced about 4.4 million barrels per day (bpd) of petroleum and other liquid fuels in 2014, good enough for the fifth most output among countries (Figure 2). That’s an increase of over 300,000 bpd over the previous year, *despite* investment-curtailing decreases in crude prices.

Oil production in Canada comes from three main regions: 1) the oil or “tar” sands; 2) the larger Western Canada Sedimentary Basin (WCSB); and 3) the Atlantic ocean, primarily offshore Newfoundland and Labrador.⁵

Since 2003, when oil sands resources were deemed technically and economically recoverable, oil sands production has grown steadily year-over-year.⁶ By 2014, oil sands production accounted for more than half of Canadian crude oil output. At the centre of Canada’s oil industry is the province of Alberta, which accounted for 78 % of Canada’s oil production in 2014. About 81 % of the province of Alberta’s total crude oil production came from the oil sands.⁷ Alberta’s major oil sands deposits are located in three main deposits: the Athabasca, Cold Lake and Peace River (Figure 3 below).

These deposits, which account for the lion’s share of Canada’s proved reserves, combined with the rest of the country’s reserves are the third highest in the world. Unsurprisingly, virtually all of Chinese NOC investments have taken place in the oil sands. But the NOCs are not alone. The high technical demands of production in the oil sands has required a diverse group of super-majors, majors and independents to specialize and focus on particular regions and tasks.⁸

Although Canada is a significant oil exporter, almost all of its crude exports go to the United States because Canada does not have the export infrastructure to send its liquids elsewhere. With the United States (again)

Figure 3: Major Deposits in the Oil Sands



becoming the world's largest crude producer in 2015 — which necessarily will result in sharp declines in demand for Canadian oil and natural gas — Canada now needs to find alternative trading partners for its growing output of crude. This is where energy-hungry yet energy-poor East Asia comes in. But the problem with Canada's diversification wish — and Chinese NOCs who are tied to it — is not so much about getting the oil out of the ground as it is about getting it from the oil sands to the Pacific coast.

WHAT HAPPENED TO “OUR CHINESE OIL SANDS”?⁹

Canada's oil sector features a unique combination of vast reserves, private ownership *and* stability—political and macroeconomic. A wide variety of oil companies—domestic and foreign, large and small, many private but some state-owned—participate in Canada's energy sector. The oil sands, which finally became commercially viable for exploration and production in the early 2000s as a result of rising oil prices and technical advances, require vast sums of capital to fully exploit their potential. Between 2005 and 2015, deep-pocketed Chinese NOCs collectively shelled out nearly US\$ 40 billion in oil sands projects, shale developments and buying stakes in domestic companies. In 2004, Chinese capital made up less than 1 % of Canada's total foreign direct investment (FDI) in the energy sector; by 2013, it was 9 %.

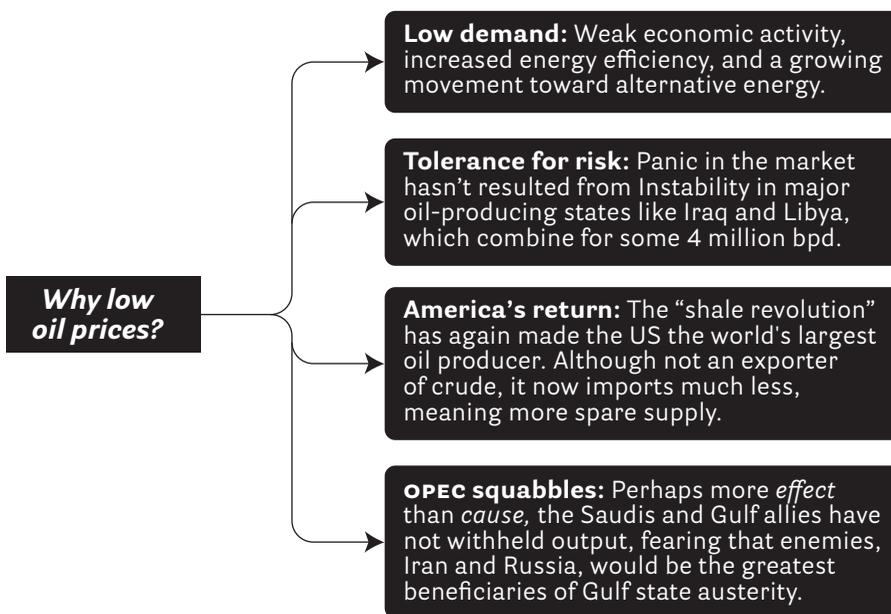
Things have cooled considerably since then. Many of these investments from Chinese NOCs in Canada have under-performed, hamstrung by operational issues, infrastructure bottlenecks and low prices. Are Chinese NOCs facing buyer's remorse?¹⁰ Chinese NOCs—the oil sands' fastest-growing source of capital—have hit the brakes, with whispers of some trying to pull out of their investments in Canada altogether through possible asset swaps. However, with low oil prices and a bearish investment outlook in the oil sands, Chinese NOCs find themselves in the unenviable position of having bought high and selling low.

A bit of levelheadedness is needed here. Oil sands projects, by virtue of their complex nature, require long-term horizons in which profitability is best evaluated in *decades*, not *years*. But feeling the heat from political masters in Beijing and stockholders—which, for state-owned enterprises (SOEs) like the national oil companies, pressure from the former is surely more unsettling than from the latter—has forced Chinese NOCs to be more selective in their plays, focusing more on efficiency, integrating assets and return-on-investment—and not just buying as many energy assets as possible. This paper now looks at the obstacles that have limited NOC profitability in the oil sands, and thus have hindered greater energy-related cooperation between China and Canada.

NOCS IN THE TAR SANDS: BUYERS' REMORSE OR WAIT-AND-SEE?*Low Prices, High Costs*

We're now in an era of low oil prices (see Figure 4 below for reasons). While there is no universal break-even price for oil sands production, the scale ranges from about US\$ 95 per barrel (especially for new pit mining projects) to around \$ 80 per barrel (for in-situ new projects).¹¹ With oil likely to stay in the range of US\$ 50–60 a barrel for the rest of the decade, this isn't good news for the capital-hungry yet high-cost Canadian oil sands.

Sustained low prices have led to investment cutbacks. Many Canadian oil firms have already undergone corporate restructuring, with some proposed projects scrapped altogether. Total capital expenditure across the Canadian oil sector was estimated to have fallen by one-fifth in 2015, though that number is a tad exaggerated because of the record-setting US\$ 56 billion spent in 2014.

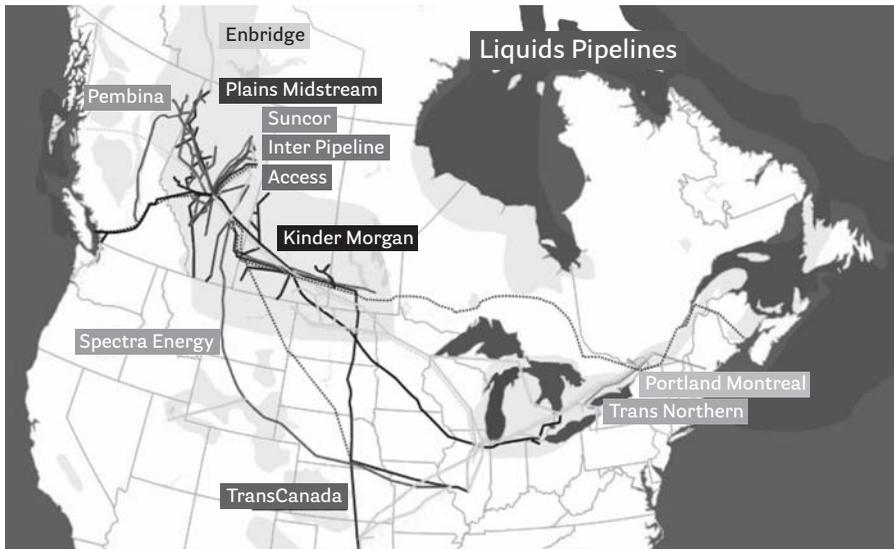
Figure 4: Some reasons for low oil prices

Chinese NOCs have joined in the belt-tightening. It was reported that CNOOC, the Chinese national oil company that led the contentious takeover of struggling Nexen in 2012, sought to slash expenses in 2015 by one-third. This cost-cutting was part of CNOOC's broader effort to write down US\$ 842 million in overseas assets, mostly in high-cost production regions like North America and the North Sea.¹²

A few issues unique to the Canadian oil sands may make a rebound more uncertain: first, the longer time-lags due to the complex geology of production areas; second, as a product of the first, the higher production costs and greater degree of technical sophistication needed to exploit the oil sands' resources¹³; third, the political deadlock surrounding pipeline expansion (see below), which could open up Canadian oil sands production to demand in either the United States or Asia — depending on the pipeline in question. All told, despite low oil prices having curtailed investment, large-scale shuttering of projects in the oil sands is unlikely.

Investment Canada Act: Red Tape or Needed Regulation?

In the wake of popular backlash to CNOOC's takeover bid of Nexen in 2012, the Conservative government under Stephen Harper passed the Investment Canada Act, which stipulates that any large investment in Canada must be of "net benefit" to Canada.¹⁴ Since then, only a handful of purchases by foreign companies in the oil sands has taken place. The problem with viewing this legislation as having shut the door on acquisitions of controlling interests in the oil sands is that it doesn't take account of the broader, largely bearish context surrounding the act — most importantly, low oil prices and the global recession.

Figure 5: Existing Export Pipelines

Source: Canadian Association of Petroleum Producers <http://www.capp.ca/canadian-oil-and-natural-gas/infrastructure-and-transportation/pipelines>

74

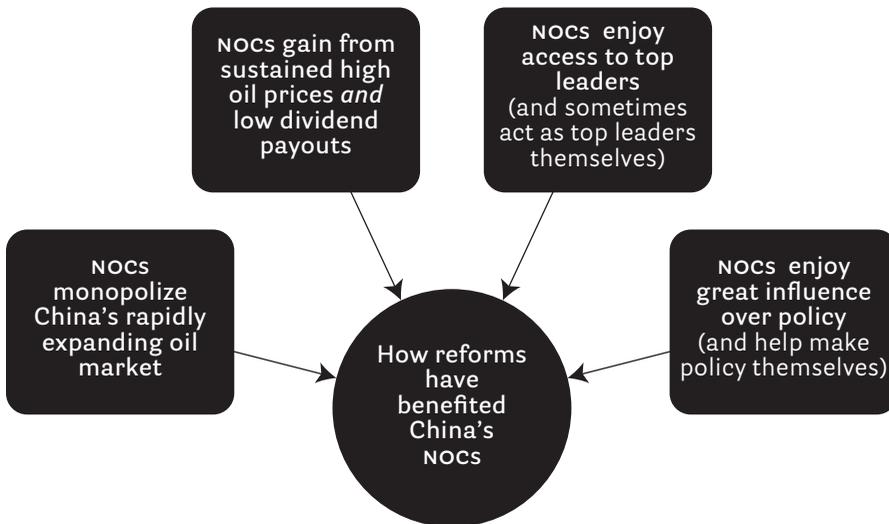
However much the Nexen deal and the subsequent act have caught headlines and public attention (*see the chapter by Massot*)—while perhaps stinging Sino-Canadian relations more generally—this legislation, designed to limit foreign control of strategic commodities, has actually rarely been used. Perhaps worse than the legislation itself was the contradictory signals coming from the Harper government, which years earlier had been canvassing for Chinese investment into the oil sands, only later to say that state-owned enterprises wanting controlling stakes was not welcome. These mixed signals are something the new Liberal government will necessarily have to acknowledge if it's eager to get investment flowing back into the oil sands.

Infrastructure Bottlenecks: It All Flows South

Virtually all of Canada's oil exports went to the United States in 2015. Canada simply does not have the export capacity to send its crude or natural gas anywhere else. A handful of export pipelines (see Figure 5) have been proposed with the multiple goals of increasing upstream production in the oil sands, reaching more sophisticated refineries downstream as well as accessing under-served markets.

No pipeline project has gained more attention than the stillborn Keystone XL pipeline, on which the kibosh has been put several times, most recently in November 2015 by a presidential order for its apparent negative environmental impacts.¹⁵ The other noteworthy pipeline is the Northern Gateway project, whose supporters see this pipeline to the Pacific as holding the promise of pumping large volumes of Canadian oil to catch higher international prices in high-demand markets in Asia. The pipeline, its supporters

Figure 6: How reforms and decentralization have benefited China's NOCs



claim, would then turn these greater corporate profits into further investment and more tax dollars for the province of Alberta and federal coffers. That's part of the story anyway.

Resistance has come from a variety of political opponents, First Nations, and environmental groups. For the latter, the oil sands are a major source of untapped, carbon-intensive crude reserves. The prevailing combination of infrastructural constraints and low oil prices is therefore a great opportunity to keep the oil in the ground.

With no immediate hope of relieving these infrastructural bottlenecks just as production from the oil sands continues to increase, the only feasible option is to transport more and more oil by rail. In 2014, rail carried about 140,000 bpd of crude to the United States out of a total of 185,000 bpd—an increase of 172% from the previous year.¹⁶ By 2016, Canada is projected to transport up to 250,000 bpd of crude oil by rail. Without the Keystone XL pipeline, estimates for rail shipping rises to 600,000 bpd in 2018, pushing the limits of the rail loading capacity of 776,000 bpd.¹⁷ The final chapter of Canada's pipeline drama has yet to be played out.

FALLOUT FROM POWER STRUGGLES IN BEIJING IN NOCS

Chinese NOC investments in the Canadian oil sands haven't been immune to the changing *political* winds in Beijing. In the summer of 2014, several Canadian-based executives from PetroChina, a subsidiary of the China National Petroleum Corporation (CNPC), were arrested on charges of embezzlement and wrongdoing.¹⁸ The investigation was part of a broader anti-corruption drive—and Byzantine power struggle in Beijing—between new President Xi Jinping and political rivals, the most prominent being Zhou Yongkang, whose power base extended deep into the CNPC ranks.

A Chinese government audit, released in June 2014, found that CNPC, one of the world's largest companies with assets throughout the globe, had “withheld” nearly US\$ 100 million in profits. Xinhua news agency reported that money was used for employee “bonuses” as well as for “extravagant consumption”. Cost overruns, delays, and generally under-performing assets in the oil sands have certainly not helped these executives gain more sympathetic ears in Beijing.

The investigation can be seen as part of a broader theme in the changing power dynamic between China's powerful SOEs, of which NOCs are seen to be among the most powerful, and the Chinese party-state. Since undergoing a process of liberalization and decentralization in the early 1980s — part of a broader shift away from central planning to a market economy — the state-company balance of power too has shifted, *away* from the central government and *toward* the national oil companies (see Figure 6 on the previous page).

76

Chinese NOCs have eagerly taken advantage of their growing autonomy and political importance, especially in the wake of exploding profits through the 2000s. But if wealth brings criticism, then the NOCs have had their share of both; Chinese media has consistently criticized the NOCs for acting as a predatory “monopolistic interest group” (垄断利益集团) that puts its own interests above public welfare, which *also* makes them a popular target for president Xi Jinping looking to consolidate his rule with public support.

Yet for as much as NOCs have used their growing resource base to do their own thing, the Chinese party-state nevertheless controls several levels over which to rein in wayward NOC executives. For one, the State Asset Supervision Commission (SASAC) (国资委) has formal authority over China's largest state-owned enterprises, NOCs included. In recent years, SASAC linked managers' salaries to their companies' financial performance.¹⁹ More obviously, though, it is the party-state that has the power to hire, fire and promote the NOCs' general managers, meaning that NOC managers must balance corporate *and* party-state interests.

RECOMMENDATIONS

With Canada's abundant oil reserves and China's rising demand for oil, the energy sector seems like a natural meeting point for greater Sino-Canadian cooperation. But several things must change for this cooperation to occur:

1. **Clarity:** Chinese NOCs, like any foreign company, will have to abide by Canadian laws in the oil sands. But those laws need to be spelled out clearly and need to be seen as *legitimate* and even-handed, and not the discriminatory product of opportunistic political leaders.
2. **Sobriety:** The under-performance of many of Chinese NOC investments in the oil sands, to a large degree, could *not* have been predicted, and instead are part of a broader down-cycle in the global oil market. To say that the Chinese were duped overlooks the notoriously risky nature of the oil industry.
3. **Patience:** Chinese NOCs have not been invested in the oil sands long enough to accurately deem their assets as lemons and their shopping spree a bust. Profitability in the oil sands is evaluated in *decades*, not *years*.

4. **Pragmatism:** Whether in welcoming investment from state-owned companies or in facilitating an industry that both generates substantial tax revenues *and* increases CO₂ emissions, energy-hungry markets in Asia need a steady supply of energy. That consistent demand could both be served by Canadian oil and natural gas, and serve to lessen the negative effects of greater carbon-emitting evils like coal-fired power, especially in China and India.
5. **Flexibility:** The era of Chinese NOCs pouring capital into Canada's oil sands may be over, but it doesn't mean that investment needs to dry up entirely. There is still interest among Chinese buyers in Canada's energy sector, but these NOCs now seem more focused on efficiency and return-on-investment.
6. **Build, don't just dig:** Canada's leverage as a major energy exporter is deeply limited by its lack of alternative export routes just as the United States is *reducing* its imports of Canadian oil. A compromise solution between environmental groups, political opponents, First Nations and the oil industry will be needed to get a pipeline built to the Pacific.

NOTES

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- 3 On the “go out” strategy (走出去政策) as it relates to oil, see David Zweig and Bi Jianhai, “China’s global hunt for energy”, *Foreign Affairs*, Vol. 84, No.5 (2005), pp. 25–38. <https://www.foreignaffairs.com/articles/asia/2005-09-01/chinas-global-hunt-energy>
- 4 The oil and gas industry is commonly divided into three major sectors: upstream (e.g. exploration and production), mid-stream (e.g. transport), and downstream (e.g. refining).
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- 6 In its natural state, petroleum in the oil sands is found blended with sand, clay, and water. Because of its semi-solid form, exploitation in the oil sands more closely resembles mining operations than traditional oil drilling.
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- 8 Government of Alberta, “Alberta Oil Sands Industry, Quarterly Update” (Summer 2015), http://albertacanada.com/files/albertacanada/AOSID_QuarterlyUpdate_Summer2015.pdf
- 9 This was the title of a *Macleans* article. See <http://www.macleans.ca/economy/business/our-chinese-oil-sands/>
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- 12 Jeff Lewis, "China's CNOOC writes down \$842 million in overseas assets," *The Globe and Mail* (27 March 2015) <http://www.theglobeandmail.com/globe-investor/chinas-cnooc-writes-down-842-million-in-overseas-assets/article23664537/>
- 13 There are two main methods of extraction in the oil sands: traditional surface "pit" mining and in-situ underground drilling. When mined at the surface, earth rich in bitumen is transferred into trucks for processing. Historically, surface mining has been the largest source of production in the oil sands, though its share is in what appears to be a permanent decline. By contrast, in-situ extraction pumps steam into underground formations to weaken the bitumen and then pumps it to the surface through wells. Once extracted, bitumen is a heavy, vicious type of crude oil, which then needs to be "upgraded" into a light, sweet low-sulfur synthetic crude oil. For example, see Government of Alberta, "Alberta Oil Sands Industry, Quarterly Update" (Summer 2015), http://albertacanada.com/files/albertacanada/AOSID_QuarterlyUpdate_Summer2015.pdf
- 14 The largest and most influential provincial regulatory authority dealing with the oil sands is the Alberta Energy Resources Conservation Board (ERCb). The National Energy Board (NEB) is Canada's national regulatory body.
- 15 The Keystone XL pipeline was originally designed to travel directly from Hardisty, Alberta, to Steele City, Nebraska. Since the Keystone XL pipeline would cross an international border, presidential approval is needed, stating that the project is in the United States' national interest.
- 16 Canada Association of Petroleum Producers, "Crude Oil: Forecast, Markets, and Transportation" (June 2015), <http://www.capp.ca/publications-and-statistics/publications/264673>
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- 19 Barry Naughton has written extensively on SASAC; for example: "Profiting the SASAC Way," *China Economic Quarterly*, June 2008, pp. 19–26; "SASAC and Rising Corporate Power in China," *China Leadership Monitor* 24 (Spring 2008); and "Claiming Profit for the State: SASAC and the Capital Management Budget," *China Leadership Monitor* 18 (Spring 2006).

ABSTRACT: Canada's long-standing and comprehensive relationship with China in the health sector dates back before the establishment of diplomatic relations in 1970, with the work of Norman Bethune in the 1930s and even before him with various Presbyterian and United Church missionaries. But it took until the 1980s for Canada to really begin to engage with China on health. Canada then began exchanging and collaborating with counterparts in the Chinese health system with the goal of improving China's fledgling though rapidly growing infrastructure of hospitals, health centres, research and development centres, and central administrations. Likewise, many health-related collaborations between Chinese and Canadian universities have emerged. Further, in 2008, the Government of Canada signed letters of intent for cooperation and embarked on a series of Canada-China Health Policy Dialogues. Despite all this, Canada has never really engaged in substantive and sustained health sector collaboration except for several isolated instances, mostly academic-focused, along with some bilateral governmental initiatives. In fact, despite numerous opportunities, Canada has failed to forge strong health-related relations with the People's Republic of China. Canada has much to learn and gain from China in health and medicine, and vice-versa. This chapter highlights why it is important to keep the existing health sector cooperation on track and growing, and to remember our history. It also emphasizes that a new concerted effort is needed to take advantage of the opportunities in order to work on mutually enriching projects. Furthermore, it underlines areas of mutual interest and presents possible avenues that the new Canadian government, elected in October 2015, can take to secure a substantive new beginning for Canada-China health cooperation. Such an approach not only can influence the governing policy in the health sector for both countries but can also be an influence to the world by setting a strong example of peaceful relations in such an influential sector.

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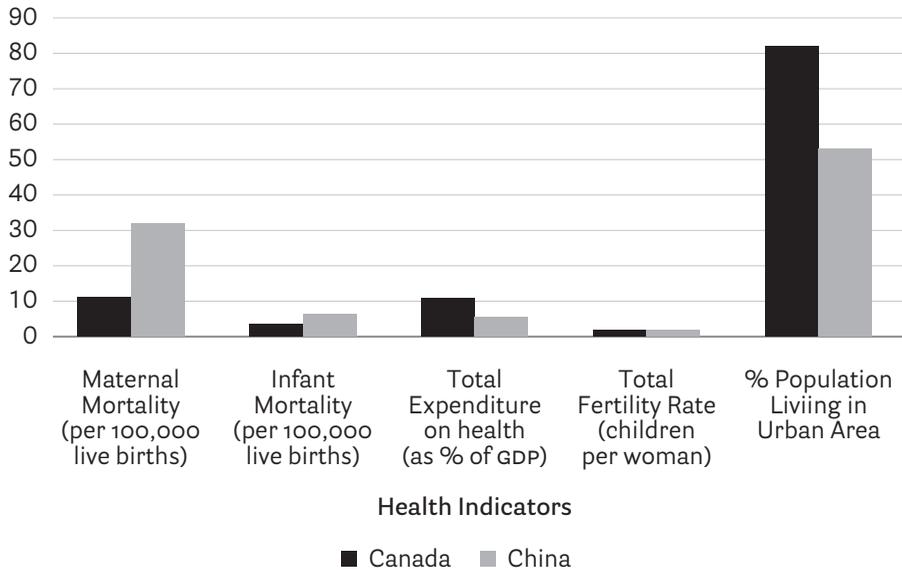
Canada-China Health Sector Relations

DAVID ZAKUS

INTRODUCTION

China's remarkable economic growth and advances in the health sector over the last thirty years have led to the development of a comprehensive health system with universal health insurance to serve its population of 1.3 billion people, living in both rural and urban areas. While still saddled with various shortcomings, health care in China has nevertheless made incredible advances. Canada's long-standing cooperation with the Peoples' Republic of China in the domain of health dates far back before the establishment of diplomatic relations in 1970. Afterwards, in the early 1980s and into the 1990s, Canada began to rebuild on the earlier missionary and Bethune legacies. Initially the Presbyterian Church and then the United Church, including the well known Dr. Robert McClure and many nurses, led the way followed by Dr. Norman Bethune, a renowned political activist and Canadian surgeon who assisted China in its war against Japan in the late 1930s, eventually dying of septicaemia from a surgical wound in the battlefield in 1939.¹ Due to a famous writing by Mao Zedong about Bethune for his selfless devotion to the New China's formation, his name became synonymous with selfless humanity and China-Canada relations.² But it would be some years later until this relationship really began to grow through exchanges and collaborations with Chinese health system colleagues to improve China's fledgling though rapidly growing infrastructure of hospitals, health centres, research and development centres, health human resources and general administrations.

Currently, a shared vision of universal health care access and quality services has translated into some close working relationships between Canadian and Chinese partners. In 2001, Canada and China signed a Plan of Action on Cooperation between the Department of Health of Canada and the Ministry of Health of the People's Republic of China in the fields of health and medicine for the period 2001–2004, and it was subsequently renewed including recently in 2014.³ Despite the initiatives in the 2000s, Canada has never engaged in substantive and sustained health sector collaboration with China except for a few solo instances. As China is indeed a priority country for Canada, it is necessary to further strengthen and grow such partnerships, collaborations and friendships.

Figure 1: Health Indicators Canada-China (2013)

Source: WHO, 2013 (www.who.int)

HOW CANADA-CHINA COOPERATION IN HEALTH SECTORS IS MUTUALLY BENEFICIAL

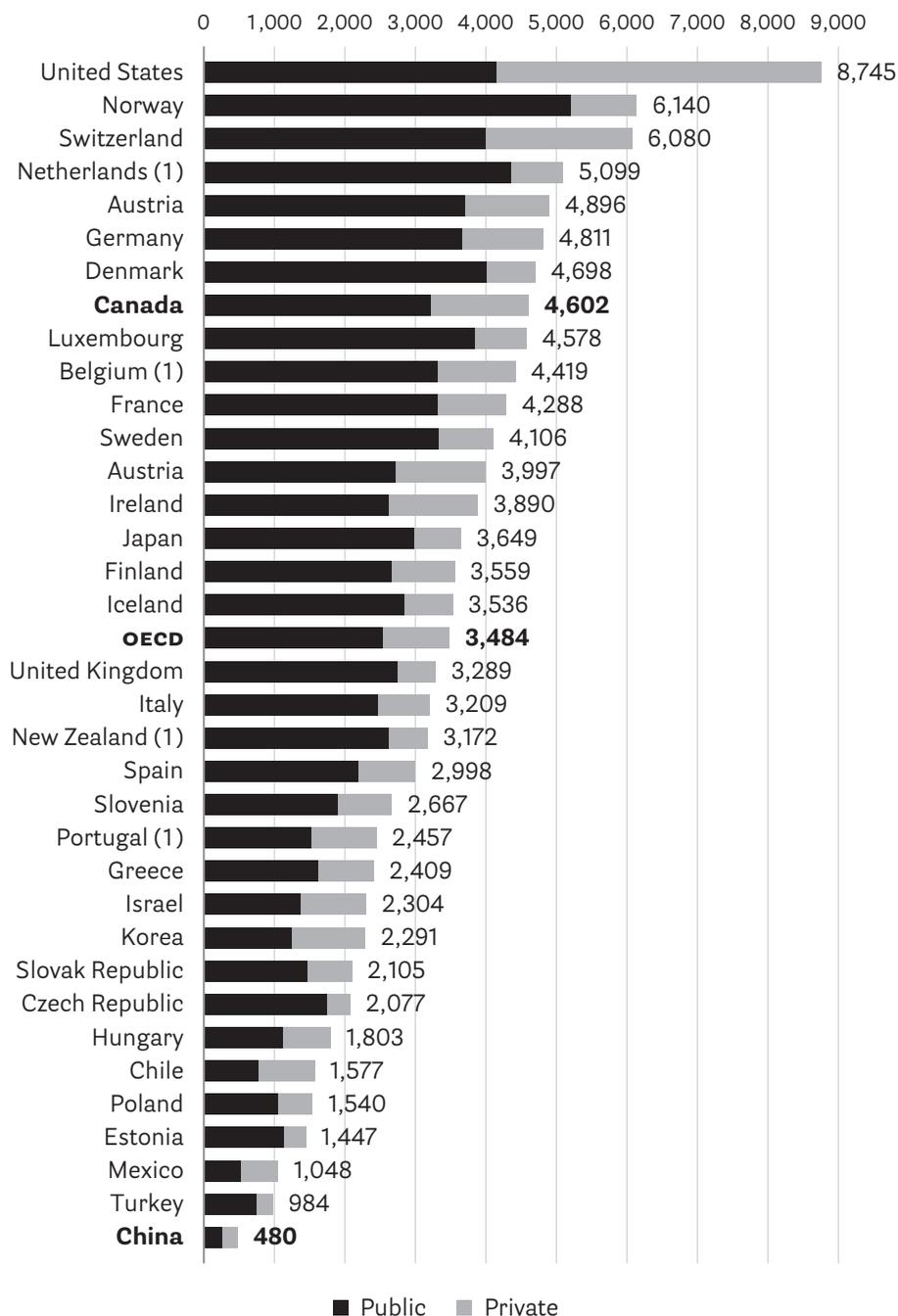
The health systems of Canada and China are both well developed, having achieved remarkable gains, and have begun to converge in recent years, though each evolved along very different paths over the last 50 years (See Figure 1). The two countries also share several similar concerns and operational features, for which cooperation between the two countries could be mutually beneficial.

As a high-income country, Canada has relatively high health standards and status. Its achievements in the health sector include: 1) an internationally respected health system; 2) progressive, effective and flexible health policies in curative medicine, public health, health promotion and health insurance; and 3) a world-class regulatory system. But it has its shortcomings, including in the areas of preventive medicine, community-based care, rising expenses, Aboriginal health status, access to latest technologies and elder care, among others.

Despite these shortcomings, Canada is nevertheless a model in many areas of health, and its international stature and reputation present opportunities and significant influence—while also placing demands at home for more and better services. The Canadian publicly funded health care system, which spends a significant portion of its GNP on health (especially as compared to China, see Figure 2 below), offers an alternative to more market-driven systems prevalent in much of the world, including the Scandinavian countries, which are *also* often perceived as global models. In light of Canada's generally positive foreign relations as well as deepening processes of globalization, Canada has a distinct opportunity to promote its valued and effective approaches in such a key sector.

Figure 2: Health Expenditures in US\$ Per Capital (2014)

(US\$ PPP per capita)



Source: OECD Health Statistics 2014; WHO Global Health Expenditure Database.

For China, its entry into the global market economy has resulted in great wealth creation, including substantial health-related modernization and other achievements in the health sector, along with rising expenditures, both public and private. Since the “Barefoot Doctor” days of social and community-based health innovation in the post-1949 era, which set an example to the whole world of basic primary care before abruptly ending in the early 1980s, there now again continues to be constant progress and results — yielding positive health sector reform. Among the developments and achievements are:

- increased funding, with ever more progressive types of health insurance in both rural and urban areas;
- hospital development and reform resulting in strong market force development;
- drug production and development; large declines in infant and maternal mortality;
- great technological and research advancements;
- integration of traditional Chinese medicine (TCM) with modern Western medicine;
- public health surveillance and control mechanisms since SARS in 2003;
- a continual exchange of professionals with all of the advanced economies;
- high level of health system achievements measured by common health indices; and
- a hugely growing global health presence including a partnering of most of China’s provinces with African countries, sharing of health human resources and construction of hospitals.

Both Canada and China have much to share and learn from each other. Canadians, too, are increasingly affected by health issues beyond our borders. The SARS crisis of 2003, which affected China, Canada and several other countries, highlighted the interdependence of global health issues as well as the related serious global humanitarian and financial implications. Both China and Canada suffered significant human and financial loss due to this epidemic, which originated in China, and thereby formed a type of bond between the two countries, which has spurred on bilateral health relations. In particular, Health Canada has positioned itself internationally to anticipate global developments and their impact on Canadians, influence international health events and provide leadership on selected health issues. Canadians, too, seek new trade and political opportunities, and their focus is gradually turning to the emerging giants of the global economy, including China, India and Brazil, by forging strong partnerships in such areas as trade, science and technology, and the environment. Within all this, a strong focus on China, Canada’s third largest trading partner, is appropriate.

IDENTIFYING AREAS OF COOPERATION IN THE CHINESE HEALTH SECTORS

Although receiving some input from the central government, China's health system is highly decentralized and as such faces serious challenges of financing public health. In poorer localities, particularly in rural areas, local governments lack the money to finance quality basic public services, though this is gradually changing as the New Cooperative Medical Scheme takes root. Normally, public health institutions are expected to generate revenue from service fees, now covered in part by insurance schemes, yet the quality of service often remains dubious. Even in the large modern and increasingly wealthy cities, hospital services are often inadequate and expensive, even for those with insurance. Of great concern is the proliferation of over-prescribing drugs and excessive use of diagnostic tests, as well as the slow implementation of family medicine practice. Health care reform involves several ministries and high-level coordination is lacking, though there have been recent attempts to bring senior members of the ministries together. Government health input is generally insufficient and health output inefficient, despite the staggering number of patients cared for on a daily basis.

Despite all of these challenges, there still exist opportunities to accelerate social development with a focus on improving personal livelihoods. At the 17th National Congress of the Communist Party of China in 2007, Vice-Minister of Health Gao Qiang said, "All people in urban and rural areas will enjoy basic medical care and health services by 2020," which seemed to signal a new round of health reform.⁴ Establishing a basic universal medical and health care system and improving the health of the whole nation continues to be one of China's government's main priorities.

Large-scale health system changes continue to take place in China. These financial, structural and operational health care reforms are especially aimed at improving access to and improving the quality of health care, especially for China's huge rural population of roughly 600 million and its *growing* population of 120 million or so senior citizens. In recent years, many evaluations of these reforms have been done. While most of China's population is now covered by some health insurance, there remains much to be done in this sector, including expanding coverage, improving the quality and achieving greater efficiencies. Despite having made great improvements, much monitoring and evaluation is still needed for a greater understanding of the use of technology, especially new ones and particularly with those that China is innovating on its own.

The health systems in both Canada and China are currently focusing on the health needs of their aging populations, as well as those of adolescents and workers, with continuing strong concerns for reproductive health. Community health reforms and overall health care changes in many sectors from social, technological, biomedical, business and environmental multidisciplinary perspectives also continue to be of great mutual interest.

RECENT BILATERAL GOVERNMENT LEVEL INITIATIVES

In 2008, both governments signed letters of intent for cooperation while embarking on a series of Canada-China Dialogues on Health. This ongoing initiative involves regular as well as periodic discussions between very senior Canadian and Chinese health officials (including the health ministers) and experts on a spectrum of health matters, such as strategies to prevent chronic diseases and emerging and re-emerging infectious diseases, hospital financing, food safety, primary care and health research. In 2009 during Prime Minister Stephen Harper's visit to China, health was identified as one of the pillars of strategic bilateral cooperation.

Health Minister Leona Aglukkaq in September 2010 said, "Canada and China have many health priorities in common, including the prevention, control and management of both infectious and chronic disease ... The prevention agenda is a crucial part of the health, economy and society of any nation."⁵ During this visit, the Minister met with Chinese officials within the consumer product safety sector, and together with the Vice-Minister of the Chinese General Administration of Quality Supervision and Inspection (AQSIQ) signed a letter of intent re-affirming Canada's collaboration with China on consumer product safety. It included establishing formal information exchange mechanisms and developing and implementing an action plan on priority issues of mutual concern. She also visited a consumer product laboratory which tests for toy safety.

The Ministers of Health in China and Canada in 1995 signed a memorandum of understanding for health, which has been reinforced by five action plans with the 2014 - 2016 action plan being the most recent. This plan puts more emphasis on areas such as infectious disease prevention and control, chronic disease prevention and control, health emergency response, surveillance and early warning, healthcare innovation, e-health and tele-health, healthy aging, traditional Chinese medicine, health system strengthening, planning, capacity-building and development, food safety standards development assessment and risk assessment. Actual examples of joint collaboration included cooperation on the 2009 influenza A (H1N1) pandemic and 2013 - 2014 influenza (H7N9) outbreaks.

The Canadian Minister for Health, Rona Ambrose, accompanied by Fred Horne, co-chair of the Council of Federal, Provincial and Territorial Ministers of Health, visited China in 2014 with the aim of exchanging information, sharing best practices and strengthening collaborative actions on shared health practices while highlighting the need to support innovation and build solid health partnerships between academia and health institutions in order to tackle complex health issues that impact both Chinese and Canadian citizens. During this visit, they met with officials within the Chinese government responsible for food and drug safety, consumer product safety, and infectious and chronic disease prevention and control. They were also given a guided tour of the Guang An Men Hospital, a traditional Chinese medicine (TCM) hospital in order to learn more about traditional medicine so that Canadians can have access to a wider range of safe and effective TCM options owing to a growing awareness of its effectiveness and an increasing demand for TCM by Canadians.

One of the main highlights of this visit was the 4th Canada-China Policy Dialogue in Shanghai during which key health topics of interest to both countries were discussed including: collaboration on health surveillance and vector-borne disease prevention and control such as with H7N9, tuberculosis and anti-microbial resistance; the impact of the aging population on health-care and social systems and on collaborative approaches to enable citizens to enjoy their independence, quality of life, social and mental health as they age; and lastly the challenges involved in sustaining health systems and research to help improve quality and access to care. This meeting ended with the signing of the 2014–2016 Plan of Action which provides a platform on how both countries will continue working together while advancing and promoting health priorities.

During this same visit, another MOU was signed between Health Canada and the China National Center for Food Safety Risk Assessment to support issues related to food safety and nutrition affecting both countries. Several other MOUs were signed between several Canadian and Chinese academic institutions as well as professional associations and NGOs. Some of these included:

- A collaboration in family medicine and general practitioner training between the University of Toronto and Fudan University in Shanghai;
- Nursing cooperation between the Canadian and Chinese Nurses Associations; and
- An agreement that fosters the development and implementation of best practice standards for acute and rehabilitative care for spinal cord injury treatment between the Rick Hansen Institute (RHI) and the Peking University Third Hospital.

Their visit ended at Peking University Health Science Center with a discussion about the role of innovation in improving medical technology, health systems and research. At the end of the visit, Minister Ambrose said,

Canada and China share many common health priorities such as preventing and controlling infectious diseases, minimizing food safety risk and helping our aging populations to stay healthy and active. Opportunities such as this to learn from each other and work on shared areas of interest are invaluable and will contribute to improved health for the citizens of both of our countries.⁶

In the words of Dr. Gregory Taylor, Deputy Chief Public Health Officer, Public Health Agency of Canada,

Canada and China have a long, rich relationship in health collaboration, spanning both government and non-government cooperation. The policy dialogue and the opportunities we've had to meet with health agencies and institutions in China go a long way to building on that relationship and creating more opportunities to advance mutual health objectives.⁷

Thus was affirmed the need for very solid and mutual relationships between both countries in the health sector.

Also, in early 2014, the Minister of State Lynne Yelich witnessed a memorandum of understanding (MOU) between two Canadian organizations, namely the Vaccine and Infectious Disease Organization — International Vaccine Centre (VIDO-InterVac) and Pan-Provincial Vaccine Enterprise Inc. (PREVENT) and two Chinese organizations, the Guangzhou Development District and the South China United Vaccine Institute Ltd. (scuvi). The plan is to boost Canada's participation in international business and research partnership health initiatives in China.

EXISTING ACADEMIC COLLABORATIONS

On May 15th 2015, Canada and China celebrated 20 years of close collaboration in the domain of health, which was marked by a special event at the University of Ottawa's Faculty of Medicine in partnership with the Chinese Embassy and Health Canada during which a close collaboration between the Ottawa Civic Hospital and Renji Hospital in Shanghai was officially signed. In 2014, both countries signed a joint partnership between the Shanghai Jiao Tong University and the University of Ottawa's Faculty of Medicine. The partnership brings Ottawa's four-year medical education program to China through exchanges and collaborative research. "This is the start of a meaningful and historic partnership...It will provide Canadian and Chinese students with the opportunity to learn how medicine is practiced in another culture," said University of Ottawa President Allan Rock.⁸

These collaborations are in addition to and build on previous academic linkages between various Canadian universities and Chinese counterparts, including: the University of Alberta's solid relationship with the Li Kai Shing Foundation, which funds various developments and exchanges for biomedical research, human resource development, and virus research, particularly with Shaotou and Zhejiang Universities, recognizing too that St. Michael's Hospital in Toronto is also part of the Li Kai Shing Knowledge Network with a large and growing centre; Toronto's University Health Network drug discovery venture with Shanghai Jiao Tong University's medical college; University of Alberta's former cooperation with Capital Medical University in Beijing for family medicine / primary care development and the Shanghai Municipal Health Bureau; Alberta Health Services cooperation on Health Technology Assessment; McMaster University's long collaboration with Yunnan Province in maternal and child health; and Ryerson University's current collaboration with the Pudong Institute of Health Development (Shanghai), the Shanghai University of Traditional Chinese Medicine, Fudan University in Global Health, Capital Medical University in Beijing, Baotou (Inner Mongolia) Central Teaching Hospital and the Yunnan Health Development and Research Association (in collaboration with Kunming Medical University). And to help forge and sustain relations in health, since about 2010, there has been an effective Canadian Embassy-based health cooperation office.

In addition, the Canada-China Scholars' Exchange Program (CCSEP), established in 1973, was the result of an undertaking by the late Chinese Premier Zhou Enlai and former Canadian Prime Minister Pierre Trudeau. CCSEP awards are granted competitively to scholars at universities and research institutions, government officials and public sector professionals. Further, the last Harper government signed letters of intent for cooperation and embarked on a series of Canada-China Dialogues on Health in 2008.

Besides university collaborations, cooperation in a few business sectors has also thrived. One example is Manulife Financial, a partnership company between Canada's Manulife (International) Limited and China's Sinochem Finance Co., Ltd, which was launched in 1996 in Shanghai and today has more than 16,300 professionally trained agents and employees providing financial and insurance services to over 740,000 customers in 50 cities.⁹

MOVING FORWARD: POLICY RECOMMENDATIONS

The Canadian health care model including medical coverage of its entire population and advanced public health systems has been and continues to be examined by China with the aim to see what can be learned and adapted. While much learning has already taken place, there still remains a moment of great opportunity for Canadian and Chinese practitioners, academics and policymakers to enhance collaborations with the goal of sharing ideas, policy options and other health system innovations, including new technologies, to try to realize mutual benefits for the health and welfare of both populations.

1. Taking into account all the existing initiatives, Canada has made many good strides in developing health cooperation in China, but a much needed evaluation or summary assessment has never been conducted and there is a sense that much rhetoric prevails.
2. Overall, Canada has never really engaged in substantive and sustained health sector collaboration with China except for a few isolated instances. Most collaborations have been uncoordinated individual initiatives, mostly carried out in isolation. In spite of numerous opportunities, including governmental support, and established goodwill among collaborators, Canada has largely failed to forge strong health-related relations with China, perhaps mostly due to lack of resources, interest, and sustained and earnest commitment. Therefore, substantive and sustained health sector collaboration between Canada and China is needed with committed resources.
3. Canada can share its technical and managerial expertise and vast experience in universal and publicly funded and administered health care to enhance health care for the Chinese people, which not only can assist the development of a somewhat similar system in China, but also help to prevent future SARS-like crises and improve areas of concern including food safety, health products, drug development and institutional accreditation. The reality is that Canada has much to learn and gain from China in health and medicine, and vice-versa, and has been slow in acting, especially when considering the potential synergy between health and many business sectors. This highlights

why it is important to keep the existing cooperation in the health sector on track and growing. It also emphasizes that a new concerted effort is needed to take advantage of the many opportunities that have already been generated in order to work on mutually enriching projects, which may yield much richer results in the future. Furthermore, all this potential clearly illustrates areas of mutual interest and presents possible avenues that the new Canadian government can take to secure a substantive new beginning for Canada-China health cooperation.

4. It is important to realize broader benefits from Canada-China bilateral cooperation in health sectors. Such cooperation cannot only influence governing health sector policy in the public interest for both countries, but it can also influence all others in the world by setting a strong example of peaceful and harmonious relations in such an influential sector. Health-related cooperation could even be extended to joint international collaboration; for example, taking advantage of both countries' extensive presence in Africa.

Canada has much to learn from China in health and medicine, and vice-versa. Cooperation between the two countries began over 75 years ago and has been built on, but the potential has not yielded anything really substantive. The current challenge now is to keep it on track and growing. Canada has acted on numerous opportunities to forge strong health-related relations with China but it needs to continue to seriously pursue them in the interest of all Canadians and of global cooperation and world peace. A new concerted effort is needed to take advantage of the many opportunities, to continue work on current mutually enriching projects, and to create new ones to respond to deepening globalization and the need for furthering relations between our two countries.

NOTES

- 1 For more see Sonya Grypma, *Healing Henan: Canadian Nursing at the North China Mission, 1888–1947* (Vancouver: UBC Press, 2007).
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ABSTRACT: Despite the growing ethnic Chinese population in Canada and the importance of China as a trading partner to Canada, there is a conspicuous absence of national impetus and priority given to building our literacy in Chinese language and culture. This is owed to a wide range of reasons such as Canada's geographical position, our value incompatibility with China, and various competing interests for resource investment in language training. We propose youth engagement — a form of non-governmental initiatives — as a second-best solution to supplement our lack of formal investment in and government support for China-related language training and cultural programs. This paper previews various relevant initiatives in the United States, Australia and New Zealand as possible models for emulation.

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The Importance of Youth Engagement in Enhancing Canada-China Relations

LYNETTE H. ONG AND JAMES FLYNN ¹

BACKGROUND

Language immersion in the educational system can be a successful method to introduce young people to new cultures and worldviews. In Canada, which is home to over 7 million residents with French as a mother tongue, English and French are the official languages. Every Canadian province currently offers French immersion programs in its English-language school systems. Despite the growing ethnic Chinese population in Canada and the importance of China as a trading partner to Canada, there is a conspicuous absence of national impetus and priority given to building our literacy in Chinese language and culture (*see also the chapter by Ruan and Yan*). In the 2011 census, 1,324,700 Canadian residents — 4 % of the country's population — identified themselves as Chinese. After English and French, Chinese languages are now the third most commonly spoken in Canada. Furthermore, China is now Canada's second largest trading partner. However, according to David Mulroney, only "scattered pockets" of Asian language training exist across Canada — mostly in major cities like Vancouver and Toronto.² Our lack of understanding about Chinese society and culture is also reflected in the state of China studies research at Canadian universities. For instance, there is no peer-reviewed Canadian journal that systematically covers China-related issues, in contrast to the *China Quarterly* in the United Kingdom and the *China Journal* in Australia.³

The general lack of support for Chinese language immersion is reflected in national opinion polls (*for more on Canadian public opinion on China see the chapter by Massot*). Although approximately half of Canadians support teaching about Asia in provincial school systems, 61 % of Canadians oppose greater emphasis on Asian languages, like Mandarin Chinese, in Canadian schools, according to the 2014 Asia-Pacific Foundation Canada's National Opinion Poll.⁴ On the social and cultural fronts, support for teaching more about China or Asia and Asian languages in schools, and for student exchanges and university agreements with Asia, is also low and declining. Less favorable views about Asia are particularly salient among the older and less educated poll respondents.

The social context for lack of enthusiasm for acquiring China literacy is a growing public apprehension about China on a panoply of issues including human rights, democracy, cybercrimes, espionage, product safety and its increasingly aggressive foreign policy stance. The controversy regarding the ethnic-Chinese Miss Canada being denied entry into China by the Chinese authorities in late 2015 due to her vocal criticism of the Communist regime's human rights records is a prime example. Notwithstanding that fact, given the population size and political clout of Canada, it would be naïve to hold the view that Canada can pressurize China into improving its human rights records by "acting tough" alone. While Canada needs to make clear its position on these basic issues on human integrity, it is also by equipping our future generations with China literacy that we can better engage it in order to exert positive influence and bring about potential changes.

Since education falls under provincial jurisdictions in Canada, residents of certain provinces are more interested in enhanced Asian language education than others. For example, 38 % of British Columbia residents support greater emphasis on teaching Asian languages in their province's schools compared to just 26 % of Atlantic Canada residents.⁵ Given varying levels of interest across Canada's provinces, it would be challenging to uniformly reorient Canada's school system towards greater emphasis on Mandarin Chinese. That aside, the focus on our international education at both secondary and university levels has been more about attracting inbound Chinese students than sending Canadian students abroad. This perception and treatment of Chinese students as a cash cow, though understandable from a commercial perspective, is a shortsighted approach. It is only by investing in our China literacy that we can reap the rewards of a growing economic juggernaut in the long run. The public-good nature of this investment calls for government recognition and effort that transcends the short-term commercial orientation of private education providers.

Nevertheless, we recognize that a national drive for Chinese language education in Canadian schools may not be possible. Instead, we propose informal youth engagements based purely on entrepreneurial initiatives of our youths with the help of the government and private sector, as a second-best solution to increase the exposure of our youths to the culture, language and opportunities in China. At present, some existing non-governmental organizations work to improve relations between Canada and China. For example, the Canada-China Youth Association (CCYA), a nascent organization founded in 2014 with over 150 members, helps Canadian and Chinese students transition to life in the other country.⁶ However, as a relatively new organization, the CCYA is not as developed as comparable organizations around the world (For example, a LinkedIn group for the CCYA has just 31 members,⁷ compared to 861 members in a LinkedIn group for the Australia-China Youth Association).⁸ Similarly, the Global China Connection (GCC), a nongovernmental organization with campus chapters in more than 60 universities around the world, including the University of Toronto, builds ties with China through summits, a mentorship program, and other initiatives.⁹ Although promising, the GCC is not solely focused on Canada; the bulk of its campus chapters are located in the United States.

In turn, we preview successful cases of youth engagements from Australia, New Zealand, and the United States as possible models for Canada to emulate.

THE AUSTRALIA-CHINA YOUTH ASSOCIATION AND RELATED INITIATIVES

The Australia-China Youth Association (ACYA), founded in 2008 by undergraduate students Henry Makeham, Huw Pohlner, and Dom Delany, is a youth-administered nonprofit, non-governmental organization that works to “inspire Australians and Chinese to work together in realising their vision of a more prosperous, sustainable and interconnected world.”¹⁰ The ACYA offers the most comprehensive model for youth engagement of the organizations surveyed herein. According to Makeham, at the time of the organization’s founding no platform existed that could bring together young Australians with an interest in China, and young Chinese with an interest in Australia.

The ACYA operates through 22 chapter committees — 17 of which are at Australian universities and 5 of which are in Chinese cities. Students at Australian universities set up chapters in their respective schools, and each university gives funding to the individual chapters. The chapters host approximately 30 to 40 local events throughout the year, including language classes and lectures. These local efforts are coordinated by a national secretariat that raises corporate, government, and university funding that is distributed nationally.¹¹ The involvement of postsecondary students through campus chapters is a crucial aspect of the ACYA’s work.

Today, the ACYA’s founders are not directly involved in the association, and members of ACYA’s executive team are current postsecondary students or recent graduates.¹² Jimmy Zeng, a recent engineering graduate of The University of Queensland, currently runs the organization. The ACYA’s emphasis on youth leadership ensures that the organization fully understands the needs of young people, and delivers programs tailored to these needs. The ACYA executive team has also realized the importance of running the organization professionally in order to preserve its integrity. It has a board of directors, it reports its accounts, and it has legal counsel. It also has high-level institutional support from policymakers like Geoff Raby, Australia’s Ambassador to China from 2007 to 2011.

Through its strong relationships with past and present government officials, the ACYA maintains a blend of government, private sector, and university funding, but its cornerstone of financial support is government. Makeham estimated that, at present, Australia’s state and federal governments provide between 25 and 30 % of the organization’s funding. The organization has not had any funding from the Chinese government. Makeham, who recommends tapping into Canadian provinces that have a stronger vested interest in China, like British Columbia, also emphasized the importance of arms-length government involvement through the provision of various in-kind supports, networks, and resources.¹³

Various related dialogue and initiatives target different segments of the youth population. The Australia-China Youth Dialogue (ACYD), a weeklong conference that was first held in Beijing and Shanghai in 2010, works to “promote frequent and meaningful engagement between young adults

in China and Australia who are interested in furthering Australia-China relations.”¹⁴ The dialogue brings together 15 Australian and 15 Chinese delegates under the age of 35 with established leaders from Australia and China and exposes them to new issues and ideas.¹⁵ In this sense, the dialogue, which has brought together 150 young people since 2010, offers an informal mentoring component that could be replicated in Canada.

Similarly, the Australia-China Young Professionals Initiative (ACYPI), which holds events in major cities in Australia and China, allows young professionals between 22- and 35-years-old to develop a better understanding of the Australia-China bilateral relationship through cross-cultural dialogue. The ACYPI runs regular events like film screenings and trivia nights.

The Engaging China Project delivers China-literacy programs, like workshops, to Australian high school students between 15- and 18-years-old. The programs are delivered through volunteer Project Ambassadors — most of whom are young people — that travel across the country. Members or alumni of ACYA, ACYD, and ACYPI form the core of those behind the Engaging China Project in high school outreach activities. This model allows the organization to build Asia literacy among youth without the need for specific curriculum changes from the government.

Although the ACYA, the ACYD, the ACYPI, and the Engaging China Project often cooperate, all four are run independently with no formalized coordination.

PRESIDENT OBAMA'S 100,000 STRONG FOUNDATION

The 100,000 Strong Foundation, a nonprofit, non-governmental organization launched in 2012, works to “strengthen US-China relations through educational exchange and the study of Mandarin language.”¹⁶ The foundation stems from a pledge by United States President Barack Obama in 2009 to increase the number of American students studying in China by 100,000 over a four-year period. According to the Institute of International Education, just 14,413 American study abroad students went to China in the 2012–2013 academic year.¹⁷ By 2014, the 100,000 Strong Foundation had surpassed their goal.¹⁸ This is an initiative that Canada would do well to emulate. Academics, corporate officials, and government policymakers at the highest levels support the 100,000 Strong Foundation.

The foundation enjoys government endorsement at the highest level through President Obama. This ensures consistent funding and legitimacy for the organization. The organization is governed by an experienced 11-person Board of Directors, chaired by George Lee, a businessman who also chairs Panton Incorporated, a technology-consulting firm.¹⁹ This leadership structure helps the organization cultivate support from the private sector. The foundation also has an Academic Advisory Council consisting of executives from the educational sector.

Unlike the other organizations surveyed, the 100,000 Strong Foundation is funded through private-sector donors, like Caterpillar, Citi, Coca-Cola and Deloitte.²⁰ Furthermore, although the foundation maintains no formal relationship with the Chinese government, China has pledged 20,000 “Bridge Scholarships” for American students to study in China.²¹ This is partly

aimed to close the gap between the number of Chinese studying English and Americans studying Mandarin. At present, 600 times more Chinese study English than Americans study Mandarin. Although the foundation itself does not directly fund students, it steers America's campaign to encourage study abroad in China, and works with existing United States-China educational exchange programs that wish to expand their programs. This partnership model should be considered in Canada.

The foundation also works with *Project Pengyou*, a community of people and groups with experience working and living in China, that “works to empower and mobilize a new generation of US-China bridge-builders to serve, inspire and transform lives.”²² *Project Pengyou's* flagship program is an online social network with a database of 5,341 people and 359 groups that facilitates mentorship and networking opportunities. The community is currently working to establish campus chapters across the United States.

ASIA-NEW ZEALAND FOUNDATION — LEADERSHIP NETWORK

The Asia-New Zealand Foundation, a nonprofit, non-governmental organization launched in 1994, works to “build New Zealanders’ knowledge and understanding of Asia.”²³ The organization was originally established as a charitable trust and Crown Entity, known as the Asia 2000 Foundation of New Zealand.²⁴ The foundation is the flagship NGO in the country that aims to foster New Zealand-Asia relations. It operates through a blend of public, philanthropic and corporate funding.

Young professional networks are part of the five main areas in which the Asia-New Zealand Foundation works, among which are arts and culture, business, education, media, and research. The Leadership Network unites young professionals between 20- and 40-years-old with an interest in New Zealand-Asia relations. The network, which began in 2007 and has 349 members, allows members to connect with each other, as well as with entrepreneurs, industry leaders, and policymakers at formal and informal events.²⁵ Recent Leadership Network initiatives include a forum on social entrepreneurship and the opportunity to participate in a Leadership Network delegation at the recent ASEAN Young Leaders Summit, a form of Track II diplomacy, which refers to interactions and activities among private citizens or non-state actors from different countries.

Executive Director Simon J. Draper, a former diplomat, currently leads the foundation. A Board of Trustees, comprising individuals drawn from academia, business and government, oversees the foundation's efforts. John Luxton, a New Zealand politician who held federal cabinet positions for nine years, chairs the board.²⁶ Through its Board of Trustees, the foundation maintains high-level endorsement from the New Zealand government — a key similarity between successful organizations surveyed herein.

NEW ZEALAND-CHINA FRIENDSHIP SOCIETY

The New Zealand-China Friendship Society (NZCFS), a not-for-profit organization founded in 1952, works to “[foster] people-to-people links” between China and New Zealand through visits, exchanges, and support for aid projects in China.²⁷ Rewi Alley, a prominent New Zealand-born

writer and activist, served as the “founder and inspiration” for the NZCFS.²⁸ His memory continues to inform the society’s work. Dave Bromwich, who was elected National President in May 2013, currently leads the society.

The organization receives a blend of funding, including about 200,000 RMB per year from a Chinese businessman resident in New Zealand and funding from the Chinese People’s Association for Friendship with Foreign Countries. Until 2013, the organization also tapped into a New Zealand International Aid & Development Agency fund that has now become unavailable to the society.

The organization has since evolved with the launch of NZCFS Youth — the youth branch of the NZCFS — approximately three years ago. Today, NZCFS Youth is active in four of the society’s centres, providing the society with an informal link to youth activities. Before that, the society’s only explicit commitment to youth was an objective that called for 50 % of the society’s members to be under 45. Working largely through New Zealand universities, the youth wing holds pub nights, food-making nights, lectures, and other regular events.

Bromwich says that the decision to create a youth wing came from the National Executive, but that the work to establish and operate the wing was driven by young people. Although NZCFS Youth is relatively underdeveloped compared to other youth organizations surveyed herein, this model of youth-led organizational development offers an important lesson for Canada. “Providing the opportunity to engage and understand is an investment in the future, whether it’s for the society or the New Zealand-China relationship,” Bromwich explained.²⁹ He believes that youth carry this understanding of China forward into their careers.

POLICY RECOMMENDATIONS

Combining elements from each organization, we propose the creation of a nonprofit, non-governmental organization led by Canadian youth for Canadian youth that works to improve the bilateral relationship between Canada and China. Given the similarities between Canada and Australia, including in population size, geographical densities, and levels of global influence, the ACYA offers a compelling model of youth engagement for emulation in Canada.

1. Such an organization should pursue a multi-pronged approach to the development of the Canada–China bilateral relationship. The organization’s programs should ideally consist of three interrelated components: **annual weeklong dialogues** between dedicated Canadian and Chinese youth at locations that alternate between Canada and China; a **mentorship program** that brings together Canadian youth with experienced policymakers and professionals who have firsthand experience in China; and **regular events**, like cultural movie nights and dinners, held throughout campus chapters across Canada to encourage an interest in China.

2. Such an organization should be led by young people, and its programs should be aimed at young people. This will ensure that young people, who are Canada's future businesspeople, entrepreneurs, and policy-makers, feel as if they have a vested interest in Canada-China relations. In particular, the involvement of postsecondary students through campus chapters is key; universities often provide a certain level of funding for student groups, and universities are fertile meeting places for young people with similar interests.
3. Such an organization should leverage the influence of prominent Canadians, like Norman Bethune, a Canadian physician who worked in China, and Mark Rowswell, a media personality who works in China, to cultivate support and trust with the Chinese government.
4. Such an organization should leverage existing interpersonal relationships between influencers on the Canadian and Chinese sides. This will allow the organization to broker support from the Chinese government and lend legitimacy to the organization's work.
5. Such an organization should garner in-kind funding and institutional support from provinces with a vested interest in China, like British Columbia and Ontario, and the highest levels of Canada's Department of Global Affairs, including the Canadian embassy and consulates-general in China. Just as Bromwich recommends: "Get support from them — if not financial support, then at least let them become aware of the activity that you're doing."³⁰
6. Such an organization should form connections with existing Canadian organizations that work to enhance Canada-China bilateral relations, including the Canada China Business Council and the Chinese Canadian National Council.
7. Such an organization should have a blend of government and private-sector funding to ensure buy-in from a broad range of sectors.
8. Such an organization should form connections with similar organizations around the world, including the ACYA and NZCFS Youth.

NOTES

- 1 The authors are extremely grateful to Henry Makeham of Australia-China Youth Association and David Bromwich of New Zealand-China Friendship Society for sharing valuable information about their organizations. All remaining errors are those of the authors.
- 2 "2014 National Opinion Poll, Canadian Views on Asia," by *The Asia Pacific Foundation of Canada*, p. 34; also see the op-ed by David Mulroney, "Canada's an Asia-Pacific country. When our schools forget this, it costs us," *The Globe and Mail* (6 November 2013) <http://www.asiapacific.ca/op-eds/canadas-asia-pacific-country-when-our-schools-forget-it>
- 3 K. Manning, *Pacific imaginaries: Rebuilding Chinese studies in Canada* (Vancouver, BC: Asia Pacific Foundation of Canada, 2012), p. 5.
- 4 See Mulroney, "Canada's an Asia-Pacific Country," and 2014 National Opinion Poll, Canadian Views on Asia, p. 34.
- 5 2014 National Opinion Poll, Canadian Views on Asia, p.25.
- 6 The Canada-China Youth Association, <http://ccyeh.com/wp/>
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- 10 ACYA, <http://www.acya.org.au/australia-china-youth-association-group-acya-group/>
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- 25 Asia New Zealand Foundation, <http://www.asianz.org.nz/about-us/our-programmes/leadership-network>
- 26 Asia New Zealand Foundation, <http://www.asianz.org.nz/about-us/our-people/board-of-trustees>
- 27 New Zealand China Friendship Society, <http://nzchinasociety.org.nz/about-the-new-zealand-china-friendship-society/>
- 28 New Zealand China Friendship Society, <http://nzchinasociety.org.nz/rewi-alley/>
- 29 Dave Bromwich, telephone communication, November 26, 2015
- 30 Dave Bromwich, telephone communication, November 26, 2015

ABSTRACT: Canada, a country that hosts almost two million ethnic Chinese, finds itself at a crossroad. The negativities of a “rising China” circulated among the major Canadian opinion polls and social media despite increases in bilateral trades. Diverging political values between the Canadian public and China have sometimes posed obstacles for collaboration and limited Canada’s efforts in cooperating with China. Under these circumstances, the goal of this chapter is to offer useful policy recommendations that could assist Canadian policymakers and civil society in building strong and sustainable people-to-people relations with the People’s Republic. Thus, this chapter analyzes Canadians’ public perceptions of China and examines the impact of such perception on bilateral relations between the two countries. More importantly, this chapter provides an overview of the plausible mechanisms through which a new understanding of two-way movement in the human dimension could be established, making it the locomotive in empowering people-to-people relations between Canada and China in the coming years.

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From Within: *Improving Canadians' Attitudes Towards China*

LOTUS RUAN AND KARL YAN

INTRODUCTION

Canada and China have enjoyed a dynamic people-to-people relationship that dates back more than a century. From the early Canadian missionaries to China in the late Qing period to Dr. Norman Bethune's heroic efforts in helping the Chinese people to the establishment of formal diplomatic relations in 1970 to today, with over 100,000 Chinese studying in Canada in the twenty-first century, we have seen the relationship bud and bloom. Indeed, Chinese has become the third most spoken language after Canada's two official languages — English and French. Furthermore, Chinese immigrants have ranked top three among visible minority groups in six of Canada's largest metropolitan areas, including Toronto, Vancouver, Edmonton, and Calgary.¹

Despite the growing presence of Chinese population and culture in Canada, one alarming trend should call for the attention of scholars, policymakers and business figures from both countries: the rising public anxiety and negativity held by Canadians towards the People's Republic of China in recent years. Polls conducted in and outside Canada have shown a consistent decline of favourability towards the People's Republic among Canadians despite an increase in bilateral trade.² Thus, Canada finds itself at a cross-road. Diverging and political values between the Canadian public and China pose obstacles for collaboration and potentially limit Canada's efforts in cooperating with China. To China, Canada is a good place that should not be missed because of its wealthy and relatively stable economy, a satisfactory social safety net and a sustaining social system, and the large size of Chinese diaspora in the country. The potential impact of such people-to-people links has made Canada an indispensable part of China's foreign policy.

This chapter analyzes Canadians' public perceptions of China and attempts to examine the impact of such perception on bilateral relations between the two countries. More importantly, this chapter provides an overview of the plausible mechanisms through which the Canadian government can help Canadian civil society to empower people-to-people relations between Canada and China.

CANADIAN PUBLIC OPINION

Public opinion, or to be specific, public understanding and support, matters to policy outcomes.³ Recent opinion polls suggest that perceptions of China from the Canadian public are becoming more negative *despite* the increase in trade volume and flows of education and tourism exchanges between the two countries (see the chapter by Massot). The US-based Pew Research Centre has revealed that Canadians' favourability of China has dropped from 58 % in 2005 to as low as 39 % in 2015.

For example, Canadians' support for trade and investment from China has been decreasing in recent years. In 2004, the Asia Pacific Foundation of Canada (APFC) conducted its first national opinion polls of Canadians' view on Asia, in which 24 % regarded the economic rise of China as a threat and 66 % agreed that Canada should promote increased trade with China. Six years later, in 2010, the results of the second APFC's National Opinion Poll showed a gradual decrease in Canadians' trust or willingness to engage with China. Indeed, only 18 % of Canadians showed support for Chinese FDI to Canada. The latest polling results that came out in June 2015 paints an alarming picture of Canadians' resistance to China, as nearly half of the respondents express opposition to Chinese FDI to Canada.

A case in point is the Nexen-CNOOC sale, in which the Canadian public's anxiety about Chinese investment greatly affected policy. CNOOC, China's largest offshore oil and gas producer, in June 2012 proposed to purchase the Calgary-based Nexen, Canada's 12th largest energy company, for US\$15.1-billion. The sale soon met strong opposition and criticism, not only from Canadian civil society but also from within the Conservative Party. Despite the criticism, then Prime Minister Stephen Harper approved the takeover after seven months of negotiations but he *also* promised that this was the last deal of its kind to be approved (see chapter by McKnight).

Data on Canadians' personal feelings of China offers some explanations on the sources of such growing negativity. During the Nexen-CNOOC negotiation, many Canadians took to social media platforms such as Twitter to express their oppositions. Apart from the commonly seen hashtag #UrgentPetition that opposed the deal, analysis shows that the most cited China-specific reasons by Canadian Twitter users for opposing the deal were "communism", "security threats", "human rights" and "corruption". This coincides with the 2015 APFC National Opinion poll where Canadians expressed their major concerns over Chinese investment. They are, in descending order, "loss of control over resources", "poor labour standards", "environmental damage", "corruption", and "security risk". Three years ago, in 2012, the APFC looked into the words Canadians mostly associated with China. The word that tops the list is "authoritarian", followed by "growing," "corrupt" and "threatening".

Two elements could be attributed to this negativity. On one hand, to most Canadians, China remains an "enigma".⁴ Whereas China is the largest source of international students in Canada and the number of Chinese students studying here continues to grow year on year,⁵ only 3 % of Canadian post-secondary students took advantage of opportunities to study abroad as of 2012. Such figure is half of the participation rates for Australian students. Of those who intend to study abroad, they are mostly looking to go the United

States, United Kingdom, Australia, France and other English- or French-speaking Western countries.⁶ Only 8 to 14 % of Canadians studying abroad chose China, Hong Kong and Taiwan as destinations.⁷ It is safe to conclude that most Canadians are not well informed about China beyond clichés that the country is heavily populated and increasingly visible in the global arena. On the other hand, Canada's nationwide media discourse on China has been dominated by themes that China's huge population was "like a swarm of locusts" who would gradually overwhelm *our* places, exploit *our* local resources and were mean spenders who were incapable of assimilating to Canadian culture and did not contribute to local economy but sent most of their earnings back home. Recent studies confirm that Canadian news media tend to subtly apply racial stereotypes when portraying immigrants.⁸

Public opinion is recognized to be a relatively stable and consistent factor that policymakers should take into consideration.⁹ Negative sentiments can hinder Canada-China relations in two ways: first, weaken Canadians support of Chinese-led initiatives in bilateral relations, especially in trade and commerce; second, limit the Canadian government's ability to seek further cooperation with China. Ultimately, these two factors will result in a de-legitimization of the Canadian government's foreign policy towards China. These two aspects are not mutually exclusive; in fact, they are mutually reinforcing. Thus, how to turn the domestic negativity tide thus becomes a key issue in Canada's engagement with China. Trust should be not only embedded but also woven into the very fabric of the Canadian society.

POLICY RECOMMENDATIONS

Canadians volunteering abroad

One of the most direct ways to improve public opinion is to increase the exposure of China in the daily lives of Canadians, such as by experiencing firsthand Chinese culture and the everyday lives of Chinese people through either travel or international volunteering. In addition, a more direct dialogue and interaction with China, including both native and overseas Chinese, will help to transcend misunderstandings and negative stereotypes. Therefore, we hereby propose two policy recommendations that could make a positive impact on Canadians' public opinion towards China.

Policy recommendation 1: promote and encourage communication and dialogue between Canadian non-profit organizations and Chinese non-profit organizations, and further integrate Chinese communities into Canada's multicultural society by creating a special China or Asian project, supervised and guided by the Canadian International Development Agency (CIDA).

This recommendation works in two ways. First, CIDA as well as all three levels of government should provide more resources to non-profit organizations whose missions are dedicated to improving cultural interaction between Canada and China as well as those organizations that are doing charitable and volunteer work in China. One of the authors of this chapter has worked closely with Chinese-based non-profit and charitable

organizations in the Greater Toronto Area, and as a case study, it is evident that a vast majority of these organizations lack the necessary funding to self-sustain and continue to do the good work they try to achieve. Education International For The Poor (EDUIP), a Chinese based non-profit organization which dedicated to alleviating poverty in rural part of China, faces survival problems every year. Due to lack of funding, EDUIP's operation relies solely upon volunteers. As a result, in the past three years of operation, EDUIP has had a hard time to reach its targeted fundraising goal of CD\$ 20,000 for poverty alleviation in Shaanxi, China. Much of the problem was due to lack of full-time and part-time employees, insufficient sources for fundraising, and limited professional expertise in the non-profit sector.

This is not a unique problem facing Chinese-based non-profit organizations, whose purpose is to do overseas work in China. Love Through Education Foundation, a public foundation at arm's length with EDUIP, DreamNovation, Canadian Rose Club, Care For Life Foundation, Touching Lives Overseas, and Fuhui Education Foundation face similar problems, though Fuhui and Care For Life's fundraising capacity are stronger compared to other Chinese organizations and in fact, are the larger organizations in the Chinese community. However, large Canadian non-profit organizations such as Free the Children and the Canadian Cancer Society dwarfs both Fuhui and Care for Life's fundraising capacity combined together. Thus, if CIDA and all three levels of government, through a special China or Asian project, could help to ease the financial situation, these organizations will work towards effectively spreading their missions and goals in Canada — allowing Canadians direct opportunities to learn about China.

Second, there needs to be more integration and dialogue between Chinese-based non-profit organizations and the broader Canadian society; thus we propose that a platform should be built after funding a special China or Asia project. One of the damning problems facing Chinese-based non-profit organizations (NPOs) in Canada is the lack of access and openness to the broader Canadian public — thus weakening their fundraising capacity. As one of the authors observed, many board members for the aforementioned NPOs do not speak English, do not often associate with the broader Canadian society, and their English ability is inadequate to communicate the NPOs missions and goals clearly to the Canadian public. Further, they are more comfortable working within the Chinese community, thus closing doors for dialogue-building. In an attempt to transcend this norm, the Canadian Rose Club has made several attempts to appeal to the broader society. Such platform is necessary, especially for cultural groups. With open access to the broader Canadian society, these cultural groups can actively engage in cultural exchange and help the Canadian public to learn more about Chinese culture as well as the Chinese state.

Policy recommendation 2: create a platform where Canadians could learn and participate in international volunteer initiatives in China, and this could be netted under CIDA's special China or Asia program.

International volunteering can be one of the most eye-opening and life-changing experiences one could have. The authors have witnessed many native Canadians volunteering abroad, especially in China, while coming back with touching stories from their experiences. However, in the volunteering process, the most salient perspective a Canadian volunteer could gain is the authentic living experience for it can change one's thinking, correcting misjudgments, and dispelling stereotypes that the volunteer may have held prior to the volunteering experience. Thus, the volunteer, being a native Canadian, could return and help to guide and change public opinion in Canada *as well as* in China.

In the past five years, one of the authors had the privilege of working for and managing several international volunteering programs dedicated to improving rural education in China. During his tenure, he witnessed the transformation of all Canadian volunteers from a stereotypical mindset to a much more open and inclusive attitude towards both Chinese society and culture. These volunteers range from students, professionals of various ages, and retirees. They were amazed by the way in which a Chinese national interacts and behaves is not much different from their Canadian counterparts. Furthermore, the volunteers were astonished by the level of modernization and convenience in both urban and rural areas. Most of them wanted to learn more about Chinese society and culture. In many cases, the volunteers have spearheaded both recruitment and marketing efforts in future rounds of volunteer opportunities — they were passionate about their life experiences in China and wanted to share them with the broader Canadian public.

However, like many Chinese non-profit organizations in Canada, these international volunteer organizations lack funding and access to other parts of the Canadian society. A number of factors have culminated in the decision to mainly recruit and market towards Chinese Canadians. For example, leaders of these organizations often do not know how to navigate in a multicultural setting, and they do not have the necessary resources to be inclusive. Further, in most cases, there is an overemphasis in recruiting volunteers from Canadian high school and universities. Thus, there is a boom in the number of university-based student clubs, aiming to take advantage of university groups to spread the word across different cultures and different communities. However, this strategy has not always been optimal as it restricts the target audience to those within education-related communities.

Further, Canadian-based non-profit organizations, such as Engineers without Borders, Science Rendezvous, and Free the Children, lack a China focus. Canada's strict policies on non-profit and charitable groups have made both types of organizations professional in both management as well as in charitable practices. If the Canadian government, especially with CIDA's consultation, could create a platform, large Canadian NPOs could work with Chinese-oriented ones to foster professional practices and access to all parts of the Canadian society. Further, this platform must also open up to the Canadian public where they can gain access and learn more about international volunteering opportunities. This will be effective in two ways. First, it creates opportunities for international organizations to work with their Canadian counterparts, thus enabling them to promote their

mission and goals to a broader audience. Second, a broader audience will be able to learn and possibly participate in these experiences.

These are initial steps by which Canadian civil society could take in improving public opinion among the Canadian public. However, our education institutions could take a more fundamental approach. We believe that student organizations in different universities can play an important but complementary role to these very universities as well as education centres could possibly achieve. With a larger audience, and equipped with powerful administrative and promotion tools, we find them ideal places for cultural exchange and knowledge sharing.

Education initiatives

We believe that two major directions of Canada's education initiatives should be recognized as key to a stable and positive bilateral relation with China. They are: increasing Canadians' Chinese competence to get China right, and establishing solid and continuous exchanges between academics, policy-makers, the private sector and civil society groups. To work towards the two goals, we propose two recommendations in this section.

Policy Recommendations 1: Provide, encourage and promote more opportunities of mobility to Canadian students through study abroad programs, internships or co-op placements in China. Provincial governments, who have exclusive responsibility for all levels of education in their district, should produce a framework for mobility programs at primary, secondary and postsecondary levels, as well as simplify procedures for transferring academic credits from these programs. The governments should also work with schools, the private sectors and non-governmental groups such as the Canadian Bureau for International Education, and the Canadian Society for the Study of Education to explore funding opportunities for students.

The rationales behind this measure are simple: on one hand, students in both countries constitute the future generation of leaders and influencers in academia, policy-making fields and the private sector and are likely to "shape their respective countries' domestic policy, influence their country's priorities, identify its stakes and impact its bilateral relations, consequently".¹⁰ On the other hand, whereas Canadians desire to live in a different culture and the chance to develop global awareness, cost (78%), time away from friends (43%), and concerns about not receiving academic credit (38%) are the main obstacles in making such decision.¹¹ In this regard, Canada has already lagged behind its Australian counterpart. For example, the Melbourne-based Asia Education Foundation has been supporting K-12 teachers, principals, education leaders and school communities to implement the *Asia and Australia's Engagement with Asia* curriculum initiatives. In 2013, the Australian federal government financially supported a National Centre for Asian Capacity to further relevant efforts.

Policy Recommendation 2: Establish Canada-China teaching and research partnership, including China-focused curriculums, offshore course delivery, dual and joint degrees, China-based campuses and schools, consultancy projects, etc. Meanwhile, governments should cancel the fee for accreditation and certification structure for overseas schools.

Canada's China policy over the past 40 years had been based on the central idea that China is a major power outside the mainstream of international society. In line with this view, Canada, as a middle power, can play an active role in improving China's integration into international society.¹² However, Canadians including policy-makers are slow to recognize and accept that China is now a major player inside the mainstream of international society. Understanding China in the old way or making policies that aim to impose Western values upon China would hardly satisfy either of the two countries.¹³

A 2012 APFC report showed that 60 % of Asia practitioners (i.e., Canadians who are connected to and knowledgeable about Asia) had difficulty finding Canadians with the necessary level of knowledge and awareness of Asia to help their company or organization succeed in Asia; 80 % said that building Asian knowledge and expertise is the most critical component of any strategy to build closer relations with Asian countries. Moreover, there are increasing demands from Canadians to place more emphasis on teaching about Asia. It is thus necessary to assess and advance Canada's national skill-set and mental preparation for either a rising China alone or the increasingly integrated relations between Canada and China.

The Asia Pacific Policy Project, initiated by the Institute of Asian Research (IAR) at the University of British Columbia (UBC) may serve as an example of how such partnership can be built. Beginning in 2006, IAR has involved its students in various real-life policy projects — mostly Asia-based — to improve participants' Asia skills. Students not only spend time reading and researching Asian culture, economics, politics and social background, but they often get the chance to travel to their designated country to work with local students and present findings to local communities and / or governments. The positive outcomes of this initiative can and should be replicated to other Canadian institutes and schools.

CONCLUSIONS

To sum up, we proposed four specific forms of civil society-led interactions:

1. Promote and encourage communication and dialogue building between Canadian non-profit organizations and Chinese non-profit organizations, and further integrate Chinese communities into Canada's multicultural society by creating a special China or Asian project, supervised and guided by the Canadian International Development Agency (CIDA).
2. Help create a platform where Canadians could learn and participate in international volunteer initiatives in China, and this could be netted under CIDA's special China or Asia program.

3. Provide, encourage and promote more opportunities of mobility to Canadian students through study abroad programs, internships or co-op placements in China. Provincial governments, who have exclusive responsibility for all levels of education in their district, should produce a framework for mobility programs at primary, secondary and postsecondary levels, as well as simplify procedures for transferring academic credits from these programs. The governments should also work with schools, the private sectors and non-governmental groups such as the Canadian Bureau for International Education, the Canadian Society for the Study of Education to explore funding opportunities for students.
4. Establish Canada-China teaching and research partnership, including China-focused curriculums, offshore course delivery, dual and joint degrees, China-based campuses and schools, consultancy projects, etc. Meanwhile, governments should cancel the fee for accreditation and certification structure for overseas schools.

110

Prime Minister Justin Trudeau has pledged to strengthen co-operation with China after his father's historic engagement who established Canadian diplomatic relations with China before the United States did. As Luo Zhaohui, the Chinese Ambassador to Canada, posited, "Developing China-Canada relations is like sailing against currents. You either advance or recede." Same rules apply to Canada and the declining Canadian's favorability towards China in recent years is both alarming and may be detrimental to further engagements between the two countries. To turn back the tide, people-to-people links especially those initiated by civil society are the key to solving the deadlock.

NOTES

- 1 Statistics Canada, "Immigration and Ethnocultural diversity in Canada" (2011) <http://www12.statcan.gc.ca/nhs-enm/2011/as-sa/99-010-x/99-010-x2011001-eng.cfm>
- 2 Can be seen in both Nathan Allen, "Keeping rising Asia at a distance: Canadian attitudes toward trade agreements with Asian countries." *International Journal*. Vol.70 No.2(2015), pp. 286–308. and Paul Evans. *Engaging China: Myth, Aspiration, and Strategy in Canadian Policy from Trudeau to Harper* (Toronto: University of Toronto Press, 2014).
- 3 Paul Burstein, "The Impact of Public Opinion on Public Policy: A Review and Agenda." *Political Research Quarterly*. Vol. 56, No.1 (2003), pp. 29–40.
- 4 Wendy Dobson and Paul Evans, "The Future of Canada's Relationship with China." *IRPP Policy Horizons Essay*. (2015), p. 4.
- 5 Government of Canada, "Studying in Canada" (2015). <http://www.canadainternational.gc.ca/china-chine/study-etudie/index.aspx?lang=eng>
- 6 United Nations Educational, Scientific and Cultural Organization, "Global Flow of Tertiary-Level Students." *UNESCO Institute for Statistic* (2014). <http://www.uis.unesco.org/Education/Pages/international-student-flow-viz.aspx>
- 7 Canadian Bureau of International Education, "A World of Learning: Canada's Performance and Potential in International Education." (2013). http://net.cbie.ca/download/CBIE_A%20World%20of%20Learning_English_web%20high%20res.pdf
- 8 Can be seen in Wendy Chan, "News Media Representations of Immigrants in the Canadian Criminal Justice System." *Centre of Excellence for Research on Immigration and Diversity* (2013), and in Jinsuk Yang, "Representations of Immigrant Students in Canadian Print News Media: A Critical Discourse Analysis," *Critical Intersections in Education: An OISE/UT Students' Journal*. No.2 (2014), pp. 27–43.
- 9 Benjamin Page and Marshall Bouton, *The Foreign Policy Disconnect: What Americans Want from Our Leaders But Don't Get*. (Chicago: University of Chicago Press, 2016).
- 10 Can be seen in Huhua Cao, "Introduction: Sustainability of Sino-Canadian Partnership" in *Facing China as a New Global Superpower: Domestic and International Dynamics from a Multidisciplinary Angle*, ed. Huhua Cao and Jeremy Paltiel. (Springer, 2015) pp.1–12.
- 11 Canadian Bureau for International Education, "A World of Learning: Canada's Performance and Potential in International Education" (2012) <http://cbie-bcei.ca/wp-content/uploads/2012/11/flagship-report-exec-summary-E-v4.pdf>.
- 12 Bernie Michael Frolic, "Canada and China at 40," *Asia Colloquia Papers*. Vol.1, No.1 (2011), pp. 1–31.
- 13 Jeremy Paltiel, "Reimagining Canada's present and future in the shadow of China's Rise" in *The China Challenge: Sino-Canadian Relations in the 21st century*, ed. Huhua Cao and Vivienne Poy. (Ottawa: University of Ottawa Press, 2011).

ABSTRACT: This volume was inspired by the conviction that Canada lacks a thoughtful, comprehensive and long-term foreign policy approach to China, a country whose influence and importance makes effective engagement critical to our prosperity, security and well-being. Used to approaching our relationship with the United States as something more akin to a state of being than a process to be managed, Canadians have felt free to conduct our broader international affairs at a tempo and with a degree of commitment entirely dependent on our own changing national mood. The articles in this volume offer a convincing and timely alternative path. Taken together, the chapters make a compelling case for China as an entirely new kind of partner, one that is steadily engaging us, and one whose own agenda offers us formidable challenges along with unprecedented opportunities. Taken one by one, the articles offer an encouraging way forward, breaking down our shared agenda into components susceptible to our effort, initiative and considerable diplomatic skill, “crossing the river,” as Deng Xiaoping would say, “by feeling for the stones.”

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After 45 Years, It's Time to Grow Up

DAVID MULRONEY

The Canada-China diplomatic relationship has endured for 45 years. Given China's dramatic rise to global prominence, the relationship should be a priority for Canada's government, and for Canadians in general. But as the chapters of this volume show, one constant in those four-and-a-half decades has been Canada's struggle to define its role in a partnership with a rapidly changing China.

- For Canada, that has partly been a problem of perception. We have failed to come to terms with a changing power dynamic in which we are no longer the senior or even equal partner in the relationship. China is more than capable of engaging us, and of shaping the relationship according to its own objectives.
- Ours is also partly a problem of policy implementation. We have failed to bring a consistent sense of priority to the relationship; instead, we have come to think that reciting a long and sometimes contradictory inventory of Canadian concerns and interests constitutes a China strategy.
- Finally, recent federal and provincial governments have been wary of appearing too close to China and its leadership because they sensed, rightly, that they lack the political mandate for a course of action that the Canadian public has not fully endorsed. Polling has shown that Canadians are generally cool to China, compared to other potential partners, and unconvinced of the need for closer ties. That's partly because governments have been unwilling or unable to make the case to Canadians that engaging a country is not the same as agreeing with it. Indeed, it is precisely *because* China is a great power that is manifestly not like us that we need to bring consistency and focus to the relationship.

This is another way of saying that engaging China requires of us an entirely new and much more sophisticated approach to foreign policy. Canada's struggle to come to terms with China, to see it steadily and see it whole, involves overcoming a number of fallacies. From my reading of this volume, I have distilled four recurring national myths that have impeded

efforts to build the kind of productive relationship with China that will contribute to our future security, prosperity and, considering China's impact on the environment, global health and food safety, our well-being (*particularly on security, see chapters by Dewitt and Welch, and Paltiel and on health see the chapter by Zakus*).

The first of these fallacies is the belief that Canada *alone* determines the nature and tempo of the relationship. This reflects our nostalgia for a vanishing world in which our main international concerns — security, prosperity and our considerable stake in a healthy global commons — have largely been worked out through our relationship with the United States. As a result, Canada's foreign-policy focus has often depended on the latest international headline or crisis, or simply the vagaries of the Prime Minister's travel schedule. This has led to an inconsistent, on-again off-again approach to foreign policy that has lasted, through governments Liberal and Conservative, to the present. Indeed, this inconsistency largely undermined the Harper government's approach to China.

Our long-standing conviction that we largely determine the nature of our engagement with the world beyond the US has left us perplexed by the rise of China as an economic and military superpower that is able to engage Canada as it wishes. What makes this all the more challenging for Canada is that this engagement isn't only manifested through familiar state-to-state mechanisms but also via the energy, enthusiasm and cash of China's newly footloose and newly prosperous citizens. China's impact on Canada's housing market, tourism industry, and education system, are as worthy of careful study and creative policy response as are policy approaches to climate change or navigation in the South China Sea (*see the chapter by Dewitt and Welch*). But neither dimension—people-to-people or state-to-state—has generated the kind of broad national debate that Australia, a country that outperforms us in China when it comes to economic, political and cultural links, is conducting.

This Canadian insouciance and naivete contribute to a second fallacy: to underestimate or simply ignore structures and mechanisms that could help us to plan and manage key elements of the relationship. It should not surprise us that China, a state that still sees value in central planning and control, should prefer to manage its bilateral relationships along similarly bureaucratic and state-centric lines. China's penchant for classifying and ordering its most important partnerships is also a means of signaling to its vast bureaucracy what is and isn't possible with particular partners. Unlike Australia, which has been successful in institutionalizing its "strategic partnership" with China, moving an evolving agenda forward through an annual series of high-level exchanges, various Canadian governments have struggled to bring the same level of consistent focus to our own version of strategic partnership. This lack of interest is particularly hard to explain given how many countries would eagerly take up the relatively privileged position with China that has always been on offer to us.

Our third fallacy is the assumption that China is either unknowable or, worse, not worth the trouble of getting to know. By contrast, Australia avoided the fallacy by heavily investing in China-related scholarship and research (*see chapters by Ong and Flynn, and Ruan and Yan*). We seem

untroubled as a country that our level of China competence is, but for the happy fact of high levels of immigration from the PRC, relatively low. This is alarmingly true if we look at how few of the people who serve on corporate boards, in the ranks of the senior public service or in the media have significant China experience. Access to Chinese-language training across the country is worryingly uneven. Worse, we are not even beginning to take up the remedial work in expanding Mandarin-language capability and opportunities for in-China work experience that is already underway in the United States, Australia, New Zealand, the UK, France and Germany. As our contributors make clear in this volume, careful, dispassionate study of the Chinese system ultimately helps to build understanding and demolishes myths. Taking the trouble to gather information, study trends and analyze relevant data — what Mao called “seeking truth from facts” — is as beneficial to our interests vis-à-vis the PRC as it is everywhere else.

Which gets us to the fourth fallacy: our tendency to see China as we want it to be, rather than as it is. Much of what passes for China commentary is coloured by emotion. For some analysts, the emotion is fear — fear of a rising China that seems intent on dominating its region, of rolling back human rights at home and abroad, of acquiring by whatever means necessary technologies developed by others. This one-sided view fails to consider the broader spectrum of Chinese perceptions, intentions and aspirations, and attributes to China a monolithic status that is wildly misleading. The negative perception is also tinged with nostalgia for a time when China could be safely contained by US power and influence.

At the other extreme, other commentators appear driven by misplaced optimism, the naïve hope that navigating a world that is heavily influenced by China will be as easy for us as navigating a US-dominated world has been. Many of these optimists seem intent on seeing China largely through an economic lens, which means focussing on the undeniable attractiveness of the Chinese market for goods and services. Others appear to assume that the respect and friendship that the Chinese people deserve from us are equally deserved by the Chinese state.

Of course, not everybody who attaches priority to Canada having a “positive” relationship with China is an optimist. We also hear the occasional note of discouragement and despair from those who believe that our future is largely decided. We have no choice but to acquiesce to a Chinese agenda, no matter how problematic, simply because China is so big and influential.

As several contributors (*see chapters by Dobson and Evans, Massot, Ong and Flynn, and Ruan and Yan*) have pointed out in this volume, public opinion surveys show that Canadians are largely in the first camp, among the ranks of the worried and increasingly suspicious. While such concerns fail to take into account the complexity and diversity of our relationship with China, they are not entirely wrong. When Canadians look at the record of Chinese investment in the developing world, they have reasons to question Chinese investment intentions and behaviour in Canada. Consideration of China’s opaque governance structures and deeply flawed legal system (*see chapters by Potter, and Malkin and Zhang*) naturally leads many to question China’s ambition to host and lead rules-based multilateral institutions.

And China's failure to respect basic human rights undermines the willingness of many Canadians to consider China a full and respected partner. This is particularly true as an increasingly powerful and influential China exports its norms and values into its region and beyond.

Seeing China as it is important — isn't that the *sine qua non* for establishing a successful partnership with any country? Perhaps the challenge inherent in engaging China effectively is also the challenge of delivering the kind of clear-eyed foreign policy that Canada requires more generally.

We need to grow up and understand that big, important countries like China are capable of engaging and influencing us according to their own interests and ambitions. And because we are almost always the smaller party in such relationships, we will always have to work harder at influencing our shared agenda.

Of there is a common thread in the contributions that make up this volume, it is that China is susceptible to our efforts to know it, and even to influence it.

But doing this will demand of us a rare degree of focus and discipline.

We need to work much harder at thinking about the limited number of very important things that we want from China. We have to put much more energy and creativity into the bilateral mechanisms and institutions most likely to secure these ends. And if that requires us to attach *priority* — the most hated word in the Canadian bureaucratic lexicon — to China, so be it.

It also means that we as a society need to invest the money and time required to become more China competent. That means expanding training in Mandarin-language training and in-China work and educational experiences (*see chapters by Ruan and Yan, and Ong and Flynn*). It means bringing discipline, rigour and money to our research into the implications of China's rise for Canada. And it means adapting, quickly, to a Canada that will have many more Chinese tourists, students and home buyers. If we think carefully about this people-to-people interaction, and develop smart policies to deal with its momentum, size and differentiated regional impact, we're more likely to welcome what's happening and to benefit from it.

Finally, we need to be prudent, self-aware and realistic. Although we like to tell ourselves that the world needs more Canada, it is actually going to get more China. This is bringing challenges as well as opportunities. To paraphrase China watcher James Fallows, we shouldn't fear China, but we should respect it.

We should respect ourselves, too. Although we have had a hard time keeping up with a changing China, Canadians have done better than most when it comes to engaging this dynamic, compelling and frequently insecure partner. Although our 45 years of diplomatic relations have witnessed episodes of confusion, ambiguity and inconsistency, they have also been illuminated by periods of inspired success, achieved largely through the same discipline, focus and self-confident effort that the contributors to this volume consistently call for.

The choice before us isn't whether or not to engage China. The government and people of China will almost certainly continue to engage us—and on their own terms. The real choice is in determining how we manage our side of the relationship. After 45 years, we should by now have come to terms with the fact that we don't have 100% control of the relationship. But that's not the same as saying that we have no control.

The contributors to this volume offer solid, sensible advice about maximizing our role in managing the relationship. They offer a call to action and to policy leadership on a very important, truly national priority. In doing so, they point to a more sophisticated, nuanced and objective-driven Canadian foreign policy. Their advice is worth considering, and carefully, as we embark on the next chapter in the Canada-China relationship.

CHINA OPEN RESEARCH NETWORK (CORN) at the Department of Political Science of the University of Toronto is an academic group consisting of doctoral and post-doctoral students committed to pursuing, developing, and distributing inter-disciplinary research and knowledge about China broadly understood. The mission of CORN is to foster greater scholarly understanding on China by sharing scholarly works and information of research experience in China for the current doctoral and post-doctoral students. Furthermore, CORN is a network connecting students and researchers affiliated with different universities from around the world conducting research on China. The online hub (www.politics.utoronto.ca/corn) creates a point of contact for scholars working on China that fosters communication and conversation ultimately benefiting current and future scholars.

THE ASIAN INSTITUTE, housed at the Munk School of Global Affairs in the University of Toronto, is a hub of cutting-edge research and teaching on contemporary Asia that spans the social sciences and humanities. We bring together leading scholars and students to push the boundaries of intellectual inquiry in the classrooms through conferences, seminars, and innovative interdisciplinary initiatives, shaping the global conversation about Asia. At the heart of the Asian Institute are our students. The AI is committed to providing innovative experiential learning opportunities and supporting outstanding student initiatives, shaping good global citizens and a future generation of leaders. We are proud to support CORN's research and outreach initiatives, and to steer this landmark publication.

The year 2015 marks the forty-fifth anniversary of the opening of formal diplomatic relations between Canada and the People's Republic of China.

From Prime Minister Pierre Trudeau's first enthusiastic trip to China in 1973, to the ups and downs that characterized bilateral relations during the last ten years, ties between the two countries have changed dramatically over the years. Today, Canada's economic and diplomatic relations with China remain below its true potential. Despite concerted efforts by both sides, a host of challenges stand in the way of Canada for constructing a truly strategic partnership with the People's Republic of China that include Canadian party politics, domestic public opinion, competing private sector interests, and a desire to engage a rising China while standing by a traditional ally like the United States.

In this context, comprehensive policy debates on Sino-Canadian relations by academics remain rare. This short policy-focused volume addresses that gap. Bringing together both senior and emerging China scholars from academic institutions across Canada, this volume provides informed analysis on a range of issues related to Canada's relations with China, including trade, investment and business, legal reform, public health, foreign policy, resource industries, and people-to-people relations. The insights of this volume's contributors can help to reorient policy debates and provide new perspectives on Canada's relations with China.