

Canada and the China Question

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The title for my presentation is inspired from a famous book in Canadian history *Canada and the Canadian Question*. In 1891 it argued that Canada was an unnatural entity. The Canadian system of government was inferior to the American model and Canada's ultimate destiny would be absorption by the United States. Generations of Canadians have proven this to be wrong.

But if that questions has been settled, in the 21st century we are going to face a controversial question that I have called the China Question. Is Canada prepared to move out of the American orbit and align itself with a new world order envisaged by China? The future of Canada-China relations to say nothing of Canada's economic prosperity depend on the answer. With that question in mind I look at some recent developments in the relationship.

Let me start with a China Policy document that was part of the transition papers prepared by public service officials during the 2015 election campaign. This is a normal practice in the event of a change in government but usually these are secret. The China Policy document was leaked to a Vancouver newspaper. It said

- Canada is stumbling behind its western allies in the race to develop a strong relationship with China, .
- Ottawa “cannot continue to approach China in an episodic way,”
- China presents vast economic opportunities, for a new government
- Ottawa must stop sending inconsistent messages about China, and instead launch a “national conversation” to “inform public opinion about the importance of China to future prosperity” and “address negative opinions.”
- Greater engagement means less priority to other relationships.
- Calls for a “cabinet strategy” that would include an annual meeting between the Canadian prime minister and Chinese president, an annual cabinet meeting devoted to China, the launch of negotiations towards an “economic partnership agreement,” closer defence relations, and bilateral meetings among ministers on natural resources, agriculture and the environment.

I am not sure who wrote that document but the head of the Trudeau transition team was Peter Harder, a former public servant who was also head of the Canada China Business Council and who is now an influential member of the Senate of Canada.

In January 2016 a senior Chinese official, Han Jun visited to Canada to talk about Trade and other issues.

- “China is the biggest importer of agricultural products in the world and, also, we are one of the countries with the highest dependency on imported energy from other countries,”
- “If there is an FTA arrangement between China and Canada, you can see a flooding of potash, agricultural products and energy products from Canada to the market of China.”

Key issues of interest to China

- Changes to foreign investment policies
- commitment to build an energy pipeline to the coast.

In June Foreign Minister Yi Wang visited Canada and made a multi-point proposal regarding direction of Canada China Relations. Among other things he proposed co-operation in the administration of justice, law enforcement, combating corruption, in order to hunt-down fugitive offenders, and recovery of illegal proceeds

Overshadowed by an answer or a non answer to a journalist’s question about human rights which attracted all the publicity.

In September we had the visit of Justin Trudeau to China and Premier Li to Canada. Among the accomplishments of the visit

- Canada agreed to join the Asian Infrastructure Investment Bank.
- agreed to hold an annual Leaders’ dialogue
- agreed to extend deadline for Chinese changes to its regulations for Canadian canola imports..
- opening of new visa offices in China
- launch of a Canadian “pavilion” on Alibaba’s Tmall platform
- possibility to look at negotiating an extradition treaty
- agreed to feasibility study on free trade.

It was disappointing in my view that Canada did not go beyond agreeing to a feasibility study and appoint a negotiator to start negotiations.

The Australian Experience

In June 2015, following nearly ten years of negotiations, Australia and China completed what some have called the most comprehensive free trade agreement that China has ever signed and one that contains “best-ever” Chinese commitments in a number of sectors. This could be a template for an agreement with Canada with only a few areas requiring more negotiation. Unlikely China is going to offer better terms than it did to Australia

In January 2016 the Canada-China Business Council commissioned a report that attempted to quantify the impact for Canada using the 33 sectors covered in the China-Australia Free Trade Agreement.

It argued that a free trade agreement with China would result in a \$7.8 billion increase in GDP by 2030, a boost of about 0.14 percent in real terms. The comparable gains for China are about \$5.6 billion or about 0.02 percent over the same period.

It further demonstrates that the agreement would divert trade away from the United States in the amount of \$2.7 billion in GDP by 2030.

Economic gains would be measured not just in new export sales opportunities but also in lower-priced imports for consumers and as inputs for manufacturing. The combined effect results in an estimated increase of \$5.7 billion to Canadian household income by 2030. The economic activity will result in greater Foreign Direct Investment in Canada: the increase in the foreign-owned capital stock in Canada would amount to 0.11 percent in 2030.

By 2030, Canada’s overall exports to China were projected to grow by \$7.7 billion annually and total shipments by \$10.4 billion. Employment was also projected to increase as a result of increased demand and the additional economic activity stimulated by the agreement. This could amount to about 25,000 additional jobs in Canada across all skill levels.

All these numbers are based on certain assumptions. I do not have the time to go over all aspects of the agreement but two general points:

Fairly modest numbers

Areas that would have to be specifically tailored to Canada (canola is excluded from the agreement with Australia)

Obstacles

Despite the Australian agreement and the change in government in Canada the prospects for a Canada-China free trade agreement have not really changed.

One obstacle is a general skepticism with free trade agreements related to the debate in the United States presidential election campaign. Many blame trade agreements for the loss of jobs and the unequal distribution of wealth. Canadian media follow US elections closely as Americans and this trashing of free trade may have cooled some enthusiasm across the border.

It also appears that Mr. Trudeau, unlike his father, is not prepared to be significantly out of step with the Americans. With China playing an important part in the United States election the younger Mr. Trudeau was unlikely to make any decisions until he sees the nature of the new American administration in November.

A second obstacle is the view among some of the public policy community that China lacks certain qualities required of a free trade partner. It is sometimes compared unfavourably to other Asian states including Japan. Pro TPP group (Australia has both)

A third obstacle outlined by a former Canadian Ambassador is that Canadians seem unwilling to see China as it is rather than as what they would like it to be. “This reflects our nostalgia for a vanishing world in which our main international concerns have largely been worked out through our relationship with the United States.”

A fourth obstacle is that Canada has underestimated or ignored structures and mechanisms that could help to manage the relationship. Australia has been more successful in formalizing a strategic partnership with China. Paltiel “We need to institutionalize our bilateral relations through broader and deeper direct government to government exchanges that will build trust by having officials work together side by side toward 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.” (Palteil)

Evans “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 international financial system and disease control.” (Evans)

A fifth obstacle, particularly during the Harper years was that Canada “has been obsessed with a distinction between pursuing commercial and diplomatic opportunities versus promoting human rights” As a result Canada adopted a “cool politics, warm economics” policy toward the PRC. It remains to be seen if the Trudeau government understands that a good relationship is based on more than economics.

A sixth obstacle relates to public opinion. All democratic governments worry about their standing in the court of public opinion but the Trudeau government seems particularly concerned about this. While some public opinion polls commissioned by industries doing business with China seem to show some movement in Canadian opinion toward China. Other polls indicate this is still a problem.

Beyond Free Trade

My main point is that we have to think beyond economic and free trade issues. In recent times China has articulated a new vision of the global order based on the notion of a “community of common destiny” The “One Belt One Road” idea is designed to unite the planet through infrastructure and trade. Its goal is to lift millions around the world out of poverty just as it has done within China.

This is a grand vision and not one that will be accomplished in a single or even multiple 5 year plans. But as an idea and a vision it deserves to be mentioned in the same breath as the American post war Marshall Plan or Victor Hugo’s idea for an united Europe.

A Chinese vision for the world would be more pluricentric with several regional powers. It would be unlike the cold war world with two competing ideologies striving to impose themselves on the rest of the world. It would also be unlike the present uni-power world where the United States deploys its military forces to try and shape events to its interests. A multi-polar world characterized by more tolerance for different kinds of governance structure and less talk about universal values would likely be a more peaceful and prosperous world.

Canada needs to insert itself into this vision just as we inserted ourselves into and embraced the old British concept of Empire and the later American post war vision of rules-based internationalism. Evans The challenge is for Canadians to recognize and assist in the transition from a world order “premised on American primacy that can no longer be maintained to an order that has not yet taken shape.” (Evans)

A small but optimistic sign that Canada might be moving in the right direction occurred in April 2016 when a group of Chinese engineers met in Ottawa with some parliamentarians to discuss a project to build a 340 mile rail link to some

potentially rich resource areas in a sparsely populated area of northern Ontario. The idea to build the line has been stalled for years because of a lack of capital and short term thinking about the price of commodities.

The engineers are expected to complete a detailed feasibility study on the rail project within four months that would then be presented to Chinese financial institutions. This will be a good test of whether Canada is prepared to move beyond words and toward real projects with real impacts on Canadian society and bilateral relations.

An even better signal would be for Canada to endorse the recent Chinese idea of building a rail link from China through Russia, across the Bering Strait to Alaska and then through Canada to the continental United States.

The political difficulties of such a project dwarf the technological challenges. But the dream has been nurtured for years by Russian, American and other visionaries. Canada should not only lend its support to such a project but play a leading role in bringing the parties together and pushing the idea forward. That would be a kind of signal that Canada is willing to insert itself into the Chinese vision of the world. This type of big thinking, led by China and with Canada as an active supporter, could transform the world economy and international relations in ways we can barely imagine.