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# CANADA IN CHINA'S GRAND STRATEGY

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## ABSTRACT

The twisted course of Sino-Canadian relations since the Harper Conservative government acceded to power in January 2006 has rightly focused attention on the foundations of our bilateral relationship. This paper ventures a look at the basis of the bilateral relationship from the Chinese perspective. It looks at the overall objectives of China's political and diplomatic strategy, how Chinese policy is made and the explicit and implicit place allotted to Canada within China's overall foreign policy. Canada's place in China's grand strategy will be approached from two directions: the role assigned to bilateral relations with Canada as found in various Chinese foreign policy announcements and the potential role for Canada within the overall objectives of China's grand strategy. The paper also looks at the scale of cooperation under present conditions versus the scope for cooperation that could be articulated as compatible with China's overall foreign policy objectives consistent with Canadian foreign policy goals and objectives. The Canadian experience is offset by brief comparisons with France and Australia and some suggestions are offered on how to anchor the bilateral relationship on a sounder and more stable framework that takes into account Canada's unique opportunities given China's changing place in the global balance.

## RÉSUMÉ

Depuis l'arrivée au pouvoir du gouvernement conservateur de Stephen Harper en janvier 2006, les relations sino-canadiennes ont emprunté un parcours sinueux qui a légitimement recentré l'attention sur les fondements de nos liens bilatéraux. Cette étude se risque à examiner ces fondements du point de vue de la Chine. Elle examine ainsi les objectifs généraux de la stratégie politique et diplomatique chinoise, l'élaboration des politiques de la Chine et la place aussi bien explicite qu'implicite qu'elle accorde au Canada dans l'ensemble de sa politique étrangère. Une place analysée suivant deux axes : le rôle attribué aux liens avec le Canada tel que l'expriment différentes déclarations chinoises, et le rôle éventuel du Canada au sein des grands objectifs de la stratégie globale de la Chine. L'étude évalue aussi l'étendue de la coopération actuelle entre les deux pays par rapport à celle qui pourrait correspondre aux grands objectifs de la politique étrangère chinoise lorsqu'ils coïncident avec ceux de la politique étrangère canadienne. Enfin, on y compare brièvement la situation du Canada à celle de la France et de l'Australie, tout en offrant quelques suggestions sur les moyens d'ancrer nos liens bilatéraux dans un cadre plus stable et plus fructueux qui tienne compte des opportunités uniques offertes au Canada à l'heure où évolue rapidement le rôle de la Chine dans l'équilibre mondial.

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The opinions expressed in this paper are those of the author and do not necessarily reflect the views of the Canadian International Council, its Senate or its Board of Directors.

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## INTRODUCTION

This paper looks at Canada through the lens of Chinese policy making. It looks at the overall objectives of China's political and diplomatic strategy, how Chinese policy is made and the explicit and implicit place allotted to Canada within China's overall foreign policy. Canada is rarely named directly as one of China's key diplomatic partners or as a strategic target of China's overall policy. Canada's place in China's grand strategy, therefore, will be approached from two directions: the role assigned to bilateral relations with Canada as found in various Chinese foreign policy announcements and the potential role for Canada within the overall objectives of China's grand strategy. The paper also looks at the scale of cooperation under present conditions versus the scope for cooperation that could be articulated as compatible with China's overall foreign policy objectives consistent with Canadian foreign policy goals and objectives.

China's primary foreign policy objective is to assume a position as a global power consistent with China's traditional self-perception as a leading world civilization.<sup>1</sup> Within this overall objective, China's first purpose is to facilitate its domestic development as an economic powerhouse on par with the advanced industrial states. Self-perception as a great power is twinned with China's perception of its modern history as a *victim* of the Western great powers and along with this, an identification with the ex-colonial nations as a developing country. China projects itself as worthy of great power status at the same time as it identifies with developing countries. This is now formulated as China being the 'world's largest developing country.' To reach its objective of development, China's leaders have concluded that China must maintain a posture that is open to global trade and investment as the only way to ensure that its industry and technology are globally competitive.

As a state that has benefitted from an open global economy perhaps better than any other, China is therefore committed to an open global trading order and to a global environment conducive to economic development. Beyond that, Chinese leaders see China as a model of successful economic development and are determined to demonstrate that China can have a role in accelerating and facilitating economic development in the former colonies of the developing world. China regards its character as a developing country that was victimized by colonialism and imperialism as a fundamental aspect of Chinese identity and a primary aspect of its relationship with the advanced industrial economies and the developing world. While Canada was never a colonial power, China identifies Canada as part of the Western culture that prospered in the face of and, more pointedly, at the expense of China's humiliation in the 19<sup>th</sup> and the first half of the 20<sup>th</sup> centuries. Along with other Western states, Chinese tend to regard criticism of China's political record as tinged with historical attitudes of cultural arrogance and racism, however sincerely they may be intended.

## HIERARCHY AND EQUALITY IN CHINESE FOREIGN RELATIONS: FRIENDS AND ENEMIES

There is an 'elective affinity' between the consensus-based decision-making process exercised inside the Chinese Communist Party (CCP) and the kind of diplomacy practised by the People's Republic of China (PRC). The concept of harmony and the doctrine of the mean rooted in Confucian thought are complemented by the United Front tactics perfected by Mao Zedong during the Civil War that ultimately led to Communist

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<sup>1</sup> See the author's *The Empire's New Clothes: Cultural Particularism and Universal Value in China's Quest for Global Status* (New York: Palgrave, 2007), especially 1-27.

victory in 1949. This concept calls for a broad-based unity of forces in the friendly camp and the isolation of 'the enemy'. China's policy makers like to paint themselves as standing inside a broad front of like-minded nations while concentrating their opprobrium on a 'small group' of wilful opponents. To maintain this stance requires a considerable forbearance with respect to actors who do not constitute the main focus of disapproval and active bridge building to maintain a plurality of actors engaged on the friendly side.

References to "friendship" in Chinese foreign policy discourse are so pervasive as to prompt analysis as part of Chinese operational codes. The first sentence in the first article in Mao Zedong's *Selected Works* reads "Who are our enemies? Who are our friends? This is a question of first importance for the revolution."<sup>2</sup> This dividing line is a basic factor in a strategic calculus of the United Front: "to ensure that we will definitely achieve success [...] we must pay attention to uniting with our real friends in order to attack our real enemies."<sup>3</sup> Fundamentally, this means that the categorization of "friend" or "enemy" decides whether the relationship is one which is to be cultivated, even at some cost, or whether the target is to be isolated and attacked. These categories are not permanent but shift in accordance with immediate strategic needs.

Friendship, therefore, is not a permanent condition, nor does it signal a permanent alignment. It is not contractual, although it signals the potential for useful reciprocity, together with expectations about sensitivity and restraint with respect to interests and issues that China considers and communicates as important. Lack of consideration for this can tilt the relationship towards the "hostile" category and invite retaliation. Friendship is a general and dichotomous category that coexists with a hierarchy of interests and relationships that are identified as important.

The dichotomous mode of engagement between friends and enemies involves contrasting approaches to interaction. Among friends and partners, the watchword in negotiation is *baotong cunyi* – to preserve points of agreement, set aside differences or underline agreement. With enemies, on the other hand the watchword is *huaqing jiexian* – to draw a clear line of demarcation or underline differences by clearly dissociating yourself from the other. Within a framework of hostile relations, agreements may only be temporary, contingent, instrumental and unstable. In general, as China has embraced globalization and global engagement, the circle of identifiable enemies has shrunk considerably. Likewise, a regime that celebrates social harmony under Party leadership is reluctant to highlight the presence of hostile elements. Nevertheless, a regime that insists on governance that dissents from liberal universalism must maintain a floating discourse of endangerment from vaguely defined hostile powers loosely identified with the West. Internal opponents that are clearly identified as opposed to the interests of the Party and State are then linked to these outside forces. Identifiable enemies against whom clear lines of distinction must be drawn most prominently include the Dalai Lama. For this reason, merely favouring dialogue with the Dalai Lama or celebrating his spiritual role is regarded as 'unfriendly.' When former Chinese President Jiang Zemin referred to former Canadian Prime Minister Chrétien as *lao pengyou* or 'old friend' this carried operational significance in the signal it sent to officials of lower rank.<sup>4</sup> It meant that cultivating relations with Canadians would be viewed with favour.

<sup>2</sup> Mao Zedong, *Selected Works of Mao Tse-tung Volume 1* (Beijing: Foreign Languages Press, 1965).

<sup>3</sup> Ibid.

<sup>4</sup> "Jiang Zemin Hui Jian Jianada Zongli Sefu Rang Keleidi'an," ("Jiang Zemin to Meet with Canadian Prime Minister Jean Chretien") Cnlist.com, October 24, 2003, <http://news.cnlist.com/Detail/dt/lmb.%7B29687B4E-05F1-11D8-8527-0080AD0F0E46%7D.html>. 2003-10-24 (accessed December 10, 2009).

Chinese foreign policy since the 1980s has focused on stabilizing China's immediate environment to ensure the appropriate environment for 'peace and development.' The late Deng Xiaoping termed this 'and independent foreign policy of peace.' The Chinese government sees rapid economic growth as the best guarantee of domestic stability. For this to occur China needs to maintain an open economy and guarantee an open global economy to keep up trade and investment.

## CURRENT AND LONG-TERM CHINESE FOREIGN POLICY GOALS

For the past three decades, China's primary foreign policy goal has been to ensure a stable foreign policy environment in which to pursue long-term development. This basic orientation has not changed; however, as China progressively meets its developmental goals and as its global weight increases, China's impact on the global political economy and security environment have shifted so that its foreign policy tactics and medium-term goals have to adjust alongside this. If one were to divide up the past three decades of reform, the first decade could be seen as the decade of opening up and ad-hoc policy adjustment; the second decade, roughly from Deng Xiaoping's Southern Tour of 1992 until the retirement of Jiang Zemin in 2002, could be considered the decade of institutionalizing markets and globalization (including China's entry into the World Trade Organization (WTO)) and the current decade is the decade of China's emergence as a global power. Thus, if the slogan of the 1990's was "linking rails to the international" or adjusting to international norms and institutions,<sup>5</sup> the slogan of the new millennium is Hu Jintao's 'harmonious' world and the notion of a 'responsible great power'. What this means in practice is that China has to adjust its policy in line with its impact on the global environment. This requires a double adjustment: adjusting China's policies to ensure domestic stability as a result of its greater exposure to the global political economy and working cooperatively to ensure that the global political economy remains favourable to China's continued economic growth. China's participation in the WTO is vital to maintaining the open trading environment most responsible for China's spectacular economic growth.

General Secretary Hu Jintao articulated China's overall foreign policy line at the 17<sup>th</sup> National Congress of the Chinese Communist Party in October 2007:

We maintain that the people of all countries should join hands and strive to build a harmonious world of lasting peace and common prosperity. To this end, all countries should uphold the purposes and principles of the United Nations (UN) Charter, observe international law and universally recognized norms of international relations, and promote democracy, harmony, collaboration and win-win solutions in international relations. Politically, all countries should respect each other and conduct consultations on an equal footing in a common endeavour to promote democracy in international relations. Economically, they should cooperate with each other, draw on each other's strengths and work together to advance economic globalization in the direction of balanced development, shared benefits and win-win progress. Culturally, they should learn from each other in the spirit of seeking common ground while shelving differences, respect the diversity of the world, and make joint efforts to advance human civilization. In the area of security, they should trust each other, strengthen cooperation, settle international disputes by peaceful means rather than by war, and work together to safeguard peace and stability in the world. On environmental issues, they should assist and cooperate with each other in conservation efforts to take good care of the Earth, the only home of human beings.<sup>6</sup>

<sup>5</sup> See Wang Hongying, "'Linking Up with the International Track': What's in a Slogan?" *The China Quarterly* 189 (March 2007): 1- 23.

<sup>6</sup> "Full Text of Hu Jintao's Report at 17th Party Congress (11)," *People's Daily Online*, <http://english.people.com.cn/90001/90776/90785/6290148.html> (accessed December 10, 2009).

Those who have analyzed China's grand strategy note two distinctive factors that motivate China's increasing outward engagement. The first is the need for China to gain access to capital and advanced technology and know-how to enable China to take its place in the first rank of countries of the world.<sup>7</sup> Second, as China's influence and power has grown since the 1990's, it has increasingly had to reassure its regional neighbours (and more and more its global partners) of its peaceful intentions. Avery Goldstein calls this a 'Bismarckian' grand strategy of 'reinsurance'.<sup>8</sup> China's effort at reassurance was articulated through the policy of 'peaceful rise' first articulated associated with Hu Jintao's assumption of his position of General Secretary in 2004.<sup>9</sup>

Priority has been given to two sets of relations. First, cultivating positive relations with all of China's contiguous regional neighbours, and second, stabilizing relations with the US as the world's sole remaining superpower. These priorities have placed Canada outside the inner circle of those states of immediate and permanent concern. In a wide-ranging review of China's foreign relations over the 30 years of reform made by China's Minister of Foreign Affairs Yang Jiechi in September 2008, Canada did not merit a specific mention.<sup>10</sup> Instead Yang listed as China's first current priority "the stable development of relations with the major powers" under which he listed in order Russia, the US, the European Union (EU) and Japan. The second priority was relations with neighbouring Asian states and the third priority was China's relationship with the developing world. The fourth priority was multilateral relations with the UN and with the G8+5, which is the closest he came to mentioning Canada without referring to it by name.

In general, China seeks foreign relations that maintain a stable and positive relationship with the US and all other major powers. It may occasionally seek to leverage better relations with the US through privileging relations with Europe and Russia, but does not seek to confront or isolate itself in relations with the US. Wary both of being seen as seeking a 'hegemonic' global role and also of becoming too deeply enmeshed in global responsibilities in economics and security, China has sought to dampen talk of an emerging G2 alongside the US in steering global affairs.<sup>11</sup>

China sees itself as a great power and prioritizes great power diplomacy alongside a 'Good Neighbour' policy within Asia. Its primary sphere is Asia, where China seeks to lead without being seen as overbearing, such as competing peacefully with Japan for the affections of the Association of Southeast Asian Nations. In recent years, China has dramatically upgraded relations with Africa through the China-Africa Summits. It sees Africa as a major forum in which to improve its global prestige and demonstrate its successful developmental model through "South-South Cooperation" to improve prestige but also to access Africa's resource wealth. China has also cultivated relations with Latin America but it is aware of Washington's perspective that this is its backyard and steers clear of antagonizing the US by joining forces with Venezuela's Hugo Chavez. It much prefers Brazil's Lula da Silva, and has traditionally had good relations with Chile. Relations with Canada's North American Free Trade Agreement (NAFTA) partner, Mexico, are complicated by Mexican anxieties about China's role as a competitor in the export of labour-intensive goods to the US.

<sup>7</sup> Swaine and Tellis call this China's 'calculative' grand strategy. See Michael D. Swaine and Ashley B. Tellis, *Interpreting China's Grand Strategy: Past, Present, Future* (Santa Monica: RAND Corporation, 2000), especially Chapter 4.

<sup>8</sup> Avery Goldstein, "An Emerging China's Emerging Grand Strategy: A Neo-Bismarckian Turn," in *International Relations Theory and the Asia-Pacific*, ed. G. John Ikenberry and Michael Mastanduno (New York: Columbia University Press, 2003), 57-106.

<sup>9</sup> See Robert L. Suettinger, "The Rise and Descent of Peaceful Rise," *China Leadership Monitor* 12 (2004), [http://media.hoover.org/documents/clm12\\_rs.pdf](http://media.hoover.org/documents/clm12_rs.pdf) (accessed December 10, 2009).

<sup>10</sup> Yang Jiechi, "Gaige Yilaide Zhongguo Waijiao," ("China's Foreign Relations since the Onset of Reform") Renminwang, September 17, 2008, <http://world.people.com.cn/GB/8212/14450/46162/8053694.html> (accessed December 10, 2009).

<sup>11</sup> See Wu Jianmin, "G2: An Inappropriate Term," China.Org.Cn. May 26, 2009, [http://www.china.org.cn/international/2009-05/26/content\\_17838605.htm](http://www.china.org.cn/international/2009-05/26/content_17838605.htm) (accessed December 10, 2009).

## STRATEGIC PARTNERSHIP

To counter the so-called 'China Threat' theory that emerged with China's rise in the 1990's, PRC leaders began to craft a diplomatic strategy that would cement friendships in a manner consistent with China's principled opposition to contracting formal alliances. China began to promote various forms of 'strategic partnerships' as a way of bestowing privileged status on favoured bilateral ties.<sup>12</sup> These partnerships have now grown to several dozen and involve diverse categories of states, including the EU, Brazil, Russia and Nepal. The 'strategic' purpose and the nature of the 'partnership' varies widely. At the very least the label implies a commitment to high-level bilateral consultations on a regular basis. In Canada's case, President Jiang Zemin and Prime Minister Chrétien initially committed to a 'trans-century comprehensive partnership' during Jiang Zemin's visit to Canada in November 1997. This later evolved into two distinctive "strategic working groups" during the last summit between Prime Minister Jean Chrétien and Premier Wen Jiabao in December 2003 – one on energy and natural resources, and the other on multilateral relations.<sup>13</sup> Finally, during the visit of Chinese President Hu Jintao in September 2005, this relationship was upgraded to a "strategic partnership."

## CHINA'S 'CORE INTERESTS'

In recent years, China has begun to refer to its 'red lines' and 'core interests'<sup>14</sup> with respect to sovereignty and territorial integrity. China sees little interest in confronting Canada and generally seeks to avoid direct confrontation with the US, the true target of China's competitive strategy of national rejuvenation. At the same time, Chinese policy uses confrontation as a policy of last resort, to be deployed as a deterrent in an exemplary fashion. While the PRC was successful from the 1970's onward in establishing its legitimacy as the sole legitimate government of all of China in preference to the erstwhile rump Guomindang regime of the Republic of China (Taiwan), Beijing remains extremely vigilant about its sovereignty and international status and extremely suspicious of any explicit or implicit efforts to derogate from its territorial claims. Towards this end, the PRC has legislated a law on anti-secession, codified its claim in the South China Sea through legislation and established and maintained a series of diplomatic 'red lines' which if crossed would invite swift and severe diplomatic retaliation.

The official Chinese position, in the words of China's late paramount leader, Deng Xiaoping, is that sovereignty is non-negotiable. It is not even open to discussion.<sup>15</sup> These red lines apply first and foremost to Taiwan's efforts to establish a claim of international sovereignty under any name, and any effort to lend support to Taiwanese diplomatic claims by dignifying its representatives with the status of officials of a sovereign state. While Taiwan has never been governed as part of the PRC since its founding in 1949, Beijing regards Taiwan as a part of China. Tensions grew from the mid-1990's onward, as successive governments

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<sup>12</sup> See the discussion in Bates Gill, *Rising Star: China's New Security Diplomacy* (Washington, DC: The Brookings Institution, 2007): 58-63. See also Avery Goldstein, *Rising to the Challenge: China's Grand Strategy and International Security* (Stanford: Stanford University Press, 2005).

<sup>13</sup> See "Zhong Jia Shuangbian Guanxi," ("Sino-Canadian Bilateral Relations") Renminwang, August 31, 2005. <http://politics.people.com.cn/GB/8198/52409/52411/3658176.html> (accessed December 10, 2009).

<sup>14</sup> See, for example, "Decision to Meet Dalai Lama 'Hurts China's Core Interests,'" China Daily, November 29, 2008. [http://www.chinadaily.com.cn/china/2008-11/29/content\\_7253330.htm](http://www.chinadaily.com.cn/china/2008-11/29/content_7253330.htm) (accessed December 10, 2009); also "Chinese President: Mutual Respect, Consideration of Core Interests Key to Sino-U.S. Ties," Xinhua, April 2, 2009, [http://news.xinhuanet.com/english/2009-04/02/content\\_11116684.htm](http://news.xinhuanet.com/english/2009-04/02/content_11116684.htm) (accessed December 10, 2009).

<sup>15</sup> See Deng, Xiaoping, "Our Basic Position on the Question of Hong Kong," People's Daily Online, September 24, 1982, <http://english.peopledaily.com.cn/dengxp/vol3/text/c1040.html> (accessed December 10, 2009).

on Taiwan sought to expand and market their newfound democratic popularity by marginalizing Taiwan's historic ties to China and emphasizing its de-facto independence. This was accompanied by renewed efforts to re-enter the UN and its associated institutions, such as the World Health Organization. Chinese officials repeatedly issued stern warnings to any country contemplating upgrading its ties with Taiwan or co-operating with Taiwan's efforts to gain recognition internationally. This effort was largely successful, and under Taiwan's former President Chen Shui-bian, eventually provoked the United States, Taiwan's foremost sponsor and security patron, to constrain more strictly the limits of its conditional guarantee of Taiwan's autonomy.

Taiwan's growing economic dependence on mainland China, along with its diplomatic setbacks helped to elect the government of current President Ma Ying-jeou, who has worked to improve relations across the Taiwan Strait by reiterating Taiwan's place as a part of China even as he insists on the continued sovereignty of the Republic of China with its capital in Taipei. Beijing is content with a regime of "One China-different interpretations" under the terms of the so-called '1992 Consensus.' Nevertheless, Beijing insists on holding veto power over Taiwan's membership in international organizations, and it was only with Beijing's tacit approval that Taiwan gained observer status at the World Health Assembly earlier this year.

Even as détente continues across the Taiwan Strait, Beijing maintains its vigilance concerning other threats to its territorial integrity. The PRC regards official contact with his holiness the 14<sup>th</sup> Dalai Lama as interference in China's domestic affairs and rejects his status as a purely spiritual figure. Despite the denials of the Dalai Lama of separatist claims and his persistent promotion of a "middle way" of reconciliation with Beijing, CCP authorities view his association with the Tibetan government in exile with extreme suspicion and charge him with being behind exile efforts to promote Tibet's independence from China.<sup>16</sup> Thus, Chinese officials view official meetings with the Dalai Lama and any international effort to promote the Tibetan cause as support for Tibetan separatism and unwarranted and illegitimate interference in China's internal affairs. The Lhasa riots in March 2008 provoked unprecedented international reaction by Chinese nationals abroad in support of China's position and in opposition to the international movement to condemn China ahead of the Beijing Olympics. Many Chinese viewed the Lhasa riots as a deliberate conspiracy to embarrass China and derail the Beijing Olympics.<sup>17</sup> This outcome has only strengthened Beijing's resolve to punish foreign displays of support for the Dalai Lama and the Tibetan cause.

The most dramatic instance of this occurred as recently as December 2008 when Beijing abruptly postponed a long-planned China-EU summit when French President Nicolas Sarkozy who was then acting in France's rotating role in the Presidency of the EU insisted on holding an audience with the Dalai Lama shortly ahead of the China-EU summit despite repeated warnings by Beijing to refrain from this step. China not only postponed the summit, but cancelled a number of planned contracts with French firms; a few months later, China's Premier Wen Jiabao made official visits to every country bordering France but France itself.<sup>18</sup>

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<sup>16</sup> See, for example, "Xizang Guanyuan: Youguan Guojia Buyao Jie 'Da Xizang Pai' Ganshe Zhongguo Neizheng," ("Tibet Official: Relevant Countries Should Not 'Play the Tibet Card' to Interfere in China's Internal Affairs") Xinhua, February 11, 2009, <http://politics.people.com.cn/GB/14562/8784240.html> (accessed December 10, 2009).

<sup>17</sup> See the author's "Olympic Dreams and Nightmares," China Elections and Governance, May 5, 2008. [en.chinaelections.org/newsinfo.asp?newsid=17314](http://en.chinaelections.org/newsinfo.asp?newsid=17314) (accessed December 10, 2009).

<sup>18</sup> See "China Postpones EU Summit over Tibet," United Press International, November 26, 2008, [http://www.upi.com/Top\\_News/2008/11/26/China-postpones-EU-summit-over-Tibet/UPI-25961227724656/](http://www.upi.com/Top_News/2008/11/26/China-postpones-EU-summit-over-Tibet/UPI-25961227724656/) (accessed December 10, 2009); For Wen's European trip snubbing France see "Creating a Brighter Future for Sino-EU Relations," Xinhua, January 31, 2009, [http://news.xinhuanet.com/english/2009-01/31/content\\_10740532.htm](http://news.xinhuanet.com/english/2009-01/31/content_10740532.htm) (accessed December 10, 2009); for France's response see, "France Seeks to Repair China Ties," China Daily, February 7, 2009, [http://www.chinadaily.com.cn/china/2009-02/07/content\\_7453731.htm](http://www.chinadaily.com.cn/china/2009-02/07/content_7453731.htm) (accessed December 10, 2009).

The 'red lines' of sovereignty also apply to China's Autonomous Region of Xinjiang, home to the Turkic-speaking Muslim Uyghurs. Beijing's sensitivity about this region has grown with the rise of Islamism as well as China's growing dependence on this region (along with Tibet) as a resource hinterland and as a corridor to the energy resources of Central Asia and the Middle East. China is determined not to allow ethnic tensions both in Tibet and in Xinjiang to be internationalized. Furthermore, Chinese officials and academics speak of separatism in the same breath as terrorism, seeing little meaningful distinction between these two. In the official Chinese lexicon as well as in common usage the expression *dongtu* 'East Tu(rkistan)' is a synonym for 'terrorist.' Any reference to Xinjiang as 'East Turkistan' is regarded as an expression of separatism with terrorist sympathies. (*Xinjiang* means 'New Frontier' in Chinese, the name given to the region when it was incorporated as a province of China after the expeditionary force of Zuo Zongtang subdued the forces of Yakub Beg in the 1870s and prevented the region from falling under the colonial designs of Tsarist Russia and British India). In support of the cause of stabilizing and maintaining the existing frontiers of Central Asia and preventing the development of ethnic and Islamist insurgencies, China has sponsored and maintained the Shanghai Cooperation Organization (SCO) in common with the post-Soviet governments of Kazakhstan, Kyrgyzstan, Tajikistan, Uzbekistan and Russia to combat the 'three evils' of separatism, terrorism and (religious) extremism. The governments of these countries cooperate in law enforcement and counter-terrorism, and it was under the rubric of this organization that the Canadian national Huseyn Celil was extradited from Uzbekistan to China. China views separatism and terrorism as an existential threat and rejects any argument on behalf of minorities couched in the language of human rights.

China's dissent from liberal norms domestically extends to the way in which it views the activities of its nationals and former nationals abroad. Having persuaded itself that dissident forces are guilty of subversion, the Chinese state and its security organs view the protection given to Chinese dissidents abroad with extreme suspicion. Chinese diplomats are actively deployed to denounce and disrupt the activities of dissenters from exiled minority ethnic activists to dissident human rights activists and spiritual dissenters like the Falun Gong. While Chinese diplomats are fully aware of their responsibility to behave within the laws of their host countries, they are also, as diplomats, and many as Communist Party members, enjoined to pre-empt the disruption of activities by their state and Party leaders and especially to use their position abroad to prevent dissident forces from using foreign bases as a platform from which to mount embarrassing events within China.

## CHINA'S NEW NATIONALISM

In line with China's rise, the Party has promoted and been buffeted by a rising tide of nationalism.<sup>19</sup> On the one hand, since the Tiananmen repression of 1989, China's leaders have promoted 'patriotic education.' At the same time, popular nationalism has grown beyond the reach of the Party which has often struggled to restrain it. This was seen, for example, in the protests against the bombing of the Chinese embassy in Belgrade in 1999, the anti-Japanese demonstrations and boycotts that broke out in 2005 and the popular outrage against France surrounding the Olympic Torch relay in 2008.

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<sup>19</sup> The best study of this new nationalism is found in Peter Hays Gries, *China's New Nationalism: Pride, Politics and Diplomacy* (Berkeley and Los Angeles: University of California Press, 2004).

## CANADA IN CHINESE FOREIGN POLICY

Against the perception of Canada as a charter member of the developed liberal West, Canada benefits from the legacy bequeathed by Dr. Norman Bethune, who was eulogized by the founding leader of the PRC as a paragon of selfless internationalism. Canada's relatively early and enthusiastic recognition of the PRC in 1970 is also widely noted.<sup>20</sup> There is a record and a potential for friendship that transcends national differences. As recently as 1998 then Chinese Premier Zhu Rongji referred to Canada as China's "best friend in the world".<sup>21</sup>

At the same time, Canada does not count as one of the leading world powers against which China's emergence as a great power must be measured. Canada is not a specific target of envy or emulation such as was played by the US, the Soviet Union or Japan. Our institutions and technology may be referenced in the general course of benchmarking for the sake of Chinese progress, but we are not an essential object of study whose success must be internalized or emulated at all cost to satisfy China's thirst for greatness. This thirst may sometimes discourage the choice of Canadian models as alternative paths to overall success. Nevertheless, Canada's importance as a point of reference for a modern, developed country should not be understated, especially when coupled with Canadian willingness to share our technology and expertise. It is this quality that makes Canada's development assistance program over the past quarter century so welcome, alongside other training programs, many now increasingly financed from the Chinese side.<sup>22</sup> Our willingness to provide training, share experience from the inside and work closely with Chinese institutions does not just upgrade human resources and transfer models of modern management and administration; working in close proximity with frank cooperation gives Chinese officials the confidence that they are mastering the tools needed to manage a modern, cutting edge economy.

The participatory interaction in China's internationalization that Canada's Canadian International Development Agency programs have promoted and the framework of official training programs that has been provided by Canada's universities and colleges on a contractual basis, as well as private joint ventures by companies like Nortel, Bombardier and others, alongside the outflow of Chinese graduates of Canadian educational institutions gives sinew to China's modernization and bolsters the self-confidence that is the hallmark of China's emergence as a global player. Overall, the significance of the Canadian 'brand' in China's modernization is as understated as our national character, and the importance of our contribution goes largely un-noted and under-recognized. Yet the Canadian 'brand' retains a significant cachet as a symbol of quality of life and social openness in a modern setting that is reflected in the high demand for immigration and overseas education. Chinese officials value the easy access and open-minded reception that interaction with Canada brings. What this means in practice is that as Chinese benchmark the United States as the pinnacle of power and modernity, they check-in with Canada to work out how to make progress towards that goal. In China's headlong rush to catch-up and overtake the world leader, Canada has played a role in bridging the gap from 'know-what' to 'know-how- more often than acknowledged. Taken together, this

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<sup>20</sup> Chen Qineng, *Zhongguo-Teluduo-Jianada*, ("China-Trudeau-Canada") (Beijing: Minzu Chubanshe, 2004).

<sup>21</sup> Cited in Fred Edwards, "Canadian Cold Front," *Beijing Review* 10 (March 12, 2009), [http://www.bjreview.com/quotes/txt/2009-03/12/content\\_184500\\_2.htm](http://www.bjreview.com/quotes/txt/2009-03/12/content_184500_2.htm) (accessed December 10, 2009).

<sup>22</sup> A major way Canada has been able to break into the markets of the newly industrialized countries remains through international development assistance – as seen particularly in the associational patterns with respect to China and Indonesia. The development cooperation between the two governments began in 1982. The General Agreement of Development Cooperation between China and Canada was signed in 1983. The current development cooperation between the two sides covers 84 projects in the fields of farming, forestation, energy, transportation, education, telecommunication, environmental protection, human resource development, economic system reform and poverty alleviation. The negotiated investment amount on the Canadian side was \$560 million. *Tomorrow the Pacific*, C.D. Howe Institute, 1991, 65.

has meant that even though political and diplomatic relations have suffered reversals over the past few years, overall, the value of the Canadian 'brand' remains high and positive. We remain a potential partner, not a rival. Canada retains a place as a low-profile reference model in areas like social security, urban planning and management, land use planning and the management of urban water and sewage. These are not the benchmarks of national power and prestige, but are essential to the fabric of everyday life. In private moments, without invidious reference to China, Canada is also admired for its rule of law and human rights.

Canada stands in the group of developed countries that are both reference points for China's development and have relatively high prestige internationally. To be associated with Canada confers a degree of legitimacy and respectability that places China in the mainstream of developed states. Canada's political capital is not unique in this regard, though its precise configuration as a non-US, Asia-Pacific, G8 and NATO country is, of course. In this respect, association with Canada can help to persuade Canada's like-minded allies, and since Canada is a member of prestigious elite multilateral groupings, Canada's voice carries weight. Canada is not powerful enough to thwart or isolate China on its own, nor does Canada have interests and commitments that run directly counter to China's, but its 'soft power' is persuasive enough to grant us a measure of deference and respect. Our relative prestige internationally together with China's own craving for status and prestige constitute our political capital in China's eyes. However, China has its own rising prestige capital, and as we have seen in recent years, lack of deference towards Chinese interests discourages enthusiasm or favour to Canadian initiatives. In Chinese culture, 'face' is a fungible commodity that can be traded for instrumental purposes.

## INTERESTS AND FRIENDSHIP

The tradition of friendly relations with the PRC that was barely interrupted by the fallout from the Tiananmen repression has not largely yielded any privileged status with respect to commercial interests. Indeed, Canada's share of China's imports tended to level off despite the series of Team Canada visits that began in 1994. This was not due to Chinese hypocrisy but rather reflects the structural constraints underlying bilateral trade. This includes both the high cost of doing business in China and also the opportunity cost of the Chinese market as compared with the US market under NAFTA. As the Chinese business environment become increasingly diversified, decentralized and fragmented, advantages conferred by positive bilateral ties at the central government level were increasingly diluted and, moreover, had to be weighed against the efforts of major competitors who also placed equal political importance on pursuing the Chinese market. The advantages of bilateral relations at the state level had to be complemented by strong firm-level relationships to derive any advantage from friendly relations. By and large, the smaller scale of Canadian enterprises discouraged the kind of investment required to make firm-to-firm relationships pay off. *Guanxi* or connections, while important in the Chinese social environment extend only as far as an individual's *guanxi wang* or network, and the advantage of being part of such a network is only as strong as the web of mutual obligations that one participates in. A positive diplomatic relationship creates a framework for developing commercial relationships but does not offset commercial calculations behind an individual transaction. When it came to the supply of commodities, price and reliability of delivery were the primary criteria. In a sellers market, Canadian commodity producers felt no pressure to expend special effort in the Chinese market. Canada's largest export category in 2007 was mineral fuels, oil and petroleum products, which constituted 20 percent of our exports but only 0.2 percent of exports to China.<sup>23</sup>

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<sup>23</sup> See Raaj Tiagi and Lu Zhou, "Canada's Economic Relations with China," Fraser Institute, 2009. [www.fraserinstitute.org/commerce.web/product\\_files/EconomicRelationswithChina.pdf](http://www.fraserinstitute.org/commerce.web/product_files/EconomicRelationswithChina.pdf) (accessed December 10, 2009): 48.

## “COMPLEMENTARITY”: CHINESE INTERESTS AND BILATERAL RELATIONS

Since the late 1990s, Chinese authorities have been emphasizing the complementarity of our trade interests. In addition to pointing out Canada's obvious wealth in natural resources,<sup>24</sup> Chinese singled out Canadian expertise in transportation, telecommunications and electric power generation including nuclear power, sectors in which China was involved in massive infrastructure development and modernization. Canadian willingness to transfer technology was a key selling point. However, this also meant that Canadian companies like Nortel eventually helped to build the capacity of Chinese competitors like Huawei. When it comes to building relationships, Chinese tend to wager on the strong.

## CANADA IN THE PRC'S POLICY OF PREEMPTION

China's leaders are extremely concerned about the legitimacy of their own regime and threats to national unity. This impact on foreign policy, including relations to Canada in questions about the Dalai Lama and the status of Tibet, Xinjiang and the Uygur muslims, Falun Gong and activities of human rights NGOs which the CCP fears may promote a Chinese 'colour revolution' such as occurred in Ukraine, Georgia and Kyrgyzstan. The first and most important demonstration of this is its sensitivity over the status of its claim to Taiwan and any moves from any quarter to question its claim and to acknowledge Taiwan as a sovereign entity. This is an area where policies cannot be easily reconciled but where we may agree to disagree about activities that take place on our respective soils. There is some overlap in our concerns about terrorism, especially Islamic terrorism involving Afghanistan. Out of concern for separatist activities in Xinjiang, China is quietly appreciative of NATO's mission in Afghanistan, but wary of a long-term Western presence in west and central Asia. Afghanistan is an observer in the Chinese-sponsored SCO that joins the PRC, the Russian Federation and four former Soviet republics of Central Asia – Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan. This is an area both of cooperation and potential friction.

NATO and Canada's role in Afghanistan is a matter of deep ambivalence for China. On the one hand, China is deeply concerned about the spread of Islamism and the threat to its own frontier. It tacitly approves of a policy of stabilizing Afghanistan, so long as this is done within the framework of the UN. On the other hand, China is deeply concerned about potential 'containment' efforts directed against it and views long-term NATO deployment in southwest Asia with deep suspicion. That is why China has supported and urged SCO treaty members to close down NATO and US bases on their territory and has rejected any formal role in efforts to stabilize Afghanistan militarily in cooperation with NATO.<sup>25</sup> Chinese understand Canada's Afghanistan commitment as temporary and have refrained from criticizing our effort. China would probably welcome cooperation and consultation in counter-terrorism efforts as it has cooperated with regional powers that are not closely aligned, like India, with whom it mounted joint military exercises two years ago.

During the minority government of Paul Martin, a private members bill to establish a Taiwan Relations Act that would confer on Taiwan much of the effective status of a sovereign state managed to gain second reading through support of the Bloc Québécois and New Democratic Party members to the bill

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<sup>24</sup> For the emergence of China's resource diplomacy see Evan Medeiros and M. Taylor Fravel, "China's New Diplomacy," *Foreign Affairs* 82, No. 6 (November – December 2003): 22-35.

<sup>25</sup> "Foreign Ministry Spokesman Qin Gang's Regular Press Conference on November 18, 2008," Permanent Mission of the People's Republic of China to the UN, November 19, 2008, <http://www.mfa.gov.cn/ce/ceun/eng/fyrth/t522806.htm> (accessed December 10, 2009).

sponsored by Member of Parliament Jim Abbot. China's diplomatic representatives anxiously watched the progress of this bill and actively encouraged the Martin government to work for its eventual death on the order paper.<sup>26</sup>

When Prime Minister Harper decided to invite the Dalai Lama to his office during his visit in October 2007, Chinese Ambassador Lu Shumin conveyed a number of stern warnings about dire consequences should the Canadian Prime Minister go forward with an official welcome to the Dalai Lama.<sup>27</sup> When the visit went forward, Canada's relations with China entered a trough from which they have yet to fully recover. In the wake of Prime Minister Harper's brusque interventions on behalf of the imprisoned Canadian citizen Huseyn Celil, China's Vice Minister of Foreign Affairs, He Yafei, was quoted in the *Globe and Mail* as hinting that Canada would pay an economic price for speaking out on China's human rights practice: "The economic relationship goes hand in hand with the political relationship. I cannot say Canada is squandering [the relationship] now, but in practical terms, Canada is lagging behind."<sup>28</sup>

Sino-Canadian relations resumed their current trend of improvement once the Harper government reassured its Chinese counterparts that Canada had no intention of crossing China's 'red lines' on sovereignty issues by reiterating Canada's 'one China' stand.<sup>29</sup>

When Prime Minister Harper approached President Hu Jintao at the G8 summit in Sapporo, Japan in July 2008 with deference and respect in contrast to his brusque manner soon after coming to power at the Asia-Pacific Economic Cooperation summit in Hanoi, President Hu in turn referred to the overall friendly relations since diplomatic ties were established in 1970 and noted that differences were inevitable due to striking asymmetries: economic development level, social system, culture between countries proposing that sensitive issues should be handled according with principle for respect for national sovereignty and territorial integrity, non-interference in each other's internal affairs, equality and mutual benefits.<sup>30</sup> This deferential turn promoted the atmosphere in which Canada resumed multiple ministerial visits in 2009, culminating in Prime Minister Harper's first state visit to China in December 2009.

## HUMAN RIGHTS AND SOVEREIGNTY

China has a well-articulated position that decries Western attempts to place human rights before sovereignty. Again, as Deng Xiaoping expounded in relation to foreign intervention over human rights, in addition to human rights there are state rights and China regards its state rights as paramount.<sup>31</sup> China has developed a range of policies to favour economic development in minority regions especially in the west as well

<sup>26</sup> Bill C-357, a private members bill entitled the Taiwan Affairs Act sponsored by the Hon. Jim Abbot the member for Kootenay-Columbia, was introduced in the 38<sup>th</sup> Parliament and received First Reading on April 4, 2005. It got as far as Second Reading. The Chinese Ambassador Lu Shumin stated that this bill would seriously harm relations. "Private MP Bill Could Harm Relations with China," CTV.ca, June 16, 2005, [http://www.ctv.ca/servlet/ArticleNews/story/CTVNews/1118867654973\\_114276854/](http://www.ctv.ca/servlet/ArticleNews/story/CTVNews/1118867654973_114276854/) (accessed December 10, 2009).

<sup>27</sup> "China Objects to Harper Meeting with Dalai Lama," CTV.ca, September 18, 2007, [http://www.ctv.ca/servlet/ArticleNews/story/CTVNews/20070918/harper\\_lama\\_070918/20070918?hub=Canada](http://www.ctv.ca/servlet/ArticleNews/story/CTVNews/20070918/harper_lama_070918/20070918?hub=Canada) (accessed December 10, 2009).

<sup>28</sup> Brian Laghi and Jeff Sallot, "Canada Losing out on Trade, China Says," *The Globe and Mail*, February 9, 2007.

<sup>29</sup> See "China Applauds Canadian PM's Speech on Canada-China Relations," People's Daily Online, March 17, 2008, <http://english.peopledaily.com.cn/90001/90776/90883/6374485.html> (accessed December 10, 2009).

<sup>30</sup> President Hu Jintao also expressed gratitude to the Canadian government and people for their condolences and generous assistance for the victims of the devastating earthquake that struck China's Sichuan province earlier that May.

<sup>31</sup> See Deng, Xiaoping. "The United States Should Take the Initiative in Putting an End to Strains in Sino-American Relations," China.Org.Cn, October 31, 1989, <http://www.china.org.cn/english/features/dengxiaoping/103336.htm> (accessed December 10, 2009).

as affirmative action for the education and promotion of minority children and youth. There is room for international dialogue on the general issue of managing religious and ethnic distinctions or dealing with minority populations and economic development, and Canada has participated in development projects and the training of personnel in minority regions. It is significant also that some of the training programs Canada has participated in have involved the network of Communist Party Schools, thus ensuring that the trainee cadres are vetted and selected by the Communist Party itself. China is likely to continue to reject out of hand any foreign advice or intervention on the political treatment of minority ethnic or religious populations. The fact that Beijing blames the recent July 5, 2009 Urumqi riots on the exiled Uygur businesswoman and political dissident Rebiya Kadeer<sup>32</sup> may suggest that China will continue to take a very hard line on the Celil case also. China may henceforth think twice about sending dissidents into exile if it feels that there is any chance that they may continue to exert political influence inside China's borders.

Dialogue with the Chinese Ministry of Foreign Affairs (MFA) over the treatment of minorities is at best fraught since the mandate of the MFA is to defend and promote the sovereignty and territorial integrity of the PRC. The ministry has no jurisdiction or mandate to deal with minority populations and its interest in defending China's frontiers precludes serious engagement over China's political shape. While academics have occasionally engaged in discussions around modifying concepts of sovereignty and in line with conceptions of federalism, for example, officials in the MFA have been adamant and insistent that the sovereignty of China is single and indivisible along any dimension.

## LESSONS FROM AUSTRALIA

The appalling deterioration in Sino-Australian relations under the twin blows of the Rio Tinto arrests in China and China's anger at Australia for granting a visa to Rebiya Kedeer to attend the Melbourne Film festival demonstrates the full capacity of human rights issues to derail bilateral relations even with a government wholeheartedly committed to the strategic importance of strong ties with China. Chinese authorities pursued suspicions of leaked confidential information (on steelmaking capacity and iron ore demand) in a manner consistent with domestic practice, unleashing the security police in what Western opinion would regard as a commercial case heedless of the international impact,<sup>33</sup> Chinese diplomats pressured Australia in a visa matter because of the tension induced by July riots in Xinjiang consistent with the official verdict asserting that Kedeer was behind the rioters. Whether their assertions met the standard of evidence that would convince Australian public opinion, let alone a court of law, does not seem to have been given serious consideration.<sup>34</sup>

While Chinese officials have subsequently backed away from accusations of espionage in the Rio Tinto case, Chinese actions have confounded state interest and commercial activity at a sensitive moment in China's outward investment strategy. In this case, entirely distinct issues of commercial interest and commercial advantage were confounded with issues of national unity and human rights in a manner that reduced the capacity of governments on both sides to produce viable compromises. If the initial intention of the Politburo was to establish discipline over the iron ore purchases of Chinese steelmakers, the arrest of Rio Tinto officials appears instead to have cast scepticism over the commercial intentions of China's state-owned firms. If

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<sup>32</sup> "Unveiled Rebiya Kadeer: a Uighur Dalai Lama," People's Daily Online, July 7, 2009, <http://english.peopledaily.com.cn/90002/96417/6695082.html> (accessed December 10, 2009).

<sup>33</sup> See John Garnaut, "President Backed Rio Spy Probe," The Sydney Morning Herald, July 13, 2009. <http://www.smh.com.au/business/president-backed-rio-spy-probe-20090712-dhdn.html> (accessed December 10, 2009).

<sup>34</sup> See John Garnaut and Katherine Murphy, "China Envoy Flies Home," The Age, August 20, 2009. <http://www.theage.com.au/national/china-envoy-flies-home-20090819-eqm3.html> (accessed December 10, 2009).

playing up Rebiya Kadeer's presence at the Melbourne Film Festival was consistent with the campaign to deflect criticism of China's nationality policies by raising the spectre of Islamic extremism and terrorism, the effect of linking Rebiya Kadeer with the Dalai Lama undermines the credibility of the Chinese cause abroad by associating a relatively unknown older woman with a well-known advocate of non-violence and peace, even as it reinforces Chinese suspicions that separatists are manipulated from abroad. This effort has undermined the impact of a much more open policy of giving journalists access to Urumqi in the immediate aftermath of the July 5 riot in marked contrast to the policy of closing off Lhasa to journalists after the March riots of 2008.

## EXTRADITION AND IMMIGRATION

Among the most egregious irritants in our bilateral relationship are issues concerning repatriation of people whose refugee claims have been denied and the extradition or expulsion to China of persons accused of corruption alongside a few cases of accused criminals who have escaped Canadian jurisdiction to China. The case of accused smuggler Lai Changxing is particularly famous and has received most publicity in China because of his association with one of the largest corruption scandals ever exposed in China, the Yuanbao affair. Lai is accused in a case involving massive smuggling of oil in Fujian Province in the late 1990s.<sup>35</sup> He fled to Canada from Hong Kong using false documents and after his discovery made a failed effort to claim refugee status. Ever since, he has fought removal on the grounds that should he be returned to China he is likely to face torture and death.

The complication from the Chinese perspective is that former Chinese Premier Zhu Rongji, who had been behind the anti-smuggling and corruption investigation that exposed the Yuanbao affair, was informed by Prime Minister Chrétien that should the Chinese government promise that Lai would not face the death penalty should he be returned, he could be extradited. Zhu managed to persuade his Politburo colleagues, apparently at great personal cost at a time when his position was eroded over concessions he offered to gain Chinese accession to the WTO and the bombing of the Chinese Embassy in Belgrade by the US during the Kosovo campaign, to make such a pledge on behalf of the Chinese government.<sup>36</sup> Still, Lai has not been returned and his case remains before the courts.

While Canada's refugee process is not exceptional in that it relies on the UN Convention on Refugees unlike the US and many other jurisdictions, Canadian courts afford the full protection of the Charter and due process even to those who have been deemed to enter the country illegally. This general principle, rather than any special favouritism lavished on refugees from Chinese justice along with general concerns about the judicial process in China is what allows these accused persons to remain here. Whether the Chinese government, as opposed to the Chinese public, understands that the Canadian government cannot, even if it wished to, interfere in the judicial process is not clear. Certainly it is not in the interest of the Chinese government or the CCP to highlight the distinctive features of Canada's Charter of Rights and Freedoms and the development of Canadian jurisprudence that springs from its adoption. Instead, it is certainly expedient to highlight alleged protection by Canada of accused criminals and corrupt former officials as a bilateral

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<sup>35</sup> See Rod Mickleburgh, "If I Had Not Been in Canada I Would Be Dead by Now," *The Globe and Mail*, August 12, 2009; also "Lai Changxing Jieshou Zhongguo Meiti Caifang," ("Lai Changxing Accepts Interview with Chinese Media") *Huanqiu Shibao*, August 11, 2009. For a broader discussion of this controversy in bilateral relations see Zhu Yuchao, "Unbridgeable Gap or 'Lost in Communication?'" *Political-Legal Disputes between Canada and China: The Cases of Lai Changxing and Huseyn Celil*, *Canadian Foreign Policy*. (forthcoming)

<sup>36</sup> See Zong Hairen, *Zhu Rongji Zai 1999*, ("Zhu Rongji in 1999") (Hong Kong: Mirror Books, 2001).

irritant. Instead of contrasting regimes of rights, this contrasts the determination of the Chinese government to pursue corruption with the alleged collusion of the Canadian government in judicial impunity. The latter interpretation promotes China's interpretation of a state-centred rule of law where state interests are closely identified with the public interest, as opposed to a liberal interpretation where individual rights come before state rights. So long as China departs and dissents from liberal norms of governance, this type of bilateral issue will continue to arise.<sup>37</sup> Chinese officials insist, however, that a better ambience in the relationship can allow political leaders on both sides to look beyond immediate obstacles.

## ECONOMY AND DIPLOMACY

The most outstanding aspect of China's impact on the global political economy has been the impact of China on commodity and raw materials demand and pricing. The second has been on global finance and currency reserves. The dual outcome of these two factors has conditioned China's transformation from the largest recipient of foreign direct investment to China's growing role as a global creditor and investor. The pattern of China's investment shows primary attention to securing diversified access to key production inputs. China's participation in the Canadian economy has taken the form of kicking the tires around resource investments, but even more importantly participation in Canada's resource-heavy equity markets to secure access to resource assets in third countries.

In the lead up to China's accession to the WTO, China had to restructure its foreign trade apparatus to remove state monopoly trading corporations. In the process of reforming the state trading structure, many of the former sectoral trade monopolies were transformed into state-owned trading corporations. These corporations then acquired upstream and downstream operations that made them strategic players both nationally and internationally. The strategic thinking behind this transformation was both to provide a platform for the creation of global national trade champions along the lines pioneered by Japan and South Korea, but also to secure a dominant position for the state in the domestic political economy by allowing it to dominate key sectors especially in the production and distribution of primary factors of production.<sup>38</sup> This dual strategic purpose, in which assuring domestic dominance for the state is key, explains why these corporations are more concerned about access to securing resources than they are about the actual ownership of resource assets and why the PRC is reluctant to push politically risky deals overseas. Domestic dominance is far more important than is securing a large overseas political footprint. China's withdrawal from the bid for Noranda in Canada or Unocal in the US is a case in point as witnessed by the China National Offshore Oil Corporation (CNOOC) buyout attempt in 2005.<sup>39</sup>

It is important to bear in mind that while China's hierarchic political structure allows it to adopt strategic policy decisions, actual framing of policy is distributed among rigorously divided sectoral policy silos that tend to monopolize regulatory and routine decision-making power as well as expertise and information. The decision to secure access to resources is political, but it is executed by decentralized actors without direct input from the highest political bodies except when it becomes a matter of bilateral or multilateral political concern. The Politburo does not target specific countries or specific assets. The mandate to

<sup>37</sup> For more on the dynamics of this, see the author's "Does a Half-Full Glass Justify a Leap of Faith? Incremental Change and Human Rights in China," *International Journal* 2, No. 61 (Spring 2006): 371-387.

<sup>38</sup> For China's strategy to use international competition to enhance the competitiveness of national firms as part of the WTO, see the author's "China and the WTO: Joining the Competition – Playing to Win," *Issues and Studies* 38, No. 2 (June 2002): 224-234.

<sup>39</sup> Deng Jin and Cao Haidong, "CNOOC's Bid Withdrawal: A New Era in Sino-American Relations?" *Nanfang Zhoumo* April 5, 2008; also "Politics Derail Unocal buyout," *Gannett News Service*, August 3, 2005.

secure access to resources is largely handled by the National Development and Reform Commission whose main concern is largely to ensure price stability for crucial resource inputs. The Chinese aim is to avoid being “played” rather than to exercise imperial ambitions.

China’s growing footprint in Australia is a product of Australia’s near monopoly in certain critical areas like bauxite and iron ore. China is seeking to counter monopoly with monopsony, thus evening the playing field in commodity price negotiations. In Canada we have cried wolf over potential Chinese investments when the real danger is elsewhere. We have pulled out the welcome mat only to face the possibility that through loans and private equity deals China may end up bypassing Canadian resource stockmarkets and reducing the resource assets listed on our exchanges. The TSX and VSX need China’s resource companies as active players to remain the venues of choice for resource equity placements.

In the late 1990s, China (in collaboration with Canadian officials) identified energy and natural resources, transportation and telecommunications as priority areas of cooperation. Most of these were consistent with the priorities of China’s Ninth Five Year Plan (1995-2000) which focused on improvements in China’s infrastructure and its electronics and telecommunications industries. Investment in energy and transportation was seeded up to counter the deflationary pressure of the 1998 Asian Financial Crisis.<sup>40</sup> This development coincided with the visit of Chinese President Jiang Zemin to Canada in November 1997, which ushered in the ‘Trans-century Comprehensive Partnership.’<sup>41</sup> The current (11<sup>th</sup>) Five Year Plan places a priority on sustainable development, particularly in the area of energy efficiency. Alongside this there is an evident and sustained focus on diversifying China’s access to resources in a bid to shore up China’s resource and energy security and reduce its vulnerability to price shocks and price swings generated by its own rising demand.

China’s ‘Go Out’ strategy of foreign investment is predicated on securing access to commodities and energy resources and is being spearheaded by large state-owned firms, most of whom are among the 100 plus firms directly subordinated to China’s State Council.<sup>42</sup> An additional focus of ‘going out’ is in the area of advanced technology. Examples include assembly and parts of electronics, telecommunications and automotive systems. A third focus of ‘going out’ that may overlap with the other priorities is the effort to promote beachheads for the establishment of Chinese global brands in areas where China is already globally competitive. Here Chinese firms may wish to acquire failing firms with established trademarks. This is part of the reasoning behind China’s Legend Electronics buying IBM’s PC business, or Haier’s tentative bid to take over the Maytag brand.

All three areas have some relevance to Canada, though the resource sector is the one most closely and specifically associated with Canada. Since the onset of this policy, China’s resource investments have faced considerable resistance and scepticism, especially when this has taken the form of substantial equity stakes in mature firms in developed markets by state-owned Chinese corporations. One need only recall the uproar over the proposed takeover of Unocal by CNOOC or the proposed takeover of Canada’s Noranda Mining by China’s Minmetals. To this may be added this year’s saga of the proposed investment in Australia’s Rio Tinto by China’s Chinalco.

Chinese policy makers are aware of the integration of Canadian energy resources into a largely North American framework, and are sensitive to any potential confrontation with the US. Consequently, Chinese

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<sup>40</sup> See “Ninth Five Year Plan in Retrospect,” China.Org.Cn, <http://www.china.org.cn/95e/index.html> (accessed December 10, 2009).

<sup>41</sup> Ministry of Foreign Affairs Policy Research Group, *Zhongguo Waijiao: 2004 Nian Ban (China’s Diplomacy: 2004 Edition)* (Beijing: World Knowledge Press, 2004), 85.

<sup>42</sup> See the special edition of *China Economic Review*, July 2009.

energy investments in Canada have been somewhat modest. CNOOC's \$150 million acquisition of MEG Energy Corporation translated to an unassuming 17 percent stake of a minor player in the Alberta oilsands.<sup>43</sup> In June 2005, giant Sinopec announced the purchase of a 40 percent stake in Syneco Energy's bitumen mining operation for \$105 million, with a commitment to a larger outlay of \$2 billion when construction begins for a larger oilsands project that includes an option to transport its share of the crude produced for export across the Pacific. There has even been talk of building new pipelines from Alberta to the Pacific coast for oil shipment to Asia.<sup>44</sup> Concern over Chinese investment in Alberta's oilsands, coupled with shots across the bow over Chinese corporate espionage, hint towards Canada's constrained position, undermining its capability to respond effectively.<sup>45</sup> Canada's oilsands are still not an absolute necessity to Chinese strategists: 88 percent Chinese oil imports come from Russia/Central Asia, the Middle East and Africa.<sup>46</sup>

The key question asked is the role of the Chinese state in directing these investments and the proposed lack of transparency in the Chinese state-owned firms. While Chinese spokesmen always insist on the commercial character of Chinese investments, the arrest of Rio Tinto's Chinese-based personnel in the summer 2009 has rocked the investor community and deeply disturbed Sino-Australian relations. After a painful and ultimately failed attempt by Chinalco to invest to take a controlling interest in Rio Tinto,<sup>47</sup> Chinese State security officials raided Rio Tinto's Shanghai offices and arrested six members of its staff on State Security charges, including a naturalized Australian citizen, Stern Hu. In any case, as the parent of one of Canada's largest firms, Alcan Rio Tinto is naturally of interest to Canadians.

This case should by no means be seen as typical, yet it does serve as an insight into Chinese state motives and the Chinese policy process. Soon after the arrests took place, Chinese media were quickly informed about the suspicions that lay behind the arrests and the Chinese government's objective in carrying them out. These reports made it clear that the Chinese government felt it was being 'played' in annual price negotiations between Australian iron ore mining operators and Chinese steel makers. Chinese media claimed that Rio Tinto employees had illegally obtained confidential information that was directly bearing on price. The other piece of information that was passed on to foreign journalists working in China was that these arrests were approved at the highest level. China has since backed away from the most serious charges, yet at the time of writing Rio Tinto employees have yet to be released.

Incidentally, journalists report that, in the meantime, despite the fact that China had balked at paying the price Australian miners earlier agreed to by Japanese steelmakers, Chinese steelmakers were happily buying ore at the benchmark price earlier established with Japan. In other words, Chinese state behaviour had relatively little effect on the behaviour of Chinese steel-making firms. Several conclusions are in order here: CCP authorities are both sensitive to, but awkward at, gauging the foreign policy and foreign economic effect of their domestic decisions. This sensitivity is seen both in the remarkable way in which the state

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<sup>43</sup> Robert Booth and Donald Greenfield, "Canada's Energy Sector Grows," *2007 Lexpert Guide to U.S./Canada Cross-Border Corporate Lawyers in Canada* (May 2007), <http://www.bennettjones.com/Images/Guides/update2537.pdf> (accessed December 10, 2009): 131.

<sup>44</sup> Paul Evans, "Canada and Global China: Engagement Recalibrated," in *Canada Among Nations 2005: Split Images*, ed. Andrew F. Cooper and Dane Rowlands, (Montreal and Kingston: McGill-Queen's University Press, 2005), 154; also see Paul Evans, "Canada, Meet Global China," *International Journal* 2, No. 6 (2006): 283.

<sup>45</sup> "Government 'Concerned' about Chinese Espionage," CTV.ca, April 14, 2006. [http://www.ctv.ca/servlet/ArticleNews/story/CTVNews/20060414/china\\_espionage\\_060414/20060414?hub=TopStories](http://www.ctv.ca/servlet/ArticleNews/story/CTVNews/20060414/china_espionage_060414/20060414?hub=TopStories) (accessed December 10, 2009); "Chinese Spies Cost Canada Billions: Harper," CTV.ca, June 16, 2005, [http://www.ctv.ca/servlet/ArticleNews/story/CTVNews/1118953947201\\_114363147/?hub=TopStories](http://www.ctv.ca/servlet/ArticleNews/story/CTVNews/1118953947201_114363147/?hub=TopStories) (accessed December 10, 2009).

<sup>46</sup> International Crisis Group, "China's Thirst for Oil," *Asia Report* 153 (June 8, 2008), <http://www.crisisgroup.org/home/index.cfm?id=5478> (accessed December 10, 2009).

<sup>47</sup> See, for example, John Garnaut, "Don't Play Nationalist Card Against Chinalco," *The Age*, February 16, 2009, <http://www.theage.com.au/business/dont-play-nationalist-card-against-rio-deal-20090215-884a.html?page=-1> (accessed December 10, 2009).

sought to feed information to the media and in the way that it backed away from the most serious charges. Second, Chinese firms continue to behave in a way that reflects local market conditions despite the ultimate desires emanating from the state.<sup>48</sup> Chinese state-owned firms do have boards appointed by the CCP, but these boards are largely appointed from among Party members within the firm or its industrial sector.<sup>49</sup> Far from being passive acceptors of State and Party directives, senior managers of these firms have high status inside the Party and are influential in policy making. The former CEO of Chinalco, Xiao Yaqing, is now the Vice Premier in charge of the State-owned Assets Supervision and Administration Commission, which nominally appoints Chinalco's board of directors. His replacement as CEO of Chinalco is Xiong Weiping who directs Chinalco's subsidiary Chalco, but who is a long-time professional in the mining field and concurrently a Professor in Beijing University's Guanghua School of Management.<sup>50</sup>

In any case, the current global economic weight of China and its investment prowess mean that financial markets and regulators have little choice but to welcome Chinese investment and work to keep Chinese investment behaviour transparent, lawful and subject to regulatory power. China's resource investments are not aimed exclusively at supplying Chinese markets for Chinese firms. Chinese oil companies have been quite content to supply crude to third country customers depending on economic conditions. There are no grounds for supposing that Chinese resource investments represent an effort to withdraw supplies from global markets.

In the area of energy resources, the largest and most expensive Chinese acquisitions have been of Canadian firms with extensive overseas assets, particularly in emerging countries. This applies, for example, to the acquisition of PetroKazakh by the China National Petroleum Corporation in 2005,<sup>51</sup> and the most recent acquisition of Addax oil with assets in Nigeria and Iraq by Sinopec.<sup>52</sup> Chinese firms have been more cautious and tentative with respect to domestic Canadian resource assets. This applies to the controversial withdrawn bid for Noranda but also China's cautious participation in the Alberta oilsands and the Gateway pipeline project. Since the failed bid for Noranda in 2005, China has been more reticent and circumspect, notably in the recent investment by China's sovereign wealth fund China Investment Co. in Teck Cominco.<sup>53</sup>

This latter investment represents a rather new trend and impetus in China's outward investments, and particularly its investments in commodity firms. This type of investment is not intended to gain direct access to the resources produced by the target firm. Rather, it is intended as a hedge against the US dollar risk inherent in China's huge foreign exchange reserves. In buying into resource commodity firms valued by reference to the underlying commodities they produce, China buys a hedge against dollar inflation by referencing the physical asset produced by the resource company. In this case, China Investment Co. is content to play the role of a passive investor, betting that a future fall in the value of the US dollar will be offset by the rising price of the minerals that Teck produces. China Investment Co. is after the *value* of Teck's mining interests, not the resources themselves. This represents a distinct motivation from the one occasioned by Chinalco's interest in Rio Tinto, clearly motivated by the threat of a near monopoly represented by BHP Billiton's bid to acquire Rio Tinto.

<sup>48</sup> See "China Warms to New Credo: Business First," *The New York Times*, August 13, 2009, <http://www.nytimes.com/2009/08/14/world/asia/14china.html> (accessed December 10, 2009).

<sup>49</sup> See Christopher A. McNally, "Strange Bedfellows: Communist Party Institutions and New Governance Mechanisms in Chinese State Holding Corporations," *Business and Politics* 4, No. 1, (2002): 91-115.

<sup>50</sup> Yan Jiangning, "Chinalco's President Steps Down to Take State Office," *Caijing.Com.Cn*, February 17, 2009, <http://english.caijing.com.cn/2009-02-17/110069627.html> (accessed December 10, 2009).

<sup>51</sup> See "CNPC gets approval for PetroKazakh takeover," *China Economic Review*, October 27, 2005, [http://www.chinaeconomicreview.com/industry-focus/latest-news/article/2005-10-27/CNPC\\_gets\\_approval\\_for\\_PetroKazakh\\_takeover.html](http://www.chinaeconomicreview.com/industry-focus/latest-news/article/2005-10-27/CNPC_gets_approval_for_PetroKazakh_takeover.html) (accessed December 10, 2009).

<sup>52</sup> See Eric Reguly, "Sinopec Agrees to Buy Addax for \$8-billion," *The Globe and Mail*, July 24, 2009, <http://v1.theglobeandmail.com/servlet/story/RTGAM.20090624.waddaxsinopec0624/BNStory/Business/ERIC+REGULY> (accessed December 10, 2009).

<sup>53</sup> See, "China Plays by Teck's Rules" *The Globe and Mail* July 3, 2009.

## CONCLUSION

Canada's value to China is shifting in line with our relative weight in the global economy and in global politics. While it is not clear that has Canada ever enjoyed a privileged relationship with China, the conditions that made Canada's relationship with China 'special' have eroded over time and we have not yet formulated a set of strategic objectives that would cement bilateral ties in a manner that would institutionalize political relations beyond the vagaries of changes in government and which takes account of the fact of our growing dependence on the Chinese market and China's growing leverage over our trade and investment. The much vaunted 'complementarity' between our economies that China's leaders trumpeted at the end of the last century has not resulted in balanced interdependence, nor has the deep investment in personal ties between government leaders in the era of 'Team Canada' been sustained or even maintained. While official ties have sputtered, the very substantial flows of migration and education have not been transformed into permanent channels of two-way communication, nor have they resulted in internalizing each other's society as a familiar extension of our own in any way reminiscent of the cultural impact of trans-Atlantic ties. Canadians by and large do not see themselves as part of 'Global China' nor have Chinese ceased to see Canada as a franchise branch of 'the West'. Our engagement remains instrumental, contractual and distant, even if by and large benign and relatively unthreatening.

The steep hierarchy of Chinese institutions and the looming shadow of the Party-State remains an obstacle to closer political encounters much more at the conceptual than at the human level. While the Communist Party system remains exclusive and hierarchic, it struggles to preside over a dynamic and expansive market society that it can no longer control from above. While this is sometimes a source of friction between our governments, it can also become a resource that feeds interdependence should we choose to engage it. Like the Chinese themselves, we must accommodate and tolerate the umbrella of the Chinese state as we grow our networked connections – *guanxi wang*. We should strive on our side to build a flexible structure of interaction that is mutual and permanent and free from the contingency of short-term political interest. That is what we should strive for as part of a 'strategic partnership.' We need to drill permanent channels of interaction between our bureaucracies, our business corporations and our non-governmental organizations so that our political leaders cannot avoid meeting on a regular schedule.

Seventeen years ago, China's elder-statesman, Deng Xiaoping, leaped out of semi-retirement to tour the centres of foreign investment in southern China in order to break the political deadlock concerning the direction of China's economic development. He challenged a truculent Politburo to let go of the shibboleths of capitalism and socialism and recognize that a foreign-invested factory in Shenzhen builds assets in China, creates Chinese jobs and operates under Chinese law.<sup>54</sup> Canada should welcome investment by large Chinese state-owned corporations in Canada as a means to gain permanent access to the centres of Chinese power. A Chinese state that is worried about substantial investments in Canada will be concerned about the state of relations *with* Canada. Instead of predicating ongoing relations on periodic bilateral and multilateral summits, we should promote these alongside a denser structure of bilateral working groups in sectors of mutual interest, and rather than predicate economic relations on large multinational torch-bearers, we need to tailor a business strategy to facilitate the needs of small and medium enterprises from both countries.

The solution to a pattern of stop-go interaction and declining impact of our 'brand' is to engineer more regular encounters at all levels to promote shared interests and opportunities, rather than wait for opportunities to be revealed and bound into distinct, time-bound and risky projects.

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<sup>54</sup> For the politics surrounding Deng's 'Southern Tour' of 1992, see Michael E. Marti, *China and the Legacy of Deng Xiaoping: From Communist Revolution to Capitalist Evolution* (Dulles, Virginia: Brassey's, 2002).

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## THE CIC CANADA-CHINA RELATIONS PROJECT

Bilateral relations between the governments of Canada and the People's Republic of China are a matter of strategic interest to Canada. Recent changes in the frequency of high-level visits, the effective style and content of bilateral communications and perspectives held about each country by various sectors of each other's society all suggest that the Canada-China relationship has changed significantly in recent years. Yet China remains vitally important to Canada for a variety of reasons and in a variety of sectors. Political and diplomatic cooperation on issues of direct bilateral concern and also on issues of global import remains critically important. Commercial and trade ties linking Canada with the world's third largest and fastest growing economy are of obvious importance. Cultural and civil society ties, including immigration patterns and the ancillary effects they generate, are also important. In these and other matters, the Canada-China relationship will likely grow in importance in the years to come. While the diversity of links between Canada and China militates in favour of giving due attention to a multiplicity of commercial, academic and civil society links, bilateral cooperation at the federal/central government level remains important.

In keeping with CIC objectives to advance research and dialogue on international affairs issues of importance and interest to Canadians, the CIC Canada-China Relations Project has focused on supporting research and analysis toward building a policy framework for Canada's relationship with China. The project's activities have been developed along three thematic areas that reflect issues of common concern: a) Chinese domestic institutional and normative contexts for engagement; b) Economic relations; c) Collaboration on global issues such as environment, health and security.

- a) Domestic Context for Engagement: The Canada-China relationship can be most effective when it is grounded on complementarity of interests, which in turn requires mutual understanding of domestic normative and institutional conditions in both countries. Canadian initiatives with China, ranging from WTO compliance and business regulation to human rights, can be effective only if they are designed and implemented in light of China's domestic conditions, ranging from popular norms to governmental structures and policy priorities. Similarly, China's success in nurturing productive relationships with Canada will require appreciation of Canadian domestic conditions. The papers for this thematic area were commissioned and directed by Professor Jeremy Paltiel of Carleton University.
- b) Economic Relations: Economic relations between Canada and China are critically important. Economic relations include bilateral trade and investment relations, and also extend to local effects of economic conditions and behaviour. In the trade area, Canada's strengths match up extremely well with China's needs. In trade and investment relations, efforts to promote normative and institutional accommodation in China for Canadian business objectives are consistent with Chinese development policies and also serve important Canadian interests in the areas of good governance. As well, national economic behavior by the two countries in response to changing economic conditions at the global, regional and local level have important effects on the Canada-China relationship. The papers for this thematic area were commissioned and directed by Yuen Pau Woo, President of the Asia Pacific Foundation of Canada.
- c) Collaboration on Global Issues: The importance of China's responsible participation in systems for addressing global policy concerns in areas such as environment, health and security cannot be overstated. Yet China's participation in the global community can be distorted by its responses to apprehension and competition from other global actors, particularly the United States, the European Union and Japan. Canada has a significant role to play in supporting China's responsible participation, not only through direct bilateral programming but also through our capacity to deploy good offices, legitimation and other soft power resources both bilaterally and globally. The papers for this thematic area were commissioned and directed by Professor Brian Job of the University of British Columbia.

The papers here presented in connection with the CIC Canada-China Relations Project offer informed, non-partisan recommendations for a variety of stakeholders in Canada, including the government and private and public sector institutions and individuals, with a view toward furthering the development of healthy long-term relations between Canada and China. While historical and current conditions may result in disagreement as to how best to manage the Canada-China relationship, China's importance to the world requires our attention. We hope that the papers presented here can further the process of understanding and effective engagement that will strengthen the foundation for productive relations for the long-term interests of both countries.

**Dr. Pitman B. Potter**

*Chair*

*CIC China Working Group*

The Canadian International Council (CIC) is a non-partisan, nationwide council established to strengthen Canada's role in international affairs. With local branches nationwide, the CIC seeks to advance research, discussion and debate on international issues by supporting a Canadian foreign policy network that crosses academic disciplines, policy areas and economic sectors.

The CIC features a privately funded fellowship program and a network of issue-specific Working Groups. The goal of the CIC Working Groups is to identify major issues and challenges in their respective areas of study and to suggest and outline the best possible solutions to Canada's strategic foreign policy position on those issues. The CIC aims to generate rigorous foreign policy research and advice.

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