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WORKING WITH
CHINA TOWARDS A
NEW INTERNATIONAL
INSTITUTIONAL ARCHITECTURE:
A STRATEGIC PARTNERSHIP
WITH CANADA ON GLOBAL ISSUES
OF MUTUAL INTEREST

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ABSTRACT

Canada must pursue international cooperation in order to deal effectively with a number of global issues that may compromise our security and prosperity. In the areas of international finance, climate change, pandemics, nuclear proliferation and terrorism, for example, international collaboration and agreements are required to resolve problems. The premise of this paper is that China will become an ever more significant and influential, if not indispensable, player on the world stage.

This paper reviews Chinese priorities in foreign policy, focusing on China's perspectives on global issues. It then proceeds to review an agenda of global issues where Chinese and Canadian interests are congruent. International arrangements where the two countries can reinforce each other's efforts include global financial institutions, the International Energy Agency, the World Trade Organization and the United Nations. Specific areas for collaboration are proposed, including on Security Council working methods and emergency disaster relief, climate change negotiations, internationalization of the nuclear fuel cycle and peacebuilding in Afghanistan.

RÉSUMÉ

Le Canada doit privilégier la coopération internationale pour traiter efficacement plusieurs problèmes mondiaux susceptibles de compromettre sa sécurité et sa prospérité. En ce qui touche notamment les finances internationales, les changements climatiques, les pandémies, la prolifération nucléaire et le terrorisme, ces problèmes ne pourront être résolus sans collaboration et ententes internationales. Cette étude part du principe que la Chine est appelée à devenir un acteur encore plus influent, sinon carrément indispensable, sur l'échiquier international.

On y examine tout d'abord les priorités chinoises de politique étrangère en faisant valoir le point de vue de la Chine sur les grands dossiers mondiaux. On y dresse ensuite un programme d'enjeux mondiaux sur lesquels coïncident les intérêts du Canada et de la Chine. Les accords internationaux autour desquels les deux pays pourraient ainsi accentuer leurs efforts mutuels concernent surtout les institutions financières, l'Agence internationale de l'énergie, l'Organisation mondiale du commerce et les Nations unies. Certains domaines de collaboration spécifiques sont aussi proposés, par exemple quant aux méthodes de travail et aux secours d'urgence en cas de catastrophe du Conseil de sécurité, aux négociations sur les changements climatiques, à l'internationalisation du cycle du combustible nucléaire et à la consolidation de la paix en Afghanistan.

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INTRODUCTION

Canada must pursue international cooperation to deal effectively with a number of global issues that may compromise our security and prosperity. In the areas of international finance, climate change, pandemics, nuclear proliferation and terrorism, for example, international collaboration and agreements are required to resolve problems. The premise of this paper is that China will become an ever more significant and influential, if not indispensable, player on the world stage.

This paper reviews Chinese priorities in foreign policy focusing on China's perspectives on global issues. It then proceeds to review an agenda of global issues where Chinese and Canadian interests are congruent. International arrangements where the two countries can reinforce each other's efforts include global financial institutions, the International Energy Agency (IEA), the World Trade Organization and the United Nations (UN). Specific areas for collaboration are proposed, including on Security Council working methods and emergency disaster relief, climate change negotiations, internationalization of the nuclear fuel cycle and peacebuilding in Afghanistan.

CHINESE INTERESTS

Deng Xiaoping is credited with a widely quoted Chinese maxim on foreign policy in the 1990s:

Observe calmly.
Secure our position.
Cope with affairs calmly.
Hide our capacities and bide our time.
Be good at maintaining a low profile.
Never claim leadership.

As recently as last year, Fred Bergsten characterized China's foreign policy as "not to assume a large role in the world but avoid international entanglements that could disrupt the country's ability to focus on huge domestic challenges [...] China's international mindset has not kept pace with its breathtaking economic ascent. China continues to act like a small country with little impact on the global system at large and therefore little responsibility for it."¹

China's rapid development over the last 20 years has rendered Deng's maxim and Bergsten's characterization out-of-date. China has tremendous strengths. Indicators of its growing power include two trillion dollars of international reserves, a booming middle class, and its growing weight in the global economy. While Chinese core values are constant, its perception of its interests certainly has changed. Respect for state sovereignty is China's mantra, but support for UN peacekeeping operations is a good example of the shift from noninterference to a more pragmatic foreign policy.³ Economic growth and energy security are top priorities that will lead to further Chinese engagement in international affairs. China will be receptive to ideas to re-engineer international institutions to better reflect Chinese national interests.

¹ Fred Bergsten, "A Partnership of Equals: How Washington Should Respond to China's Economic Challenges," *Foreign Affairs* 87, No. 4 (July – August 2008).

² "China Car Sales Jump 71% in July 2009, to Surpass US as Largest Auto Market," Post1.Net, September 17, 2009, http://www.post1.net/lowem/entry/china_car_sales_jump_71_in_jul_2009_to_surpass_us_as_largest_auto_market (accessed December 14, 2009).

³ Stephanie Kleine-Ahlbrandt and Andrew Small, "China's New Dictatorship Diplomacy: Is Beijing Parting With Pariahs?" *Foreign Affairs* 87, No. 1 (January – February 2008).

China's preeminent objective is to continue its high rate of growth. Internal stability depends on it. The scale of China's labour market challenges is daunting. Unemployment is a major preoccupation for China's leaders. Two groups of concern are unemployed migrant workers who have become "urbanized" and have no land to return to and unemployed university graduates. Estimates of new rural emigrants seeking work in the cities are in the order of 15 million per year.⁴ Each year, China must find jobs for about 6 to 7 million university graduates. One estimate reports that, of 5.6 million university graduates in 2008, 1.7 million were unable to find a job.⁵ The Chinese Academy of Social Sciences has reported 7.8 million graduates will search for jobs in 2009.⁶

Thus, it is a political imperative for the Chinese economy to generate jobs. Each percentage of gross domestic product (GDP) growth rate is calculated to be equivalent to at least one million more jobs, but some estimates are much higher.⁷ Because layoffs are concentrated in labour-intensive industries, total non-agricultural employment in 2009 may contract by 1-1.5 percent, even with 7.5 percent GDP growth.⁸ Economic growth is highly dependent on maintaining vigorous growth in international trade, in significant part by virtue of the openness of the Chinese economy.⁹

To maintain economic growth, China is dependent on a stable global economy, but, as Fred Bergsten has observed, China is uncomfortable with the idea of integrating into an international system it had no role in developing. China's interests mirror Canada's on a wide range of issues. Indeed, Canada could frame a potential partnership with China around key global objectives, including:

- Global financial stability – maintaining the value of the US dollar and modernizing the International Monetary Fund (IMF);
- Nuclear non-proliferation – realizing the benefits of internationalizing the nuclear fuel cycle;
- Climate change – developing technologies for "clean coal" and carbon capture and sequestration;
- International trade – mitigating American and European protectionism and
- UN peacekeeping.

⁴ The number was 18.1 million in 2005. Kam Wing Chan, "Internal Labor Migration in China: Trends, Geographical Distribution and Policies," Presented at UN Expert Group Meeting on Population Distribution, Urbanization, Internal Migration and Development New York, January 21-23, 2008, http://www.un.org/esa/population/meetings/EGM_PopDist/Chan.pdf (accessed December 14, 2009). Current estimates of the impact of the global financial crisis is 20 million migrant jobs lost - especially from the southern, largely manufacturing regions, but the general trend of rural-to-urban likely to persist. See Andrew Jacobs, "China Fears Tremors as Jobs Vanish from Coast," The New York Times, February 22, 2009, <http://www.nytimes.com/2009/02/23/world/asia/23migrants.html> (accessed December 14, 2009).

⁵ Pieter Bottelier, "Is China's Economy Tanking? Understanding New Data," Carnegie Endowment for International Peace, January 30, 2009, http://www.carnegieendowment.org/files/Pieter_Bottelier%20PPT.pdf (accessed December 14, 2009).

⁶ Dieter Ernst, "Will Asia Use Crisis as Catalyst for Change?" China Daily, April 24, 2009, http://www.chinadaily.com.cn/bizchina/2009-04/24/content_7711503.htm (accessed December 14, 2009). However, Bloomberg reported in May 2009 the number at 6.1million: Micheal Tighe, "China Jobs Slump Makes Graduates Swap Dreams for Civil Service," May 14, 2009, <http://www.bloomberg.com/apps/news?pid=20601109&sid=aUtHSxTy1zB0> (accessed December 14, 2009). UNESCO reports 5.8 million tertiary graduates. "Data Centre, Custom Tables," *UNESCO Institute for Statistics*, http://stats.uis.unesco.org/unesco/TableViewer/document.aspx?ReportId=136&IF_Language=eng&BR_Topic=0 (accessed December 14, 2009).

⁷ "Our very broad calculations based on recent trends suggest that every percentage point less non-agricultural GDP growth means about 5.4 million fewer non-agricultural jobs. Thus, based on our scenario of 6.5 % GDP growth for the year as a whole, compared to potential growth of around 9.5 %, and with growth particularly subdued early in the year, I would say the "shortage" of non-agricultural jobs this year is about 17 million, peaking at perhaps 20-25 million early in the year." Louis Kuijs, "Interview with David Dollar and Louis Kuijs on China Quarterly Update," *World Bank Speak Out*, February 19, 2008, <http://discuss.worldbank.org/content/interview/detail/5228/> (accessed December 14, 2009).

⁸ Pieter Bottelier, "Is China's Economy Tanking? Understanding New Data," Carnegie Endowment for International Peace, January 30, 2009, http://www.carnegieendowment.org/files/Pieter_Bottelier%20PPT.pdf (accessed December 14, 2009).

⁹ China's openness ratio — measured as the sum of imports and exports to GDP — is currently about 70 percent. "Why China Needs to Grow Its Economy, or Risk Growing Unrest," Knowledge@Wharton, February 4, 2009, <http://knowledge.wharton.upenn.edu/article.cfm?articleid=2156> (accessed December 14, 2009). "It doubled from around 33% to over 62% between 1995 and 2005. China is almost as open as Germany (64%) and more open than the UK (40%) or the USA(20%)." M. Bussière and Bernd Schnatz, "Evaluating China's Integration in World Trade with a Gravity Model Based Benchmark," *Open Economic Review* 20, September 18, 2007, <http://www.springerlink.com/content/wm65614j46126157/fulltext.pdf> (accessed December 14, 2009).

Other congruent interests might include preserving safe international shipping; actions dealing with the risk to low lying coastal zones from rising sea levels from climate change; further developing the Canadian oilsands and peaceful resolution of the insurgency in Afghanistan and Pakistan.

In addition, in the medium term, there may be scope for exploring potential synergies in working together in the development field. China will soon be one of the largest foreign aid donors, and it is important to build a dialogue to address China's challenge to existing norms by ignoring the conditionality that has evolved in the donor community. One way to proceed is to champion the transformation of international donors' arrangements to include China as a full member.

G20

The G20 is the route to establishing a strategic diplomatic partnership. Why would China work with Canada? Four factors would probably stimulate Chinese interests if Canada approached China with the suggestion to cooperate on a spectrum of global issues:

- Canada is not a threat and is perceived as an honest broker;
- Canada has a wide range of multilateral credentials – in the G20, the Commonwealth, la Francophonie, the Organization of American States, NATO and many others;
- China, while enjoying musings about a G2 with the United States, is unlikely to enter into any formalized "condominium" relationship with the US and
- China has repeatedly emphasized the significance and legitimacy of the UN and wants international institutions to work effectively.

Canada is host of the 2010 G8 Summit, and co-chairs the 2010 G20 with South Korea. The G8 Presidency in 2010 is a valuable asset. China has made it clear that it does not wish to be added to the G8, even if it were in the company of, for example, India. On the other hand, China has been very open since the Gleneagles G8 to being one of the five countries¹⁰ regularly invited to meet with the G8. China is open to meeting at the Heads of Government level in the G20. Moreover, China's leadership had indicated to former Prime Minister Paul Martin that they would have been prepared to co-host a G20 meeting with Canada – if Prime Minister Martin could have ensured President Bush would come. Bush demurred and therefore a G20 at the Heads' level had to await the present global financial crisis.¹¹

It is in both Canada's and China's interests to have the G20 agenda broaden beyond dealing with the global financial crisis. While some in Canada believe Canadian interests would be best served by maintaining the G8, there is growing recognition that the G8 cannot continue unchanged in the face of the existence of the G20. The G8 agenda for 2010 appears to be limited to issues of G8 accountability, food security and possibly global health issues. Other critical issues will have to be dealt with in a more inclusive forum.

If the G20 does not become the main summit forum, the US (and others) may very well decide that summits should be smaller than 20 (or the 24 or 25 of the current G20¹²). A new calculus of global power could very well exclude Canada from a smaller group. So it is in Canada's interest that the G20 be successful.

¹⁰ The other countries are India, Brazil, South Africa and Mexico.

¹¹ Bush demurred and therefore a G20 at Heads' level had to await the present global financial crisis. (The irony is that President Bush called the first G20 Summit in November 2008). Private communication from former Prime Minister Paul Martin.

¹² Spain, the Netherlands, Thailand (as the ASEAN Presidency), the African Union and the New Partnership for Africa's Development offices were all invited to the April 2 London Summit.

Canada could assure China that under its co-chairmanship in 2010, the G20 will not operate as an executive, decision-making body (it has no legal authority), "but rather as an instrument to shape consensus on major transnational issues, which would ultimately be adjudicated by other organs with universal or near-universal membership, such as the United Nations."¹³ Within this context, the role of a more inclusive grouping, such as the G20, could serve as a pre-negotiation forum bringing together the smallest possible grouping of necessary stakeholders; a mechanism for building knowledge, trust and patterns of cooperative behavior among the most powerful states and a device for such states to encourage one another to take responsibility for their global obligations.

Canada could approach China with the proposal to work closely together to prepare the 2010 G20 Summit. China could help craft the agenda and together prepare the "pre-negotiation" process for a series of global issues. Canada could offer to hold one of the preparatory Sherpa meetings in Beijing as part of this partnership.¹⁴

GLOBAL FINANCIAL INSTITUTIONS

The global financial crisis has not hit China as hard as the US or Europe. China's financial system is maturing; the domestic financial situation is much improved over the last decade. There is considerably less worry about non-performing loans.¹⁵ Transparency has improved to some extent; three of China's biggest banks (China Construction Bank, Industrial and Commercial Bank of China and the Bank of China) are listed on the Hong Kong stock exchange. As of May 2009, China's stock market has increased by 47 percent.¹⁶ China's stake in the effective functioning of the global financial system has increased considerably by virtue of its massive holdings of foreign currency reserves.

At last November's G20 Leaders meeting, China argued that its role was to keep its own economy, constituting one-tenth of global output, moving at 8 percent growth, with a US\$570 billion fiscal stimulus. Ahead of the London summit, China let it be known that the US could not expect China to help fund its enormous deficit without something in return. It lectured the new Obama Administration on the need to follow stimulus spending with a renewed effort at fiscal consolidation. In March 2009, Zhou Xiaochuan, the Governor of the Chinese central bank, released a policy paper suggesting the creation of a "super-sovereign reserve currency" to replace the dollar as a reserve currency over the long run.¹⁷ China has begun to indicate

¹³ Bruce Jones, Carlos Pascual, and Stephen John Stedman, *Power and Responsibility: Building International Order in an Era of Transnational Threats* (Washington, DC: Brookings Institution Press, 2009).

¹⁴ Precedents exist – the argument is to share the travel burdens more fairly.

¹⁵ The treatment of non-performing loans has changed drastically as well. In the old days, such bad loans were simply rolled over, with skipped payments being capitalized into the loans. Then the government decreed that interest payments on a loan had to be received within 90 days for it to avoid being classified as non-performing. Initially, the amount of non-performing loans rose, but as of September 30, 2008, non-performing loans totaled only 2 percent of the loan total for the country's listed banks. That compares with 2.3 percent for Federal Deposit Insurance Corporation-insured banks in the United States. Dan Weil, "The Rise of Chinese Banks Will they Outgrow American Financial Institutions?" *Newsweek*, January 5, 2009, <http://www.newsweek.com/id/178029/page/1> (accessed December 14, 2009).

¹⁶ Lucia Maxim, "Bucharest Stock Exchange, World's 40th Best Year-to-Date Performance, Wall-Street, May 21, 2009, <http://www.wall-street.ro/articol/English-Version/64969/Bucharest-Stock-Exchange-world-s-40th-best-year-to-date-performance.html> (accessed December 14, 2009).

¹⁷ Specifically, he suggested the creation of a fund, managed by the IMF through which dollars could be exchanged for Special Drawing Rights, an IMF-created international reserve asset whose value is fixed by a basket comprised of 44 percent of US dollar, 34 percent of euro and 11 percent of each pound and yen. Zhou Xiaochuan, "Reform of the International Monetary System," *The People's Bank of China*, March 23, 2009, <http://www.pbc.gov.cn/english/detail.asp?col=6500&id=178> (accessed December 14, 2009). See also "Won't Get Fooled Again: Just Right for G20," *Blowin' in the Wind*, April 9, 2009, <http://www.pressrun.net/weblog/2009/04/wont-get-fooled-again-nixon-and-bretton-woods.html> (accessed December 14, 2009).

aspiring to someday making the Chinese renminbi (or yuan) an internationally accepted currency in its own right. In the weeks surrounding the G20 summit, China established US\$95 billion worth of currency swaps with Indonesia, Belarus, Malaysia, Argentina, Hong Kong and South Korea – all of which indicate a more confident diplomacy and a larger future role in international finance for the Chinese currency. Realizing that its holdings of US Treasuries give it little leverage over US policy, China has assumed a more assertive stance, responding to the criticism that its large current account surplus and reserves in part helped create the crisis.

British and Australian Prime Ministers Gordon Brown and Kevin Rudd encouraged China to strike a “grand bargain” at the April 2 London summit. The pitch was that China should take on a greater role in the international financial system in exchange for keeping down protectionist barriers. Funding of the IMF would be increased, China would be given more appropriate voting rights and the IMF would be given powers to direct governments to respond to its surveillance reports. A greater role for China in the IMF, and easier access to its financial assistance, would be exchanged for China playing by global rules and not trying to build up surpluses and reserves as insurance.

Canada could work with China on IMF voting rights, on increasing the power of IMF surveillance and on the evolution of votes and Special Drawing Rights. The Chinese position has been clear with respect to the future of the IMF, arguing that it should give priority to surveillance of the ongoing financial turmoil, deepen its analysis, learn lessons and listen to the opinions of member countries. “In providing a practical and effective guide for the Fund’s surveillance and in adapting to global economic developments, the *2007 Surveillance Decision* should be reviewed and revised as soon as possible so that the Fund can determine where the true risks lie, and adopt effective measures to maintain a stable and orderly global economic and financial system.”¹⁸ China has called for the Fund to “address the inherent deficiencies of the current international monetary system and foster an international financial architecture adaptive to the evolving global economy and financial markets.” China has generally supported the G20 push to strengthen financial regulation – supporting measures that would boost regulation in western countries, such as controls on hedge funds and ratings agencies.

It is clear that China is an indispensable player in the ongoing geopolitical transformation. China has been characterized as one the most difficult countries to read. “They want everything and nothing,” says a senior IMF official. “What they really want is just to be among the big players. The coming 20 to 30 years will be the era of the US and China. They are preparing for this game.” One observer concluded that China was the big winner at the London Summit. The final communiqué adopted at the meeting included almost every demand made by Chinese President Hu Jintao. Five out his six proposals were approved.¹⁹ A Credit Suisse economist has written, “In my 16 years of covering China I have never seen the country approach an international forum in such a proactive way. China has traditionally been passive on the international stage, being a listener rather than an opinion leader, but this time it’s different. China wants to make sure [its] voice is being heard.”²⁰

Beijing wants a bigger share of votes at the IMF to reflect its rapidly growing economy. But before the G20, it did not want to contribute from its massive foreign reserves to increasing the Fund’s resources

¹⁸ “Statement by the Hon. Dr. YI Gang Governor of the Fund for the People’s Republic of China, at the Joint Annual Discussion,” International Monetary Fund, Press Release No. 16, October 13, 2008, <http://www.imf.org/external/am/2008/speeches/pr16e.pdf> (accessed December 14, 2009).

¹⁹ “Hu Prevailed at G20,” *Blowin’ in the Wind*, April 3, 2009, <http://www.pressrun.net/weblog/2009/04/hu-prevailed-at-g20.html> (accessed December 14, 2009).

²⁰ Dong Tao quoted in Geoff Dyer, “China Assumes Lead on World Economy,” *Financial Times*, April 2, 2009, <http://www.ft.com/cms/s/0/0de6a26a-1f1e-11de-a748-00144feabdc0.html> (accessed December 14, 2009).

because China is still, per capita, a poor country. In the end, Prime Minister Brown announced that Beijing would contribute US\$40 billion, alongside US\$100 billion each from the European Union and Japan, as part of a US\$500 billion total. "The crisis emphasizes that China is a pivotal world player," says Bobo Lo of the Centre for European Reform in London. "It might not be a global superpower yet, but it has accelerated that trend."²¹

At Pittsburgh, G20 leaders committed to a "shift in IMF quota share to dynamic emerging markets and developing countries of at least 5% from over-represented countries to under-represented countries using the current quota formula as the basis to work from." The IMF quota review is to be completed by January 2011. They referred to the need for "adopting a dynamic formula at the World Bank which primarily reflects countries' evolving economic weight and the World Bank's development mission, and that generates an increase of at least 3% of voting power for developing and transition countries, to the benefit of under-represented countries."²²

Canada could propose to China to work together on a detailed solution to IMF and World Bank quota and voting rights, until recently a moribund issue afflicted with countless declarations of intent and risible inaction. Perhaps a forceful joint proposal could catalyze action. In the IMF, the 11 major European countries²³ have 27.69 percent of the votes; the US has 16.77 percent and China 3.66 percent; together they have just over 48 percent. A realistic proposal – given China's creditor position – would be that the European group of 11 countries, the US and China should each have 15.01 percent of the votes.²⁴ Such a dramatic Canadian proposal, if it were energetically promoted, would be most welcome by China. In other words, the Europeans are the villains in blocking pragmatic reform. The US would probably accept this proposal – maintaining its veto for initiatives that require 85 percent of the votes. But so should the Europeans. With respect to Executive Board seats, the Europeans should cede two of their seats to provide voice for the African constituencies.²⁵ It is time for the rest of the world to insist that the Europeans end their hypocrisy on reform.

Canada, based on its comprehensive understanding of the technical details, could propose a package of administrative and regulatory reforms to enhance the effectiveness and impact of IMF surveillance activity. Of equal importance is the evolution of Special Drawing Rights. Canada could offer to work with China on medium term plans for options to strengthen reserve currency arrangements.

CLIMATE CHANGE & ENERGY

Climate change is recognized as a serious challenge by China. China's 2006 *National Assessment Report on Climate Change* projected that yields of major agricultural crop production could decrease by up to 37 percent in the second half of the century.²⁶ China suffers from desertification, with one-quarter of its land

²¹ Quentin Peel, "A Wider Order Comes into View," *Financial Times*, April 5, 2009, <http://www.ft.com/cms/s/0/6d14d88a-220f-11de-8380-00144feabdc0.html> (accessed December 14, 2009).

²² "Leaders' Statement: The Pittsburgh Summit," *The Pittsburgh Summit*, September 24-25, 2009, <http://www.pittsburghsummit.gov/mediacenter/129639.htm> (accessed December 14, 2009).

²³ Germany, France, UK, Belgium, Netherlands, Spain, Italy, Sweden, Norway, Denmark and Finland.

²⁴ This would allow increasing Japan's votes from 6 to 9 percent in recognition of its weight and support.

²⁵ China would welcome an initiative to increase Africa's voice. China is on record discussing seats in the World Bank; see "Statement by the Hon. Dr. Yi Gang Governor of the Fund for the People's Republic of China, at the Joint Annual Discussion," *International Monetary Fund*, Press Release No. 16, October 13, 2008, <http://www.imf.org/external/am/2008/speeches/pr16e.pdf> (accessed December 14, 2009).

²⁶ Ling Li, "China Releases First National Report on Climate Change," *Worldwatch Institute*, January 11, 2007, www.worldwatch.org/node/4848 (accessed December 14, 2009).

mass already desert and the Gobi Desert expanding,²⁷ and with annual direct economic losses estimated at US\$6.5 billion. China may have lost as much as one-fifth of its arable land to soil erosion and economic development in the past 60 years.²⁸

Unrest from migration due to environmental factors will reinforce the already substantial rural-to-urban movement. China's reliance on abundant dirty coal has resulted in extensive air pollution. The World Bank has reported that 16 of the world's 20 most polluted cities are in China, while around 400,000 people die prematurely each year of respiratory problems related to air pollution.²⁹ The Times reported in July 2007 that climate change storms "have affected 200 million" in China. "The floods, an annual threat for China, have affected nearly 20 per cent of the country's 1.3 billion population. The economic losses from flooding are estimated officially to be 52.5 billion yuan (£3.5 billion)."³⁰

The United Nations Framework Convention on Climate Change (UNFCCC) process is stalled. Canada could work together with China in the G20 to design a draft package deal that would satisfy both Annex 1 and Annex 2 countries. Canada could engage China, proposing that we work together, with Korea and the US, as friends of the UNFCCC. A package deal would involve simultaneous commitments on emission targets and fiscal measures, research collaboration, funds to prevent deforestation, technology transfer initiatives and resources for adaptation, monitoring and evaluation.³¹ China is already on record urging that the World Bank should vigorously encourage the transfer of low-carbon technologies and provide recipient countries with practical aid in facilitating their response to climate change.

Volatile oil prices and the need to cut global carbon emissions have led to calls for China to join the IEA, the energy forum for the world's oil consuming countries – sometimes denoted as a counter cartel to the Organization of Petroleum Exporting Countries. Canada could lead the effort to persuade the G20 to urge amending the IEA's constitution, which currently requires membership in the Organization for Economic Cooperation and Development (OECD) for participation in the IEA, as well as promote China's membership in the OECD. It would be to the IEA's advantage to have China as a member. China's participation would strengthen the IEA's collective emergency response system.

A more powerful IEA would help to stabilize the world energy market through coordinated actions in adjusting oil stocks and exchanging key information and technologies. If it joined the IEA, China would assume obligations, coordinating actions on oil stocks and making its energy data measurable and reportable. But the benefits (exchanges of information and expertise, improving transparency, identifying barriers to technology transfer, research and development and wider policy cooperation on oil stock management) would allow China to rely primarily on market mechanisms and reduce the pressure to line up secure sources of supply with long-term contracts.³²

²⁷ "The Environment in the News," United Nations Environment Programme, April 1, 2004, www.unep.org/cpi/briefs/BRIEF01April04.doc (accessed December 14, 2009).

²⁸ "Chinese Environmental Performance Index," Yale Center for Environmental Law and Policy, <http://envirocenter.research.yale.edu/programs/environmental-performance-management/environmental-performance-index/chinese-environmental-performance-index> (accessed December 14, 2009).

²⁹ "Environmental Challenges of Development in the East Asia and Pacific Region," World Bank, March 2005, http://siteresources.worldbank.org/INTEAPREGTOPENVIRONMENT/Resources/EAP_Env_Strat_Chap_1.pdf (accessed December 14, 2009), 2.

³⁰ Jane Macartney, "China Climate Change Storms 'Have Affected 200 Million'," Times Online, July 31, 2007, <http://www.timesonline.co.uk/tol/news/world/asia/article2169802.ece> (accessed December 14, 2009).

³¹ "Key Elements in Breaking the Climate Change Deadlock: The Deal," Centre for Global Studies, http://www.l20.org/publications/The_Deal.pdf (accessed December 14, 2009).

³² Hepeng Jia, "Closer Ties Urged between China and IEA," RSC, August 6, 2008, <http://www.rsc.org/chemistryworld/News/2008/August/06080801.asp> (accessed December 14, 2009).

SECURITY AND THE UNITED NATIONS

China's approach to the world is supremely rational, based on a carefully honed calculus of its national interests. These interests include China's national security and integrity as well as its economic development and increased prosperity.

The "non-interference" cornerstone of Chinese foreign policy should be understood in the context of China's concerns about "independence" regarding Taiwan and separatist pressures in Tibet and elsewhere in the country, such as Xinjiang. China's history is made up of cycles of expansion and then contraction. It is hardly surprising that the Chinese leadership should worry about the territorial integrity of the country. There is no reason to believe that the objective of a "peaceful rise" of China is in any way a strategy of deception. Stability is important to China's security as well as to its prosperity.

China sees the UN as being an important institution engaging all sovereign governments, reflecting broader global interests rather than simply the interests of the rich and powerful. The UN gives China a symbolic as well as substantive major role as one of the Permanent Members of the Security Council.

There are two areas for possible cooperation at the UN with China – reform of the Security Council and the evolution of UN Peacekeeping activities.³³

The Security Council

China's official position is in favour of conducting "appropriate" and "necessary" reform in the Security Council, and takes the view that the reform should follow the principle of equitable geographic distribution with priority given to the increased representation of developing countries. "China is also supportive of the idea of taking appropriate measures to improve the work method of the Security Council by making its work more transparent, ensuring a fair listening to the views expressed by non-Security Council members..."³⁴

China opposes "hasty" reform and would block any move to give others permanent seats, which is in line with Canadian interests. State Councilor Tang Jiaxuan has been quoted stating that the purpose of any reform must be to strengthen rather than weaken the UN.³⁵ China has called for a greater representation of developing countries, in particular those from Africa, in a reformed UN Security Council. "In the reform of the Security Council, priority should be given to the greater representation of developing countries, in particular African ones."³⁶ However, any reform of the Security Council is likely to diminish prospects for a Canadian seat, decreasing the frequency from one term every ten years to perhaps every 20 years. Any cooperation with China should focus on improving work methods, not on composition. Canada could approach China with ideas on transparency and "ensuring a fair listening to the views expressed by non-Security Council members." An example would be to propose regular scheduled "Arria Formula" meetings.

³³ Issues to avoid in this partnership where Canada has few assets are Taiwan, North Korea and contested claims in the South China Sea.

³⁴ "China and Security Council Reform," Ministry of Foreign Affairs of the People's Republic of China, September 27, 2003, <http://www.mfa.gov.cn/eng/wjlb/zjzg/gjs/gjzzyhy/2594/2595/t15136.htm> (accessed December 14, 2009).

³⁵ China's State Councilor Tang Jiaxuan said "It will inevitably intensify the conflict among many countries if an immature plan is put to the vote or adopted," at a meeting of the Chinese-Arab Cooperation Forum in Beijing. See "Security Council Reform: Where it Stands," Deutsche Welle, June 18, 2005, <http://www.dw-world.de/dw/article/0,1564,1618479,00.html> (accessed December 14, 2009).

³⁶ China's UN Ambassador Zhang Yesui to an informal plenary of the General Assembly. See "China: Security Council Needs More Developing Members," China Daily, February 20, 2009, http://www.chinadaily.com.cn/china/2009-02/20/content_7496463.htm (accessed December 14, 2009).

The Arria Formula enables a member of the Council to invite other Council members to an informal meeting, held outside of the Council chambers.³⁷ The Chair can decide on who should be invited. China and Canada could agree to resurrect General Assembly President Razali Ismail's March 1997 proposal to make "greater use" of the formula "to facilitate consultations between members and non-members of the Council." For example, Canada could propose that China and Canada work together to promote the idea that the Security Council President would host an Arria Formula meeting each month on the topic of most immediate concern, as a matter of routine.

Peacekeeping

China plays a role in United Nations peacekeeping operations that is not widely known. At the present time, there are almost 2,000 Chinese military personnel serving with the UN in the Democratic Republic of the Congo, Liberia, Lebanon and the Sudan.³⁸ China has sent more than 10,000 peacekeepers to participate in 18 UN peacekeeping missions over the years. Of the total of 110,000 military personnel in UN missions around the world, China is the 13th largest contributor. China prefers to commit its troops mainly in non-combat positions. It has lost nine soldiers so far in UN peacekeeping operations.

China's financial contribution has also not been encouraging and it contributes less than three per cent of the UN peacekeeping budget, against 25 percent by the US and 17 percent by Japan. China's participation in UN peacekeeping functions has been characterized as "self-serving."⁴⁰ For instance, China has been criticized for extracting the maximum financial gain from its peacekeeping role. It sends its own planes to ferry the troops to mission areas and seeks optimum reimbursements from the UN. China sends more civilians than any other country as part of "military personnel" (such as geologists, scientists, political analysts and so on) who, amongst other duties, study local business opportunities.

Canada and China will continue to disagree on the implications of greater "authority" and "efficiency" in the UN.⁴¹ In particular, Canada and China will part on initiatives that may lead to "interference" in the domestic affairs of other countries. China is not likely to subscribe to the "responsibility to protect" norm with any enthusiasm. But discussions on these contentious issues will be more productive if Canada is seen as a valued partner in other respects.

³⁷ James Paul, "The Arria Formula," Global Policy Forum, October 2003, <http://www.globalpolicy.org/component/content/article/185/40088.html> (accessed December 14, 2009).

³⁸ Wang Xiangjiang, Gu Zhenqiu, and Bai Jie, "Interview: China Playing Bigger Role in UN Peacekeeping Operations," Xinhua, May 30, 2009, http://news.xinhuanet.com/english/2009-05/30/content_11454984.htm (accessed December 14, 2009).

³⁹ "China's Growing Role in UN Peacekeeping," China.Org.Cn, July 1, 2008, http://www.china.org.cn/international/2008-07/01/content_15914038.htm (accessed December 14, 2009); International Crisis Group, "China's UN Peacekeepers Exceed 10,000 with Latest Sudan Deployment," Asia Report, No. 166, April 17, 2009, <http://www.crisisgroup.org/home/index.cfm?id=6062> (accessed December 14, 2009); "Contributors to the United Nations peacekeeping operations," United Nations, April 30, 2009, http://www.un.org/Depts/dpko/dpko/contributors/2009/apr09_1.pdf (accessed December 14, 2009).

⁴⁰ Bhartendu Kumar Singh, "China and the Politics of UN Peacekeeping," Institute of Peace and Conflict Studies, March 13, 2009, http://www.ipcs.org/article_details.php?articleNo=2831 (accessed December 14, 2009).

⁴¹ "The Security Council should focus more on conflicts themselves; and we are not in favor of establishing a Security Council working group on the question of civilians. Governments bear the primary responsibility of protecting their civilians. While the international community and external forces can provide constructive support, they must follow the provisions of the UN Charter, fully respect the wish of the countries concerned and refrain from undermining the sovereignty and territorial integrity of the countries concerned and even more from forceful intervention." See "Statement by Ambassador Zhenmin LIU at the Security Council Open Debate on Protection of Civilians in Armed Conflict," Permanent Mission of the People's Republic of China to the UN, January 14, 2009, <http://www.fmprc.gov.cn/ce/ceun/eng/gdxw/t532205.htm> (accessed December 14, 2009).

Disaster relief is a promising area for collaboration; it builds on China's significant military capacity. China has been praised for its disaster preparedness and recovery efforts.⁴² Canada could build on Chinese pronouncements to strengthen the United Nation's "severely inadequate" global humanitarian relief resources.⁴³ China has argued for intensifying fundraising efforts, encouraging non-earmarked contributions, and supporting the Central Emergency Response Fund. China has called for support for capacity building, early-warning systems, increasing material reserves for disaster relief and conducting exchanges and training.

Canada could propose to work together with China on the question of material reserves, especially manpower. One idea is to establish a program of "Green Helmets," analogous to UN Peacekeepers with their blue helmets. Canada could suggest co-sponsoring concrete proposals for the UN to arrange for countries' disaster assistance response teams to be available for international deployment on an ongoing basis. Discussion of this use of military personnel is likely to be fruitful, given China's allergy to involving their UN deployments in potential combat roles.

NUCLEAR PROLIFERATION AND SAFEGUARDS

Canada and China both support limiting the proliferation of uranium enrichment technology. Hans Blix, the former Director General of the International Atomic Energy Agency (IAEA), has observed that uncertainty about the assurance of supply of low-enriched uranium could persuade states to start indigenous enrichment, even though it would not be economically justifiable. "Uncertainty about the assurance of supply [of low-enriched uranium] could persuade states to start indigenous enrichment, even though it would not be economically optimal."

To avoid such incentives, it would be rational to create mechanisms for the assurance of supply of enriched uranium for nuclear fuel.⁴⁴ The outgoing IAEA Director General, Mohamed El-Baradei, has called for the internationalization of the entire nuclear fuel cycle. This would entail international agreement to provide guaranteed supplies of nuclear fuel to all states on a non-discriminatory basis. One straightforward option is for the IAEA to own and maintain an enriched uranium fuel bank, a body that would lease and take back fuels. Credible guarantees of the international supply of enriched nuclear fuel would require both political and commercial diversity. Otherwise countries would seek development of independent national fuel cycles.

Both Canada and China are members of the Global Nuclear Energy Partnership. Its objectives are to "Establish international supply frameworks to enhance reliable cost-effective fuel services and supplies to the world market, providing options for generating nuclear energy and fostering development while reducing the risk of nuclear proliferation by creating a viable alternative to acquisition of sensitive fuel cycle technologies."⁴⁵

⁴² "UN Relief Chief Lauds China's Work on Disaster Recovery, Preparedness," UN News Centre, April 22, 2009, <http://www.un.org/apps/news/story.asp?NewsID=30557&Cr=china&Cr1=disaster> (accessed December 14, 2009).

⁴³ "Statement by Minister Counselor YAO Wenlong of the Chinese Delegation to the Humanitarian Affairs Segment of the 2008 Substantive Session of the ECOSOC," Permanent Mission of the People's Republic of China to the UN, July 15, 2008, <http://www.mfa.gov.cn/ce/ceun/eng/hyyfy/t475430.htm> (accessed December 14, 2009).

⁴⁴ "Symposium on Strengthening the Nuclear Nonproliferation Treaty," Pugwash, 2008, <http://www.pugwash.org/reports/nw/nptreport-dec08.pdf> (accessed December 14, 2009).

⁴⁵ "Global Nuclear Energy Partnership Statement of Principals," Global Nuclear Energy Partnership, September 16, 2007, http://gneppartnership.org/docs/GNEP_SOP.pdf (accessed December 14, 2009).

One approach is to supplement Russia's proposal, announced in 2006, to develop a network of multi-lateral nuclear fuel cycle centres. In 2007, Russia's pilot enterprise incorporated the International Uranium Enrichment Center – a multilateral fuel enrichment enterprise and a fuel bank with low-enriched uranium fuel. To date, Kazakhstan, and more recently the Ukraine, are partners in this project, which is open to all other interested parties.⁴⁶

International political diversity would be reinforced if China provided commercial enrichment services. Canada could promote an initiative with China, under IAEA auspices, where internationally-owned and operated enrichment plants would be established in Australia, Canada, China and Mongolia. This would provide the required commercial diversity. Subsequently, China and Canada could work together to lead an initiative to deal with the back end of the fuel cycle – long-term storage of wastes and minimizing transportation risks.

AFGHANISTAN

The future of Afghanistan remains uncertain. Canada will withdraw its combat troops by 2011. It seems highly unlikely that any country other than the United States will substantially increase its contribution. The process of building up Afghanistan's army and police is slow. In any event, it is increasingly apparent that there is no military solution. While there are substantial commitments of development assistance to Afghanistan, delivery has lagged. It is also evident that assistance cannot be delivered to areas that are or will become insecure. Unarmed NGOs are attacked and Afghans suspected of working with the central government are all too often kidnapped, physically hurt or killed. This reality is not likely to change.

Canada is committed to continue assisting Afghanistan beyond 2011 and will not walk away. President Obama has stated clearly that he sees a serious threat from al-Qaeda emanating from the mountains of Pakistan, a threat that he does not want to see migrating back into the southern parts of Afghanistan. Canada agrees. It is clear therefore that a political solution is required, both inside Afghanistan and in the region. Canada has an interest in the future of Afghanistan, both as Canada shares President Obama's concerns with respect to al-Qaeda but also because Canada has made a substantial investment of lives and money in that country.

There is a major potential for cooperation with China. China's relations with Afghanistan and the Government of President Karzai have been good and in the last couple of years the relationship has developed very substantially. The most tangible evidence is that Beijing is making a US\$3.5 billion investment in Afghanistan's Aynak copper field. The Aynak investment is by far the largest in Afghanistan's history. It will employ 10,000 people and generate US\$400 million in royalties, half the current state budget. China is actively pursuing other investment opportunities in Afghan resources. These opportunities are substantial. While such investments in mineral and energy resources are occurring elsewhere in Asia and indeed the world, the investment in Afghanistan seems also to have a strategic component. China does not wish to see the return to power of the Taliban or al-Qaeda in Afghanistan any more than does the United States or Canada. This is both because of concerns about the stability of the region but also because China has important Muslim populations with which it does not want outside interference. China has similar interests in the stability and security of Pakistan.

⁴⁶ Russia must finalize an agreement with the IAEA on safeguarding the nuclear materials at the centre and the fuel bank and find creative ways to engage additional countries in the project. See Anya Loukianova, "The International Uranium Enrichment Center at Angarsk: A Step towards Assured Fuel Supply?" Nuclear Threat Initiative, October 2007, http://www.nti.org/e_research/e3_93.html (accessed December 14, 2009).

It follows that China is a natural partner for Canada and other Western countries working to achieve stability and relative security in the region. While China has provided some assistance to Afghanistan, the amounts have been modest. China has made clear that it will not send troops to fight alongside the UN-mandated International Security Assistance Force and the United States. But it is conceivable that if there were to be some international agreement negotiated under the auspices of, or at least closely connected to, the UN that China could provide peacekeepers, of course in a non-combat role. The conclusion is that China and Canada have converging interests in Afghanistan and Pakistan. These should be developed in bilateral talks and pursued in multilateral fora.

There is a common interest in ensuring Afghanistan and Pakistan are not used as a place to train global jihadists, whether they are al-Qaeda or any other breed. Canada has lost over a hundred lives and expended more than \$1.3 billion in aid in the ten years to 2011. There will need to be an international political solution to Afghanistan. Canada can play a catalytic role to bring together the key regional and global players.

CONCLUSION

Canadian and Chinese national interests with respect to many global issues are, perhaps surprisingly, relatively congruent. Congruence of interests is a necessary, but not sufficient, condition to attract Chinese attention and eventual agreement to work together to re-engineer international institutions and arrangements. Canada would also have to present a credible plan.

Imagine if Canada decided that it would aggressively pursue a partnership with China. Imagine if Canada declared that its theme for the 2010 G20 Summit was to gain agreement on various means to strengthen the effective operation of the G20 at Leaders level, with the agenda expanding beyond the inaugural issue of dealing with the global financial crisis. Canada could approach China to work together to design the future G20 agenda. Potential elements for discussion include:⁴⁷

- Propositions for serious reform of the governance and mandates of the Bretton Woods institutions, enhancing China's role concomitant with their global position;
- Reform of the membership and governance of the OECD, IEA and the Egmont Group,⁴⁸ to encourage, among other things, Chinese membership;
- A global collaborative research effort, analogous to the Large Hadron Collider and the International Space Station, on clean coal and carbon capture and sequestration;
- Empowering the IAEA to effectively guarantee supplies of enriched uranium, with a global network of suppliers and
- Encouraging a Chinese role in stabilizing Pakistan and Afghanistan.

This Canadian gesture, combined with a well-prepared package of elements of ideas for cooperation revitalizing UN peacekeeping capacity and financing, would certainly capture Chinese interests. The Chinese may very well respond positively – thus ensuring that the 2010 G20 Summit was truly a historically important event – securing Canada's place at the High Table and contributing to significant progress on a series of global issues.

⁴⁷ Cooperation on North Korea is not suggested because unlike the elements proposed, Canada does not have the necessary assets to bring to the table.

⁴⁸ The Egmont Group is an informal international network designed to improve interaction among national financial intelligence units in the areas of communications, information sharing and training coordination. The goal of the Egmont Group is to provide a forum to improve support to their respective governments in the fight against money laundering, terrorist financing and other financial crimes. "Egmont Group of Financial Intelligence Units," Financial Crimes Enforcement Network, United States Department of the Treasury, <http://www.fincen.gov/international/egmont/> (accessed December 14, 2009).

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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.

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