



Canada-China Dialogue on Emerging Issues in Bilateral Relations Round II: New Dimensions of Cooperation

September 3 – 5, 2012



Canada-China Dialogue on Emerging Issues in Bilateral Relations
Round II: New Dimensions of Cooperation
3-5 September 2012

CO-HOSTS: Institute of Asian Research at the University of British Columbia and the Shanghai Institutes of International Studies.

LOCATION: Zhejiang Xizi Hotel, Hangzhou.

BACKGROUND: The second in a series on “Emerging Issues in Canada-China Relations.” The series was conceived in 2009 with the intention of providing an unofficial, track-two venue for expert discussion of policy-related issues in the bilateral relationship. The participants are academics, business leaders, and past and serving officials, all in their private capacities. The fabric of Canada-China dialogues and exchanges has strengthened substantially in recent years at both official and academic levels. The SIIS-UBC collaboration takes a broad, comprehensive and forward-looking approach to Canada-China relations. The aim is to create a relaxed and informed discussion about possibilities, obstacles and instruments for deepening bilateral relations in the context of a shifting balance of global power and the interests and values of both countries.

The first meeting in Shanghai in November 2010 focused on the history and pattern of 40 years of Sino-Canadian political and diplomatic relations. A list of participants, summary of discussion, and selection of papers from the meeting are appended.

The Hangzhou meeting was designed to explore *strategic* dimensions of the strategic partnership that the leaders of the two countries agreed to in September 2005. It concentrated on three specific areas: a next-generation FTA or closer economic partnership; connecting energy and environmental cooperation; and joint collaboration in Asia Pacific and global institutions.

Workshop participants were asked to consider several questions. What are the nature, possibilities and limits of the strategic partnership between the two countries? How can it advance each country’s values and interests? Is there a compelling vision of the international roles and identities of the two countries in a new global configuration of power? What concrete steps are needed to establish a better base for trust and cooperation in a context of geo-political shift and changing domestic priorities?

PARTICIPANTS: see the appended list.

SETTING: The meeting was held in a spectacular room adjacent to West Lake in the pavilion that has served as the residence of Chinese Imperial visitors and leaders from the Southern Sung dynasty though to Mao Zedong. It took place at a moment of intensifying bilateral economic activity, a warm tone in the political relationship, the signing of a bilateral Foreign Investment Protection Agreement, the release of the complementarities study recommending an enhanced economic partnership with the potential for a bilateral Canada-China free trade agreement at a

later point, an impending decision by the Canadian government on the proposed purchase of Nexen by CNOOC, a heated debate in Canada about the Northern Gateway Pipeline project, Canadian admission as a participant in the Trans-Pacific Partnership negotiations, China's more active role in global institutions including the G20 and regional ones including the East Asia Summit process, a leadership transition in Beijing, America's pivot or rebalancing toward Asia, paradoxical signs of both increasing cooperation and competition in US-China relations, and indisputable signs of accelerating climate change and global warming.

HIGHLIGHTS:

On the strategic partnership and the state of bilateral relations...

-recognition of a double asymmetry in the strategic partnership in that China places highest strategic emphasis on its relationship with great powers and Canada is less able and willing to think in strategic and long-term ways.

-recognition from a Chinese perspective that though China has some 27 strategic partnerships, the strategic partnership with Canada is important and has special potential. There are multiple commonalities on issues including peace and security in the Asia Pacific region, the rising importance of Non-Traditional Security issues, concerns about climate change, non-proliferation, disarmament, terrorism; commitment to trade liberalization and opposition to protectionism, position in the United Nations and G20. Moreover Canada has been a stable and reliable supplier for Chinese markets, and has no territorial or historical disputes with China. There is a wealth of friendly feelings, deep human connections, many basic agreements are already in place, and now bipartisan support in Canada for the Strategic Partnership.

-mutual appreciation of the efforts of the two governments to put in place a framework of agreements (Approved Destination Status, Civilian Nuclear Cooperation, Foreign Investment Protection Agreement) to facilitate bilateral transactions. This lays the foundation for more ambitious activities to follow.

-emphasis on how to maintain the momentum in bilateral relations, now at a high point, and continue to attract the attention of the senior leadership in both countries.

-recommendation that the bilateral Strategic Working Groups be upgraded from the level of Deputy Ministers to Ministers, potentially with a track-two process in support of them.

On the prospects and ingredients of a bilateral FTA...

-endorsement of the value of a sectoral bilateral agreement as outlined in the complementarities study but with the recommendation that it be constructed as a more ambitious Wealth Generation Agreement that captures the complementary strengths and resources of the two economies to generate tangible mutual benefits. The paradigm of state-to-state trade is broken. Statistics on two-way trade flows don't measure wealth generation or value creation. We need a more imaginative approach that moves beyond measuring gross value of goods and services to include human flows, tourism, education, culture and above all complementary energy developments,

two-way investments, management system synergies and technology collaboration. It was noted that it is difficult to convince many Canadian companies that a traditional FTA is of any value to them. Neither side will benefit in major ways from a conventional FTA. The real challenge is to be part of a competitive global supply chain to serve world markets rather than boost conventional trade numbers. Chinese participants emphasized that a deeper cooperation agreement would be a priority in Beijing.

-debate whether these additional measures should be negotiated as part of a comprehensive FTA or as *ad hoc*, step by step, arrangements under the banner of an enhanced strategic partnership. Either way, it is essential to seize the moment and quicken the pace of negotiations. Provincial governments in Canada are now drivers and advocates of more ambitious “next generation” FTA.

-assessment of the domestic political obstacles in Canada to an FTA or WGA with China, public concerns about SOEs making major investments in Canada, and American views on treating Canadian energy as a North American resource.

-discussion of whether Canada should designate China a “market economy” in addressing trade disputes. Canadian participants explained that Canada does not recognize any country as a “market” or “state-controlled” economy. Contrary to perceptions, no Chinese SOE has had a real problem with the Canadian approach that applies the same tests to British and UAE transactions.

-consideration of the strategic logic of Canada simultaneously participating in the TPP and pursuing a bilateral trade agreement with China. Chinese participants were skeptical that the TPP could produce a binding agreement or that it could have maximum impact without the involvement of China, Japan or South Korea, already launching three-way discussions for their own FTA. Chinese participants also raised doubts about Canadian capacity to deal with its supply management system in TPP negotiations

On linking energy and environment in the context of trans-Pacific exports and investment...

-observed that Canada does not have a clearly articulated national energy strategy and China does not have a well developed energy consumption policy. This is a pivotal moment as energy exports from Canada to China and Asia have been identified in Canada as a national priority as part of a market diversification initiative and Chinese direct investment in the Canadian energy, mining and natural resource sector increases

-proposed that an imaginative approach to linking the energy and environmental equations can make a major global contribution and help overcome negativity in Canada and the United States about deeper economic integration with China. This will depend upon the ability of governmental leaders to look beyond narrow market logic of production and distribution to the areas of global balance of energy supply, joint efforts in environmental protection, and structural shifts in dramatically reducing the coal use (or stepping-up the use of cleaner coal technologies) in China’s energy mix, potentially replacing coal with large-scale imports of Canadian oil and LNG.

-proposal for four practical steps: (1) view energy issues through a second lens of overall impact on GHGs and climate change and encouraging China's environmental reform process; (2), identify specific policy areas where bilateral cooperation can be constructive in addressing climate change issues; (3) work to improve Chinese environmental management practices in reducing energy inefficiencies (potentially as part of a Wealth Generation Agreement); (4) integrate Chinese management and technological development with high-standard Canadian partners.

-proposal to go beyond the well-articulated Canadian logic of market diversification to look at three additional logics.

- (1) The logic of global energy supply and security. China's vulnerability to oil imports from Africa and the Middle East, about 54% of its total supply, depend on production and transportation routes that are unstable and susceptible to interruption. While China seeks security of its energy supply, Canada seeks security of energy demand. Large-scale export of Canadian oil and gas from the West Coast will reduce this imbalance and contribute to global energy supply security. A secure China in the energy area is in the best interest of Canada and the world, in part because of China's deep integration in global supply chains.
- (2) The logic of environmental protection. Canada's contribution to global environmental improvement is small given its small population base and the small percentage of CO₂ emissions. In contrast, China has a much larger carbon footprint and is the largest CO₂ contributor to global warming even though on a per capita basis its CO₂ emissions are much lower and a considerable part of the emissions are related to manufacturing products for global export. Helping solve China GHG emission problem is of direct benefit to Canada. Chinese investment in Canada should be connected to energy and environmental technologies.
- (3) The logic of climate change science. Coal accounts for 70 percent of China's energy supply, and in the coming decades, this is not projected to change significantly. China alone will consume some 50-60 percent of world's coal in the coming years. Over 80 percent of China's CO₂ emissions come from the burning (mostly dirty) coal. Reduction in China's use of coal through the substitution of even other fossil fuels can reduce CO₂ emissions greatly. If a policy commitment can be negotiated with the Chinese government for a promise that a massive, multi-decade-long supply of oil and LNG from Canada and other countries will replace large amounts of coal consumption in China, then Canada puts itself in a position of contributing greatly to the global reduction of CO₂ emission.

-discussion about the specific criteria that the Canadian government would apply to CNOOC's bid to purchase Nexen. Special Chinese interest in American reactions and the nature and depth of public anxiety in Canada about SOEs considering that Canada itself has extensive experience with Crown Corporations.

-debate about whether the market-based argument in favour of a major investment in gas and oil pipelines and LNG facilities is persuasive in light of alternative sources of supply in China's more immediate neighborhood, shale gas production coming on stream, and the costs of getting Canadian gas to market.

On cooperation in regional and global institutions...

-acknowledgment of the value of ASEAN-centred multilateral processes in the Asia Pacific region, their special advantages to both China and Canada, renewed Canadian interest in the region, Canada's need for Chinese support in obtaining membership in both the East Asia Summit and ASEAN Defence Ministers Plus meetings.

-assessment that Canada and China have sufficient commonality of outlook and interests to provide leadership on the rationalization of the Asia Pacific regional architecture and the creation of new norms and rules in a context of sharpening territorial disputes, power transition, and arms buildups.

-review of the Canadian and Chinese perspective of the G20, an organization in which Canada and China are two of the healthier economies. Recognition of the Canadian role in conceiving the organization and the value of an institution that can help with the creation of shared norms, rules and practices that reflect the importance of emerging or rising powers, China chief among them. The Breton Woods organizations are adjusting to this shifting balance of power but perhaps too slowly and only partially. Concerns expressed that the G20 is focused at the moment on a very technical set of issues and not yet moving into the broader policy domains that need to be addressed.

-discussion of areas of agreement and disagreement in the context of the United Nations: agreement noted in the area of reform of the Security Council; disagreement noted on the situation in Syria and the applicability of the concept of the Responsibility to Protect. Suggested that this area of strong disagreement had in it the possibility of a serious dialogue from which might arise shared understandings of the most applicable aspects of R2P and disputed norms of intervention.

On the strategic context...

-debate about the value of the two suns in the sky metaphor as an accurate and helpful way of understanding US-China relations. Agreement, however, that their bilateral relations are increasingly consequential and complex. Additional debate on the impact of the US pivot to Asia and whether the US and China can successfully manage their relationship over the long term; wide agreement that multilateral institutions and Middle Powers can play a constructive role in moderating and diffusing bilateral tensions in at least some contexts. Beyond multilateral institutions, Middle Powers like Canada have the capacity to take the lead on voluntary steps when international negotiations are too slow and cumbersome in areas including addressing climate change.

-debate on the ability of US and China to peacefully manage their bilateral relations and how others, including international institutions can help.

Going forward in the series...

-proposed by a participant the idea of a “values complementarities study” that identifies areas where Canadian and Chinese thinking have “clicked” or been seen as mutually beneficial. What makes for those moments? Suggested areas: energy/environment link; management of coastal waters; managing SOEs/Crown Corporations; food security and water management; culture and language policies.

-examination of China’s ability to convert power into influence and move from governmental power and competition to empowered individuals and society, what some call soft power. Equal challenges exist for China in being proactive and a provider of public goods in regional and global governance.

-consideration of Chinese views of the value of Middle Powers, especially Canada, that believe in a rule-based system, know international rules and institutions, help formulate and guide them, don’t dominate them, and can deal with emerging and great powers equally well without aspiring to great power status. Canada can be a bellwether in judging the reactions of Chinese actions by its smaller and neighbouring countries. Canada has the capacity based on objectivity and fairness to look beyond immediate problems, fears and tensions to the design of systems that reduce conflict and are a win-win for both emerging and established powers. In the words of Ambassador Mei Ping at the 2010 conference, Canada’s proximity to the US is an advantage as is its “somewhat independent” position on global affairs. Canadian participants noted Canada’s capacity in management of maritime boundary and fisheries disputes in the North American and Arctic contexts as relevant to China in its Asia Pacific neighborhood.

-recommendation it is time for Canada and China to work jointly on an agenda beyond immediate commercial transactions. This would involve looking forward 5 – 10 years to assess what kinds of rules, norms and institutions are needed, especially in the Asia Pacific world? With Europe in the midst of a long-term and serious economic crisis, American recovery still sluggish, and Japan in disarray, a window is temporarily open for deeper Sino-Canadian exchange and collaboration. What would a *Pax Pacifica* look like? What are the prospects for deeper collaboration on regional institutions including in the areas of cooperative security and non-traditional security issues, and management of maritime boundaries.

-consideration of a third meeting in Western Canada in summer 2013 with special attention to energy, environmental and natural resource issues; possible extension to Toronto and Ottawa for G20 discussions.

Prepared by Paul Evans, Canadian Convener

15 October 2012

Appendix 1: Participant list

Canadian Participants

Paul Benoit, Former Senior Policy Advisor to Canada's Minister of International Trade

Ken Courtis, head of Next Capital Partners and Starfort Holdings and formerly Managing Director of Goldman Sachs, and Vice Chairman of Goldman Sachs Asia,

Paul Evans, Professor, University of British Columbia, former director of the Institute of Asian Research and former co-CEO of the Asia Pacific Foundation of Canada.

David Fung, chairman and CEO of the ACDEG Group of companies and chair of the national board of directors of the Canadian Manufacturers and Exporters

T.V. Paul, Professor, McGill University and director of the McGill University—Université de Montreal Centre for International Peace and Security Studies

Jiang Wenran, Professor, University of Alberta, on leave to head the government of Alberta's energy task force

Ken Sunquist, member of the board of the Canadian Commercial Corporation and former Assistant Deputy Minister (Asia and Africa), Department of Foreign Affairs and International Trade and Chief Trade Commissioner for Canada

Sarah Taylor, Deputy Chief of Mission, Canadian Embassy in Beijing

Kerry Ross, projects manager, Institute of Asian Research, The University of British Columbia

Chinese Participants

Mei Ping, Former Chinese Ambassador to Canada

Chen Wenzhao, Former Chinese Consul General in Toronto and Ambassador to New Zealand

Cai Wei, Department of Department of North American and Oceanian Affairs, MFA of China

Song Pengzhou, Third Secretary, Department of North American and Oceanian Affairs, MFA of China

Zhou Shijian, Institute of International Studies, Tsinghua University

Gong Yan, Director of Center of Canadian Studies, Beijing Foreign Studies University

Yang Jiemian, President of Shanghai Institutes for International Studies (SIIS)

Chen Dongxiao, Vice President of SIIS

Zhao Gancheng, Senior Researcher of Institute for International Strategic Studies, SIIS

Wu Chunsi, Director of Institute for International Strategic Studies, SIIS

Zhang Haibing, Director of Institute for World Economy Studies, SIIS

Yu Hongyuan, Deputy Director of Institute for Comparative Politics and Public Policy Studies, SIIS

Ye Yu, Institute for World Economy Studies, SIIS

Zha Xiaogang, Institute for World Economy Studies, SIIS

Cheng Baozhi, Institute for Global Governance Studies, SIIS

Long Jing, Deputy Director of Department of Research Management & International Exchanges, SIIS

