

Intelligence MEMOS



From: John Gruetzner
To: Canadians Concerned about Relations with China
Date: January 25, 2019
Re: **A BLUEPRINT FOR CHINA ENGAGEMENT**

Tensions between Canada and China have arisen over the Vancouver arrest of a senior Huawei executive, and the retaliatory detainment in China of two Canadians. And there are further clouds on the horizon for Canada-China relations, notably arising from decisions Canada must take regarding Huawei's footprint in its advanced telecommunications infrastructure.

But given China's prominent role in the world and its economy with gigantic needs, Canada must continue to engage with China in the most constructive and ethical way possible, consistent with its own security and national identity. The way forward is to be better informed and to make a deliberate commitment to improve the competence of our engagement.

The essence of the relationship is people-to-people exchanges that drive commerce, education, tourism, cultural, sports and civil society interaction. This working level friendship and rapport is the most important commodity that both countries possess.

However, changing political circumstances – a reassertion of state economic power and resurgent nationalism in China among them – are also imposing new limits on how quickly the relationship can turn.

Canada must maintain a presence befitting both its self-image and its relative economic power, but also recognize and conduct itself knowing that that we are a successful and prosperous people and country. By accepting that we already have a strong Canada “brand”, we can then focus more tightly on supporting the tactical access of Canadian sectors and companies to the Chinese market on profitable commercial terms.

Improving Canada's market competitiveness rests prominently on our ability to get rid of self-imposed barriers to growth and innovation in areas in which Canada has, or is developing, a comparative advantage, such as biodegradable plastics using oil, wood and natural gas. Ultimately, it is our ability and commitment to serving Chinese consumers and businesses that will matter. The Canadian government should support these efforts but leave the execution to the Canadian private sector.

Canada's goal in China should be to identify and develop in a public-private sector partnership 10 to 20 companies in four sectors as role-model exporters. Attention should be given to consumer brands, value-added products in agriculture and agricultural technology, downstream processing of oil and gas and carbon abatement. This should include ensuring an alignment of resources and priorities between the Business Development Bank of Canada, the Export Development Corporation and the private sector.

Organizations like the Institute of Corporate Directors should train the next generation of Canadian board members to be better equipped to oversee China. The TMX should work with the China Securities Regulatory Commission to list CSRC- approved resource projects backed by Chinese state-owned enterprises based on the CNOOC/Nexen model. In general, Canada should open the door further to Chinese investments in greenfield resource projects that do not threaten its security or economic model.

A free trade agreement between Canada and China would be symbolically important, but not a key priority until the canvas on the big picture is dry.

Canada via the government, private sector and civil society should also support the development of China-specific expertise in economics, law, agriculture, and national security to provide industry, the media and government a better understanding of the country, its markets, and opportunities. Part of this process must be to examine the China decision-making process and improve the Canadian diplomatic and trade service resources that work provincially and federally on China.

None of this means that Canada should not hold a principled course regarding current tensions over application of the rule of law in China. Ultimately, the best way to have a safe and secure environment for investment and trade is to operate in countries fully committed to the letter and spirit of their own legal systems.

As well, both countries should reactivate a task force led by lawyers from the Ministry of Justice in Beijing and the Department of Justice in Ottawa to improve the protections both countries citizens require to live, study, work and travel to the other country.

The onus is on both governments to step back and acknowledge their differences, provide each other with mechanisms that can both assuage security concerns and still provide ironclad assurances about the proper treatment of each other's citizens. Then people can recommit to strengthening the economic relationship in ways that raises living standards in both countries, and return to addressing pressing global problems that stand a better chance at finding a solution if Canada and China are able to work together.

John Gruetzner is the Managing Director of Intercedent and head of the fundraising team for the China Policy Centre being launched this month.

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