



Prime Minister Trudeau sits across from Chinese President Xi Jinping at their first bilateral meeting on the margins of the G20 Summit in Turkey last November. The Liberal government has expressed interest in negotiating a free trade deal with China, while the Chinese are unhappy with restrictions on State Owned Enterprises (SOEs) investment in Canada. Adam Scotti photo

# Improving Canada-China Relations: Open Eyes and Realistic Expectations

Hongying Wang

*The change of government in Ottawa has fuelled expectations for improvement in Canada's relations with China. The Chinese public, recalling Pierre Trudeau's establishment of diplomatic relations in 1970, assumes his son will be friendlier with Beijing than was his predecessor, Stephen Harper. While the new Liberal government has undertaken an internal review of bilateral relations, including the possibility of a Canada-China trade deal, political scientist Hongying Wang writes that it is important to recognize the complexity of the relationship.*

The change of government in Ottawa last fall has brought high expectations for improvement in Canada's relations with China. Business groups and academic researchers in Canada have published a number of studies urging the new Liberal government to develop a more engaging policy with regard to China. Meanwhile, according to media reports, the government is doing a major internal review of Canada's relations with China. On the other side of the Pacific, Chinese leaders as well as the public have expressed high hopes that Prime Minister Justin Trudeau will take a more friendly approach to China than his Conservative predecessor, Stephen Harper.

While much can be done and is being done to make Canada's relations with China more positive and consistent than in the recent past, it is important to recognize the complexity involved. Two controversial issues illustrate some of the roadblocks to improving the bilateral relationship: 1) investment promotion and protection, and 2) judicial cooperation.

While the Harper government was often critical of and distant toward China on political issues, in the last few years it took some active initiatives to promote the commercial ties between the two countries. Most notably in 2012, Canada and China signed a Foreign Investment Promotion and Protection Agreement (FIPA), which was ratified by both governments and went into force in 2014. The Harper government described it as a high-standard agreement that would better protect foreign investment against discrimination and arbitrary action and provide prompt compensation in case of expropriation. But as soon as it was made public, FIPA generated widespread criticism and concern from the opposition and the public. Many complained that the negotiations had lacked transparency. They argued that it was a lopsided deal mostly benefiting China, which at the end of 2013 had \$16.6 billion in foreign direct investment (FDI) stock in Canada, much larger than the stock of Canadian FDI in China, valued at \$4.9 billion. In particular, critics pointed out that the investor-state arbitration clause in FIPA would allow Chinese companies to prevent the Canadian government from adopting any public policy that would undermine Chinese investors' interests. Groups organized campaigns against the agreement and tried to challenge the agreement in the Canadian court system.

Ironically, even though the Harper government presided over the secret negotiations and ratification of FIPA, causing concern and even outrage among many Canadians, it had serious reservations toward Chinese investment in Canada. In late 2012, after much debate and delay,

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the Canadian government approved the \$15.1 billion purchase of Canada's Nexen energy group by China's oil company, CNOOC. At the same time, Harper announced new guidelines for reviewing investment by foreign state-owned enterprises (SOEs), stating that, going forward, only in exceptional cases would the government allow foreign SOEs to acquire controlling interests in Canadian businesses. This was not a positive signal for China because much of its economy and overseas investment was dominated by SOEs.

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Soon after it came into office, the new Liberal government announced its interest in a free trade agreement with China. In response, Chinese officials have expressed their dissatisfaction with FIPA's restrictions on foreign SOE investment in Canada. They see it as discriminatory toward China and would like to see those restrictions removed before moving ahead

with trade negotiations. However, the desire of the Chinese government is strongly countered by sentiment in Canadian society. According to polls conducted by the Asia-Pacific Foundation in 2015, close to half of Canadians did not approve free trade with China and more than three-quarters opposed Chinese SOEs purchasing Canadian companies. Those opposed to Chinese investment were concerned about Canada's control of its own resources, poor labor standards and potential environmental damage by Chinese companies, corruption, and security risks.

As the Liberal government explores a free trade agreement with China and pursues expanded economic cooperation with China, it will need to manage Chinese expectations. Chinese policymakers and the public tend to attribute major importance to individual leaders in deciding their countries' policy toward China. Given Pierre Trudeau's pioneering work in establishing diplomatic relations with China at the height of the Cold War, there is a natural expectation in China that Justin Trudeau will adopt his father's friendly approach toward the country. While Justin Trudeau is indeed much more inclined to improve bilateral relations with China than his predecessor, it is important for Chinese policymakers to recognize that the change of government has not radically transformed the economic, political and social environment in Canada.

On the other hand, Ottawa should and can do a better job engaging the

public. Scholars have called for a national dialogue on the importance of Asia—especially China—to Canada’s well-being. That dialogue should be promoted urgently. But it is not enough for Canadians to have a clear understanding of the relevance of Canada’s relations with China. Public policy must address the real distributional consequences of increased economic cooperation with China. Canadian stakeholders who stand to benefit the most from expanded commercial ties with China need to share their gains with those who will have little to gain or even suffer from short-term losses in this process. To mobilize political support, it is not enough to ensure that such cooperation is of “net benefit” to Canada, as required by the Investment Canada Act, but that this benefit is shared fairly among different groups within Canada.

**T**urning to judicial cooperation, Canada and China have worked on strengthening judicial and law-enforcement cooperation in recent years. Since 2008, officials from both countries have met regularly through the Canada-China Law Enforcement and Judicial Cooperation Consultations. In 2010, Canada and China signed a Memorandum of Understanding on Cooperation on Combatting Crime, which aims to facilitate cooperation between the RCMP and the Chinese Ministry of Public Security. From the perspective of the Chinese government, a top priority in judicial cooperation with Canada is to get Canadian assistance with its transnational anti-corruption operations.

Corruption has long been a problem for the Chinese government. Increasingly, corruption has become transnational. More and more individuals with ill-obtained wealth have fled China and/or transferred their wealth out of China. Along with the United States and Australia, Canada is one of the most popular destinations for these individuals. One reason is that these countries do not have extradition treaties with China. For a number of years, Canada’s relations with China were troubled by the case of

Lai Changxing, a rich businessman China wanted on corruption charges but whom the Canadian government refused to have extradited to China for fear that he would not receive a fair trial and/or would be executed. After 12 years and many rounds of negotiations, the Canadian government finally sent him back to China in 2011. In 2012, Prime Minister Harper and Premier Wen Jiabao of China reaffirmed their intention to cooperate in combatting transnational crime. In 2013, Canada and China negotiated an agreement on the sharing of the proceeds of corruption committed by foreigners.

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**S**ince Xi Jinping became China’s leader, he has made the fight against corruption a hallmark of his administration. The last few years have seen a massive and continuous anti-corruption campaign that resulted in the uncovering of thousands of corrupt officials and billions of dollars in lost assets. The Chinese government has sought to bring back those who have fled the country and to recover their ill-gotten assets taken abroad. Operations “Fox Hunt” and “Skynet” in 2014 and 2015 have reportedly brought back to China over a thousand suspects, but most of them were returned from neighboring countries rather than European or North American countries. Western countries, including Canada,

have been less willing to repatriate suspects to China, citing the lack of judicial independence in China, the quality of its court system, and the differences in Chinese and Canadian understanding of human rights.

Given the high priority and the popularity of the anti-corruption campaign in China, the Canadian government risks losing credibility if it appears unwilling to engage in full judicial cooperation with China in this area. Canada’s ambassador to China stresses to the China public that Canada will help China to repatriate corrupt officials who have fled to Canada and confiscate their assets: “We have no desire to harbor fugitives, and we don’t want to be known as welcoming fugitives.” However, the implementation of such cooperation is not easy given many Canadians’ distrust of China’s judicial system. Moreover, the Canadian government has reasons to be nervous about the operation of Chinese agents in Canada, as are other Western governments such as the US and Australia, both of which have expressed their deep concern about China’s undercover operations. Last but not least, the autonomy of the judicial system from the government in Canada can hinder the process of repatriating suspects wanted by the Chinese government.

The examples of investment promotion and protection and of judicial cooperation are illustrative of some of the obstacles to improving Canada’s relations with China. However, roadblocks should not stop the two sides from pursuing greater cooperation. The key is to walk down the path of improving this important bilateral relationship with open eyes and realistic expectations. **P**

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