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CHINA'S BELT AND ROAD INITIATIVE: WHAT ROAD SHOULD CANADA TAKE?

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By Lieutenant-Commander Travis Bain

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Word Count: 4,828

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CHINA'S BELT AND ROAD INITIATIVE: WHAT ROAD SHOULD CANADA TAKE?

The Chinese government has used silk roads to create supply chains and exchange goods for centuries.¹ According to the United Nations Educational Scientific and Cultural Organization (UNESCO), silk road trade routes are a means to link culture and people while facilitating exchange between them.² Over the last 50 years, China's role and influence in world affairs have increased dramatically. When The People's Republic of China (PRC) took its place on the United Nations Security Council (UNSC) in 1971, China participated on just 66 percent of all UNSC votes. By 2009, it was voting over 97 percent of the time.³ China joined the World Trade Organization (WTO) in 2001 and provided over 2,500 UN Peacekeepers in 2019.⁴ In 2014, China launched both the Asian Infrastructure Investment Bank (AIIB) and the New Development Bank to promote a Free Trade Area of the Asia Pacific (FTAAP). Beijing has since strengthened ties with Brazil, Russia, India, and South Africa (the BRICS), and with members of the Shanghai Cooperation Organization (SCO).⁵ Between 2007 and 2016, China's Gross Domestic Product (GDP) doubled. From 2007 to 2017, the number of Chinese citizens living in extreme poverty fell to less than one percent.⁶ The buying power of the domestic

¹ Ghosh and Lipi. *The Southern Silk Route: Historical Links and Contemporary Convergences*. 1st ed. Milton: Routledge Ltd, 2019. doi:10.4324/9780429277566, 29.

² United Nations Educational Scientific and Cultural Organization "Silk Roads: Dialogue, Diversity & Development" accessed 23 March 2020, <https://en.unesco.org/silkroad/about-silk-roads>

³ Joel. Wuthnow, *Chinese Diplomacy and the UN Security Council: Beyond the Veto*. New York: Routledge, 2013; 14 and 30.

⁴ World Trade Organization "China and the WTO" accessed 23 March 2020. https://www.wto.org/english/thewto_e/countries_e/china_e.htm. and United Nations, "UN Peacekeeping China" accessed 23 March 2020. <https://peacekeeping.un.org/en/china>

⁵ Zheng Wang, China's Institution building: Leading the Way to Asian Integration: *Georgetown Journal of Asian Affairs* (Spring/Summer 2015), 16.

⁶ Perter, Ferninand. "Westward ho—the China Dream and 'One Belt, One Road': Chinese Foreign Policy Under Xi Jinping." *International Affairs* 92, no. 4 (2016): 941, and World Bank Data Bank "Poverty & Equity Brief: East Asia & Pacific – China," Accessed 23 March 2020,

population has swelled, growing China's exchange reserve from \$212 billion to \$4 trillion between 2001 and 2014, leaving Beijing with tremendous buying and lending power.⁷

According to the World Bank, China is one of the world's fastest-growing economies and there is enormous spillover potential for other countries.⁸ As of 2016, 60 percent of world trade, valued at approximately \$5.3 trillion, flowed through the maritime silk road's critical artery in the South China Sea. China's own exports totalled \$874 billion.⁹

According to the World Bank, the Chinese government's long term plan is to leverage these traditional trade routes to form a unified strategic vision of connectivity and cooperation at a transcontinental level.¹⁰

Western analysts differ over whether China's rise constitutes a threat to world order, an opportunity, or both.¹¹ That dispute is evident in the reaction to the Chinese government's Belt and Road Initiative (BRI). The BRI aims to expand maritime trade routes and land infrastructure networks to connect China with countries around the world to increase trade and economic growth.¹² Put another way, the BRI is an example of economic statecraft as a means of achieving foreign policy ends that may or may not benefit states like Canada.¹³ Some scholars such as Daniel Drache and Duan Qi

https://databank.worldbank.org/data/download/poverty/33EF03BB-9722-4AE2-ABC7-AA2972D68AFE/Global_POVEQ_CHN.pdf

⁷ Ferninand. "Westward ho...", 941.

⁸ World Bank "The World Bank In China" accessed 31 March 2020.

<https://www.worldbank.org/en/country/china/overview>

⁹ China Power Project "How Much Trade Transits Through the South China Sea?". accessed 23 March 2020 . <https://chinapower.csis.org/much-trade-transits-south-china-sea/>

¹⁰ World Bank "Belt and Road Initiative" accessed 23 March 2020.

<https://www.worldbank.org/en/topic/regional-integration/brief/belt-and-road-initiative>

¹¹ Patrick, Porter. "Why America's Grand Strategy Has Not Changed: Power, Habit, and the US Foreign Policy Establishment." *International Security* 42, no. 4 (2018): 9. and Guoli Lui, *China Rising: Chinese Foreign Policy in a Changing World*. (New York, Palgrave, 2017), 11.

¹² Belt and Road Forum 2019, "Overview - Belt and Road Initiative Forum" accessed 23 March 2020, <http://www.beltandroadforum2019.com/conference-profile/overview/>

¹³ Xiaojun Li, and Ka Zeng. "To Join Or Not to Join? State Ownership, Commercial Interests, and China's Belt and Road Initiative." *Pacific Affairs* 92, no. 1 (2019): 11.

recommend that Canada embrace the BRI.¹⁴ Others, like Duanjie Chen, advocate direct opposition.¹⁵ This paper will demonstrate that allowing the BRI to come to Canada is too great a risk to sovereignty, to national security and to the stability of the world order. On the other hand, Ottawa cannot directly oppose the BRI lest China retaliate and cause Canadian businesses to miss out on legitimate economic opportunities. Canada must therefore limit its public comments about the BRI to instances when not doing so would compromise the national interest.

What is China's Belt and Road Initiative (BRI)?

In 2012, Chinese President Xi Jinping began his strategy of the “Chinese Dream” of rejuvenation with the idea that China could regain its rightful place as the world's central power.¹⁶ Economist Enrique Galan argues that the BRI is the cornerstone of Xi's rejuvenation strategy.¹⁷ Overall, the idea of the BRI is to shift power away from the west towards China with the ultimate objective of creating an integrated region that centers on China.¹⁸ Rather than using military force to control resources such as in the South China

¹⁴ Policy Options “Ottawa needs to see the opportunities that would come from working with China on Critical Infrastructure projects in the least developed countries” accessed 5 March 2020, <https://policyoptions.irpp.org/magazines/january-2020/canada-is-missing-the-boat-on-chinas-belt-and-road-initiative/>

¹⁵ Duanjie Chen, Countering China's Economic Coercion Macdonald-Laurier Institute for Public Policy, 2019. <https://www.macdonaldlaurier.ca/countering-chinas-economic-coercion-new-mli-report-duanjie-chen/>

¹⁶ Lui, *China Rising*... 11.

¹⁷ Martínez Galán, Enrique and Francisco José Leandro. "The Belt and Road Initiative: The Cornerstone of the New Fangled Financial Institutionalism Led by China." *Baltic Journal of European Studies* 9, no. 2 (2019): 153-182.

¹⁸ Canadian Security Intelligence Service, “Expanding regional ambitions: The Belt and Road Initiative” accessed 31 March 2020. <https://www.canada.ca/en/security-intelligence-service/corporate/publications/china-and-the-age-of-strategic-rivalry/expanding-regional-ambitions-the-belt-and-road-initiative.html>

Sea,¹⁹ the BRI looks to enable critical infrastructure and assets to force other countries to do China's bidding.²⁰

In 2013, Xi launched the One Belt One Road initiative (OBOR). His intent was to create a Maritime Belt and Land Road throughout Eurasia and back to China. At the same time, China made a concerted effort to consolidate its many smaller State-Owned Enterprises (SOEs) into larger monopolies and oligopolies that it could influence to go global.²¹ As the venture grew, the OBOR was rebranded as the BRI to consolidate Beijing's various regional and international investment strategies into a unified strategic framework.²² Both Chinese SOEs and non-state firms invest in the BRI; however, the majority of BRI firms receive funding and support from China's SOEs.²³ In 2015, the Chinese government announced a Vision and Action plan to expand the strength and scope of the BRI.²⁴ The AIIB proceeded to loan \$509 million to Bangladesh, Indonesia, Pakistan and Tajikistan over its first three years.²⁵ In a 2016 speech, Chinese Foreign Minister Wang Yi described the BRI as one of five key tasks in transforming China into an international economic hub.²⁶ In 2018, Beijing released its Arctic Policy White Paper that aimed at creating a "Polar Silk Road."²⁷ Shortly after, Beijing and Moscow struck

¹⁹ Kipgen, Nehginpao. "ASEAN and China in the South China Sea Disputes." *Asian Affairs* 49, no. 3 (2018): 435.

²⁰ CSIS, "Expanding regional ambitions...".

²¹ Wendy, Dobson, "China's State-Owned Enterprises and Canada's Foreign Direct Investment Policy." *Canadian Public Policy* 43, no. 2 (2017): S30.

²² Wendy Dobson, *Living with China: Canada Finds its Way*, (Toronto, University of Toronto Press, 2019), 93.

²³ Li, et al. "To Join Or Not to Join?..." 11.

²⁴ Yaodong Yu, and Yen-Chiang Chang. "The 'One Belt One Road' Initiative and its Impact on Shipping Law in China." *Marine Policy* 87, (2018): 292. and Ferninand. "Westward ho...", 950.

²⁵ Asian Infrastructure Investment Bank "Our First Three Years." accessed 23 March 2020, <https://www.aiib.org/en/about-aiib/who-we-are/third-anniversary/index.html>

²⁶ Lui, *China Rising* 10.

²⁷ Xinhua. "China's Arctic Policy - 26 January 2018", accessed 13 April http://english.www.gov.cn/archive/white_paper/2018/01/26/content_281476026660336.htm

deals for China to access the Russian sea routes, minerals and untapped oil and gas reserves.²⁸ The BRI has grown to be much more than simply trade routes and infrastructure. It now includes cyberspace, finance and business. It has been suggested that the BRI is a means to increase economic power as well as a way of justifying China's military presence abroad to protect economic interests.²⁹ To date, the BRI is linked to over 70 countries, with ongoing and planned projects – valued at between \$1 trillion and \$8 trillion – to build roads, bridges, dams, ports and fibre-optics reaching Eurasia, Africa, South America, and New Zealand.³⁰ In 2020, the importance of the BRI to China and the world economy has become undeniable. Today, the BRI is tied to four billion people, and accounts for one-third of global GDP.³¹

How has Canada responded?

Canada and the BRI - Canada is not an official target of the BRI, but it did partner with the AIIB in 2018 and currently sits as one of twelve board directors. To that end, Canadian companies have the potential to contribute to the BRI, particularly when it comes to building infrastructure such as energy, transportation, and water and sanitation.³² China has purchased technology and expertise in solar power, mining, rail

²⁸ CNBC, "Russia and China vie to beat the US in the Trillion-dollar race to control the Arctic" accessed 13 April 2020, <https://www.cnbc.com/2018/02/06/russia-and-china-battle-us-in-race-to-control-arctic.html>

²⁹ Council on Foreign Relations "China's Strategy in Djibouti: Mixing Commercial and Military Interests" accessed 26 March 2020. <https://www.cfr.org/blog/chinas-strategy-djibouti-mixing-commercial-and-military-interests>

³⁰ Drache Danel et al. "Ottawa needs to see the opportunities that would come from working with China on critical infrastructure projects in the least developed countries" assessed 7 March 2020, <https://policyoptions.irpp.org/magazines/january-2020/canada-is-missing-the-boat-on-chinas-belt-and-road-initiative/> and Canada China Business Council, "Third-Country Collaboration – Canadian Opportunities with the Belt and Road Initiative and Beyond," accessed 7 March 2020, https://ccbc.com/wp-content/uploads/2018/11/CCBC_Belt-and-Road.pdf, 8. and Dobson, *Living with China...* 93.

³¹ Ferninand. "Westward ho...", 8.

³² Canada, Department of Finance, "The Asian Infrastructure Investment Bank" last accessed 7 March 2020. <https://www.fin.gc.ca/act/aiib-baii/index-eng.asp>

systems, nuclear power, gas development, and financial services from Canadian companies already. SNC Lavalin Nuclear is working with China National Nuclear to develop advanced fuel technology to be used inside China and in other BRI recipient countries such as Romania.³³

Still, there are limits to Canadian-Chinese cooperation. In December 2012, as the Government of Canada (GoC) was approving the Chinese National Offshore Oil Corporation (CNOOC) acquisition of Nexen, Prime Minister Stephen Harper made it clear that he would be limiting future acquisitions by foreign, state-owned enterprises.³⁴ The Conservatives then updated the Investment Canada Act (ICA) to protect Canadian strategic assets, particularly in the energy sector.³⁵ The updated guidelines limit SOEs from having a majority ownership stake in Canadian companies except under “exceptional circumstances.”³⁶

Canadian Policy – Canada does not have a singular policy with respect to China.³⁷ In his February 2020 speech to the Montreal Council on Foreign Relations, Canadian Minister of Foreign Affairs Francois-Phillippe Champagne reiterated that the Canada-China relationship is complex, and must be guided by rules based principles and international law.³⁸ Canada has a history of voicing its opinion on what China considers

³³ Canada China Business Council, “Third-Country Collaboration...”, 14-19.

³⁴ Charles, Burton. "Canada's China Policy Under the Harper Government." *Canadian Foreign Policy Journal* 21, no. 1 (2015): 52.

³⁵ *Ibid*, 52.

³⁶ Paul M. Evans, *Engaging China: Myth, Aspiration, and Strategy in Canadian Policy from Trudeau to Harper*. Toronto: University of Toronto Press, 2014, 76-77.

³⁷ Global Affairs Canada, “Associate Deputy Minister (Foreign Affairs) Transition Book”, accessed 07 April 2020, <https://www.international.gc.ca/gac-amc/publications/transparency-transparence/govcan.aspx?lang=eng#5>.

³⁸ Global Affairs Canada, “Address by Minister of Foreign Affairs to the Montreal Council on Foreign Relations,” accessed 07 April 2020, <https://www.canada.ca/en/global-affairs/news/2020/02/address-by-minister-of-foreign-affairs-to-the-montreal-council-on-foreign-relations.html>.

to be internal matters. Political Scientist Phillippe Calvert says that there are significant differences between the two countries surrounding China's internal policies, particularly on human rights. Of late, Beijing's aggressive international actions in the South China Sea and its harsh response to calls for greater autonomy from Hong Kong have concerned Ottawa sufficiently to elicit a Canadian response.³⁹ In August 2019, the Chinese embassy formally told Canada to stop meddling in its affairs.⁴⁰ Former Canadian Ambassador to China, David Mulroney has noted that Beijing has successfully resisted any efforts to alter the way it rules internally.⁴¹

An additional policy that has already impacted the BRI relates to Canada's First Nations. Since at least 2011, First Nations communities in British Columbia have been approached by both private and state-owned Chinese companies seeking to gain access to their traditional territories. In 2011, recognizing the economic importance and opportunities presented by China, the British Columbia First Nations published their own China Strategy.⁴² Given the vast resources of Canada's north and China's desire to expand its trade routes and natural resources supply chains, it is only a matter of time before the Inuit release a Chinese strategy of their own as well.

Between 2016 and 2019 the Trudeau government developed and published a new Arctic and Northern Policy Framework. The policy stresses cooperation though a rules-

³⁹ Norman Hillmer, and Philippe Lagassé. *Justin Trudeau and Canadian Foreign Policy*. Vol. 2017. Cham: Palgrave Macmillan US, 2018, 145-146.

⁴⁰ Reuters, "Chinese embassy tells Canada to stop meddling in Hong Kong Affairs" accessed 5 April 2020. <https://www.reuters.com/article/us-china-canada-hongkong/chinese-embassy-tells-canada-to-stop-meddling-in-hong-kong-affairs-idUSKCN1V8000>

⁴¹ David Mulroney, *Middle Power, Middle Kingdom: What Canadians Need to Know about China in the 21st Century*. Toronto, Ont: Allen Lane, 2015, 246.

⁴² British Columbia First Nations "First Nations & China: Transforming Relationships" accessed 24 March 2020, 7. https://www.asiapacific.ca/sites/default/files/filefield/chinastrategy_final.pdf

based international order to preserve peace and security. It maintains the importance of economic and social development, but stresses the significance of doing so through Indigenous peoples, and northerners. The Canadian government intends to commit funding for foreign trade corridors through airports, roads, hydroelectric dams, and communication networks development.⁴³

OPTION 1: CANADA CAN GET ON THE ROAD

Those who see advantages in allowing the BRI access into Canada argue that it is Canada's national interest to seek foreign investment to develop Alberta's oil sands and the Arctic. It is too expensive for Canadians to cover the full cost of such development themselves.⁴⁴ The majority of the \$49-billion-dollar investment in the extraction of oil, gas and mining between 2004 to 2019 was funded through Canadian savings. Foreign funding would reduce investment risks.⁴⁵ This is particularly important as Arctic operating costs, such as mining, are 250 percent higher than they are in southern Canada.⁴⁶ Historically, Canadians have been reticent to invest in the Arctic. In the 1960s, the Diefenbaker government abandoned its “Roads to Resources” program due to the high costs. In 2007 the GoC announced plans to build an Arctic Naval facility, but never followed through.⁴⁷ Canada could take advantage of China’s BRI resources and funding to build necessary maritime infrastructure and advance projects to create jobs in the

⁴³ Government of Canada “Canada’s Arctic and Northern Policy Framework” accessed 24 March 2020, <https://www.rcaanc-cirnac.gc.ca/eng/1560523306861/1560523330587>

⁴⁴ Dobson, “China's SOE and Canada's FDI”, S39-S40, and Adam Lajeunesse, "Finding "Win-Win" China's Arctic Policy and What it Means for Canada." *The School of Public Policy Publications (SPPP)* 11, no. 33 (2018): 4.

⁴⁵ Dobson, “China's SOE and Canada's FDI”, S39-S40.

⁴⁶ Lajeunesse, “Finding “Win-Win...”, 2.

⁴⁷ *The Globe and Mail* “Myth versus reality in Stephen Harper’s northern Strategy” accessed 13 March 2020, <https://www.theglobeandmail.com/news/national/the-north/myth-versus-reality-in-stephen-harpers-northern-strategy/article16397458/>

north. Sustained development activities, northern shipping and infrastructure could re-invigorate previous mining projects at Izok and High Lake that remain in an indeterminate state waiting for market conditions to improve.⁴⁸

There are also risks in enabling increased Chinese investment in Canada. With respect to the BRI, Canada's most vital interests are Canadian sovereignty, access risks and national security.

Canadian Sovereignty - Sovereignty is essential to Canada's interests as there is a fear that international rulings will support arctic or even non-arctic nations' positions that are counter to Canada's claim. Suzanne Lalonde, a law professor, explains that Canada considers the Archipelago's islands in the Arctic waters as "historic internal waters," meaning that Canada would exercise exclusive authority over areas such as the North West Passage.⁴⁹ Although Canada has established a long list of legal and political justifications, the risk is that states that do not consider Archipelagos as internal waters will challenge Canadian claims successfully. China's position is that all ships on these waters should be assigned the right of transit passage and allowed freedom of navigation without restrictions.⁵⁰

China's Arctic White Paper asserts that it will respect legislative enforcement and the adjudicatory powers of the Arctic States of the waters beholden to "their jurisdiction."⁵¹ Beijing maintains that Canadian Arctic waters falls under international laws and treaties, such as the United Nations Convention of the Law of the Sea

⁴⁸ Lajeunesse, "Finding "Win-Win...", 3.

⁴⁹ Suzanne Lalonde, "The Debate Over the Legal Status of the Northwest Passage" accessed 13 April 2020. https://sencanada.ca/content/sen/committee/421/ARCT/Briefs/SuzanneLalonde_Briefs_e.pdf

⁵⁰ Lalonde, "The Debate Over..."

⁵¹ Xinhua. "China's Arctic Policy..."

(UNCLOS), where all countries would have freedom of navigation in Canada's Arctic.⁵² Canada is a signatory to UNCLOS but rejects the concept of transit passage in the Arctic.⁵³ The debate over the status has not moved forward in decades since there is limited shipping through the Canadian Arctic. Scholar Adam Lajeunesse contends that China's intent of creating a Polar Silk Road produces the potential for Beijing to either circumvent Canadian Arctic sovereignty or cast further doubt within the international courts. He argues that this ambiguity may further enable increased Chinese Shipping activity in the North West Passage. If BRI investments in the Arctic expands, then the increased development may allow the sovereignty debate to reappear further damaging Canada's legal position.⁵⁴

Donat Pharand, scholar and expert on international law of the sea and Canadian sovereignty, says that there needs to be a level of acquiescence by the international community. Ambiguity in international law leaves the question of Canada's Arctic sovereignty up for debate. On one hand is the idea that consent must be explicit, while on the other is "*I qui tacet consentire videtur*" - silence implies consent.⁵⁵ Pharand argues that no foreign state has recognized Canada's historic claim, but many have tolerated it due to the absence of any real challenge. By that statement he means that no country has directly challenged Canadian Arctic Sovereignty in the International Court of Justice

⁵² *Ibid.*

⁵³ Lalonde, "The Debate Over..." 4.

⁵⁴ Lajeunesse, "Finding "Win-Win..."", 4.

⁵⁵ Adam Lajeunesse, "Brief to the Standing Committee on Foreign Affairs and International Development: Canada's Sovereignty in the Arctic - June 2018" accessed 13 April 2020, <https://www.ourcommons.ca/Content/Committee/421/FAAE/Brief/BR10003044/br-external/LajeunesseAdam-e.pdf>, 4.

(ICJ). Due to the lack of explicit recognition, implicit foreign recognition of Canadian sovereignty has been crucial to Global Affairs Canada over the past 70 years.⁵⁶

Even if international law is on Canada's side there are potential long term consequences with China's investment in the Arctic, as China has not always respected sovereignty claims. For example, in 2013, China refused to participate in the legal case brought forth by the Philippines over the disputed Islands in the South China Sea.⁵⁷ During the dispute, the Philippines became a recipient of China's AIIB funding in 2017.⁵⁸ It is possible that the Philippines could become indebted to China to have its balance forgiven. In that same sense, if majority stakeholders in the Canadian Arctic are Chinese SOEs, it is possible to use the northerners' economic dependence on those companies for greater access to resources and unimpeded passage through northern shipping routes.

Debt Trap Diplomacy – China has been accused of debt trap diplomacy, whereby a country, usually poor, is given a loan that it is likely unable to pay and then forced to exchange some other equity as compensation.⁵⁹ The most cited example comes from 2016 when Beijing took majority control of Sri Lanka's strategic Hambantota Port.⁶⁰ Beijing acted similarly when Greece could not pay its debt.⁶¹ Canada's financial position is strong and Ottawa is unlikely to default on debt.⁶² However, China's SOE investments

⁵⁶ *Ibid*, 4.

⁵⁷ Nie Wenjuan, "Xi Jinping's Foreign Policy Dilemma: One Belt, One Road or the South China Sea?" *Contemporary Southeast Asia* 38, no. 3 (2016): 423.

⁵⁸ Asian Infrastructure Investment Bank "Approved Projects". Accessed 21 March 2020. <https://www.aiib.org/en/projects/approved/index.html>

⁵⁹ Thomas J. Shattuck, "Combating the Belt and Road Initiative Beyond 2019." *Orbis* 63, no. 4 (2019): 510.

⁶⁰ Ankit, Panda. "Sri Lanka Formally Hands Over Hambantota Port to Chinese Firms on 99-Year Lease." *The Diplomat* (Dec 11, 2017).

⁶¹ Dobson, *Living with China...*, 100.

⁶² Bank of Canada "Canada's Economy and Household Debt: How Big is the Problem" accessed 26 March 2020. <https://www.bankofcanada.ca/2018/05/canada-economy-household-debt-how-big-the-problem/>

and BRI infrastructure in the Arctic or on Indigenous territory may give it leverage over Indigenous peoples in Canada.⁶³ According to David Mulrone, China's style of economic coercion is a real vulnerability for Canada.⁶⁴

Access Risks and Challenges – Even if Canada were to allow Chinese companies into Canada there is no guarantee of reciprocal access to markets in China. Furthermore, there is no assurance that Canada would be given market access to BRI projects in developing regions, since one of the strategies behind the BRI is to employ China's ever-growing workforce inside and outside of China.⁶⁵ Additionally, Jingzhou Tao, a legal expert on Asia's arbitration practices, argues that there are many legal risks and challenges that will come with gaining access to BRI projects. Most projects are in developing countries where the legal systems are neither sufficiently mature nor transparent. Although there are international arbitrators, many of the developing countries are unfamiliar with the process as they relate to large multinational investment projects such as the BRI.⁶⁶ This unstable environment creates potential risks and challenges should Ottawa encourage Canadian businesses to invest in the BRI.

National Security – Many businesses and agencies argue that natural resources are strategic assets when it comes to foreign investment. Supporters of Foreign Direct Investment (FDI) question how Chinese FDI in natural resources could constitute a threat to Canada since Canada would remain the ultimate owner.⁶⁷ According to the economist

⁶³ Lajeunesse, "Finding "Win-Win...", 4.

⁶⁴ David Mulrone, "Navigating a new Canadian Course in the Indo-Pacific: New MLI Commentary" accessed 26 March 2020, 1. <https://www.macdonaldlaurier.ca/navigating-new-canadian-course-indo-pacific-new-ml-commentary-david-mulrone/>

⁶⁵ Dobson, *Living with China...* 93.

⁶⁶ Zhang, Wenxian, Ilan Alon, and Christoph Lattemann. *China's Belt and Road Initiative: Changing the Rules of Globalization*. Cham: Palgrave Macmillan US, 2018, 308.

⁶⁷ Dobson, "China's SOE and Canada's FDI...", S40.

Theodore Moran, , the risks are threefold: denial or manipulation of access, leakage of sensitive technology or know how, and infiltration, espionage and disruption.⁶⁸ For instance, the seismic technology developed in Canada and in use by Canadian Unocal to search for oil resources could benefit China’s anti-submarine capability.⁶⁹ Foreign technologies are at a disadvantage in China as well, as years of research and development along with substantial investment are sometimes lost or stolen leaving foreign companies crippled, as was the case with Nortel.⁷⁰

Entry points in the Arctic are limited and, therefore, strategic. Nanisivik is the only accessible deep water port in the high Arctic. China’s 2015 defence white paper calls for “open seas protection...and strategic deterrence.”⁷¹ If Chinese SOEs were to have access to this strategic port, the interests of the Canadian Coast Guard (CCG) and Royal Canadian Navy (RCN) could be compromised. Canada cannot risk the possibility of Chinese control of Canadian strategic ports.⁷² To date, China has completed nine Arctic voyages, including one through Canada’s North West Passage in 2017. Denmark has expressed deep concern over China’s BRI, like the projects that resulted in satellite, airport and research stations in Greenland. Furthermore, the US has sought to deny

⁶⁸ Theodore H. Moran, Chinese Foreign Direct Investment in Canada: Threat Or Opportunity? Canadian Council of Chief Executives, 2012. 24-29.

⁶⁹ *Ibid*, 34.

⁷⁰ The National Post “Did Huawei Bring Down Nortel?; Corporate Espionage, Theft, and the Parallel Rise and Fall of Two Tech Giants.” accessed 25 March 2020, <https://nationalpost.com/news/exclusive-did-huawei-bring-down-nortel-corporate-espionage-theft-and-the-parallel-rise-and-fall-of-two-telecom-giants> and Mulroney, Middle Power...48.

⁷¹ The Peoples Republic of China. Ministry of National Defense, “China’s Military Strategy: May 2015” accessed 26 March 2020, 4. http://eng.mod.gov.cn/Press/2015-05/26/content_4586805_4.htm

⁷² Lajeunesse, “Finding “Win-Win...”, 4.

Chinese military presence in the Arctic Ocean, going so far as to deploy submarines as a deterrent.⁷³

In sum, Ottawa could get on the road with China and encourage greater FDI into Canada, but such a policy would invite Chinese SOEs to exert greater influence across the country. Moreover, if Canada encourages a policy of Chinese development of shipping and infrastructure in the Arctic, it may create sovereignty concerns, not to mention significant security and strategic risks to Canada and North America.

OPTION 2: OPPOSE THE ROAD: IT IS A SECURITY THREAT

Threat to Current World Order – Alternatively, Canada could consider the BRI an international security threat and respond accordingly. After the Second World War, the US implemented the Marshall Plan to promote democracy and economic development in Europe.⁷⁴ After the Cold War, numerous European countries invested in infrastructure and economic supply chains to promote democracy in post-communist states throughout Eurasia.⁷⁵ China's BRI has been portrayed as "China's Marshall Plan" for a new world order.⁷⁶ The PRC maintains that western countries and alliances threaten its political system. Beijing is using the BRI as a means to legitimize its political model and is offering developing countries an alternative option that China says, "preserves

⁷³ Department of Defense. *Annual Report to Congress: Military and Security Developments Involving the People's Republic of China 2019*. (Washington, DC: U.S. Government Printing Office, May 02, 2019,) 114.

⁷⁴ Special to The Christian Science Monitor. "What is the Marshall Plan?--State Department Replies: Hope for World: How Will ERP Benefit U.S.? Critical Queries Answered Policymakers Explain Program Point by Point Will Aid Prove Too Costly? Vital Saving Underscored all-Out Support of American Public Sought." (1908- Current File), 1948.

⁷⁵ CSIS, "Expanding regional ambitions...".

⁷⁶ Simon Shen, and Wilson Chan. "A Comparative Study of the Belt and Road Initiative and the Marshall Plan." *Palgrave Communications* 4, no. 1 (2018): 1-11.

their independence.”⁷⁷ The threat is that the BRI could increase China’s influence over regions that are authoritarian and corrupt but are trying to democratize. Developed countries such as Canada would not be protected as they search for market access to China to grow their economy making them more accepting of a new world order and less willing to criticize.⁷⁸

The US views China’s BRI as a threat. The US Congress’ report on US-China Commercial Relations identifies sustained Chinese FDI and Venture Capital (VC) investments as a main concern. The US believes that BRI and similar investments are merely smoke screens to acquire new technologies to advance Chinese military and economic goals.⁷⁹ Ultimately, the US Congress concludes that BRI projects will compromise national sovereignty and world stability.⁸⁰ Simply, China is using the BRI to intrude in other countries’ domestic politics furthering its own agendas of expanding its military, stifling dissent, and improving surveillance technologies.⁸¹

Furthermore, the US believes that the BRI is being used as a means to build up its military presence elsewhere. Chinese military spending was reported at \$170.4 billion in 2019 and increasing six percent annually.⁸² It spends five time more than the closest

⁷⁷ Xinhua “Socialism with Chinese Characteristics enters new era: Xi” accessed 31 March 2020. http://www.xinhuanet.com/english/2017-10/18/c_136688475.htm

⁷⁸ CSIS, “Expanding regional ambitions...”.

⁷⁹ U.S.-China Economic and Security Review Commission “Chapter 3 Section 1 – US China Commercial Relations” 169, accessed 29 March 2020, <https://www.uscc.gov/annual-report/2019-annual-report>

⁸⁰ U.S.-China Economic and Security Review Commission “2019 Report to the Congress of the U.S.-China Economic and Security Review Commission: Executive Summary”, accessed 29 March 2020, <https://www.uscc.gov/annual-report/2019-annual-report> , 2.

⁸¹ *Ibid*, 7.

⁸² Department of Defense. *Annual Report to Congress: Military and Security Developments Involving the People’s Republic of China 2019*. (Washington, DC: U.S. Government Printing Office, May 02, 2019,) 95.

regional military power of Japan.⁸³ Moreover, Beijing is expected to have a world class military by 2035.⁸⁴ China created a strategy called the “String of Pearls” to protect its Maritime Silk road supply chains in the Indian Ocean that has since been integrated as a main component of the BRI. Consequently, security analysts believe that Beijing secured maritime ports from the Indian Ocean to the straits of Malacca as part of the strategy to protect its supply chains.⁸⁵ China, also established a military base in Djibouti Africa, which calls into question China’s mixing of commercial and military interests abroad.⁸⁶ Therefore it stands to reason that as the BRI expands so could China’s military reach into other regions such as the Canada’s Arctic and beyond. Canada could accept the US belief that the BRI and other Chinese initiatives are security threats. Doing so would align with American interests, and give Canada the freedom to criticize China’s human rights violations.

Retaliation from China – If Canada were to treat the BRI as a threat and respond in kind, Ottawa risks retaliation. China expelled South Korean business people and created a slowdown in Chinese tourism to South Korea after Seoul installed a Ballistic Missile Defence system.⁸⁷ Given that the majority of Canada’s canola and wood pulp,

⁸³ *Ibid*, 95.

⁸⁴ U.S.-China Economic and Security Review Commission “Chapter 4 Section 1 – Beijing’s World-Class Military Goal” accessed 29 March 2020, <https://www.uscc.gov/annual-report/2019-annual-report>, 285.

⁸⁵ David Brewster, “Silk Roads and Strings of Pearls: The Strategic Geography of China’s New Pathways in the Indian Ocean.” *Geopolitics* 22, no. 2 (2017): 277.

⁸⁶ Council on Foreign Relations “China’s Strategy in Djibouti: Mixing Commercial and Military Interests” accessed 31 March 2020, <https://www.cfr.org/blog/chinas-strategy-djibouti-mixing-commercial-and-military-interests>

⁸⁷ United States Studies Centre, “A Narrow path For Asia’s Middle Powers” accessed 31 March 2020. <https://www.uscc.edu.au/analysis/a-narrow-path-for-asias-middle-powers>

valued at \$5 billion, are exported to China, the Canadian economy is already vulnerable.⁸⁸ In 2018, China responded to the arrest of Huawei CFO Meng Wanzhou in Canada by imprisoning two Canadian citizens, Michael Kovrig and Michael Spavor, converted an imprisonment charge to a death sentence on another charged with drug trafficking, and blocked Canadian canola imports.⁸⁹

Loss of Economic Advantage- If Ottawa were to treat the BRI as a threat, it would not be able to take full advantage economically. The 2012 Canada-China economic complementarities study found there is tremendous potential for new exports to China in several industries. For instance, China's growing middle class desires higher quality protein diets. In turn, there is opportunity to increase exports in feed for cattle and from the fishing industry. Also, China is the lead importer of agriculture products in the world while Canada provides three quarters of its agriculture to foreign markets. Outside of agriculture Canada, is a world leader in green technologies, machinery, textiles and transportation infrastructure and aerospace.⁹⁰ In turning away from Canada, China may simply look towards BRI enabling countries such as Brazil that also have vast natural resources.

Furthermore, opposing the BRI would eliminate it as a stepping stone to a future Canada-China free trade agreement. Political scientists Thomas Casas i Klett and Omar

⁸⁸ Library of Parliament "Trade and Investment Canada-China" accessed 26 March 2020. https://lop.parl.ca/sites/PublicWebsite/default/en_CA/ResearchPublications/TradeAndInvestment/2018588E

⁸⁹ Dobson, *Living with China*...109. and House of Commons Committee "Canada-China Relations -5 December 2019" accessed 5 April 2020, <https://www.ourcommons.ca/Content/Committee/431/CACN/Brief/BR10700356/br-external/McCallumJohn-e.pdf>

⁹⁰ Global Affairs Canada, "Canada-China Economic Complementary Study", accessed 1 April 2020. <https://www.international.gc.ca/trade-agreements-accords-commerciaux/agr-acc/china-chine/study-comp-etude.aspx?lang=eng>

Serrano Oswald suggest that one aspect of China's BRI strategy is to open doors to Free Trade Agreements (FTA) and vice versa. They contend that Beijing will strategically promote FTAs in order to open doors for the BRI and then repurpose them into multilateral arrangements. They believe the narrative and coordination encompassed in the BRI will give them this ability to transform the bilateral agreements in the future.⁹¹ The stepping stone theory is important to consider for Canada as one of the current government's objectives is to diversify Canada's FTAs, particularly with China and ASEAN nations that coincidentally are also BRI recipient countries.⁹²

In 2019, the IMF hosted the finance ministers of the world's central banks. The meeting concluded that the most substantial threat to the global economy is trade related uncertainty.⁹³ How China reacts if Canada opposes the BRI comes with economic uncertainty. In conclusion, challenging the current world order may bring uncertainty for western nations such as Canada. The risk of retaliation and loss of economic advantage is central to Canada's national interests.

OPTION 3: TAKING THE MIDDLE ROAD

Both encouraging the BRI to come to Canada and opposing it directly comes with considerable economic risks, while potentially threatening the world order and Canadian national security. So how should Canada respond?

Canada as a Middle Power - Bruce Gilley has suggested that all middle powers are questioning where an evolving multipolar world will leave them. This is particularly

⁹¹ Zhang et al., *China's Belt and Road Initiative*...89.

⁹² GAC, "Transition Book 2019...".

⁹³ Paul Kiernan, "Officials View Trade Uncertainty as Biggest Global Economic Risk; IMF Estimates U.S.-China Trade War has Taken a Switzerland-Size Bite Out of Global Output." *WSJ Pro.Central Banking* (Oct 19, 2019). <https://search-proquest-com.cfc.idm.oclc.org/docview/2306803974?accountid=9867>.

true as the US-China trade war becomes more intense,⁹⁴ or as China continues to grow its military. According to Gilley, a more powerful and disruptive China would significantly diminish Canada's world influence, but strengthen the Canada-US relationship.⁹⁵

However, if China's rise were to be peaceful, Canada's middle power status would remain intact.⁹⁶ Either way, Canada's policy towards the BRI must allow it the ability to support international stability if a disruptive China were to emerge.

Consequently, there are three ways Canada can respond. First, Ottawa can maintain some status quo policies such as the ICA and Arctic sovereignty to limit Beijing's leverage inside Canada. Second, Canada can limit public comments on China's internal matters, apart from cases when Chinese behaviour directly impacts Canadian interests (national security issues and consular cases). In such cases, Ottawa must be "unapologetic, clear and firm."⁹⁷ Lastly, it can take a collaborative approach to the BRI by leveraging multilateral relationships with countries and organizations.⁹⁸

Status Quo - Canada should continue to limit SOE investment, particularly in the Arctic. The current ICA measures are sufficient to achieve this. If Ottawa does wish to leverage SOE investment inside its borders it must ensure that Canadian companies hold the balance of power. For instance, in the case of Nexen's merger with CNOOC, Canada allowed the acquisition because Beijing allowed half of the board positions to be held by

⁹⁴ BBC "A quick guide to the US-China trade war", accessed 29 March 2020, <https://www.bbc.com/news/business-45899310>

⁹⁵ Bruce Gilley, "Middle Powers during Great Power Transitions: China's Rise and the Future of Canada-US Relations." *International Journal* 66, no. 2 (2011): 245-246.

⁹⁶ *Ibid*, 245-246.

⁹⁷ Pascal Massot, (2019). Global order, US-China relations, and Chinese behaviour: The ground is shifting, Canada must adjust. *International Journal*, 74(4), 609.

⁹⁸ *Ibid*, 609.

Canadians, the headquarters to reside in Calgary, and it agreed to follow North American commercial principles and corporate social responsibility.⁹⁹

Toning down the rhetoric on Internal Matters - To take advantage of the BRI Canada must avoid getting involved in what China considers to be internal matters, such as the South China Sea or Hong Kong.¹⁰⁰ Wendy Dobson argues that Canada and China are not like minded and Ottawa should privilege long term economic goals and strategic interests while promoting a peaceful and cooperative world order. Not doing so only allows other countries such as Australia and New Zealand that have free trade agreements to gain strategic advantages.¹⁰¹ The political scientist Paul Evans argues that, historically, successful Canadian government approaches to China did not push a moralist agenda.¹⁰² The Chrétien government chose to discuss human rights issues privately which allowed them to increase trade bilaterally. Ottawa's reserved approach during this period did not prevent them from sponsoring UN resolutions on the Chinese human rights issues.¹⁰³

National Security - Refraining from publicly criticizing China's conduct at home will allow Canada to take that unapologetic, clear and firm approach on national security concerns with less chance of retaliation. Ottawa can take a strong stance on intellectual property rights, Arctic security issues, and fair treatment for Canadian firms in China. This approach has had some success in other countries. For instance, Australia's ban of Huawei led China to put out statements denouncing their actions,¹⁰⁴ but no direct

⁹⁹ Dobson, "China's SOE and Canada's FDI Policy..." S40.

¹⁰⁰ Lukas K. Danner, *China's Grand Strategy: Contradictory Foreign Policy?*. Cham, Switzerland: Palgrave Macmillan, 2018. 21, and Nie, "Xi Jinping's Foreign Policy Dilemma..." 428.

¹⁰¹ Dobson, *Living with China...* 12 and 117.

¹⁰² Evans, *Engaging China...* 61.

¹⁰³ Hillmer, et al. *Justin Trudeau and Canadian Foreign Policy...* 150-151.

¹⁰⁴ BBC "Huawei and ZTE handed 5G network ban in Australia" accessed 27 March 2020. <https://www.bbc.com/news/technology-45281495>

economic retaliation.¹⁰⁵ Political Scientist Paul Massot contends that Canadian interests such as consular cases and commercial espionage are key areas of concern.¹⁰⁶

Furthermore, David Mulroney says that it is simply not enough to warn about the risk associated or to prohibit China in Canada, but rather that Ottawa must be clear and act on security issues. In Mulroney's opinion, Ottawa's forceful stance against cyber-espionage was the first and should not be the last of firmer actions from Canada.¹⁰⁷

Collaborative Approach- Lastly, Canada can further enhance relationships with China by engaging through multilateral organizations. Canada already has a relationship with the AIIB. China supports Canada's role in the AIIB and does not want to harm the relationship. Consequently, Canada could integrate into similar organizations creating more opportunities for Canadian businesses while limiting direct retaliation. If opportunities arise to join similar multilateral organizations such as the New Development Bank it would be in Canada's interest to join. Giulio Gallarotti refers to this strategy as compound soft power whereby power manifests in organizations rather than within states. He argues that the BRICS have been successful at influencing countries though compound soft power despite their differing ideologies.¹⁰⁸ Wendy Dobson also argues that Canada should focus on sectoral initiatives and multilateral economic partnerships that improve relationships if it wants to leverage BRI's economic gains. China already uses Regional Comprehensive Economic Partnerships to negotiate trade

¹⁰⁵ This Week in Asia "China's Squeeze on Australia Coal Nothing to do With Huawei's 5G ban. Really? Accessed 27 March 2020, <https://www.scmp.com/week-asia/geopolitics/article/2188701/chinas-squeeze-australian-coal-nothing-do-huaweis-5g-ban>

¹⁰⁶ Massot, *Global order*... 609.

¹⁰⁷ Mulroney, *Middle Power, Middle Kingdom*...297.

¹⁰⁸ Giulio M. Gallarotti, "Compound Soft Power: The BRICS and the Multilateralization of Soft Power." *Journal of Political Power* 9, no. 3 (2016): 478 and 485.

partnerships, such as the Association of Southeast Asian Nations (ASEAN), six of which have free trade agreements with China.¹⁰⁹ For Canada, Japan, Taiwan, South Korea, Australia and Indonesia are trusted allies and will be indispensable in this multilateral approach. Relations with the BRICS nations such as India, Brazil, and South Africa will also be helpful as these countries already have links to the BRI.

This paper has shown that encouraging the BRI to come to Canada is too great a risk to sovereignty, to national security and the stability of the world order. Ottawa is limited in its ability to oppose the BRI directly to prevent Chinese retaliation and lost economic advantage. In order to safeguard itself from retaliation Canada must, limit its public comments about China's internal matters to instances when not doing so would compromise the national interest. Ottawa has already taken measures to protect itself from SOE investment that supports the BRI; nevertheless, vulnerabilities still remain. If Canadian companies increase work with BRI supported organizations, so will the risk to Canadians working in China.

All of Canada's options are fraught with challenges to its national interests. In joining the BRI, Canada opens itself to greater sovereignty and security risks, while directly opposing it presents strategic and economic hurdles. Consequently, for a middle power like Canada, it is best to manage the circumstances through a balanced approach. Xi Jinping's strategy of rejuvenation is challenging the current world order. The BRI is a convenient means to expand China's influence and to gain economic leverage that may shape acquiescence in favour of Beijing's geostrategic interests. Beijing is creating a

¹⁰⁹ Dobson, *Living with China...*, 134.

network of political and economic ties to influence states. With most of the world's population supporting the BRI's economic development, China may turn the economic and geopolitical landscape in its favour, which is different from what the Western countries have built following the Second World War. For now, China's intentions are not transparent, but what is clear, is that Ottawa must approach the BRI with caution.

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