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MANAGING A DRAGON: WHY CANADA NEEDS TO DEVELOP OVERARCHING STRATEGIC POLICY IN LIGHT OF CHINA'S RISE

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By Lieutenant-Commander S.R.K. Gillis
Par le capitaine de corvette S.R.K. Gillis

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ABSTRACT

What does the rise of China mean to ordinary Canadians? As the position Canada has enjoyed in world affairs has traditionally been tied to the remaining global power, what are the impacts when that superpowers economic status is challenged by a rising China? As a country with a strong history of diplomatic engagement across the geopolitical, economic and security spectrums, what does a potential shift in the balance of global power to China and Asia mean for Canadians? This paper will examine how Canada's failure to develop a foreign policy that deals with this shift has led to our exclusion from increasingly important SE Asian regional forums and presented Canada as an ambiguous destination for vast amounts of Chinese outward direct investment into the Canadian economy. Specifically, it will address how the Canadian Government's lack of consistent engagement in SE Asian geopolitics has kept the door shut to key defence and prime ministerial level meetings that deal with the main security and economic concerns of Chinese and SE Asian states. As the world moves into the Pacific Century, this paper will demonstrate why Canada must develop an overarching foreign policy that assists Canadian exploitation of the exceptional economic opportunities that China represents, while guarding against the dangers associated with Chinese Communist Party regional and global ambitions.

LIST OF ABBREVIATIONS

PRC	Peoples Republic of China
CCP	Chinese communist Party
SOE	State Owned Enterprise
CNOOC	China National Offshore Oil Corporation's
ASEAN	Association of South East Asian Nations
CCP	Chinese Communist Party
ARF	ASEAN Regional Forum
UNCLOS	United Nations Convention on the Law of the Sea
TTW	Territorial Waters
FIPA	Foreign Investment Promotion and Protection Agreement
RCN	Royal Canadian Navy
PLAN	People's Liberation Army Navy
EAS	East Asia Summit

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INTRODUCTION

The superior man, when resting in safety, does not forget that danger may come. When in a state of security he does not forget the possibility of ruin. When all is orderly, he does not forget that disorder may come. Thus his person is not endangered, and his States and all their clans are preserved.

Confucius

Canada is at a strategic policy crossroads. As a middle power in the world order, Canada has risen from a colonial entity to a modern democratic state with close economic, social and military ties to the world's remaining post-cold war superpower, the United States. There is no doubt that Canada's surge to G8 economic success is as a result of this special relationship with America and our nation's paternal European powers. These fiscal achievements, and the resultant social safety net that most Canadians consider essential to the nation's identity, have come about from establishing ourselves as a trading nation. With a low population density over a large, resource abundant geographic area, Canada has relied on trade to support our economic growth. While our export and import trading only make up 2.5% of the global total, trade accounts for 61% of our GDP, and is essential for our economic success.¹ Since the end of the Second World War, our trade and resultant wealth has tied to the US global hegemon, accounting for 73% and 49% of Canada's exports and imports respectively. However, it is widely believed that the United States may be in a period of decline that would see their power dominance challenged.² This is where Canada arrives at a crossroad.

¹ World Trade Organization, "Trade Profiles China, USA, Canada 2013," accessed 25 April 2013, <http://stat.wto.org/CountryProfile/WSDBCountryPFView.aspx?Language=E&Country=CA,CN,US>.

² Canadian International Council, "Open Canada: A Global Positioning Strategy for a Networked Age," accessed 24 February 2013, http://beta.images.theglobeandmail.com/archive/00690/Open_Canada_A_Glob_690863a.pdf; Yuen Pau Woo, "Securing Canada's Place in Asia: Means,

China is on the rise. As the world's most populous country,³ with an economy that will surpass the United States as the world's largest in the coming years,⁴ a seat at the UN Security Council (the only permanent one in Asia), the world's largest standing army and a nuclear weapons arsenal, one can conclude that China's power position in the world continues to grow. As a result, China's importance to Canada is also rapidly increasing. In the last 10 years, China has surpassed Great Britain, Japan and Mexico to become our number two trading partner and the rate of continued growth is staggering as "Canada's exports to China have nearly doubled between 2008 and 2012, a period in which Canada's overall exports fell nearly 1 per cent."⁵ This kind of growth is certainly an area that should be guided by strategic direction in the form of policy. However, China's transformation from the peasant revolution of General Mao Zedong in 1949 to a global powerhouse has not warranted an overall Government of Canada policy for strategic engagement with the People's Republic of China (PRC). As noted by James Manicom in his article *Canada Debates about China's Rise: Whither the China Threat*, Canadian foreign policy towards China has typically focused on political and economic implications with the debate being "absent of the strategic and military implications of China's rise for Canada."⁶ Huhua Cao furthers this thought and notes Canada needs to

Institutions and Mechanisms," accessed 2 February 2013, http://www.asiapacific.ca/sites/default/files/filefield/securing_canadas_place_in_asia_taskforce_report.pdf

³ Central Intelligence Agency Factbook, "The World Factbook – China," accessed 2 Feb 2013, <https://www.cia.gov/library/publications/the-world-factbook/geos/ch.html>.

⁴ Brent Arends, "IMF Bombshell: Age of America Nears End," *Yahoo Finance*, 26 April 2011, accessed 21 February 2013, http://finance.yahoo.com/news/pf_article_112616.html.

⁵ Barrie McKenna and Richard Blackwello, "Rising China Trade Eclipses U.K.," *Globe and Mail*, 21 February 2013, accessed 21 February 2013, <http://investdb4.theglobeandmail.com/servlet/story/GAM.20130221.RBCHINATRADEMCKENNAATL/GIStory/>.

establish a domestic *and* foreign policy to deal with growing Chinese influence at the global level.⁷ Both author's notions are supported by former Canadian Chinese Ambassador Fred Bild who says the relationship between the two states has thus far been a "set of spontaneous initiatives, each with its own underlying motivations, depending on the time and chief actors involved."⁸ This lack of policy, and potential solutions that consider all factors, will be the main thrust of this paper.

The development of such strategy is not a simple matter though, as Chinese intention of how they will use their newfound power has never been a source of great clarity. Specifically, the interference of the Chinese Communist Party (CCP) in Chinese global business enterprises,⁹ their parallel military buildup, past history of human rights abuses, regional territorial disputes and questionable use of cyber space for industrial benefit makes it difficult for nations to develop foreign policies that can effectively direct a 'whole of government' effort for state to state relations. As will be further expanded upon in the geopolitical chapter, the Government of Canada under Paul Martin did attempt to start a whole of government approach in advance of a September 2005 Hu Jintao visit, when he "instructed all of his cabinet ministers to come up with policy measures and practical steps to connect more closely to China."¹⁰ This was furthered in

⁶ James Manicom, "Canada Debates about China's Rise: Whither the China Threat," *Canadian Foreign Policy Journal* Vol 18, no. 3, (September 2012): 287, accessed 25 February 2013, <http://www.tandfonline.com/doi/pdf/10.1080/11926422.2012.737337>.

⁷ Huhua Cao, *The China Challenge – Sino Canadian Relations in the 21st Century*, (Ottawa: University of Ottawa Press, 2011), 4.

⁸ Fred Bild, "Canada's Staying Power: A Diplomat's View," in *The China Challenge – Sino Canadian Relations in the 21st Century*, ed. Huhua Cao and Vivienne Poy, 12 (Ottawa: University of Ottawa Press, 2011).

⁹ John Lee, "Unpacking the Black Box - China's Dicey Statistics Tell Us a Lot," *Newsweek Magazine*, July 30, 2010, Accessed 21 February 2013, <http://www.thedailybeast.com/newsweek/2010/07/30/unpacking-the-black-box.html>.

October of that year with the liberals tabling bill C68, the Pacific Gateway Strategy, which was to expand transport and infrastructure for Asia Pacific trade in British Columbia.¹¹ However, that November the Liberal government fell and the new Conservative policies on China were far from engaging. In the first years Harper government came to power, their *open* criticisms of Chinese Human Rights policy¹² and the Prime Ministers failure to attend the Beijing Olympics was a shift away from the liberal approach of the Martin and Chretien Governments who tended to tread more diplomatically on such transgressions.¹³ Although trade at the time was growing between the two countries, a 2007 Canadian Government commentary on imprisoned Canadian citizen Huseyn Celil was met by China's Vice Minister of Foreign Affairs, He Yafei who noted "The economic relationship goes hand in hand with the political relationship. I cannot say Canada is squandering [the relationship] now, but in practical terms, Canada is lagging behind."¹⁴ In short, this was a message from China that a human rights focused foreign policy may diminish economic cooperation. This new Canadian strategic messaging appears to have softened in 2009, where the Prime Minister noted before his first trip to China since taking office that "Canada is committed to a strong relationship with China that reflects our mutual respect and the need for practical co-operation."¹⁵ In a

¹⁰ Paul Evans, "Soft Power and Canadian Influence," *International Journal* Vol 61, issue 2 (Spring 2006): 296, accessed 24 February 2013, http://www.ligi.ubc.ca/sites/liu/files/Publications/Canada_Meet_Global_China.pdf.

¹¹ Ibid., 288.

¹² Editorial, "Won't 'sell out' on rights despite China snub: PM," *CBC News*, 15 November 2006, accessed 10 February 2013, <http://www.cbc.ca/news/world/story/2006/11/15/harper-snub.html>.

¹³ Charles Burton, "The Canadian Policy Context of Canada's China Policy since 1970," in *The China Challenge – Sino Canadian Relations in the 21st Century*, ed. Huhua Cao and Vivienne Poy, 43 (Ottawa: University of Ottawa Press, 2011).

¹⁴ Jeremy Paltiel, "Canada in China's Grand Strategy," *Canadian International Council – China Papers* No 6 (January 2010): 11, accessed 21 February 2013, <http://cic.verto.ca/wp-content/uploads/2011/05/Canada-in-Chinas-Grand-Strategy-Jeremy-Paltiel.pdf>.

2012 visit to China, Prime Minister Stephen Harper further signaled this Canadian desire to nurture the continued growth when he noted;

We are both ambitious, outwardly focused, trade-oriented, eager to strengthen our partnership, in fact, to take that partnership to the next level, for Canada has been built on trade.¹⁶

However, in the same year as the Prime Minister noted the desire to increase collaboration between the two states (2012), our Government's decision making was paralyzed by the China's State Owned Enterprise (SOE), China National Offshore Oil Corporation's (CNOOC) bid to take over the Canadian Corporation NEXEN and its share of the Alberta oil sands. This quickly became a national issue in the media¹⁷ and supports the argument by Huhua Cao that a stable domestic *and* foreign policy on China is needed.

There are a number of other complicating factors that Canada must consider when deciding domestic and foreign policies towards China. As economic wealth has spread across the Asia Pacific, a myriad of Asian centered regional institutions and process have been developed to deal with the complex problems of national identities, political and social transitions, interstate rivalries and intrastate conflicts.¹⁸ If Canada is to develop a China strategy, it must be one that is informed of the regions geopolitics and these multilateral institutions are the means of informed decision making. This was one

¹⁵ Editorial, "Harper to visit India, China for 1st time," *CBC News*, 28 October 2009, accessed 15 February 2013, <http://www.cbc.ca/news/canada/story/2009/10/28/harper-china-india028.html>.

¹⁶ Stephen Harper, (Speech, Guangzhou, China, February 10, 2012), accessed 25 January 2013, <http://www.pm.gc.ca/eng/media.asp?id=4652>.

¹⁷ Les Whittington, "Nexen Takeover Decision a Crossroads for Canada and China," *The Toronto Star*, 29 September 2012, accessed 25 February 2013, http://www.thestar.com/news/canada/2012/09/29/nexen_takeover_decision_a_crossroads_for_canada_and_china.html.

¹⁸ Yuen Pau Woo, "Securing Canada's Place in Asia: Means, Institutions and Mechanisms," accessed 2 February 2013, http://www.asiapacific.ca/sites/default/files/filefield/securing_canadas_place_in_asia_taskforce_report.pdf

of the key conclusions of the Asia Pacific Foundation of Canada in their report, *Securing Canada's Place in Asia Means, Institutions and Mechanisms*, where they noted “Bilateral relations [are] an essential base and participation in the regions multilateral institutions is an essential component.”¹⁹ A simultaneous Canadian bilateralist and multilateralist approach to Chinese engagement makes sense, especially since China has shifted from bilateral or unilateral handling of regional disputes and managing foreign relations, to multilateralism in its foreign policy.²⁰

This paper will be broken down into three chapters, each separately examining Geopolitical, Economic and Military factors that affect Canadian foreign policy decisions. Each will analyze on the effects of China's rise on the current balance of power (as it relates to the chapter's theme) and its impact on Canada. As each specific chapter subsequently builds upon the others, the conclusion chapter will provide the detailed summary of the paper and deliver a number of recommended Canadian Chinese foreign and domestic policy proposals to cover geopolitical, economic and military concerns. Additionally, this paper does not attempt to capture the exceptional complexity resident in the entire Asia Pacific and in order to provide focus it will concentrate on SE Asia where the majority of the regional multilateral organizations are centered.

The first chapter, Geopolitical, will briefly examine Chinese soft power topics such as ‘peaceful rise’ and ‘Grand Strategy,’ and how these may impact Canadian foreign policies. An overview of recent SE Asian history and the regional disputes will then be

¹⁹ Ibid., 6.

²⁰ Guoguang Wu and Helen Lansdowne, *China Turns to Multilateralism: Foreign Policy and Regional Security* (London: Routledge Press, 2008), 3; Luiza Ch. Savage, “Ed Fast on Canada's shift toward Asia, FTAs and exports of expertise” *MacLean's*, October 10, 2012, accessed 2 March 2013, <http://www2.macleans.ca/2012/10/10/on-canadas-shift-toward-asia-free-trade-agreements-and-exports-of-expertise/>

conducted, as these flare ups threaten stability and challenge Canadian commitments in the region. The role of regional forums such as the Association of South East Asian Nations (ASEAN), ASEAN Regional Forum (ARF), Asia Pacific Economic Cooperation (APEC), Trans-Pacific Partnership (TPP) and the East Asia Summit (EAS) in tempering these hot-spots will be included in the historical overview as will the increased global influence of these organizations, which warrants Canadian attention. As Canadian economic prosperity is currently tied to the US and increasingly to China, the geopolitical impacts of the USA's strategic pivot²¹ announcement at the end of 2011²² for Canada will be discussed. Additionally, the geopolitical chapter will examine Chinese internal political issues such as the new leadership's direction and the effect of poverty, pollution and population growth on China's next strategic steps. Finally, the importance of regionalism in helping to solve China and the SE Asian goals and Canada's lack of commitment to the forums above will demonstrate why renewed effort is required by the Government of Canada.

The second chapter, Economic, will examine the foundations of China's economic rise and the impact their newfound wealth will have for global governments as China seeks to invest mass amounts of foreign currency holdings. Specifically, this will look into the dangers of economic integration to include industrial espionage and state-owned enterprise/state influenced operations in Canada. This chapter

²¹ US Department of State, "*The Rebalance to Asia: Why South Asia Matters (Part 1)- Testimony Joseph Yun Acting Assistant Secretary, Bureau of East Asian and Pacific Affairs Statement Before the House Committee on Foreign Affairs Subcommittee on Asia and the Pacific, Washington, DC 26 Feb 13,*" accessed 5 March 2013, <http://www.state.gov/p/eap/rls/rm/2013/02/205208.htm>.

²² Congressional Research Service, *Pivot to the Pacific? The Obama Administration's 'Rebalancing' Toward Asia* (Washington: Congressional Research Service, 2012), accessed 3 March 2013, <http://www.fas.org/sgp/crs/natsec/R42448.pdf>.

will also focus on the shortcomings surrounding the Investment Canada Act and how these are effecting foreign direct investment decisions by China into Canada. In its conclusion, this chapter will highlight how Canada's failure to recognize the link between Chinese geopolitical intentions and economic investment are causing public concern and why it is an area to be addressed in a Canada China policy.

The third chapter, military, will analyze how the Canadian Armed Forces can position itself to support Government of Canada's geopolitical and economic objectives with China.²³ This analysis will commence with a review of China's economic boom and how it has fuelled great military growth²⁴ and achieved newfound influence for China in SE Asia. Specifically, how they intend to use their newly acquired hardware to shape Chinese strategic goals and the reaction of neighboring SE Asian states will demonstrate that most of the military interaction in the region is maritime centric. As Canada is committed to international peace and security²⁵ and SE Asia holds great economic importance to Canada, the role of Canada's Navy in this marine centric environment to support government objectives through maritime diplomacy will be examined.²⁶ This chapter will conclude with a proposal to use the Royal Canadian Navy as the vanguard

²³ Marko Babic, "Pacific Pivot Point," *Frontline Defence Journal* (Issue 1, 2012), accessed 4 March 2013, http://www.frontline-canada.com/downloads/12-1_PacificPivot_MarkoBabic.pdf.

²⁴ Editorial, "The Dragon's New Teeth," *The Economist*, 7 April 2012, accessed 3 March 2013, <http://www.economist.com/node/21552193>.

²⁵ Department of National Defence, *Canada First Defence Strategy* (Ottawa: Canada Communications Group, 2008), 8, accessed 25 February 2013, http://www.forces.gc.ca/site/pri/first-premier/June18_0910_CFDS_english_low-res.pdf.

²⁶ James Manicom, "Canada's Return to East Asia: Re-engagement through Maritime Diplomacy," *Centre for International Governance Innovation Policy Brief*, no. 25 (February 2013), accessed 25 February 2013, <http://www.cigionline.org/publications/2013/2/canada%E2%80%99s-return-east-asia-re-engagement-through-maritime-diplomacy>.

for Canadian military support to government engagement with China and SE Asian states.

The final chapter, the conclusion and recommendations, will summarize the major building blocks and obstacles that would influence a Canada-China policy. It will propose the cornerstone areas to be addressed in Canadian-Chinese policy from a domestic and foreign policy prospective. Specifically, it will demonstrate China's link to SE Asian regionalism, the dangers surrounding its government influenced enterprises and finally its maritime military ambitions. By examining each of these issues and demonstrating the Government of Canada's disconnect in addressing them as a whole vice individually, the need for a Canada Chinese foreign policy will be validated.

CHAPTER I – GEOPOLITICAL

China is a big country, and other countries are small countries and that is just a fact.

Yang Jiechi, Chinas Foreign Minister

Speaking at ASEAN 2010 meetings²⁷

Introduction

Yang Jiechi's message above used very few words, but it says much about China's perception of where they now stand in the SE Asian regional order.²⁸ This newfound Chinese confidence has been buoyed by their incredible economic rise since the 1990s, and the resultant shift in the balance of power in SE Asia has had a considerable effect on the regions geopolitics.²⁹ Although economics has been springboard of China's growth, geopolitics includes not just economics, but also the effects of geography and demography on the politics and especially the foreign policy of a state.³⁰ China has the longest land borders not just in SE Asia, but in the world (14000 miles).³¹ Unlike Canada whose sole border is shared with a stable partner, China borders 14 countries with whom they have had complex relations including Vietnam,³² North

²⁷ Editorial, "The Dragon's New Teeth," *The Economist*, 7 April 2012, accessed 3 March 2013, <http://www.economist.com/node/21552193>.

²⁸ Yong Deng and Fei-Ling Wang, *China Rising – Power and Motivation in Chinese Foreign Policy* (Maryland: Rowman and Littlefield Publishers Ltd, 2005), 9.

²⁹ Amitav Acharya, "Seeking Security In The Dragon's Shadow: China and Southeast Asia In The Emerging Asian Order," Working Paper no. 44 (Institute of Defence and Strategic Studies Singapore, 2003), accessed 17 February 2013, <http://www.rsis.edu.sg/publications/WorkingPapers/WP44.PDF>.

³⁰ Merriam-Webster Dictionary, accessed 4 February 2013, <http://www.merriam-webster.com/dictionary/geopolitics>.

³¹ Jeffrey Hayes, "Facts and Details," accessed 4 February 2013, <http://factsanddetails.com/china.php?itemid=400>.

Korea,³³ Afghanistan,³⁴ India,³⁵ Pakistan³⁶ and Russia³⁷. China has placed great effort on settling land border region disputes diplomatically over the last 20 years, for a variety of reasons including internal stability and economic prosperity,³⁸ which has allowed them to focus on the maritime geopolitics surrounding SE Asia. With 4300nm of coastline and claims to 12nm of territorial waters, 24nm of contiguous zones and 200nm of economic exclusion zones, China's borders also extend to significant maritime regions. Although their claims are mostly standard to the conditions of UNCLOS³⁹, when the geography, and more importantly the overlapping claims and resources within are analyzed, geopolitics in SE Asia becomes exceptionally complicated.⁴⁰ As noted by

³² Marvin C. Ott, "The Geopolitical Transformation Of Southeast Asia – Analysis", *Foreign Policy Research Institute* (blog), February 13, 2013, <http://www.eurasiareview.com/13022013-the-geopolitical-transformation-of-southeast-asia-analysis/>.

³³ Jayshree Bajoria, and Beina Xu, "The China-North Korea Relationship," *Council for Foreign Relations* (February 2013), accessed 26 February 2013, <http://www.cfr.org/china/china-north-korea-relationship/p11097>.

³⁴ Serafettin Yilmaz, "Afghanistan: China's New Frontier?" *e-International Relations* (December 2012), accessed 3 February 2013, <http://www.e-ir.info/2012/12/19/afghanistan-chinas-new-frontier/>; Zhao Huasheng, *China and Afghanistan- China's Interest, Stances and Perspectives*, (Washington: Center for International Strategic Studies, 2012), accessed 24 January 2013, http://csis.org/files/publication/120322_Zhao_ChinaAfghan_web.pdf.

³⁵ Zhōng- Yin wàijiāo guānxi, "India-China Relations," in *Berkshire Encyclopedia of China*, accessed 18 February 2013, http://www.apcss.org/wp-content/uploads/2010/PDFs/India-China_Relations.pdf

³⁶ Dr Noor ul Haq, "Sixty Years of Pak-China Diplomatic Relations (1951-2011)," *International Prevention Research Institute*, accessed 25 January 2013, <http://www.ipripak.org/factfiles/ff136.pdf>.

³⁷ Nicklas Norling, "China and Russia: Partners with Tensions," accessed January 27 2013, http://www.silkroadstudies.org/new/docs/publications/2007/Norling_China_and_Russia.pdf

³⁸ Micheal D. Swaine, "China's Regional Military Posture," in *Power Shift: China and Asia's New Dynamics*, ed. David Shambaugh, 268 (Berkeley: University of California Press, 2005); Sudha Ramachandran, "China plays long game on border disputes," *Asia Times Online*, 27 January 2012, accessed 4 February 2013, <http://www.atimes.com/atimes/China/MA27Ad02.html>.

³⁹ United Nations General Assembly, *Convention on the Laws of the Sea*, (New York: UN, 1982), accessed 28 January 2013, http://www.un.org/Depts/los/convention_agreements/convention_declarations.htm#China_Upon_ratification, and https://www.un.org/depts/los/convention_agreements/texts/unclos/UNCLOS-TOC.htm.

⁴⁰ Ben Blanchard, "Factbox: The South China Sea's Disputed Maritime Borders," *Reuters*, 12 June 2011, accessed 23 January 2013, <http://www.reuters.com/article/2011/06/12/us-southchinasea-idUSTRE75B0TY20110612>.

Robert A Manning in the *Asian Security Handbook – An Assessment of Political-Security Issues in the Asia Pacific Region*,

What happens in the South China Sea (Mischief Reef and Spratleys) should be viewed as a measure of how China defines itself both regionally and globally: will it integrate itself into the economic and political system or will it seek to write its own rules of the road.⁴¹

This was written in 1996 and the conflict surrounding Mischief Reef and Spratley Islands has yet to be resolved.⁴² As will be explained in subsequent portions of this chapter, although China appears to be using multilateralism in its approach to economics,⁴³ its political desires to *integrate* into South East Asia or “*write its own rules*” have yet to be confirmed as Chinese *unilateral* claims to 90% of the strategic and resource-rich South China Sea seem juxtaposed to ASEAN desires to deal with China as a bloc on this issue and seek multilateral solutions.⁴⁴

The focus of this chapter will be how Canada can best position itself in SE Asia to ensure maximum engagement with China while recognizing the complicated geopolitics of the region. As noted in the introduction to this paper, Canadian engagement to date has failed to provide a focus for how to engage China, which is troubling in light of their

⁴¹ Robert A Manning, “Security in East Asia,” in *Asian Security Handbook – An Assessment of Political-Security Issues in the Asia Pacific Region*, ed. William M. Carpenter and David G. Wiencek, 24 (London: M.E. Sharpe Inc, 1996).

⁴² Editorial, “Philippines warns of arms race in South China Sea” *Inquirer Global Nation*, 24 May 2011, accessed 1 March 2013, <http://globalnation.inquirer.net/2247/philippines-warns-of-arms-race-in-south-china-sea>; Jörn Dosch, “The Spratly Islands Dispute: Order-Building on China’s terms?” *Harvard International Review*, 18 August 2011, accessed 1 March 2013, <http://hir.harvard.edu/the-spratly-islands-dispute-order-building-on-china-s-terms?page=0.1>.

⁴³ Mingjiang Li, “China’s participation in Asian multilateralism: pragmatism prevails,” in *Rising China- Power and Reassurance*, ed. Ron Huisken, Chapter 11 (Canberra : Australian National Press, 2009).

⁴⁴ Hugh Stephens , “Canada Can't Afford to Ignore ASEAN,” Asia Pacific Foundation of Canada (blog), August 18, 2013, <http://www.asiapacific.ca/editorials/canada-asia-viewpoints/ editorials/canada-cant-afford-ignore-asean>.

growing influence on Canadian economic health. As noted by Allan Rock, former Canadian Ambassador to the UN,

If Canada wishes to maintain a strong international presence, it must find ways to bridge the ideological differences that constitute foreign policy challenges in its relationship with China in order to reinforce its relevance and its capacity to develop new Canadian markets in Asia.⁴⁵

Mr. Rock's comments are reinforced by Charles Burton who notes that the main sociopolitical difference in the policy of political governments in Canada is the question of human rights,⁴⁶ and this has been the main stumbling point for the development of a foreign policy that would be acceptable to both Canadian and Chinese governments. In order to develop meaningful and *mutually beneficial* ties with China and the important SE Asia markets, it is vital to observe and understand the world from the Chinese geopolitical viewpoint. To accomplish this, a view of the Chinese concept of Soft Power and Grand Strategy will be examined to understand how and why China interacts with other nations in the region. Next, an examination of the forums they are using to develop Chinese influence in the SE Asian region will be undertaken. These forums will be critical for Canadian strategies on Chinese engagement, and understanding how and why they are influencing the member countries of these organizations will help mitigate risk to Canada. In exploring the Chinese membership in these regional forums, *external shapers* such as the South China Sea territorial claims and US engagement in the region

⁴⁵ Allan Rock, "Foreward", in *The China Challenge – Sino Canadian Relations in the 21st Century*, ed. Huhua Cao and Vivienne Poy, xvi (Ottawa: University of Ottawa Press, 2011).

⁴⁶ Charles Burton, "The Canadian policy context of Canada's China Policy since 1970," in *The China Challenge – Sino Canadian Relations in the 21st Century*, ed. Huhua Cao and Vivienne Poy, 43 (Ottawa: University of Ottawa Press, 2011).

(including their pivot) and *internal shapers* such as Communist Party politics, human rights, poverty, pollution and population growth will be analyzed to determine their level of influence on Chinese decision making and ramifications for the proper Canadian engagement avenue.

Soft Power

Soft Power - a persuasive approach to international relations, typically involving the use of economic or cultural influence.⁴⁷

Hard Power - a coercive approach to international political relations, especially one that involves the use of military power.⁴⁸

There can be no doubt that Chinese influence is growing in South East Asia. What kind of influence China uses however, seems to depend on the end-state they are trying to achieve and that makes Asian geopolitics difficult to decipher. Much has been made of their peddling of soft power to achieve a peaceful economic rise, while downplaying their military ambitions by “reinforce[ing] doctrines such as ‘no first use’ of nuclear weapons and the labeling of China’s military doctrine based on active defense.”⁴⁹ David Shambaugh, in his book titled *Power Shift- China and Asia’s New Dynamics*, notes that China appears to be deviating from soft power in the political, ideological, pop-culture and media sense of the word. He argues that China increasingly is resorting to soft power through the “enunciation of [the terms] *new security concept* and *strategic partnerships* to fashion a new set of norms to govern interstate relations.”⁵⁰ This notion has been

⁴⁷ Oxford English Dictionary, accessed online 1 March 2013, <http://oxforddictionaries.com/definition/english/soft%2Bpower>.

⁴⁸ Oxford English Dictionary, accessed online 1 March 2013, <http://oxforddictionaries.com/definition/english/hard+power>.

⁴⁹ Rosemary Foot and Andrew Walter, *China, The United States and Global Order* (New York: Cambridge University Press, 2011), 42.

confirmed by numerous Chinese initiatives such as the 2011-2015 Plan of Action to Implement the Joint Statement on ASEAN-China Strategic Partnership for Peace and Prosperity,⁵¹ the China-Africa Co-operation Forum development of strategic partnership enterprises,⁵² the EU-Chinese strategic partnership⁵³ and the Canada China Strategic Working Group⁵⁴ to name a few. However, despite these soft power initiatives to advance strategic partnerships with the goal of fuelling Chinese economic growth, recent PLA and PLAN activities give rise to questions surrounding the soft power concept. As articulated by Dr. B.R. Deepak in his article *From China's 'Peaceful Rise' to 'Peaceful Development': The Rhetoric and More*, the Chinese use the term soft power to imply “that China’s rise is not a threat to its neighbors and the world as a whole, and that China seeks to avoid conflict.”⁵⁵ This thought was clearly enunciated in the 2011 Chinese White Paper where they indicate “that peaceful development is a strategic choice made by China to realize modernization, make itself strong and prosperous, and make more contribution to the progress of human civilization.”⁵⁶ As will be expanded upon further

⁵⁰ David Shambaugh, “Return to the Middle Kingdom?,” in *Power Shift – China and Asia’s New Dynamics*, ed. David Shambaugh, 25 (Berkeley: University of California Press, 2005).

⁵¹ Association of SouthEast Asian Nations, “Plan of Action to Implement the Joint Declaration on ASEAN-China Strategic Partnership for Peace and Prosperity (2011-2015),” accessed 1 March 2013, <http://www.asean.org/asean/external-relations/china/item/plan-of-action-to-implement-the-joint-declaration-on-asean-china-strategic-partnership-for-peace-and-prosperity-2011-2015>.

⁵² Domingos Jardo Muekalia, “Africa and China’s Strategic Partnership”, *African Security Review*, accessed 1 March 2013, <http://www.tandfonline.com/doi/pdf/10.1080/10246029.2004.9627264>, pg 9.

⁵³ Nicola Casarini, “The Evolution of the China-EU relationship – From Constructive Engagement to Strategic Partnership,” Occasional Paper no. 64, (European Union Institute for Security Studies: Paris, 2006) 23, accessed 18 February 2013, <http://ftp.infoeuropa.euroid.pt/database/000037001-000038000/000037834.pdf>.

⁵⁴ Embassy of the People’s Republic of China in Canada, “China, Canada set up Strategic Working Group,” accessed 2 March 2013, <http://ca.china-embassy.org/eng/sgxw/t180753.htm>.

⁵⁵ Dr. B.R. Deepak, “From China’s ‘Peaceful Rise’ to ‘Peaceful Development’: The Rhetoric and More,” Paper no. 5336, (South Asia Analysis Group: Noida India, 2012), accessed online 25 February 2013, <http://www.southasiaanalysis.org/node/1102>.

⁵⁶ Chinese Government, “China’s Peaceful Development,” accessed 4 March 2013, http://www.gov.cn/english/official/2011-09/06/content_1941354.htm.

in the military chapter though, this soft power through peaceful development in South East Asia is contrasted by their actions such as,

...with the Philippines over Scarborough Shoal; *Chinese* fishing vessels cutting the cables of Vietnamese Oil & Gas Group seismic *ship in Vietnam* controlled waters; announcing new rules for the region that authorize its police in the southern province of Hainan to board and seize foreign ships in the South China Sea; raising threats of conflict by establishing Sansha on Yongxing Island in the southernmost province of Hainan; threats to disrupt ONGC Videsh exploration in South China Sea and reiterating China's 'indisputable sovereignty' in the region; initiating a new passport design containing a map claiming the South China Sea and disputed areas along the Sino-Indian border; and even flexing economic muscle against the smaller neighbors in the region by banning their exports on flimsy grounds.⁵⁷

Any Canadian policy development with China must then consider and acknowledge the limitations of the terms soft power and strategic partnership, and the means China will use to achieve their desired end-state. As their power grows in the global context then, any policy development must look at how they interact with strategic partners in the region, and that this could signal how they will interact with other nations or strategic partners in the future. This could already be understood by the Government of Canada as noted by Paul Evans in his 2005 article entitled *A Strategic Partnership with China: What's in a Name*, where he highlighted,

...The decision to elevate the [Canada-China] relationship to a 'strategic partnership' appears to have been taken only after President Hu's [2005 visit]. Both sides were quick to point out that the word 'strategic' is used in a commercial sense and does not include a military or security dimension.⁵⁸

This security caveat may be due to the sensitivities related to the existing Canadian-US security arrangements or it may just be an acknowledgement of the entry into a new phased Canadian-Chinese relationship. This does however raise the question whether

⁵⁷ *Ibid.*

⁵⁸ Paul Evans, *A Strategic Partnership with China: What's in a Name*, *Asia Pacific Foundation of Canada*, 29 September 2005. Accessed 25 May 2013, <http://www.asiapacific.ca/fr/editorials/canada-asia-viewpoints/editorials/strategic-partnership-china-whats-name>.

Canada can have a Chinese foreign policy that does not include a security facet? As will be explained below when regional forums are discussed, foreign policy must be created on the grounds of trust, the foundation of which is mutual security. Canada must consider whether the Chinese strategy is *realpolitik*⁵⁹ at all costs which would require a foreign policy that includes security to ensure our national interests, or if the Chinese intention is purely the “progress of human civilization” which may allow for a foreign policy focused on commercial interests alone. Despite the use of agreeable strategic messaging to advance their soft power concepts, when China’s end-state changes their willingness to resort to military measures (or hard power) to enforce foreign policy cannot be discounted. When the past use of force with strategic partners and military buildup are considered, the notion of a Chinese strategic partnership and peaceful development must be met with a Canadian government strategy that includes all facets of diplomacy, including security.⁶⁰ Paul Evans notes in his writing of *Dancing with the Dragon* that the current “strategic partnership is in fact an a-strategic partnership, very heavily focused on economic issues and without sustained attention to the major power shifts underway or the changing function and roles of regional and global institutions of which China is a part.”⁶¹ However, this Canadian approach could be a conscious understanding of the Chinese Grand Strategy and only be focused on addressing the economic potential benefits for Canada as a mutually beneficial arrangement. As noted by Michael Swaine

⁵⁹ The Free Dictionary, accessed 6 March 2013, <http://www.thefreedictionary.com/Politik>; Henry Kissinger, *On China* (New York: The Penguin Press, 2011), 22.

⁶⁰ Wenran Jiang, “Canada’s China Policy Needs More Than Panda Diplomacy,” *The Toronto Star*, 25 March 2013, accessed 28 March 2013, http://www.thestar.com/opinion/commentary/2013/03/27/canadas_china_policy_needs_more_than_panda_diplomacy.html.

⁶¹ Paul Evans, “Dancing with a Dragon,” *Literary Review of Canada* (April 2013), accessed 6 April 2013 <http://reviewcanada.ca/essays/2013/04/01/dancing-with-the-dragon/>.

and Ashley Tellis in *Interpreting China's Grand Strategy - Past, Present, and Future*, Chinese grand strategy since the end of the Cold War has been focused on “the acquisition of comprehensive national power derive[ed] from a continued reform of the economy without the impediments and distractions of security competition.”⁶² However, if China is using strategic partnerships and soft power for *how* they are engaging nations, any Canadian strategy must delve further into the *why* they making decisions that appear contrary to peaceful strategic partnerships and that act as impediments vice complementary to their Grand Strategy.

Grand Strategy

“Mao Zedong’s first words on leading his victorious army into Beijing were: ‘China has stood up.’⁶³ But did they really? As noted by Marvin Ott in his article *The Geopolitical Transformation Of Southeast Asia*, Mao Zedong may have been militarily victorious, but it would take another 30 years and Deng Xiaoping’s economic and policy reforms of the late 1970’s for the dragon to truly gain its footing.⁶⁴ To understand Chinese geopolitical intentions, it is best to look at a protracted time scale and conduct a review of their ‘Grand Strategy.’ Perhaps the clearest summary of their Grand Strategy came from Jeremy Paltiel in his article *Canada in China’s Grand Strategy* when he stated “China’s primary foreign policy objective is to assume a position as a global power

⁶² Michael D. Swaine and Ashley J. Tellis, *Interpreting China's Grand Strategy Past, Present, and Future* (Santa Monica: Rand, 2000), 112.

⁶³ Marvin C. Ott, “The Geopolitical Transformation Of Southeast Asia – Analysis”, *Foreign Policy Research Institute* (blog), February 13, 2013, <http://www.eurasiareview.com/13022013-the-geopolitical-transformation-of-southeast-asia-analysis/>.

⁶⁴ *Ibid.*

consistent with China's traditional self-perception as a leading world civilization."⁶⁵

Despite Swaine and Tellis' hypothesis that China is acting through economic means to aide reform, they do acknowledge and support Paltiel's theory of a desire for a global power state when they note that Chinese strategy consists of:

a "calculative" streak which, though determined to prevent certain critical losses at all costs, is nonetheless characterized by an outward-oriented pragmatism designed to rapidly improve its domestic social conditions, increase the legitimacy of its governing regime, enhance its national economic and technological capabilities, and thereby ultimately strengthen its military prowess and improve its standing and influence in the international political order."⁶⁶

This notion of China's desire to rise to global power status was also noted by Zhang Yuling and Tang Shiping who indicated that this grand strategy is designed to "secure and shape a security, economic, and political environment that is conducive to China concentrating on its economic, social and political development."⁶⁷ They highlighted that China's Grand Strategy would come forward under four pillars including; making China a great power again, extorting Chinese political and ideological beliefs, practicing self-restraint in global engagements and finally acting as a great power and accepting interdependence as a fact.⁶⁸ Most recently, in his report to the 17th Party Congress, Hu Jintao stated China would approach international relations using the UN to promote win-win international relations, develop balanced and mutually benefiting economic development, promote security focused on trust/cooperation for peaceful dispute

⁶⁵ Jeremy Paltiel, *The Empire's New Clothes : Cultural Particularism and Universal Value in China's Quest for Global Status* (New York : Palgrave Macmillan, 2007).

⁶⁶ Swaine, *Interpreting China's Grand Strategy...*, 112.

⁶⁷ Zhang Yuling and Tang Shiping, "China's Regional Strategy," in *Power Shift – China and Asia's New Dynamic*, ed. David Shambaugh, 48 (Berkeley: University of California Press, 2005), 48.

⁶⁸ *Ibid.*

resolution and finally environmentally taking care of the plant together.⁶⁹ As the initial stages of the grand strategy puzzle are falling into place from the mutually beneficial economic development, China is developing regional influence as a stepping ground for broader global power status. However, Wu Xinbo argues that China has “neither the material strength nor the genuine enough interest to play a role commensurate to its great power self-image.”⁷⁰ Moreover, Xinbo notes that China’s real interest lies within its boundaries and to a lesser extent in the Asia Pacific region where developments may have a direct impact on the China’s national interest.⁷¹ This regional focus is likely to be China’s stepping stone to global power status and there are a number of forums China is using to exert influence on regional matters. If this is the case, and China is focusing on regionalism to support its rise and Canada wants to engage China on a broader front, than an understanding of regional organizations is required as they may provide the venue for Canadian and Chinese interaction.

Regional Forms

South East Asian geopolitics are exceptionally complex and difficult to summarize. With thousands of years of human history and culture, wars and revolutions that have changed maps scores of times and 60% of the world’s population,⁷² determining

⁶⁹ Hu Jintao, “Report to the 17th Party Congress - Unswervingly Following the Path of Peaceful Development”, *The Peoples Daily Online*, accessed 8 April 2013, <http://english.people.com.cn/90001/90776/90785/6290148.html>.

⁷⁰ Wu Xinbo, “Four Contradictions Constraining Chinas Foreign Policy Behavior”, in *Chinese Foreign Policy –Pragmatism and Strategic Behavior*, ed. Suisheng Zhao, 58 (London: M.E. Sharpe Publishing, 2004).

⁷¹ *Ibid.*

trends to help shape foreign policy decisions can be difficult. Additionally, with four constitutional monarchies (Cambodia, Malaysia, Thailand, and Brunei), four democratic constitutions (Indonesia, Philippines, Singapore and East Timor), two communist regimes (Laos and Vietnam) and one presidential system (Burma), diplomatic engagement requires tact and persistence to ensure success. As noted by Amitav Acharya in his book *The Making of South East Asia – International Relations of a Region*, domestic weaknesses within these states has produced a “convergence of political, economic and security predicaments [that resulted in] a view that regional cooperation [would be necessary] to cope with internal and external vulnerabilities.”⁷³ This notion of cooperation was supported by Micheal Leifer in his article *Expanding Horizons in Southeast Asia*, when he noted these vulnerabilities were tied to the times and as SE Asian nations grappled with their tumultuous transitions to independence⁷⁴ and increasing fear of the spread of communism,⁷⁵ in 1967 they created the Association of South East Asian Nations (ASEAN). Through the Bangkok Declaration, ASEAN’s goal has been “to accelerate their economic growth, social progress and cultural development...through joint endeavors ...to strengthen the foundation for a prosperous and peaceful

⁷² Graeme Hugo, (speech, Pacific Economic Cooperation Council, Sydney, Australia, 2 May, 2007), accessed 18 February 2013, http://www.pecc.org/resources/doc_view/820-demographic-change%20in-east-and-southeast-asia-and-the-implications-for-the-future .

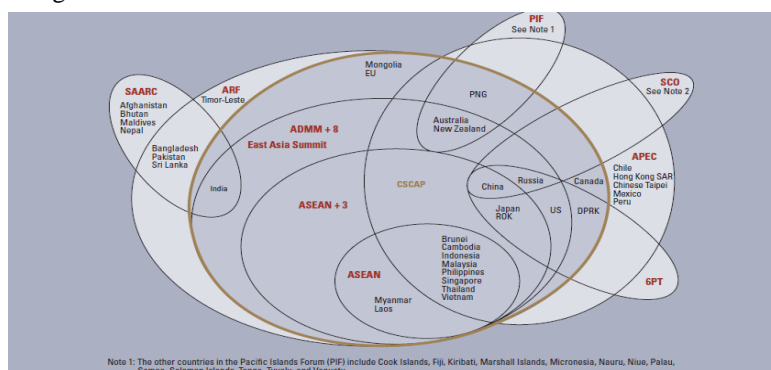
⁷³ Amitav Acharya, *The Making of South East Asia – International Relations of a Region* (Singapore: Oxford University Press, 2000), 122.

⁷⁴ Dr. Constance Wilson, “Colonialism and Nationalism in Southeast Asia” (Center for Southeast Asian Studies: Northern Illinois University, 2012), accessed 4 February 2013, <http://www.seasite.niu.edu/crossroads/wilson/colonialism.htm>.

⁷⁵ Michael Leifer, *Expanding Horizons in Southeast Asia?* (Singapore: Institute of Southeast Asian Studies, 1994): 3-21, quoted in Richard Sokolsky, Angel Rabasa and C. Neu, *The Role of Southeast Asia in U.S. Strategy Toward China* (Santa Monica: RAND, 2000), 30, accessed 4 March 2013, http://www.rand.org/content/dam/rand/pubs/monograph_reports/MR1170/MR1170.ch4.pdf.

community.”⁷⁶ Since its inception, ASEAN has spawned⁷⁷ a number of critical summits and forums, including ASEAN +3, the East Asia Summit (EAS),⁷⁸ ASEAN Defence Ministers Meeting + 8 (ADMM+8),⁷⁹ the ASEAN Regional Forum (ARF),⁸⁰ and the Regional Comprehensive Economic Partnership⁸¹ with the goal of establishing political, security (human and physical), and economic cooperation in the region. As highlighted in figures 1 and 2, a number of forums are outliers to the ASEAN led processes, including the Asia-Pacific Economic Cooperation (APEC)⁸² and Trans-Pacific Partnership (TPP).⁸³

Figure 1



[http://www.cscap.org/uploads/docs/CRSO/CRSO %202011%20-%20Revised%20Version.pdf](http://www.cscap.org/uploads/docs/CRSO/CRSO%202011%20-%20Revised%20Version.pdf)

⁷⁶ Center for International Law, “An Introduction to ASEAN,” accessed 27 February 2013, <http://cil.nus.edu.sg/an-introduction-to-asean/>.

⁷⁷ Pongphisoot Busbarat and Dr. Thitinan Pongsudhirak, “Challenges for Strengthening East Asian Regional Co-operation and Prospects for the Role of Non-Great Powers,” Paper (Korea – ASEAN Co-operation Forum: Hanoi, 2007), accessed 14 March 2013, http://www.academia.edu/175433/Challenges_for_Strengthening_East_Asian_Regional_Co-operation_and_the_Prospects_for_the_Role_of_Non-great_Powers.

⁷⁸ Severino, “The East Asia Summit: ASEAN’s forum for maintaining peace,” *East Asia Forum* (blog), November 14, 2010, <http://www.eastasiaforum.org/2010/11/14/the-east-asia-summit-aseans-forum-for-maintaining-peace/>.

⁷⁹ Huisken, “ADMM+8: An Acronym to Watch,” *East Asia Forum* (blog), October 8, 2010, <http://www.eastasiaforum.org/2010/10/08/admm8-an-acronym-to-watch/>.

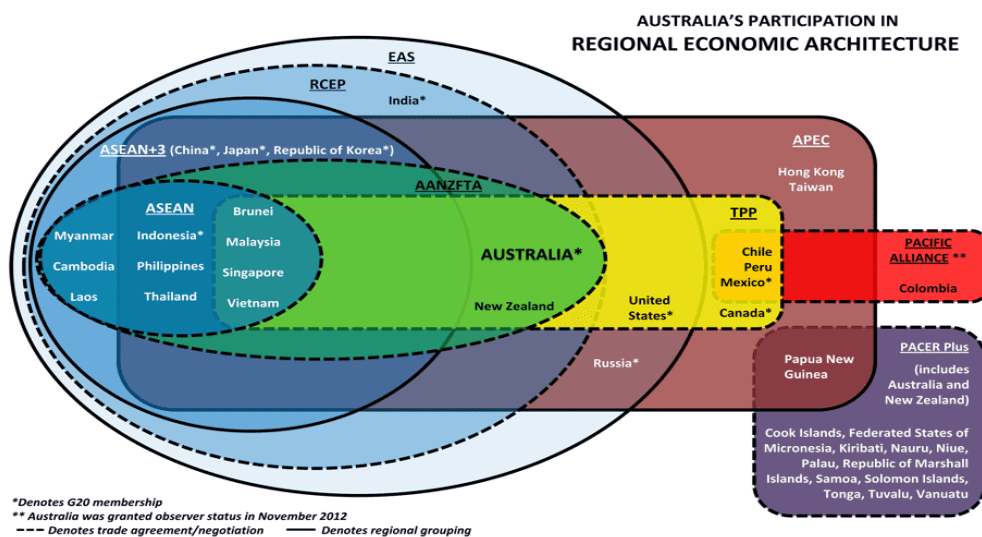
⁸⁰ Encyclopedia Britannica, accessed 24 March 2013, <http://www.britannica.com/EBchecked/topic/752823/ASEAN-Regional-Forum-ARF>.

⁸¹ Murray Hiebert and Liam Hanlon, “ASEAN and Partners Launch Regional Comprehensive Economic Partnership,” *Center for Strategic and International Studies*, accessed 25 March 2013, <http://csis.org/publication/asean-and-partners-launch-regional-comprehensive-economic-partnership>.

⁸² Asia Pacific Economic Cooperation, “History,” accessed 26 March 2013, <http://www.apec.org/About-Us/About-APEC/History.aspx>.

⁸³ Editorial, “TPP: What is it and why does it matter?” *BBC*, 14 March 2013, accessed 15 March 2013, <http://www.bbc.co.uk/news/business-21782080>.

Figure 2



<http://www.dfat.gov.au/trade/regional-economic-architecture.html>

China's engagement with ASEAN has come in four primary forums; an ASEAN/China Free Trade agreement worth \$298 Billion (with a 37% growth rate last year),⁸⁴ through its membership in the ASEAN + 3 (ASEAN countries with Japan, China and ROK), participation in the RCEP and finally through dialogue in the ASEAN Regional Forum. These engagements support the theory of Chinese regionalism as written by Miriam L. Campanella in *China and Asian Regionalism in a Multi-Polar Global Economy* who stated "China's recent commitment to Asian regional governance, and its siding with emerging and developing economies, is crucial to Beijing's strategic spatial strategy, which is to constrain rather than supplant the current global powers."⁸⁵ This notion of a grander strategy to regionalism was also supported by others, such as Robert G. Sutter, who indicated that this regional policy has been a secondary concern for Chinese leadership as they focus on higher priority domestic concerns and the rise of American

⁸⁴ Editorial, "China-ASEAN 2011 bilateral trade to hit record high," *Xinhua*, 17 November 2011, accessed 24 April 2013, http://www.china.org.cn/business/2011-11/17/content_23938965.htm.

⁸⁵ Miriam L. Campanella, "China and Asian regionalism in a multi-polar global economy," *East Asia Forum* (blog), September 29, 2012, <http://www.eastasiaforum.org/2012/09/29/china-and-asian-regionalism-in-a-multi-polar-global-economy/>.

power in Asia.⁸⁶ As will be discussed later in the analysis of the ‘American Asia Pivot,’ if China is increasing its regional presence as a either a hedge against American influence or a platform for its rise to global power status, it would be prudent for Canadian policy to engage in a regional strategy vice solely bilateral Canadian-Chinese relations if we want to influence interaction within SE Asia. This approach is supported by the Asia Pacific Foundation of Canada who indicates that Canada needs to broaden from a narrowly bilateral commercially focused emphasis to whole of government Asian engagement across a “set of bilateral and regional institutions, means, and mechanisms.”⁸⁷ Amitav Acharya concurs with this idea and indicates in his article *Engaging China and Enhancing Asian Cooperation: A Role for Canada*, that Canadian engagement in SE Asian regionalism could support stability in the region and bolster Canada-China ties. Acharya suggests that Canada should use its comparative advantage in multilateralism which is centered on ideas, rather than in material power. He argues that Canada has a strong history in this area and should leverage such strengths as it has in the past with large contributions to human and cooperative security initiatives such as the North Pacific Cooperative Security Dialogue (NPCSD)⁸⁸ and Canada-China Seminar on Multilateralism and Cooperative Security (CANCHIS).⁸⁹ Moreover, he submits that

⁸⁶ Robert G. Sutter, *China’s Rise: Implications for US Leadership in Asia* (Washington: University of California, 2008), 10.

⁸⁷ Yuen Pau Woo, “Securing Canada’s Place in Asia: Means, Institutions and Mechanisms,” accessed 2 February 2013, http://www.asiapacific.ca/sites/default/files/filefield/securing_canadas_place_in_asia_taskforce_report.pdf.

⁸⁸ David Capie, “Rival Regions? East Asian Regionalism and its Challenge to the Asia Pacific,” accessed 16 June 2013, http://www.alternative-regionalisms.org/wp-content/uploads/2009/07/capie_rivalregions.pdf.

Canada should revive such efforts now and also engage China bilaterally and multilaterally to clarify terms such as ‘building a harmonious world or Tianxia’, ‘new type of relationship among the major powers’, ‘convergence of interests’ as they are causing apprehension and misunderstanding in the international community.⁹⁰ Canada 2020, a non-partisan think tank supports these arguments and further suggests that “Canada needs to establish itself at the heart of Asia as a hub nation, a facilitator and a source of new ideas, not just a traditional trading partner or resource provider.”⁹¹

As can be seen by Sutter, Acharya and Canada 2020 there are not just undertones, but serious questions on Canada’s commitment to the region. Brian Job, of the University of British Columbia, has suggested in his article *Revitalizing Canada-Southeast Asia Relations: The TAC [Treaty of Amity Cooperation] gives us a ticket ... but do we have a destination?* that “in Jakarta, Kuala Lumpur, Bangkok, Singapore and other regional capitals, Canada no longer appears on radar screens as an attentive and relevant participant in regional affairs.”⁹² This was confirmed by the Secretary General of ASEAN, Surin Pitsuwan, who when asked by the *Globe and Mail* about why Canada was denied entry into the ASEAN led East Asia Summit stated “The goodwill is there. The name is there. But you don’t see the sustained effort of trying to project it out,” [Canada]

⁸⁹ David Capie and Paul Evans, *The Asia-Pacific Security Lexicon* (Pasir Panjang: Institute of Southeast Asian Studies, 2002).

⁹⁰ Amitav Acharya, “Engaging China and Enhancing Asian Cooperation: A Role for Canada,” *Asia Pacific Foundation of Canada*, 24 April 2013, accessed 25 April 2013, <http://www.asiapacific.ca/editorials/canada-asia-viewpoints/editorials/engaging-china-and-enhancing-asian-cooperation-role-can>.

⁹¹ Dominic Barton, “Rising to Meet the Asia Challenge and Opportunity,” in *The Canada We Want in 2020- Towards a Strategic Policy Roadmap for the Federal Government*, ed. Diana Carney, 9, accessed 14 April 2013, http://canada2020.ca/canada-we-want/wpcontent/themes/canada2020/assets/pdf/en/Canada2020_E_Asia-1.pdf.

⁹² Brian Job, “Revitalizing Canada-Southeast Asia Relations: The TAC gives us a ticket ... but do we have a destination?” *Asia Pacific Foundation of Canada Foundation* Issue 11 (August 2010), accessed 12 February 2013, <http://www.asiapacific.ca/sites/default/files/filefield/CAASouthEastAsia.pdf>.

is appreciated. But it's not an active engagement that projects that quality out."⁹³ The possible reasons for Canadian disengagement was summarized in the book *Canada Among Nations, 2009-2010: As Others See Us*, when it was put forth that as the Cold War ended Washington saw ASEAN as more of strategic liability than asset and they restricted ties, and Ottawa followed suit.⁹⁴ Additionally the authors argue that Canada reduced ties with ASEAN in 1997 because of Myanmar's admission to ASEAN.⁹⁵ Canada argued that Myanmar had a poor human rights record and this stalled Canadian/ASEAN cooperation.⁹⁶ This non-official protest resulted in no meetings as part of the ASEAN-Canada Dialogue between 1997-2004, a period where China was on the rise and engaging ASEAN to start their free trade agreement talks. In 2004 talks resumed and Canada is using the ARF and the ASEAN-Canada Dialogue⁹⁷ as the platforms to coordinate with ASEAN, our 7th largest trading partner.⁹⁸

In light of these diplomatic disagreements and despite our past engagement with ASEAN dating back to the 1970's, using figures 1 and 2 it is evident that Canada is absent from a number of key meetings and summits including the ADMM + 8 and the East Asia Summit. These two forums are important, as ADMM +8 focuses on

⁹³ Campbell Clark, "Canada denied seat at East Asia Summit," *Globe and Mail*, 20 September 2012, accessed 21 February 2013, <http://www.theglobeandmail.com/news/politics/canada-denied-seat-at-east-asia-summit/article4558196/?service=mobile>.

⁹⁴ Kishore Mahbubani, "Will Canada be the Next Argentina?" in *Canada Among Nations 2009-2010*, ed. Fen Hampson and Paul Heinbecker, 148 (Canada: McGill University Press, 2010).

⁹⁵ *Ibid.*

⁹⁶ Rodolfo Severino, *Southeast Asia in Search of an ASEAN Community* (Singapore: Institute of Southeast Asian Studies, 2006), 136.

⁹⁷ ASEAN, "Declaration on ASEAN-Canada Enhanced Partnership," accessed 21 February 2013, http://www.asean.org/images/archive/documents/Joint%20Declaration%20on%20ASEAN-Canada%20Enhanced%20Partnership_fin.pdf.

⁹⁸ ASEAN, "Co-Chair's Statement of the 7th ASEAN-Canada Dialogue Bangkok, Thailand 10-11 June 2010," accessed 24 February 2013, [http://www.asean.org/images/archive/documents/2010-06-14%20co-chairs%20statement%20-%207th%20ASEAN-Canada%20Dialogue%20\(2\).pdf](http://www.asean.org/images/archive/documents/2010-06-14%20co-chairs%20statement%20-%207th%20ASEAN-Canada%20Dialogue%20(2).pdf).

“cooperation in disaster relief, counter-terrorism, maritime security, peacekeeping, and military medicine”⁹⁹ while the East Asia Summit deals with Asia’s political, economic, and strategic issues.¹⁰⁰ Canada’s absence in these high level meetings is a missed opportunity to be a player that could encourage China’s greater commitment to regional cooperation.¹⁰¹ Although Canada has strengthened our position to the ARF by appointing an ambassador to the forum in 2009,¹⁰²

the ARF has begun to evolve from a consultative and nonbinding discussion to a de facto ministerial meeting preparing the agenda for the EAS meeting. In fact, as regional security architecture develops in the Asia Pacific, it is likely that the ADMM + 8 will begin to play a similar ministerial role for defense ministers leading up to the EAS.¹⁰³

The issue is that if Canada is to engage China through regional forums, we must broaden our membership to the forums that China is a part of, including the EAS and ADMM+8. As the EAS is now seen as the premier summit for Prime Ministerial level discussions, and entry to the summit is controlled by ASEAN, it is essential for Canada to fully commit to the ARF and ASEAN-Canada dialogue in order to signal our commitment to the region and garner ASEAN leadership approval for our admission. Canada has started to signal our renewed interest in the region, not solely through the Ambassador assignment, but also in the creation of the Canada-ASEAN Business Council and in DFAIT’s new four pronged Canadian strategy for Asia, built on trade, security and

⁹⁹ Amitav Acharya, “Catch an Asian Tiger by the Tail,” *The Mark*, 19 May 2011, Accessed 18 April 2013, <http://www.themarknews.com/articles/5236-catch-an-asian-tiger-by-the-tail/>.

¹⁰⁰ *Ibid.*

¹⁰¹ Amitav Acharya, “Engaging China and Enhancing Asian Cooperation: A Role for Canada,” *Asia Pacific Foundation of Canada*, 24 April 2013, accessed 25 April 2013, <http://www.asiapacific.ca/editorials/canada-asia-viewpoints/editorials/engaging-china-and-enhancing-asian-cooperation-role-can>.

¹⁰² Department of Foreign Affairs and International Trade, *Association of Southeast Asian Nations (ASEAN)* (Ottawa: Canada Communications Group, 2013), accessed 10 May 2013, http://www.international.gc.ca/asia_pacific-asie_pacifique/asean-anase.aspx?lang=eng.

¹⁰³ Ernie Bower and Lie Nathanael Santoso, “A Year Later, Reduced Tensions at the ASEAN Regional Forum,” *Center for Strategic and International Studies*, 1 August 2011, accessed 29 April 2013, <http://cogitasia.com/a-year-later-reduced-tensions-at-the-asean-regional-forum-arf-china/>.

governance, following through on commitments and promoting Canadian values.¹⁰⁴

Canada has also signed on to the ARF initiative called the Treaty of Amity, which guides the conduct of nations in the forum (to which China signed in 2003) and advocates mutual respect, sovereignty, lack of interference in internal affairs, “settlement of differences or disputes by peaceful manner and finally renunciation of the threat or use of force.”¹⁰⁵ Canada must continue these initiatives and show ASEAN we have staying power in Asia and are ready for EAS and ADMM +8 membership.¹⁰⁶

The final area where Canada must use of regional organizations to engage China is in trade coordination. As underscored by the Asia Pacific Institute of Canada above, much of the focus between China and Canada has been on bilateral trade coordinated by China’s national foreign trade offices (culminating in the recently released Canada-China Economic Complementarities Study).¹⁰⁷ Since 1989, multilateral trade in Asia Pacific has been coordinated under the umbrella of Asia Pacific Economic Cooperation (APEC), to which Canada and China are members. Through its 1994 Bogor Goals, APEC “leaders agreed to the common goals of free and open trade and investment by 2010 for

¹⁰⁴ Hugh L. Stephens, “Canada and the EAS: When Showing Up Is Not Enough,” *The Diplomat*, 27 September 2012, accessed 28 April 2013, <http://thediplomat.com/the-editor/2012/09/27/canada-and-the-eas-when-showing-up-is-not-enough/>.

¹⁰⁵ Nuclear Threat Initiative, “Association of Southeast Asian Nations (ASEAN),” accessed 24 April 2013, <http://www.nti.org/treaties-and-regimes/association-southeast-asian-nations-asean/>.

¹⁰⁶ Brian Job, “Does Ottawa have staying power in Southeast Asia?” *Globe and Mail*, 8 August 2012, accessed 23 April 2013, <http://m.theglobeandmail.com/commentary/columnists/does-ottawa-have-staying-power-in-southeast-asia/article4468690/?service=mobile>; Asia Century Institute, “Canada’s catchup game in Asia,” accessed 23 April 2013, <http://www.asiancenturyinstitute.com/international/36-canada-s-catchup-game-in-asia>.

¹⁰⁷ Department of Foreign Affairs and International Trade, “Canada-China Economic Complementarities Study,” accessed 20 April 2013, <http://www.international.gc.ca/trade-agreements-accords-commerciaux/agr-acc/china-chine/study-comp-etude.aspx>.

industrialized economies and 2020 for developing economies.”¹⁰⁸ The Bogor Goals was the start of APEC’s Free Trade Area of the Asia-Pacific (FTAAP), which was to reduce trade barriers to zero by 2010.¹⁰⁹ However as of 2012, it has only reduced trade tariffs by 50% vice the goal of 100%.¹¹⁰ Although 100% was ambitious, APEC’s FTA likely failed to meet its objectives because it uses consensus based decision making that has led to slow or incremental improvement over time, rather than major or immediate change.¹¹¹ The slowdown of APEC’s FTA indirectly led to the creation of two organizations that seek to harmonize trade coordination within Asia Pacific; the Trans Pacific Partnership and the Regional Comprehensive Economic Partnership (RCEP). The membership in each form has proven to be an area of divergence in SE Asian geopolitics and has proven to be divisive amongst ASEAN members.¹¹² The US has coordinated the creation of TPP as a spin-off to the Asia Pacific Economic Cooperation forum that will “address new trade issues and 21st century challenges, exploring both tariff and non-tariff barriers to trade and investment, with the goal of facilitating the movement of people, goods, services, capital, and data across borders.”¹¹³ The RCEP was conceived though the ASEAN led EAS (and was formalized pre-US entry into the EAS).¹¹⁴ Its goal is to

¹⁰⁸ Australian Department of Foreign Affairs and Trade, “APEC 2010 Bogor Goals,” accessed 20 April 2013, <http://www.dfat.gov.au/publications/trade/APEC-2010-Bogor-Goals.html>.

¹⁰⁹ Rully Prasetya, “Is TPP a Consequence of Failing APEC FTAAP,” accessed 25 March 2013, http://www.academia.edu/2451238/Is_TPP_A_consequence_of_Failing_APEC_FTAAP.

¹¹⁰ *Ibid.*

¹¹¹ *Ibid.*

¹¹² Edmund Sim, “RCEP v. TPP: The Real Choices Facing ASEAN Members”, ASEAN Economic Community (blog), 11 April 2013, <http://aseanec.blogspot.ca/2013/04/rcep-v-tpp-real-choices-facing-asean.html>.

¹¹³ Department of Foreign Affairs and International Trade, “Trans-Pacific Partnership Free Trade Agreement Negotiations,” accessed 20 April 2013, <http://www.international.gc.ca/trade-agreements-accords-commerciaux/agr-acc/tpp-ptp/info.aspx?lang=eng>.

¹¹⁴ Mark Thomson, “Trade Partnership Competition: TPP vs. RCEP,” *Australian Strategic Policy Institute* (blog), 16 April 2013, <http://www.aspistrategist.org.au/trade-partnership-competition-tpp-vs-rcep/>.

“achieve a modern, comprehensive, high-quality and mutually beneficial economic partnership agreement establishing an open trade and investment environment in the region to facilitate the expansion of regional trade and investment and contribute to global economic growth and development.”¹¹⁵ As noted above in figure 2, the RCEP and TPP have similar memberships with the exception of the US and China, where China is aligned with the RCEP and the US with the TPP. While the TPP is a rule based APEC spinoff that has the goal of eventually expanding to all APEC membership (including China),¹¹⁶ Laura Dawson of the C.D. Howe Institute explains that China may also favor the RCEP because:

the new TPP agreement aims to cover goods and services, sanitary and phytosanitary measures, intellectual property, government procurement and competition policy – areas in which China would find it difficult to implement the kinds of rules, standards, and economic governance changes sought by the United States. These factors mean that China may favour more China-centric regional or bilateral relations over TPP participation.¹¹⁷

This RCEP versus TPP membership discussion has proven polarizing in ASEAN,¹¹⁸ and Canadian engagement in the region must be aware of this. Canada’s connection to APEC gives us access to Chinese leadership in a multinational Asian forum, but we have chosen the TPP as our detailed coordinating avenue for trade with Asia.¹¹⁹ This decision makes

¹¹⁵ New Zealand. Ministry of Foreign Affairs and International Trade, “Regional Comprehensive Economic Partnership (RCEP),” accessed 20 April 2013, <http://www.mfat.govt.nz/Trade-and-Economic-Relations/2-Trade-Relationships-and-Agreements/RCEP/jointdec.php>.

¹¹⁶ Congressional Research Service, *The Trans-Pacific Partnership Negotiations and Issues for Congress* (Washington: Congressional Research Service, 2013), accessed 15 May 2013, <http://www.fas.org/sgp/crs/row/R42694.pdf>.

¹¹⁷ Laura Dawson, “Can Canada Join the Trans Pacific Partnership? Why Just Wanting is Not Enough,” *C.D. HOWE Institute* commentary no. 340 (February 2012): 6, http://www.cdhowe.org/pdf/Commentary_340.pdf.

¹¹⁸ Suthichai Yoon, “TPP vs. RCEP: A new Washington-Beijing tug-of-war?,” *The Nation*, 6 December 2012, accessed 23 April 2013, <http://www.nationmultimedia.com/opinion/TPP-vs-RCEP-A-new-Washington-Beijing-tug-of-war-30195647.html>.

sense as the RCEP is primarily focused on coordinating the many existing ASEAN and bilateral trade agreements into a harmonized FTA under ASEAN leadership.¹²⁰ This Canadian decision makes membership into the EAS and ADM +8 vital if we are to influence further ASEAN integration into the TPP, which may bring China to the TPP through further APEC expansions. This would benefit Canada as it would serve as regional and multilateral organization often break down trade barriers that bilateral discussions cannot.¹²¹

In summary, regionalism is one of the key themes in SE Asia and China is embracing it. Canada has used bilateral relations to establish an essential base, and participation in the region's multilateral institutions will be an essential complement for further development. Entry into the EAS and ADMM +8 must be a top government priority.¹²²

Geo-Political Challenges

External Shapers

South and East China Sea Territorial Claims

¹¹⁹ Department of Foreign Affairs and International Trade, "Harper Government Marks Conclusion of Latest Round of Trans-Pacific Partnership Negotiations," 12 March 2013, accessed 24 April 2013, http://www.international.gc.ca/media_commerce/comm/news-communications/2013/03/13a.aspx?lang=eng&view=d_cdwwwwwwwwwwwwwwwwwwwwwwww.

¹²⁰ Hugh Stephens, "Canada Can't Afford to Ignore ASEAN," *Asia Pacific Foundation of Canada*, 18 March 2013, accessed 27 April 2013, <http://www.asiapacific.ca/editorials/canada-asia-viewpoints/editorials/canada-cant-afford-ignore-asean>.

¹²¹ Chen Taifeng, "Regional Trade Agreements vs. Multilateral Trading System: A Study of Chinese Interests and Policy Options," *Norwegian Institute of International Affairs Working Paper*, no. 762 (2009), <http://www.nupi.no/content/download/10219/102610/version/5/file/WP-762-Taifeng.pdf>.

¹²² Yuen Pau Woo, "Securing Canada's Place in Asia: Means, Institutions and Mechanisms," accessed 2 February 2013, http://www.asiapacific.ca/sites/default/files/filefield/securing_canadas_place_in_asia_taskforce_report.pdf.

Despite cooperation and improved mutual trust brought about by regional forums, tensions between SE Asian states have been on the rise over the past decade due to maritime territorial claims being made by bordering states. In particular, ownership of the Spratly and Paracel Island chains and Scarborough Shoal has set off a firestorm of diplomatic wrangling between surrounding nations.¹²³ Brunei, Vietnam, the Philippines, Malaysia, Singapore and China have all claimed ownership to some, and in China's case most, of the islands. Although each disagreement could be a case study unto themselves, the quarrels boil down to three essential problems; oil, fish and great power rivalry.¹²⁴ As the population of South East Asia grows, demand for resources to fuel development has increased and led nations to stake claims to the maritime regions which were found to be rich in oil in the 1970's.¹²⁵ Additionally, states can no longer hide behind ambiguous statements on their claims as their obligations under Article 76 of the UN Convention on the Laws of the Sea (UNCLOS see sub para 8)¹²⁶ require them to provide the UN the definition of their continental shelf and baselines based upon *equitable geographical representation*. The result of this Article has been clear, but controversial, assertions on states ownership.¹²⁷ Specifically, the demarcation of their territorial water (TTW) and continental shelf definitions have proved the most difficult as peaceful decisions on equitable geographic representation appears to depend on where you stand in the Asian

¹²³ Patrick M. Cronin, "Cooperation from Strength The United States, China and the South China Sea," *Center For a New American Security*, (January 2012), accessed 2 May 2013, http://www.cnas.org/files/documents/publications/CNAS_CooperationFromStrength_Cronin_1.pdf.

¹²⁴ Dr. Jingdong Yuan, "Emerging maritime rivalry in The South China Sea: Territorial disputes, sea-lane security, and the pursuit of power," *Department of Foreign Affairs and International Trade*, (Summer 2012), accessed 18 May 2013, http://www.international.gc.ca/arms-armes/isrop-prisi/recherche-recherche/intl_security-secureite_int/Report-South_China_Sea.aspx?view=d.

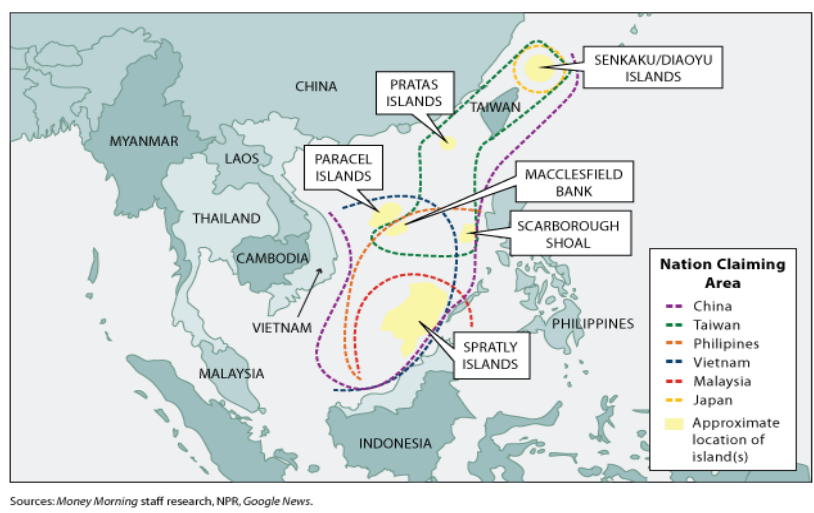
¹²⁵ *Ibid.*

¹²⁶ United Nations General Assembly, "United Nations Convention for Laws of the Sea," (Summer 1982), accessed 24 April 2013, http://www.un.org/Depts/los/convention_agreements/texts/unclos/part6.htm

¹²⁷ *Ibid.*

political power totem. As can be seen in Figure 3 below,¹²⁸ Chinese claims overlap with numerous neighboring nations and this has involved China in no less than 61 disputes¹²⁹ with neighboring ASEAN countries. As fish and oil resources continue to be consumed and China's soft and hard power in Asia grows, their willingness to exert diplomatic and military influence to gain control cannot be ruled out.

Figure 3



There are three primary concerns a conflict on the South China Sea could have for a trading nation like Canada. The first is economic consequences a disagreement could have on the global maritime shipping routes that helps fuel the world's economies. With increased Canadian demand for value supply chains,¹³⁰ Canadian trade has become much more interlinked to the material transfer and final goods assembly processes vice

¹²⁸ William Patalon III, "Standoff in South China Sea Close to Boiling Over," *Resource Investor*, 19 September 2012, accessed 18 May 2013, <http://www.resourceinvestor.com/2012/09/19/standoff-in-south-china-sea-close-to-boiling-over>.

¹²⁹ Thomas Wright, "A Map of Conflicts in the South and East China Seas," *Council on Foreign Relations*, accessed 20 May 2013, <http://www.foreignaffairs.com/a-map-of-conflicts-in-the-south-and-east-china-seas>.

¹³⁰ Daniel Poon, "China's Move up the Value Chain: Implications for Canada," *Canadian Foreign Policy Journal* Volume 18, no. 3 (2012), <http://www.nsi-ins.ca/wp-content/uploads/2012/04/2012-Chinas-Move-Up-The-Value-Chain-Implications-for-Canada1.pdf>.

traditional final goods trade transfer. What this means is that more goods are predicted to travel by sea over the coming years as materials are moved between countries with value being added at each stop before final delivery, where China is the critical hub.¹³¹ These goods will have to travel the already important Asian Sea Lines of Communications (SLOC) where \$5.3 trillion worth of goods transit the South China Sea annually,¹³² including 15 million bbl (or about one-third of all seaborne oil)¹³³ passing through the SLOC daily. As highlighted by the Shanghai Institute for Strategic studies, disruption or conflict in the region would have dramatic effect on the global economy as:

The South China Sea is the second most used sea lane in the world, only next to the Mediterranean. Over half of the world's super-tankers and commercial fleets (measured in tonnage), or over 40,000 various vessels, pass through the South China Sea annually. Tankers transiting through the Malacca Strait to the South China Sea are three times of those transiting through the Suez Canal or five times of those transiting through the Panama Cannel. The natural gas transiting through the South China Sea accounts for two-thirds of the total volume of the gas trade of the world.¹³⁴

For Canada, the SE Asian region holds exceptional importance for our economic well-being. Although trade with the developing ASEAN market is only 1.2% and 1.7% of our annual exports and imports respectively, Asia Pacific accounts for 10% of exports and 20% of imports.¹³⁵ Moreover when it is considered that China accounts for 4% and

¹³¹ *Ibid.*

¹³² Bonnie S. Glaser, "Armed Clash in the South China Sea," *Council on Foreign Relations Contingency Planning Memorandum*, no. 14 (April 2012), accessed 20 May 2013, <http://www.cfr.org/east-asia/armed-clash-south-china-sea/p27883>.

¹³³ Editorial, "The South China Sea is an Important World Energy Trade Route," *US Energy Information Association*, 4 April 2013, accessed 25 April 2013, <http://www.eia.gov/todayinenergy/detail.cfm?id=10671>.

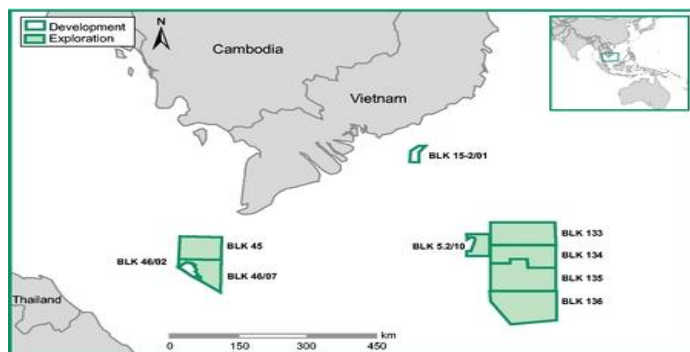
¹³⁴ Yang JieMian, "Freedom and Safety of Navigation in the South China Sea and Its Importance," *Shanghai Institutes for International Studies*(blog), accessed 22 April 2013, <http://en2.siiis.org.cn/index.php?m=content&c=index&a=show&catid=22&id=198>

¹³⁵ Department of Foreign Affairs and International Trade, "Canada's Merchandise Exports," accessed 28 April 2013, http://www.international.gc.ca/economist-economiste/assets/pdfs/Data/facts-fiches/PFACT_Annual_Merchandise_Trade_by_Country-ENG.pdf.

10.9% of that Asia Pacific trade¹³⁶ (and growing), that upwards of 90% of global trade travels by sea,¹³⁷ and 9 of the 10 busiest ports in the world are either on or border this SLOC,¹³⁸ the stability of the South China Sea is geopolitically important the world and thus Canada.

The second concern South China Sea instability presents to Canada is that numerous Canadian resource companies are active in the region¹³⁹ and this may impact their operations. This apprehension has been justified recently, as seen by Calgary based Talisman energy that have almost 50 per cent interest in the areas shown in figure 4, through its partnership with PetroVietnam.¹⁴⁰ These same blocks, which were issued by the Vietnamese government, are known as WAB-21 in China and were awarded to the Creston Energy Corp., by the Chinese Government.

Figure 4



<http://investor.shareholder.com/tlm/secfiling.cfm?filingID=1047469-13-2244>, Accessed 12 April 2013

¹³⁶

Ibid.

¹³⁷

International Maritime Organisation, "International Shipping Facts and Figures – Information Resources on Trade, Safety, Security, Environment," 6 March 2012, accessed 24 April 2013, <http://www.imo.org/KnowledgeCentre/ShipsAndShippingFactsAndFigures/TheRoleandImportanceofInternationalShipping/Documents/International%20Shipping%20-%20Facts%20and%20Figures.pdf>.

¹³⁸

Sharda, "Top 10 Biggest Ports in the World in 2011," *Marine Insight* (blog), 11 August 2011, accessed 1 May 2013, <http://www.marineinsight.com/marine/top-10-biggest-ports-in-the-world-in-2011/>

¹³⁹

US Energy Information Administration, "South China Sea," accessed 24 May 2013, <http://www.eia.gov/countries/regions-topics.cfm?fips=SCS>.

¹⁴⁰

Zhiming Chen and Dominique Caouette, "China's South China Sea policy and its implications for Canada: Claims, strategies and consequences," *Canadian Foreign Policy Journal* vol 18, no. 31, <http://www.cerium.ca/IMG/pdf/Chinada.pdf>.

As a result of the conflicting claims, while conducting seismic energy soundings for PetroVietnam, the Talisman contracted vessel Viking II was rammed by Chinese maritime patrol ships who attempted to cut the exploration cables.¹⁴¹ With Talisman having conducted \$200–230 million in exploration in 2012 and oil extraction planned for 2013, the Canadian Government is faced with a tough choice. As SE Asian countries become potentially emboldened with American support, the risk of clashes may increase if China loses hope and shelves its peaceful rise policy.¹⁴² Canada will have to decide it will risk its strategic and economic interests with China for those in the SCS. Chen and Caouette, in their article *China's South China Sea Policy and its Implications for Canada: Claims, Strategies and Consequences*, suggest that “Canada should remain neutral regarding the disputes and actively promote joint development of SCS maritime resources. Encouraging Sino–Vietnam cooperation in contested blocks is crucial to prevent a conflict that could implicate Canadian interests.”¹⁴³ Although the ASEAN Regional Forum provides one venue for discussion on this topic, membership in the EAS and ADMM +8 would provide Canadian Government representatives with the higher level venues to foster cooperation.

The third and final concern in the South China Sea has to do with the potential settlement of each countries overlapping claim. As all coastal states of SE Asia are

¹⁴¹ Editorial, “Sea Spat Raises China-Vietnam Tensions,” *Energy Daily*, 10 June 2011, accessed 21 March 2013, http://www.energy-daily.com/reports/Sea_spat_raises_China-Vietnam_tensions_999.html

¹⁴² Zhiming Chen and Dominique Caouette, “China's South China Sea policy and its implications for Canada: Claims, strategies and consequences,” *Canadian Foreign Policy Journal* vol 18, no. 31, <http://www.cerium.ca/IMG/pdf/Chinada.pdf>.

¹⁴³ *Ibid.*, 311.

signatories to UNLCOS, under article 76 they must submit to the UN Commission on the Limits of the Continental Shelf (CLCS) their continental shelf boundaries.¹⁴⁴ As ASEAN states submitted their claims to the UN, China was outraged with the claims of Vietnam, the Philippines¹⁴⁵ and Malaysia and they protested that these were claims to Chinese territory.¹⁴⁶ In the case of the Philippines, China is upset because Manila is pushing for arbitration of the Scarborough Shoal dispute through the UN despite being signatories to the Declaration on the Conduct of Parties in South China Sea, which suggests parties use bilateral solutions vice a multilateral institution like the UN.¹⁴⁷ This has led to China's refusal to submit to arbitration and reiterate their claims to the South China Sea, despite the fact that the arbitration tribunal will go forward even without China's participation.¹⁴⁸ Whether China accepts and complies will be another matter or as noted by Greek historian Thucydides "the strong do what they can and the weak suffer what they must."¹⁴⁹ This would have significant impact on UNCLOS legitimacy and limit the distribution of wealth if major powers choose to ignore it. However, China needs UNCLOS to assert their control over military activity in their EEZ and they will likely

¹⁴⁴ United Nations General Assembly, "Commission on the Limits of the Continental Shelf (CLCS) Purpose, Functions and Sessions," accessed 26 March 2013, http://www.un.org/depts/los/clcs_new/commission_purpose.htm.

¹⁴⁵ Dario Agnote, "PH Ignores China's Advice to Drop UN Tribunal Case," *ABS CBN News*, 25 April 2013, accessed 29 April 2013, <http://www.abs-cbnnews.com/focus/04/25/13/ph-ignores-chinas-advice-drop-un-tribunal-case>.

¹⁴⁶ Carlyle A. Thayer, "South China Sea: A Commons for China Only? China rejects UN treaty by asserting sovereignty over the South China Sea," *Yale Global*, 7 July 2011, accessed 1 May 2013, <http://yaleglobal.yale.edu/content/south-china-sea-commons-china-only>.

¹⁴⁷ Sara Susanne D. Fabunan, "Beijing Slams Manila over UN Arbitration of Sea Disputes," *Manila Standard Today*, 23 February 2013, accessed 21 April 2013, <http://manilastandardtoday.com/2013/02/23/beijing-slams-manila-over-un-arbitration-of-sea-disputes/>.

¹⁴⁸ Julian Ku, "Goodbye UNCLOS Dispute Settlement? China Walks Away from UNCLOS Arbitration with the Philippines," *Opinio Juris*, 19 February 2013, accessed 1 March 2013, <http://opiniojuris.org/2013/02/19/goodbye-unclos-dispute-settlement-china-walks-away-from-unclos-arbitration-with-the-philippines/>.

¹⁴⁹ Carlyle A. Thayer, "South China Sea...." <http://yaleglobal.yale.edu/content/south-china-sea-commons-china-only>.

use soft power backed by hard power coercion to ensure ownership of the continental shelf they claim. It is reasonable to assume however, that they are unlikely to win all of their claims as other countries¹⁵⁰ will require access to the oil and fish to meet the equitable geographic representations section within UNCLOS.¹⁵¹ The result, either by arbitration or force, will result in a “looser” who will require access to resources like oil and fish which Canada has in relatively “stable” quantities. Moreover, the number two and three consumers of oil in the world are China and Japan respectively, and by 2030 most of the “Asian oil fields will be already matured and over-drilled, which confirms their dependence on global oil supplies would likely continue to rise.”¹⁵²

Canada stands to lose a great deal of opportunity in SE Asia if we continue to engage the region in a fragmented manner. Given the potential economic losses for Canadian corporations due to territorial disputes and the budding demand for resources, the importance of a strategic policy must be taken into account. As will be further discussed in the military sections, SE Asia is a maritime expanse made up of islands and rocks separated by water. The sheer volume of trade that plies the South China Sea, the oceanic nature of the exploration and the economic impact of the territorial water disputes should at least push the Canadian Government into supporting greatly increased naval engagement with South China Sea countries. This would help open strategic political dialogue and show a genuine interest in the region. Before Ottawa demands this

¹⁵⁰ Nong Hong, *UNCLOS and Ocean Dispute Settlement: Law and Politics in the South China Sea*, (New York: Routledge, 2012), 191.

¹⁵¹ United Nations General Assembly, “United Nations Convention on the Law of the Sea - Annex II – Commission on the Limits of the Continental Shelf,” accessed 21 April 2013, https://www.un.org/Depts/los/clcs_new/documents/annex2.htm.

¹⁵² *Ibid.*

of the Navy however, they will need to clarify Canada's geopolitical alignments so the messaging is consistent.

USA Pivot

Since the 1785 visit of Consul Samuel Shaw to China,¹⁵³ the US has had an interest in Asian geopolitics and the Chinese and American relationship has developed “to become the most significant and complex bilateral state-to-state relationship in the global order.”¹⁵⁴ The US position has seen a number of changes in recent years as a result of economic slowdowns, but “given the enormous stakes it has [in SE Asia], both in strategic and commercial terms... Washington has strengthened its alliances with Tokyo, Seoul, Canberra, and formed closer partnerships with Hanoi, Manila, Jakarta, and New Delhi, through arms sales, joint military exercises, and basing and training arrangements.”¹⁵⁵ The primary motive for the Obama Administration's pivot to Asia has come about from China's rise.¹⁵⁶ In particular they believe that “US foreign policy, national security and economic interests lie in Asia.”¹⁵⁷ Canada on the other hand has “not reshaped its [SE Asian] alliances nor made any concomitant shift in our grand

¹⁵³ US Department of State Office of the Historian, “Chronology of U.S.-China Relations, 1784-2000,” accessed 16 April 2013, <http://history.state.gov/countries/issues/china-us-relations>

¹⁵⁴ Rosemary Foot and Andrew Walter, *China, The United States and Global Order*, (New York: Cambridge University Press, 2011), 15.

¹⁵⁵ Dr. Jingdong Yuan, “Emerging maritime rivalry in The South China Sea: Territorial disputes, sea-lane security, and the pursuit of power,” *Department of Foreign Affairs and International Trade*, (Summer 2012), accessed 18 May 2013, http://www.international.gc.ca/arms-armes/isrop-prisi/research-recherche/intl_security-secure_int/Report-South_China_Sea.aspx?view=d.

¹⁵⁶ Congressional Research Service, *Pivot to the Pacific? The Obama Administration's 'Rebalancing' Toward Asia* (Washington: Congressional Research Service, 2012), accessed 3 March 2013, <http://www.fas.org/sgp/crs/natsec/R42448.pdf>.

¹⁵⁷ *Ibid.*

strategy outside the immediate economic portfolio.”¹⁵⁸ This view was supported by Daniel Poon in his article *A Pivot To Asia? Canada’s ‘Real Globalization* when he highlighted that,

After decades of Canada following a comfortable economic strategy that placed access to the US market at its core, pulling off a pivot to Asia, and to China in particular, will need more than catchphrases; it will need a serious strategic analytical rethink by Canadian policy-makers.¹⁵⁹

But before Canada develops any comprehensive policy for engaging China, one must determine if this means that we too are conducting a pivot or just furthering our influence in the region to enhance our well-being. The US pivot has primarily been focused on providing a defensive counterweight to China¹⁶⁰ and taking advantage of the growing Asian markets.¹⁶¹ For Canada, its relatively small military establishment would not be able to achieve any strategic counterweight to China compared to ASEAN and US forces. However, as noted by Iffat Rahman in her article *Canada Needs to Also Make the Pivot To Asia*, our pivot should be focused more on soft influence rather than hard power counterweight. She suggests Canada should take advantage of our upper hand in trade provided by natural resources, promote ourselves as mediator for tensions in the region as we have never been a colonial power and this is attractive to ASEAN nations, support

¹⁵⁸ Jeremy Paltiel, “Canada’s China re-set: Strategic Realignment or Tactical Repositioning? Re-energizing the Strategic Partnership,” *Canadian Foreign Policy Journal* Vol. 18, no. 3 (September 2012), accessed 21 April 2013, <http://www.tandfonline.com/doi/pdf/10.1080/11926422.2012.737341>.

¹⁵⁹ Daniel Poon, “A Pivot to Asia? Canada’s ‘Real’ Globalization,” *The North South Institute*, accessed April 26 2013, <http://www.nsi-ins.ca/wp-content/uploads/2012/10/Policy-Options-September-7th-2012-A-pivot-to-Asia.pdf>.

¹⁶⁰ Agence France-Presse, “Pentagon chief to promise 'follow-through' on US pivot,” *ABS CBN News*, 29 May 2013, accessed 29 May 2013, <http://www.abs-cbnnews.com/global-filipino/world/05/29/13/pentagon-chief-promise-follow-through-us-pivot>

¹⁶¹ Matt Schiavenza, “What Exactly Does It Mean That the U.S. Is Pivoting to Asia? And will it last?” *The Atlantic*, 15 April 2013, accessed 15 April 2013, <http://www.theatlantic.com/china/archive/2013/04/what-exactly-does-it-mean-that-the-us-is-pivoting-to-asia/274936/>.

Canada's long-standing reputation on good governance and seek an advisory role in assisting ASEAN in constructing treaties and laws, and finally endorse Canada's banking system and foster the opening branches in ASEAN which would provide a leeway to a strong Canadian banking presence in Southeast Asia.¹⁶² While these are critical avenues to further Canada's profile in Asia, using or announcing the term pivot would not likely to be beneficial, as a turn away from any share Canada currently holds in global markets would greatly impact its economy compared to larger EU and Asian nations. This is likely being taken into account by the current Canadian government as they continue to foster Canadian/US trade while concurrently concluding a complex EU/Canada Free Trade Agreement. It is important to note that while they accomplish these economic avenues with traditional partners, they are expanding the 'third option' to Canadian Foreign policy that was proposed by Pierre Trudeau in the 1970s, represented by Asia.¹⁶³ So while Canada is not announcing a pivot in the same way as the US, our increased focus on SE Asian trade and engagement with the ARF appears to acknowledge the importance of the region to Canadian prosperity moving forward.

Challenges

Internal Shapers

¹⁶² Iffat Rahman, "Canada Needs to Also Make the Pivot To Asia," *Atlantic Community* (blog), March 20, 2013, <http://www.atlantic-community.org/-/canada-needs-to-also-make-the-pivot-to-asia>.

¹⁶³ Fen Osler Hampson and Derek Burney, "Forget Europe — the Real Prize is an Asian Trade Pivot," *Centre for International Governance Innovation*, 22 April 2013, accessed 1 May 2013, <http://www.cigionline.org/articles/2013/04/forget-europe-%E2%80%94-real-prize-asian-trade-pivot>.

In a country with the longest land borders and over 20% of the world's population, there is an exceptional amount of internal pressures that shape Chinese policy decisions. A few of the most important geopolitical issues that are influential on Chinese strategy are the political personalities making decisions, poverty and pollution. As the Chinese Communist Party has confirmed new leader Xi Jinping to replace Hu Jintao, many are wondering if China is on the verge of a positive new policy shift that would see relations with the ASEAN partners and the West improve. Certainly in many circles, Xi Jinping is seen as more engaging than his predecessor Hu Jintao, but he admits¹⁶⁴ there will be internal challenges to change the direction the country is heading, especially when his two predecessors (from two different camps-Jintao and Zemin) are still alive. Despite Mr. Jinping's desire to solve "the problems among party members and cadres of corruption, bribes [acceptance], being out of touch with the people, [and] undue emphasis on formalities and bureaucracy,"¹⁶⁵ it may be a too difficult given the power remaining with surviving party members. However, as noted by Mark Mackinnon in the Nov 15th *Globe and Mail*,

"Mr. Xi is more Westernized than previous Communist Party bosses. He has fondly recalled the family in Iowa he stayed with on a 1985 trip to the United States...and the couple's only daughter studies under a pseudonym at Harvard University."¹⁶⁶

This may be the positive messaging required to help dull the impacts of America's pivot. As the increased US interest has raised eyebrows in China, any communication that helps

¹⁶⁴ Damian Grammaticas, "Will China's Xi Jinping be Different?," *BBC News China*, 15 November 2012, accessed 20 April 2013, <http://www.bbc.co.uk/news/world-asia-china-20338556>.

¹⁶⁵ *Ibid.*

¹⁶⁶ Mark MacKinnon, "Will China's New Leader Result in a New Direction for the Country?," *Globe and Mail*, 15 November 2012, accessed 15 January 2013 <http://www.theglobeandmail.com/news/world/will-chinas-new-leader-result-in-a-new-direction-for-the-country/article5358320/>.

extend political olive branches may work in China's Information Operation (IO) campaign to soften the CCP's image.¹⁶⁷ Internally, Mr. Jinping is facing issues that all governments are grappling with when he noted that "Our people... yearn for better education, stable jobs, more satisfactory income, greater social security, improved medical and healthcare."¹⁶⁸ The scale of these matters however is entirely different when speaking about China. Mr. Jinping is dealing with population growth that is adding approximately 30 million people (or the population of Canada) to the populace every 36 months. This comes with exceptional challenges for government when faced with tough decisions about social welfare issues in a communist society versus economic growth and military ambitions. As Chinese manufacturing sectors grow, so too does the pollution that they produce and this poses serious health concerns in a country as densely populated as China.¹⁶⁹ It has been assessed that China possesses twenty of the top thirty most polluted cities in the world and that the Chinese government "often disregards environmental rules over economic growth."¹⁷⁰ The costs to the economy in terms of health problems, crop failures and water shortages¹⁷¹ have already become critical issues and the "Chinese government estimates that there are over 300 million people drinking unsafe water made so by chemical and other industrial contaminants."¹⁷² With an abundance of natural

¹⁶⁷ James Boutillier, "Does Canada Have Security Interests in the Asia Pacific?" *Asia Pacific Foundation of Canada*, accessed 21 April 2013, <http://www.asiapacific.ca/thenationalconversation/asia/conversations/does-canada-have-security-interests-asia-pacific>.

¹⁶⁸ Damian Grammaticas, "Will China's Xi Jinping be Different?," *BBC News China*, 15 November 2012, accessed 20 April 2013, <http://www.bbc.co.uk/news/world-asia-china-20338556>.

¹⁶⁹ Richard N. Haass, "China's Greatest Threat Is Internal," *Council on Foreign Relations*, 28 December 2011, accessed 19 February 2013, <http://www.cfr.org/china/chinas-greatest-threat-internal/p26930>.

¹⁷⁰ Robert G. Sutter, *Chinese Foreign Relations: Power and Policy Since the Cold War*, (Plymouth: Rowman and Littlefield Publishing Ltd., 2012), 91.

¹⁷¹ *Ibid.*

¹⁷² *Ibid.*

resources, a wealth of green building talent¹⁷³ and a declining work force available to required ratio, Canada and China can work together to help ease these internal pressures through trade of oil to fuel the Chinese economy, providing expertise on sustainable building practices and finally through mutually beneficial immigration to Canada.

Summary

This chapter has touched on a number of Chinese geopolitical issues that should be at the fore of any Canadian Chinese Foreign policy decisions. In particular, increased cooperation with ASEAN to garner membership into the EAS and ADMM +8 and facilitating cooperation on South China Sea territorial claim issues will help raise Canada's diminished profile in SE Asia. Canada also must acknowledge the incredible internal strife that population growth and pollution will have on China and focus our bilateral efforts to helping China solve these problems. As noted in the introduction, to make a *calculated* long term plan other essential factors need to be considered before making recommendations and these include the impact of China's military and economic policies. Economics will now be examined.

¹⁷³ Editorial, "Can Canada help green China's urban billion?" Asia Pacific Foundation of Canada, accessed 23 April 2013, <http://www.asiapacific.ca/media/video/can-canada-help-green-chinas-urban-billion>

CHAPTER II – ECONOMIC

When we say that Canada is open for business, we do not mean that Canada is for sale to foreign governments.¹⁷⁴

Prime Minister Stephen Harper

Introduction

China's economic rise has been well published and statistics from the International Monetary Fund,¹⁷⁵ World Trade Organization¹⁷⁶ and Organization for Economic Cooperation and Development¹⁷⁷ all point to the fact that China, vice the United States, will soon become the world's largest economy.¹⁷⁸ Over the last 10 years alone, the United States has seen its share of world GDP drop from 23% to 19.5% while over the same period China has observed a rise from 8% to 14.5%.¹⁷⁹ With these trends predicted to continue, the Chinese economy will likely surpass the United States by 2016.¹⁸⁰

¹⁷⁴ Stephen Harper, (Statement on Foreign Investment, Ottawa, Canada, December 7, 2012), accessed 28 March 2013, <http://www.pm.gc.ca/eng/media.asp?id=5195>.

¹⁷⁵ International Monetary Fund, "World Economic and Financial Surveys- World Economic Outlook (WEO) Coping with High Debt and Sluggish Growth," accessed 28 April 2013, <http://www.imf.org/external/pubs/ft/weo/2012/02/index.htm>.

¹⁷⁶ World Trade Organization, "Trade Profiles China, USA, Canada 2013," accessed 25 April 2013, <http://stat.wto.org/CountryProfile/WSDBCountryPFView.aspx?Language=E&Country=CA,CN,US>.

¹⁷⁷ Organization for Economic Cooperation and Development, "Country statistical profile: China," accessed 24 April 2013, http://www.oecd-ilibrary.org/economics/country-statistical-profile-china_csp-chn-table-en.

¹⁷⁸ Brett Arends, "IMF bombshell: Age of America nears end: China's economy will surpass the U.S. in 2016," *The Wall Street Journal*, 25 April 2011, accessed 20 April 2013, http://articles.marketwatch.com/2011-04-25/commentary/30714377_1_imf-chinese-economy-international-monetary-fund.

¹⁷⁹ *Ibid.*

As noted in this paper's introduction, the United States is Canada's largest trading partner and the decline in the US share of global GDP has had an effect on Canada. Since 2002, our global GDP percentage has dropped from 2.07% to 1.799% in 2012. While this percentage decline can be partially attributed to the concurrent rise of states like Sudan, Brazil and India, Canada has mostly suffered from stunted export demand to the United States that has come about from the world financial crisis. While Canada's GDP as a percentage of the world's total have dropped, its economy has continued to grow, just at lower rates than the rest of the world (exception 2009).¹⁸¹ This Canadian growth, in a period where many Western governments saw decline, has been primarily accomplished by three means; government initiatives such as tax cuts and stimulus packages,¹⁸² a strong banking sector that insulated Canadians from the subprime mortgage crisis in the USA¹⁸³, and a diversification in export market destination.¹⁸⁴ This third factor is the most important area for Canadian Government economic foreign policy consideration. As Canada has diversified investment and exports to reduce risk that has come about from the decreased US demand, exports to China have seen a 50% growth rate since the 2007-

¹⁸⁰ International Monetary Fund, "World Economic and Financial Surveys... <http://www.imf.org/external/pubs/ft/weo/2012/02/index.htm>; Editorial, "National Intelligence Council Global Trends 2030: Alternative Worlds," *Public Intelligence*, 12 December 2012, accessed 15 February 2013, <http://publicintelligence.net/global-trends-2030/>.

¹⁸¹ Editorial, "GDP - real growth rate (%): Canada," *Mundi Index*, accessed 24 April 2013, <http://www.indexmundi.com/g/g.aspx?v=66&c=ca&l=en>.

¹⁸² Bruce Campbell, "The Global Economic Crisis and its Canadian Dimension Economic Downturn is Already as Bad as in the Early 1930s," *Canadian Center for Policy Alternatives*, 1 July 2009, accessed 6 April 2013, <http://www.policyalternatives.ca/publications/monitor/global-economic-crisis-and-its-canadian-dimension>.

¹⁸³ Kevin Lynch, "Avoiding the Financial Crisis: Lessons From Canada," *Institute for Research on Public Policy*, May 2010, accessed 20 April 2013, <http://www.irpp.org/po/archive/may10/lynch.pdf>.

¹⁸⁴ Editorial, "Canada's Declining Reliance on the US – Where to Grow from Here," *TD Economics*, 1 February 2012, accessed 23 April 2013, http://www.td.com/document/PDF/economics/special/dp0212_trade.pdf.

2009 world financial crises.¹⁸⁵ As noted earlier in this paper, this is happening concurrent to the Conservative government foreign policy shift with China where an aggressive human rights agenda has been replaced with economic cooperation initiatives.¹⁸⁶ This highlights the reality that a Canadian foreign policy for China must be driven from the requirement to support our economic requirements.

This chapter will focus on the economic aspects of a China policy in light of its growing stature. In particular, the chapter will conduct a brief overview of economic cooperation to date and analyze current Canadian/Chinese economic initiatives (and the controversies surrounding them). Next the impact of China's astonishing 7-8% growth rates will be examined, in particular the concerns associated with China's desire to invest large holdings of foreign capital in Canada to secure resources and fuel industrial development. Finally, the shortcomings of the Investment Canada Act with respect to Chinese State Owned Enterprise (SOE) operations in Canada will be analyzed. In the conclusion to this chapter, the key economic policy issues for Canada will be highlighted before moving to the military foreign policy analysis.

¹⁸⁵ *Ibid.*

¹⁸⁶ Department of Foreign Affairs and International Trade, "Canada-China Economic Complementarities Study," accessed 3 May 2013, <http://www.international.gc.ca/trade-agreements-accords-commerciaux/agr-acc/china-chine/study-comp-etude.aspx?view=d>; The Canadian Chamber of Commerce, "Advancing our economic ties with China: Three Priorities for Canadian Business," January 2012, accessed 5 May 2013, <http://www.chamber.ca/images/uploads/Reports/2012/Advancing%20our%20economic%20ties%20with%20China.pdf>.

Current Economic Relationship

Chinese trade is important to Canada. The Sino/Canadian economic relationship is at an all-time high when an analysis is conducted of the dollar value of trade between the two nations. China is now Canada's fastest-growing trading partner in the world with "bilateral merchandise trade totaling \$50.8 billion."¹⁸⁷ Although official Canadian and PRC relations only started 40 years ago under Prime Minister Trudeau, since that time the nature of the relationship has moved rapidly from initial diplomacy, to the granting of General Preferential Tariff status,¹⁸⁸ to talks on establishment of a free trade agreement.¹⁸⁹ Although human rights transgressions have been a major sticking point in political dialogues, the value of economic trade between the two nations has continued to grow. With over six of the largest trade missions being conducted in the late 1990s to early 2000s, Prime Minister Chretien and his 'Team Canada' delegations certainly laid the groundwork for the upsurge in trade.¹⁹⁰ Most recently, Chinese acceptance into the World Trade Organization was led by the CCPs adoption of free market style economic

¹⁸⁷ Michael Holden, "Canadian Trade and Investment Activity: Canada-China," *Department of Foreign Affairs and International Trade*, 22 July 2010, accessed 11 May 2013, <http://www.parl.gc.ca/Content/LOP/ResearchPublications/2010-41-e.htm>.

¹⁸⁸ Department of Foreign Affairs and International Trade, "Canada-China Economic Complementarities Study," accessed 3 May 2013, <http://www.international.gc.ca/trade-agreements-accords-commerciaux/agr-acc/china-chine/study-comp-etude.aspx?view=d>

¹⁸⁹ Campbell Clark, "China calls for free-trade deal with Canada within a decade," *Globe and Mail*, 22 September 2012, accessed 6 May 2013, <http://www.theglobeandmail.com/news/politics/china-calls-for-free-trade-deal-with-canada-within-a-decade/article4561149/>; Andrew Ross, *Fast boat to China : corporate flight and the consequences of free trade : lessons from Shanghai*, (Random House, 2006); Sabrina A. Bandali, Laura Little and Michael G. Wood, "Canada Concludes FIPA with China," *Heenan Blaikie Lawyers*, April 2012, accessed 16 May 2013, <http://www.heenanblaikie.com/en/Publications/2012/Canada-Concludes-FIPA-with-China.pdf>.

¹⁹⁰ Editorial, "Milestones in Chinese-Canadian relations," *CBC News*, 16 November 2006, accessed 12 May 2013, <http://www.cbc.ca/news/background/china/china-canada-relations.html>; Francine Roy – Ministry of Industry (Statistics Canada), "Insights on the Canadian Economy - Canada's Trade With China," accessed 21 April 2013, <http://publications.gc.ca/collections/Collection/Statcan/11-624-M/11-624-MIE2004007.pdf>.

policy implementation.¹⁹¹ With their reception into the WTO completed in December 2001,¹⁹² the scale of Chinese growth exploded as they harnessed their large population and established a manufacturing base that would provide the core driver for rapid urbanization and infrastructure development.¹⁹³

Since 2001, foreign direct investment from China into Canada has also expanded with a 36 fold increase.¹⁹⁴ In 2009, leaders from Canada and China have been keen to further this cooperation and stimulate these numbers with supporting policy documentation. With the 2012 release of the *Canada-China Economic Complementarities Study*, Canada and China have defined seven key areas of economic interest including; “agriculture and agri-food, clean technology, machinery and equipment, natural resources and derived products, services, textiles and related goods and finally transportation infrastructure and aerospace.”¹⁹⁵ Although all areas of the study are of importance, natural resources and derived products are the most economically vital to Canada as they represent almost 50% of Canadian exports,¹⁹⁶ and generate 11.5% of GDP.¹⁹⁷ With China’s rapid growth fuelling increasing demands for resources, they have become the world’s second largest raw material importer. However, despite almost 30% annual bi-lateral growth in resource trade since 2001, Canada remains China’s 16th

¹⁹¹ World Trade Organization, “WTO successfully concludes negotiations on China's entry,” 17 September 2001, accessed 4 May 2013, http://www.wto.org/english/news_e/pres01_e/pr243_e.htm.

¹⁹² World Trade Organization, “Protocols of accession for new members since 1995, including commitments in goods and services,” 2 March 2013, accessed 3 April 2013, http://www.wto.org/english/thewto_e/acc_e/completeacc_e.htm.

¹⁹³ Department of Foreign Affairs and International Trade, “Canada-China Economic Complementarities Study,” accessed 3 May 2013, <http://www.international.gc.ca/trade-agreements-accords-commerciaux/agr-acc/china-chine/study-comp-etude.aspx?view=d>.

¹⁹⁴ *Ibid.*

¹⁹⁵ *Ibid.*

¹⁹⁶ *Ibid.*

¹⁹⁷ Natural Resources Canada, “Important Facts on Canada's Natural Resources,” accessed 2 May 2013, <http://www.nrcan.gc.ca/statistics-facts/home/887>

largest supplier of natural resources, providing only 1.9% of total Chinese demand.¹⁹⁸ This represents an incredible growth market potential for Canada as they are the 3rd largest trader of natural resources in the world. This market development requires significant support from policy, and our last strategy release was in 1996 with *The Minerals and Metals Policy of the Government of Canada - Partnerships for Sustainable Development*.¹⁹⁹ In 1996, China/Canada trade was valued at just over \$7 billion dollars²⁰⁰ and China was Canada's fourth largest trading partner.²⁰¹ Since that time, China has surged to be Canada's second largest trading partner and the world's second largest economy, which should warrant another look at this policy. As an initial stepping stone, the two governments have signed a Memorandum of Understanding²⁰² for natural resource dialogue, but the lack of *policy* is one of the key shortcomings in our current relationship. As noted by the Canadian International Council in their study *The 9 Habits of Highly Effective Resource Economies*, foreign governments would have a much better understanding of why "potential investments are refused if the reasons are be public and transparent,"²⁰³ and made on the basis of policy.²⁰⁴ Additionally, they recommend that this could be done if

¹⁹⁸ Department of Foreign Affairs and International Trade, "Canada-China Economic...", <http://www.international.gc.ca/trade-agreements-accords-commerciaux/agr-acc/china-chine/study-comp-etude.aspx#secd>.

¹⁹⁹ Natural Resources Canada, "The Minerals and Metals Policy of the Government of Canada Partnerships for Sustainable Development," accessed 2 May 2013, <http://www.nrcan.gc.ca/minerals-metals/sites/www.nrcan.gc.ca/minerals-metals/files/files/pdf/poli-poli/mmp-eng.pdf>.

²⁰⁰ Alexandre Gauthier – Department of Foreign Affairs and International Trade, "Canadian Trade and Investment Activity: Canada–China," 27 June 2012, accessed 2 May 2013, <http://www.parl.gc.ca/Content/LOP/ResearchPublications/2012-62-m-e.htm>.

²⁰¹ Jafar Khondaker – Ministry of Industry (Statistics Canada), "Canada's Trade with China: 1997 to 2006," accessed 21 April 2013, <http://www.statcan.gc.ca/pub/65-508-x/65-508-x2007001-eng.htm>.

²⁰² Natural Resources Canada, "The Minerals and Metals Policy..." <http://www.nrcan.gc.ca/minerals-metals/sites/www.nrcan.gc.ca/minerals-metals/files/files/pdf/poli-poli/mmp-eng.pdf>

The federal, provincial, and territorial governments collaborate on a national blueprint for resource development that identifies the gaps to be filled — including in infrastructure, environmental protection, trade diversification, education and immigration, technology, and supporting sectors.²⁰⁵

Although some protection is already given to the Canadian taxpayer from the Investment Canada Act,²⁰⁶ where reviews of foreign takeovers worth over \$330 million are mandated,²⁰⁷ a coherent China policy would allow Chinese investors greater understanding of the factors being considered in such reviews. This will be expanded upon further in the dangers of foreign investment with China section of this chapter.

The final development in the Sino-Canadian economic relationship to be reviewed is the recent negotiations to establish a Foreign Investment Promotion and Protection Agreement between China and Canada. Although it is awaiting ratification, this FIPA is a “bilateral agreement between states with the intent to merely protect and promote investment by assigning legally binding rights to both parties in foreign investment matters.”²⁰⁸ A FIPA is different from a free trade agreement (FTA), such as NAFTA, in that FTAs eliminates barriers to trade in goods and services, whereas a FIPA assigns

²⁰³ Madelaine Drohan, “The 9 Habits of Highly Effective Resource Economies,” *Canadian International Council*, 2012, accessed 2 May 2013, <http://opencanada.org/features/reports/the-9-habits-of-highly-effective-resource-economies/>.

²⁰⁴ *Ibid.*

²⁰⁵ *Ibid.*

²⁰⁶ Department of Justice, “Investment Canada Act (R.S.C., 1985, c. 28 (1st Supp.)),” accessed 2 May 2013, <http://laws-lois.justice.gc.ca/eng/acts/I-21.8/index.html>.

²⁰⁷ Erica Alini, “The CNOOC-Nexen Review Process Explained,” *MacLean’s*, 7 December 2012, accessed 3 May 2013, <http://www2.macleans.ca/2012/12/07/the-cnoocnexen-review-explained-net-benefit-might-not-even-be-the-point/>.

²⁰⁸ Jason Tsoukas and Caroline Klinkhoff, “Deconstructing FIPA: Frequently Asked Questions & Answers,” *Canada China Business Council*, 6 Dec 2013, accessed 20 April 2013, <http://www.ccbc.com/2012/12/frequently-asked-questions-about-the-canada-china-fipa-for-canadian-investors-operating-in-china/>; Sabrina A. Bandali, Laura Little and Michael G. Wood, “Canada Concludes FIPA with China,” *Heenan Blaikie Lawyers*, April 2012, accessed 16 May 2013, <http://www.heenanblaikie.com/en/Publications/2012/Canada-Concludes-FIPA-with-China.pdf>; Department of Foreign Affairs and International Trade, “Negotiations and Agreements Foreign Investment Promotion and Protection (FIPAs),” accessed 2 May 2013, <http://www.international.gc.ca/trade-agreements-accords-commerciaux/agr-acc/fipa-apie/index.aspx?view=d>.

investors rights. This is good for Canadian business in that it will allow Canadian investors in China similar rights to domestic competitors in its vast market. It has, however, been greatly contested in Canada, with the most vocal critic being Gus Van Harten who notes that “all the other FIPAs Canada has signed is with countries that don't invest in Canada [and] in this treaty, it's fair to conclude that Chinese investment in Canada is very likely to outstrip significantly Canadian investment in China.”²⁰⁹ There are many significant risks associated with this FIPA in that it is in effect for 31 years (whereas NAFTA can be terminated within 6 months), “Chinese asset-owners in Canada will be able to challenge Canadian legislative, executive, or judicial decisions outside of the Canadian legal system and Canadian courts (including provincial environmental laws)”²¹⁰ and finally “taxpayers are being put at risk of huge payouts to corporations who make aggressive use of the investor-state dispute resolution mechanisms included in these agreements.”²¹¹ While these are important concerns for Canadians, it should be re-emphasized that both governments have preserved the right to regulate in the public interest,²¹² which Canada would do under the Investment Canada Act.

²⁰⁹ Julian Beltrame, “Canada-China FIPA: Critics Say 'Flawed' Agreement On Fast Track To Ratification,” *The Canadian Press*, 17 October 2012, accessed 28 January 2013, http://www.huffingtonpost.ca/2012/10/17/canada-china-fipa-critics-flawed_n_1975149.html.

²¹⁰ Gus Van Harten, “Open letter to Stephen Harper: Fourteen reasons the Canada-China FIPA needs a full public review,” *Rabble.ca*, 18 October 2012, accessed 30 January 2013, <http://rabble.ca/news/2012/10/open-letter-stephen-harper-fourteen-reasons-canada-china-fipa-needs-full-public-review>

²¹¹ Les Whittington, “First Nations seek to hold up ratification of Canada-China foreign investment treaty - Aboriginal groups join opposition to the controversial pact signed by the Stephen Harper government,” *The Toronto Star*, 3 January 2013, accessed 2 February 2013, http://www.thestar.com/news/canada/2013/01/03/first_nations_seek_to_hold_up_ratification_of_canadachina_foreign_investment_treaty.html.

²¹² Department of Foreign Affairs and International Trade, “Canada-China Foreign Investment Promotion and Protection Agreement (FIPA) Negotiations,” accessed 16 May 2013, <http://www.international.gc.ca/trade-agreements-accords-commerciaux/agr-acc/fipa-apie/china-chine.aspx?lang=eng>.

In sum, Sino-Canadian trade continues to grow despite diplomatic hiccups over differing political views. As China's demand for resources grows to fuel their ascent to the world's largest economy, the Canadian government must put in place Canadian policy and legislation that will protect Canadian resources and industry. Although some argue that the current FIPA is turning Canada into a resource colony,²¹³ the vast market potential of China as its wealth rises will see great domestic Chinese consumerism and demand for goods and services where Canadian businesses can take advantage.²¹⁴ While the FIPA will grant Chinese business owner's rights within Canada, their acquisition of large portions of critical Canadian resources and industry will be governed by the national interest and net benefit clauses in the Investment Canada Act which adds safety for Canadians but ambiguity for investors.²¹⁵ Clear bounds on the limits of foreign direct investment from China, especially State Owned Enterprises (SOEs), and how these Canadian clauses and tests will be applied would be excellent additions to any China policy. This will now be expanded upon in the dangers of investment poised by China's international investors and acquisitions by state owned enterprises.

²¹³ Heather Scoffield, "Investment deal with China would leave Canada a resource colony: opponents," *MacLean's*, 30 October 2012, accessed 2 February 2013, <http://www2.macleans.ca/2012/10/30/investment-deal-with-china-would-leave-canada-a-resource-colony-opponents/>.

²¹⁴ Editorial, "China's Rising Consumerism," *Reuters*, accessed April 2013, <http://www.reuters.com/news/pictures/slideshow?articleId=USRTXYRHB#a=1>.

²¹⁵ Terence Corcoran, "Rocky road lies ahead for foreign investments in Canada," *Financial Post*, 7 July 2012, accessed 2 May 2013, <http://opinion.financialpost.com/2012/12/07/rocky-road-ahead-for-foreign-investments-in-canada/>.

Chinese Growth and Dangers to Canada

While the vast majority of foreign investment in Canada is carried out in an open and transparent manner, certain state-owned enterprises (SOEs) and private firms with close ties to their home governments have pursued opaque agendas or received clandestine intelligence support for their pursuits here.²¹⁶

CSIS 2010–2011 Public Report

Canada possesses one of the stronger economies in the world and is governed by a democratic government that shapes trade policy via legislation to balance the requirements of free market procedures with national industrial and societal benefit.

China on the other hand is in a precarious position of balancing CCP led²¹⁷

“macroeconomic activism with the goals of global monetary order and open international trade.”²¹⁸ As noted above, this activism by the Chinese government is the most

significant economic factor that allowed them to weather the financial crisis of 2007-2009. Where Western economic growth averaged -.4%, China surged forward at 11%,

mostly as a result of a large government stimulus package which blunted the effects of falling exports to foreign markets.²¹⁹ The result has been Chinese annual GDP growth is

predicted to propagate at the 7-8% range which has been powered by two factors; trade surpluses and sizeable foreign direct investment into China. These are important as they

cumulatively provide the Chinese industry and enterprises exceptionally large amounts of foreign funds to invest in overseas markets and resources. The amount of funds available

²¹⁶ Department of Public Safety – Canadian Security Intelligence Service, “2010–2011 Public Report,” accessed 2 May 2013, <https://www.csis.gc.ca/pblctns/nlprpt/2010-2011/rprt2010-2011-eng.asp>.

²¹⁷ Bertelsmann Stiftung, “China Country Report,” (Gütersloh: Bertelsmann Stiftung, 2012), accessed 3 May 2013, <http://www.bti-project.de/fileadmin/Inhalte/reports/2012/pdf/BTI%202012%20China.pdf>.

²¹⁸ Rosemary Foot and Andrew Walter, *China, The United States and Global Order* (New York: Cambridge University Press, 2011), 80.

²¹⁹ Yu Yongding, “China’s response to the global financial crisis,” *East Asia Forum* (blog), 24 January 2010, <http://www.eastasiaforum.org/2010/01/24/chinas-response-to-the-global-financial-crisis/>.

is staggering, valued at over \$3 trillion dollars in 2011.²²⁰ Most of these funds, as noted above, have been derived from trade surpluses which have grown from \$34 billion in 2004 to \$262 billion in 2007 and Foreign Direct Investment into China amounting to \$1 trillion in 2010(with financial sectors included).²²¹ In order to manage such a large source of investment funds, in 2007 the Chinese government created the Chinese Investment Corporation (CIC) which is a wholly state-owned company under the Company Law of the People's Republic of China. Its mandate is to invest a sizable portion of the aforementioned \$3 trillion dollars' worth of foreign exchange reserves.²²² Although just one of a few Chinese sovereign wealth funds, CIC has attempted to portray itself as a passive institutional investor focused on returns, not boosting state influence.²²³ However, Chinese state owned subsidiaries motives for investment destinations have often been called into question.²²⁴ In his analysis of China's 'Go-Global' policy, Duncan Freeman summarizes that China's SOE focus has been towards "obtaining raw materials

²²⁰ Jacqueline Wong and Ken Wills, "Instant view: China foreign exchange reserves hit \$3.2 trillion," *Reuters*, 14 October 2011, accessed 1 February 2013, <http://www.reuters.com/article/2011/10/14/us-china-economy-inflation-iv-idUSTRE79D18E20111014>.

²²¹ Robert G. Sutter, *Chinese Foreign Relations: Power and Policy Since the Cold War*, (Plymouth: Rowman and Littlefield Publishing Ltd., 2012), 70-71.

²²² China Investment Corporation, "Overview," accessed 3 May 2013, http://www.china-inv.cn/cicen/about_cic/aboutcic_overview.html

²²³ Andy Hoffman and Tara Perkins, "China's sovereign wealth fund sets up shop in Toronto," *Globe and Mail*, 12 January 2011, accessed 4 February 2013, <http://www.theglobeandmail.com/report-on-business/chinas-sovereign-wealth-fund-sets-up-shop-in-toronto/article562162/>.

²²⁴ Jyri Lintunen, "Motives and Location Factors of Chinese Outward Foreign Direct Investments in a Small Developed Economy" (master's thesis, Aalto University School of Economics, 2011) accessed 8 March 2013, http://epub.lib.aalto.fi/en/ethesis/pdf/12584/hse_ethesis_12584.pdf; Qingxiu Bu, "China's Sovereign Wealth Funds: Problem or Panacea?" accessed 2 May 2013, [http://stockholm.sgir.eu/uploads/SWF\[1\]\[1\].pdf](http://stockholm.sgir.eu/uploads/SWF[1][1].pdf); Editorial, "Not just tilting at windmills - China's state-owned enterprises are increasingly getting it into trouble—abroad and at home," *The Economist*, 6 October 2012, accessed 4 May 2013, <http://www.economist.com/node/21564235>

that China lacks, stimulating sales of goods by Chinese enterprises, and raising their R&D and technology capacity.”²²⁵

For Canada, this ‘Go-Global’ policy through SOE’s represents an opportunity and a threat.²²⁶ Natural resource development costs money. While some argue that Canada has the sources of funds available to finance these industries,²²⁷ the large amount of Chinese capital requiring investment, the Chinese need for natural resources to fuel development and jobs created for the Canadian economy point towards a natural net benefit. However, when dealing with enterprises that are under the control of or report to the Chinese Communist Parties, a question arises whether they are “cutting off other buyers from access to world supply or helping to multiply suppliers and expand competitive access to the world resource base.”²²⁸ While these impact the global supply markets at the high end of economics, the focus of this section will be the recent concerns surrounding Chinese investment in Canada including foreign ownership over large portions of Canada’s natural resource sector and foreign intelligence operations surrounding Chinese SOE’s in Canada.

These foreign ownership and intelligence concerns have led to a number of controversial businesses cases in Canada. In 1985 the Canadian Government created the

²²⁵ Duncan Freeman, “China’s Outward Investment: A Policy Review,” accessed 3 April 2013, http://www.academia.edu/241103/Chinas_Outward_Investment_A_Policy_Overview

²²⁶ Theodore H. Moran, “Chinese Foreign Direct Investment in Canada: Threat or Opportunity?” *Canadian Council of Chief Executives*, (March 2012), <http://www.ceocouncil.ca/wp-content/uploads/2012/03/Chinese-Foreign-Direct-Investment-in-Canada-Theodore-H-Moran-March-2012.pdf>.

²²⁷ Jim Stanford, “Canadian energy doesn’t need foreign capital,” *Globe and Mail*, 8 December 2012, accessed 3 January 2013, <http://www.theglobeandmail.com/commentary/canadian-energy-doesnt-need-foreign-capital/article6121306/>.

²²⁸ Theodore H. Moran, “Chinese Foreign Direct...”, 18, <http://www.ceocouncil.ca/wp-content/uploads/2012/03/Chinese-Foreign-Direct-Investment-in-Canada-Theodore-H-Moran-March-2012.pdf>.

Investment Canada Act (ICA), and the legislation establishes a review process for “significant investments in Canada by non-Canadians in order to ensure such benefit to Canada.”²²⁹ It had its first large test in 2004, when Chinese SOE MinMetals attempted to purchase Canada’s largest nickel and zinc mining company Noranda Inc.²³⁰ At the time great debate surround the fact that “Minmetals had no shareholders...and this would be the nationalization of a private company by a branch of government.”²³¹ This was the first large SOE that was subject to the ICA and the deal eventually fell through because of Canadian political influence had suggested if a deal was reached, it would not likely pass through because of Canadian political concerns over Chinese government human rights abuses.²³² More recently, the net benefit or national interest clause²³³ of the ICA was applied to BHP Bilton Ltd’s proposed \$40 billion dollar takeover of Potash Saskatchewan.²³⁴ While not an SOE, this deal failed as it was determined not to meet the net benefit clause of the ICA,²³⁵ which includes the “effect of the takeover on employment, technology development, productivity, competition, and national

²²⁹ Department of Foreign Affairs and International Trade, “An Overview of the Investment Canada Act (FAQs),” accessed 5 May 2013, http://www.ic.gc.ca/eic/site/ica-lic.nsf/eng/h_1k00007.html.

²³⁰ Agata Antkiewicz and John Whalley, “Recent Chinese Buyout Activity and the Implications for Global Architecture,” *National Bureau of Economic Research Working Paper*, no. 12072, (March 2006): 11, accessed 3 May 2013, http://www.nber.org/papers/w12072.pdf?new_window=1.

²³¹ Editorial, “Canada Welcomes China's Cash Resource-Rich Nation Seems Mostly Unfazed By Acquisition Overtures,” *Wall Street Journal*, 15 July 2005, accessed 4 May 2013, <http://online.wsj.com/article/SB112137112379485976.html>.

²³² Doug Alexander, “Noranda Ends Exclusive Talks With China Minmetals (Update5),” *Bloomberg*, 16 November 2004, accessed 4 May 2013, <http://www.bloomberg.com/apps/news?pid=newsarchive&sid=aSoDroH3ZY5Q&refer=canada>.

²³³ Department of Justice, “Investment Canada Act (R.S.C., 1985, c. 28 (1st Supp.)),” accessed 4 May 2013, <http://laws-lois.justice.gc.ca/eng/acts/i-21.8/page-10.html#h-10>

²³⁴ Editorial, “BHP Billiton walks away from PotashCorp,” *CBC News*, 14 November 2010, accessed 4 May 2013, <http://www.cbc.ca/news/canada/saskatchewan/story/2010/11/14/sask-potash-billion-deal-off.html>.

²³⁵ *Ibid.*

policies.”²³⁶ While BHP Billiton accepted the government’s decision, the ICA and continuing ambiguity surrounding the net benefit clause have proven polarizing in Canada.²³⁷ Additionally, China’s interest in the BHP Billiton deal and potential influence in the decision was troubling to Canadians, as allegations of Chinese cyber espionage targeting the Toronto law firms handling Billiton’s case²³⁸ intensified public opinion on natural resource takeovers. In the wake of this was the China National Offshore Oil Corporation’s (CNOOC) proposed \$15.1 billion takeover of Calgary based Nexen Inc. This deal saw Chinese SOE CNOOC acquire a huge share of the world’s third largest crude oil reserve in Long Lake Alberta.²³⁹ This controversy surrounding the sale led to Prime Minister Harper stating

Canadians have not spent years reducing the ownership of sectors of the economy by our own governments, only to see them bought and controlled by foreign governments instead... Foreign state control of oilsands development has reached a point at which further state control would not be of net benefit to Canada... [future takeovers would] only [be approved] in an exceptional circumstance.²⁴⁰

As China looks to invest further invest its foreign capital, these kinds of messages may “unduly limit investment in Canada and reduce Canadian access to an important

²³⁶ Shawn McCarthy, “The pros and cons of a BHP takeover of Potash Corp.,” *Globe and Mail*, 1 November 2010, accessed 4 May 2013, <http://www.theglobeandmail.com/news/politics/the-pros-and-cons-of-a-bhp-takeover-of-potash-corp/article1216013/>

²³⁷ Denise Deveau, “Does the ‘net benefit’ test make the grade?” *Financial Post*, 23 May 2013, accessed 23 May 2013, <http://business.financialpost.com/2013/05/23/does-the-net-benefit-test-make-the-grade/>.

²³⁸ Matthew Bragga, “Canada must ramp up cyber security in wake of alleged China-led attacks, experts say,” *Financial Post*, 19 February 2013, accessed May 13 2013, http://business.financialpost.com/2013/02/19/canada-must-ramp-up-cyber-security-in-wake-of-china-led-attacks-experts-say/?_lsa=d7f7-de72.

²³⁹ Euan Rocha, “CNOOC completes contentious \$15.1-billion acquisition of Nexen,” *Reuters*, 25 February 2013, accessed 25 May 2013, http://business.financialpost.com/2013/02/25/cnooc-completes-contentious-15-1-billion-acquisition-of-nexen/?_lsa=d7f7-de72.

²⁴⁰ Greg Weston, “Harper draws a line in the oilsands, for now - Future foreign takeovers in oilsands will happen only under 'exceptional circumstances',” *CBC News*, 8 Dec 2012, accessed 14 May 2013, <http://www.cbc.ca/news/canada/story/2012/12/07/poli-canada-greg-weston-oil-sands-nexen-chinese-harper-government.html>

source of global capital, jobs, technologies, and supply chains as well as the ability of Canadian individuals to participate in the managerial networks that these firms create.”²⁴¹

The Government of Canada needs to ensure that resource development funding continues while protecting Canadian interests. Philippe Bergevin and Daniel Schwanen in their paper *Reforming the Investment Canada Act: Walk More Softly, Carry a Bigger Stick* suggest that the onerous net benefit test should be replaced with a national interest test that would

reverse the onus and require the federal government to show that a foreign investment was contrary to Canadian interests in order to block a particular transaction... as this would demonstrate that the government no more intended to intervene in a private transaction involving foreigners than it would in a transaction involving Canadians in similar circumstances.²⁴²

The Government of Canada acknowledged changes to the ICA are required and in May 2012 they proposed that only the most significant investments are subject to ICA review (by increasing the review threshold to \$1 billion from \$330 million), strengthening the enforcement mechanisms in the legislation, and increasing transparency of the review process.²⁴³ Additionally, they changed the definition of an SOE to

not only those entities that are owned by a foreign state, but also entities that are influenced directly or indirectly by a foreign government. The updated SOE Guidelines require all SOE investors to demonstrate their commitment to transparent and commercial operations and the extent of influence by the foreign state²⁴⁴

²⁴¹ Margaret Cornish, “Behaviour of Chinese SOEs: Implications for Investment and Cooperation in Canada,” *Canadian International Council and Canadian Council of Chief Executives*, (February 2012), accessed 7 May 2013, <http://www.ceocouncil.ca/wp-content/uploads/2012/02/Margaret-Cornish-Chinese-SOEs-February-2012.pdf>

²⁴² Philippe Bergevin and Daniel Schwanen, “Reforming the Investment Canada Act: Walk More Softly, Carry a Bigger Stick,” *CD Howe Institute*, no. 337 (December 2011), http://www.cdhowe.org/pdf/commentary_337.pdf.

²⁴³ Osler, Hoskin, Harcourt LLP, “Proposed Changes to the Investment Canada Act and Foreign Investment Review Process - Benefit or Increased Burden for Foreign Investors?” accessed 3 May 2013, <http://www.osler.com/NewsResources/Proposed-Changes-to-the-Investment-Canada-Act-and-Foreign-Investment-Review-Process-Benefit-or-Increased-Burden-for-Foreign-Investors/>

²⁴⁴ Stikeman Elliott LLP, “Investment Canada Act: SOE Guidelines and CNOOC/Nexen,” accessed 4 May 2013, <http://www.stikeman.com/cps/rde/xchg/se-en/hs.xsl/17141.htm>.

While these changes signal to SOE's that Canada welcomes FDI,²⁴⁵ it falls short of Bergevin and Schwanen's recommendations of onus of proof. However, by clarifying state involvement in business transactions and signaling no further SOE ownership of Canadian oilsands, Chinese SOE's have a clearer roadmap for investment in Canada. The government should now work on the definitions of net benefit²⁴⁶ as this is the primary criteria for acceptance/rejection of FDI in Canadian resources.²⁴⁷ While the controversies surrounding resource takeovers primarily are concerned with the net benefit test, others are subject to the national security regulations in the ICA.²⁴⁸

As noted by sub section 7, sub para d of the ICA National Security Review of Investments Regulations,²⁴⁹ the Canadian Security Intelligence Service (CSIS) is an investigative body that can review SOE outward direct investments into Canada before they are approved. Recently two Chinese telecommunication SOE's, Huawei and ZTE attempted bid on major Canadian government telecommunications projects.²⁵⁰ The bids

²⁴⁵ Dr. A. Neil Campbell and Devin Anderson, "Canada continues to welcome foreign investment with *Investment Canada Act* changes," *MacMillan LLP*, (September 2012), accessed 6 May 2013, <http://mcmillan.ca/Canada-continues-to-welcome-foreign-investment-with-fine-tuning-of-Investment-Canada-Act>

²⁴⁶ Andrew Coyne, "The 'net benefit' test doesn't need to be clarified, it needs to be abolished," *The National Post*, 22 October 2012, accessed 7 May 2013, <http://fullcomment.nationalpost.com/2012/10/22/andrew-coyne-the-net-benefit-test-doesnt-need-to-be-clarified-it-needs-to-be-abolished/>; Jeff Lagerquist, "Canada may look to Australia to define net benefit," *The Financial Post*, 5 December 2012, accessed 7 May 2013, <http://business.financialpost.com/2012/12/05/canada-may-look-to-australia-to-define-net-benefit/>.

²⁴⁷ Editorial, "NDP to Tories: Define 'net benefit' in Nexen deal," *The Canadian Press*, 8 September 2012, accessed 4 May 2013, <http://m.theglobeandmail.com/news/politics/ndp-to-tories-define-net-benefit-in-nexen-deal/article4509574/?service=mobile>.

²⁴⁸ Department of Justice, "National Security Review of Investments Regulations (SOR/2009-271)," accessed 9 May 2013, <http://laws-lois.justice.gc.ca/eng/regulations/SOR-2009-271/page-2.html#docCont>.

²⁴⁹ *Ibid.*

²⁵⁰ Editorial, "Should Canada ban Huawei from bidding on government projects?" *CBC News* (blog), 10 October 2012, accessed 6 February 2013, <http://www.cbc.ca/news/yourcommunity/2012/10/should-canada-ban-huawei-from-bidding-on-government-projects.html>.

were denied on the basis of a national security exemption that was likely influenced²⁵¹ by US intelligence reports that suggested

these companies are influenced by the state, or provide Chinese intelligence services access to telecommunication networks, the opportunity exists for further economic and foreign espionage by a foreign nation-state already known to be a major perpetrator of cyber espionage.²⁵²

This was supported in the 2011 Annual Report by CSIS which highlighted

when foreign companies with ties to foreign intelligence agencies or hostile governments seek to acquire control over strategic sectors of the Canadian economy, it can represent a threat to Canadian security interests. The foreign entities might well exploit that control in an effort to facilitate illegal transfers of technology or to engage in other espionage and other foreign interference activities.²⁵³

The proposed investment by SOE Huawei and Canadian decision to deny the bid highlights a disconnect from the Throne Speech of 2010 which noted its “intention to open Canada's doors further to foreign investment in key sectors, including the satellite and telecommunications industries, giving Canadian firms access to the funds and expertise they need.”²⁵⁴ This commitment was further highlighted in Budget 2010, which stated that “increasing foreign investment is an important way of strengthening market competition and attracting new capital and innovative ideas from abroad.”²⁵⁵ Although it could be argued that the denial based on the national security regulations of the ICA via

²⁵¹ Stephen Chase, “Ottawa set to ban Chinese firm from telecommunications bid,” *Globe and Mail*, 10 October 2012, accessed 4 February 2013, <http://www.theglobeandmail.com/news/politics/ottawa-set-to-ban-chinese-firm-from-telecommunications-bid/article4600199/>

²⁵² US House of Representatives Permanent Select Committee on Intelligence, *Investigative Report on the U.S. National Security Issues Posed by Chinese Telecommunications Companies Huawei and ZTE* (Washington, DC: US Government Printing Office, 2012), accessed 4 May 2013, [http://intelligence.house.gov/sites/intelligence.house.gov/files/documents/Huawei-ZTE%20Investigative%20Report%20\(FINAL\).pdf](http://intelligence.house.gov/sites/intelligence.house.gov/files/documents/Huawei-ZTE%20Investigative%20Report%20(FINAL).pdf)

²⁵³ Department of Public Safety – Canadian Security Intelligence Service, “2010–2011 Public Report,” accessed 4 May 2013, http://www.csis-scrs.gc.ca/pblctns/nlrprt/2010-2011/2010-2011PublicReport_English.pdf.

²⁵⁴ Industry Canada, “Opening Canada's Doors to Foreign Investment in Telecommunications: Options for Reform,” accessed 4 May 2013, <http://www.ic.gc.ca/eic/site/smt-gst.nsf/eng/sf09920.html>.

²⁵⁵ *Ibid.*

CSIS proves that the system works by not imposing undue industrial regulation, a communication of what industries are subject to these clauses would be beneficial.²⁵⁶

The CNOOC and Huawei deals were eventually resolved with the ICA and its net benefit and security clauses. However, throughout these deals the Government of Canada was under significant pressure as both agreements were in politically sensitive sectors of the economy as they relate to resources and telecommunications. With economic espionage through cyber means costing the Canadian economy between \$50-100 billion per year,²⁵⁷ and China being identified as a critical threat to Canada through cyber warfare and industrial espionage²⁵⁸ it is likely that all future Chinese SOE ODI into Canada will be subject to the net benefit and security clauses.²⁵⁹ Additionally, as noted by Theodore H. Moran in his paper *Chinese Foreign Direct Investment in Canada: Threat or Opportunity?*, Canada could draw lessons for national security exemptions from US experience through the 1988 Exon-Florio Amendment . This was the US exploration of risks presented by foreign ownership of US corporations and essentially categorized FDI threats in three categories

“Threat I” consists of acquisitions that would make the home country dependent upon a foreign-controlled supplier that might delay, deny, or place conditions on the provision of goods or services crucial to the functioning of the home economy (including the functioning of the defense industrial base).

“Threat II” consists of acquisitions that would allow the transfer to a foreign-controlled entity of technology or other expertise that might be deployed by the entity or its government in a manner harmful to the home country’s national interests.

²⁵⁶ Eugene Lang, “Buying Canada: Strategic industries, state-owned enterprises and the national interest,” *Canada 2020*, 17 October 2012, accessed 6 May 2013, <http://canada2020.ca/event/buying-canada/>.

²⁵⁷ Editorial, “Corporate Espionage Costing Billions Each Year,” *CTV News*, 29 November 2011, accessed 4 May 2013, <http://www.ctvnews.ca/corporate-espionage-costing-billions-each-year-1.732885>

²⁵⁸ Mandiant, “APT1: Exposing One of China’s Cyber Espionage Units,” 9, accessed 4 May 2013, http://intelreport.mandiant.com/Mandiant_APT1_Report.pdf.

²⁵⁹ Blake, Cassels & Graydon LLP, “Changes To Investment Canada Act For State-Owned Enterprise Investments,” accessed 9 May 2013, <http://www.mondaq.com/canada/x/238674/Securities/Changes+To+Investment+Canada+Act+For+StateOwned+Enterprise+Investments>.

“Threat III” consists of acquisitions that would enable the insertion of some potential capability for infiltration, surveillance, or sabotage – via a human or non-human agent – into the provision of goods or services crucial to the functioning of the home economy (including, but not exclusively, the functioning of the defense industrial base).²⁶⁰

If the Canadian government adopted these threats, combined them with their new ICA SOE definition (direction and influence) and provided a clear mandate for the Chinese directors of SOE’s to prove they do not fall into one of these categories before investment approval, it would help alleviate political pressure on Ottawa.

Summary

China represents both a significant market opportunity for Canadian investment and their large sums of foreign capital could help fuel the Canadian business. With Industry Canada and the Chinese Ministry of Commerce working to focus areas for future cooperation through the *Canada-China Economic Complementarities Study*, both countries acknowledge that mutually beneficial supply and demand relationship exists.²⁶¹ The recent signing of a FIPA to foster protection of investors is a positive first step towards formalizing the rules that will surround bi-lateral trade. However, trade with China has proven that it is not without risk. Given the concerns of clandestine operations being conducted by SOE’s in Canada,²⁶² the importance of the ICA and its net benefit and security clauses cannot be underestimated. If future trade deals are to be reached between Canada and China, particularly where SOE’s are involved, communications

²⁶⁰ Theodore H. Moran, “Chinese Foreign Direct Investment in Canada: Threat or Opportunity?” *Canadian Council of Chief Executives*, (March 2012), <http://www.ceocouncil.ca/wp-content/uploads/2012/03/Chinese-Foreign-Direct-Investment-in-Canada-Theodore-H-Moran-March-2012.pdf>.

²⁶¹ Mark Katz, “The Investment Canada Act and Chinese Investment in Canada,” *Canadian Bar Association*, accessed 10 May 2013, <http://www.cba.org/CBA/PracticeLink/08-12-bc/investment.aspx>.

²⁶² Editorial, “Some politicians under foreign sway: CSIS”, *CBC News*, 23 June 2010, accessed 10 May 2013, <http://www.cbc.ca/news/canada/story/2010/06/22/spying-csis.html>.

channels between Beijing and Ottawa must be open and the level of direction or influence clear.²⁶³ Moving forward Canada must make an assessment of the risk posed by SOE's and weigh it against the increasing influence existing Chinese trade is having on the Canadian economy. While Canada will maintain the US as our closest and largest trading partner,²⁶⁴ it is acknowledged that we must diversify to manage risk. However, our lack of overarching policy for SE Asian regional engagement and dithering on Chinese SOE operations may signal Canada as an undesirable location for investment. Essentially, Canada must come to grips with a rising regional and economic China that does not always play by the rules. The final chapter, military, will now present the final leg of Canadian policy gap focused on contending with China's exceptional military buildup and shifting of US military assets to SE Asia. It will emphasize the need for a congruency between Canadian geopolitical, economic and military policy to ensure Canadian interests are supported.

²⁶³ Wendy Dobson, "Canada, China, and Rising Asia: A Strategic Proposal," *Canada China Business Council and Canadian Council of Chief Executives*, 31, accessed 4 May 2013, http://beta.images.theglobeandmail.com/archive/01331/Canada_China_and_1331920a.pdf.

²⁶⁴ John Size, "China trade mission alters economic future: expert," *CTV News*, 12 February 2012, accessed 18 May 2013, <http://www.ctvnews.ca/china-trade-mission-alters-economic-future-expert-1.767354>.

CHAPTER III – MILITARY

Leaders must adjust to a changed international security environment and ensure that national ends (*policy*), and military ways (*concepts of operation*) and means (*capabilities*) are balanced enough to enable Canada's ability to play a pivotal role in its own immediate sphere of interest.²⁶⁵

Introduction

As the world moves towards a 'Pacific Century' the military must contribute to the security of those we wish to do business with in SE Asia.²⁶⁶ The US, our largest trading partner, recognizes this through their recent announcement of an "Asia Pivot" and intention to rebalance major portions of their military might to focus on a rising China.²⁶⁷ While the US diplomatic and military efforts are primarily focused on economic recovery and 'managing' China's challenge to the US regional hegemon,²⁶⁸ the Canadian approach is focused on reestablishing our presence in region.²⁶⁹ As highlighted in the previous two chapters, the Harper Government recognizes the importance of diversifying our economy and that China and SE Asia will be critical to our future financial stability. Moreover, the Prime Minister recently stated that "Canada is a maritime nation, a maritime nation with trade, commerce and interests around the world. Surrounded as we are by three oceans, it can truly be said, that Canada and its economy float on salt

²⁶⁵ Marko Babic, "Pacific Pivot Point," *Frontline Defence Journal*, no. 1 (2012), accessed 8 May 2013, http://www.frontline-canada.com/downloads/12-1_PacificPivot_MarkoBabic.pdf

²⁶⁶ Fen Osler Hampson and Derek Burney, "Asia-Pacific on a Knife's Edge — What Canada Should Do," *Center for International Governance Innovation and Ipolitics Inc.*, 8 April 2013, accessed 9 May 2013, <http://www.cigionline.org/articles/2013/04/asia-pacific-knife-edge-what-canada-should-do>

²⁶⁷ Congressional Research Service, *Pivot to the Pacific? The Obama Administration's 'Rebalancing' Toward Asia* (Washington: Congressional Research Service, 2012), 15, accessed 3 March 2013, <http://www.fas.org/sgp/crs/natsec/R42448.pdf>.

²⁶⁸ Christopher Layne, "China's Challenge to US Hegemony," accessed 13 May 2013, <http://acme.highpoint.edu/~msetzler/IR/IRreadingsbank/chinauscontain.ch08.6.pdf>.

²⁶⁹ James Manicom, "Canada's Return to East Asia: Re-engagement through Maritime Diplomacy," *Centre for International Governance Innovation Policy Brief*, no. 25 (February 2013), accessed 19 May 2013, <http://www.cigionline.org/publications/2013/2/canada%E2%80%99s-return-east-asia-re-engagement-through-maritime-diplomacy>.

water.”²⁷⁰ With an increasingly large portion of our trade being Asian centric, the security of this region is therefore important to Canada. As highlighted in the geopolitical chapter, there are a number of significant challenges to peace and security in SE Asia that are primarily concerned with overlapping territorial claims. As argued by JN Mak in his paper titled *Sovereignty in ASEAN and the Problem of Maritime Cooperation in the South China Sea*, conflict in the region is primarily focused on maritime territorial boundary disputes as the land borders were resolved through ASEAN acceptance of colonial handover through *uti possidetis juris* (title to territory – As you possess so shall you possess).²⁷¹ As China is on the rise and has made controversial claims to the majority of the South China Sea,²⁷² this chapter will focus on maritime security issues and how Canada can position itself to help de-escalate the tension in the region. Specifically, as the Canada First Defence Strategy lists leadership in international operations as one of the six core missions, the government seeks entry into key regional forums such as the EAS and ADMM +8,²⁷³ and the disputes in the region are maritime focused, specifically how the Royal Canadian Navy can be the used by the Government of Canada to support strategic policy will be the key thrust of this chapter.

²⁷⁰ Stephen Harper (speech, Unveiling of The Royal Canadian Navy Monument on Richmond Landing, Ottawa, Canada, May 3, 2012), accessed 19 May 2013, <http://pm.gc.ca/eng/media.asp?id=4781>

²⁷¹ JN Mak, “Sovereignty in ASEAN and the Problem of Maritime Cooperation in the South China Sea,” *Rajaratnam School of International Studies*, no. 156 (April 2008), 14, accessed 18 May 2013, <http://www.rsis.edu.sg/publications/WorkingPapers/WP156.pdf>.

²⁷² Michael Leifer, *Expanding Horizons in Southeast Asia?* (Singapore: Institute of Southeast Asian Studies, 1994): 3-21, quoted in Richard Sokolsky, Angel Rabasa and C. Neu, *The Role of Southeast Asia in U.S. Strategy Toward China* (Santa Monica: RAND, 2000), 30, accessed 4 March 2013, http://www.rand.org/content/dam/rand/pubs/monograph_reports/MR1170/MR1170.ch4.pdf.

²⁷³ Campbell Clark, “MacKay presses China to take regional disputes to UN,” *Globe and Mail*, 4 June 2013, accessed 4 June 2013, <http://m.theglobeandmail.com/news/politics/SOMNIA/article12329483/?service=mobile>.

China's Military Rise

Observers believe that China's military modernization effort, including its naval modernization effort, is increasingly oriented toward pursuing additional goals, such as asserting or defending China's territorial claims in the South China Sea and East China Sea; enforcing China's view—a minority view among world nations—that it has the right to regulate foreign military activities in its 200-mile maritime exclusive economic zone (EEZ); protecting China's sea lines of communications; protecting and evacuating Chinese nationals in foreign countries; displacing U.S. influence in the Pacific; and asserting China's status as a major world power.²⁷⁴

China's military has been growing at an exceptional rate, with current trends suggesting their defence expenditures could overtake the US by 2035.²⁷⁵ While China has had a large standing army for many years, the focus of the recent defence expenditures has been on naval modernization to support their Anti-Access/Area Denial (A2/AD)²⁷⁶ capacities surrounding the first and second island chains.²⁷⁷

Figure 4



Image courtesy of <http://isj.org.uk/?id=882> accessed June 6, 2013

²⁷⁴ Ronald O'Rourke, "China Naval Modernization: Implications for U.S. Navy Capabilities—Background and Issues for Congress," *Congressional Research Service*, no. RL33153, April 2013, accessed 1 May 2013, <http://www.fas.org/sgp/crs/row/RL33153.pdf>.

²⁷⁵ Editorial, "China's Military Rise: The Dragon's New Teeth," *The Economist*, 7 April 2012, accessed 4 May 2013, <http://www.economist.com/node/21552193>.

²⁷⁶ Michael McDevitt and Frederic Vellucci Jr. *The Evolution of the Peoples Liberation Army Navy – The Twin Missions of Area Denial and Peacetime Operations in Sea Power and the Asia Pacific – The Triumph of Neptune*, (London: Routledge Publishing 2012).

²⁷⁷ Karen Parrish - United States Department of Defence, "DOD Report on China Details Military Modernization," *American Forces Press Service*, 6 May 2013, accessed 15 May 2013, <http://www.defense.gov/News/NewsArticle.aspx?ID=119943>.

Since the 1985 Chinese policy entitled “offshore defence” was released, many in China believe that ownership of the seas surrounding the first island chain and influence over the second island chain is a “right of China”²⁷⁸ based on historical claims.²⁷⁹ These assertions of ownership over large portions of the South China Sea are not solely based on a desire to control rocks and small uninhabitable islands, they are grounded on the Chinese need for oil and balance in the US/China Strategic power struggle.²⁸⁰

As recently as 2010, the Chinese White Paper outlined that PLA Navy (PLAN) will enable these claims by “accelerating the modernization of its integrated combat forces and enhancing its capabilities in strategic deterrence and counterattack while develop[ing] its capabilities in conducting operations in distant waters.”²⁸¹ The PLAN equipment acquisition efforts to support these goals have primarily been focused in three primary thrusts; carrier aviation, nuclear submarines and anti-ship missiles such as the DF-21.²⁸² The introduction of the aircraft carrier *LIAONING* into the PLAN may seem trivial when it is noted that China is the last member of the Security Council to possess one and it hardly outweighs the balance of US carrier power available through the Nimitz class. However, China is rising and with deep pockets to fund further military growth, the carrier acquisition sends a message to neighbors that the PLAN has arrived as a world

²⁷⁸ Global Security, “People's Liberation Navy - Offshore Defense,” accessed 23 April 2013, <http://www.globalsecurity.org/military/world/china/plan-doctrine-offshore.htm>.

²⁷⁹ Leszek Buszynski, “The South China Sea: Oil, Maritime Claims, and U.S.—China Strategic Rivalry,” *The Washington Quarterly* vol 35, (Spring 2012), 139-156, accessed 3 May 2013, <http://csis.org/files/publication/twq12springbuszynski.pdf>.

²⁸⁰ *Ibid.*

²⁸¹ Peoples Republic of China, “China's National Defense in 2010 -Information Office of the State Council of the People's Republic of China,” accessed 3 May 2013, http://merln.ndu.edu/whitepapers/China_English2010.pdf.

²⁸² Dr. Sukjoon Yoon , “An Aircraft Carrier's Relevance to China's A2/AD Strategy,” *Center for Strategic and International Studies*, 6 Dec 2012, accessed 2 May 2013, <http://www.isn.ethz.ch/Digital-Library/Articles/Detail/?lng=en&id=155501>.

class navy.²⁸³ Although the DF-21 and nuclear submarines are more of a threat to the US presence in the region than a carrier,²⁸⁴ symbolically the Liaoning represents a regional power projection tool in a navy that is ready to flex its military muscle in support of regional, vice global, interests.²⁸⁵

This buildup has caused concern amongst China's neighbors,²⁸⁶ particularly those with competing claims to the South China Sea.²⁸⁷ Although great economic cooperation exists between China and ASEAN,²⁸⁸ China's buildup is causing their economic allies to seek a regional security balance through increased alignment with the US.²⁸⁹ The United States recognizes this and in a report to the US Congress titled *U.S. Force Posture Strategy in the Asia Pacific Region: An Independent Assessment*, it is recommended that given China's use of military power to further its claims in the South China Sea the US

²⁸³ Felix K. Chang, "Making Waves: Debates behind China's First Aircraft Carrier," *Foreign Policy Research Institute*, (October 2012), accessed 4 May 2013, <https://www.fpri.org/articles/2012/10/making-waves-debates-behind-chinas-first-aircraft-carrier>.

²⁸⁴ Ronald O'Rourke, "China Naval Modernization: Implications for U.S. Navy Capabilities—Background and Issues for Congress," *Congressional Research Service*, no. RL33153, April 2013, 9, accessed 1 May 2013, <http://www.fas.org/sgp/crs/row/RL33153.pdf>; Dr. Lyle Goldstein and Lieutenant Commander Bill Murray, "China's Subs Lead the Way," *Proceedings*, (March 2013), accessed 6 May 2013 http://www.military.com/NewContent/0,13190,NI_China_0303,00.html.

²⁸⁵ Brian Kim, "Chinese Aircraft Carrier: The New Liaoning Carrier Points to Rising Chinese Power in Asia," *Policy Mic* (Blog), accessed 4 May 2013, <http://www.policymic.com/articles/19658/chinese-aircraft-carrier-the-new-liaoning-carrier-points-to-rising-chinese-power-in-asia>; Editorial, "58,500 tonnes of Coincidence," *The Economist*, 26 September 2012, accessed 2 May 2013, <http://www.economist.com/blogs/clausewitz/2012/09/chinas-aircraft-carrier>.

²⁸⁶ Amitav Acharya, "A regional security community in Southeast Asia?" *Journal of Strategic Studies*, vol 18 issue 3 (1995), 175-200, accessed 5 May 2013, <http://www.tandfonline.com/doi/pdf/10.1080/01402399508437610>.

²⁸⁷ Ernest Z. Bower, "China reveals its hand on ASEAN in Phnom Penh," *East Asia Forum* (blog), 28 July 2012, <http://www.eastasiaforum.org/2012/07/28/china-reveals-its-hand-on-asean-in-phnom-penh/>

²⁸⁸ ASEAN, "ASEAN China Dialogue Relations," accessed 19 May 2013, <http://www.asean.org/asean/external-relations/china/item/asean-china-dialogue-relations>.

²⁸⁹ Evelyn Goh, "Meeting the China Challenge: The U.S. in Southeast Asian Regional Security Strategies," *East West Center Washington Policy Studies* 16, (2005), 24, accessed 9 May 2013, <http://scholarspace.manoa.hawaii.edu/bitstream/handle/10125/3509/PS016.pdf?se>; Julius Cesar, "Old allies, new dynamics in US pivot," *Asia Times Online*, 31 August 2012, accessed 14 May 2013, http://www.atimes.com/atimes/Southeast_Asia/NH31Ae02.html.

must further develop a “comprehensive set of relationships in the region and a commensurate force posture to discourage any attempt to alter the strategic equilibrium.”²⁹⁰ As noted by Secretary of State Hillary Clinton in *America’s Pacific Century*, the security aspects of the pivot will be focused on “strengthening bilateral security alliances... engaging with regional multilateral institutions ... and forging a broad-based military presence.”²⁹¹ As the US military expands its presence in SE Asia, China believes that this “does not help to enhance mutual trust and cooperation between countries in the region, and could ultimately harm the common interests of all concerned.”²⁹² With tension between China and the US,²⁹³ China and its ASEAN neighbors,²⁹⁴ and inter-ASEAN states rising,²⁹⁵ the resolution of maritime territorial border disputes is a key security concern. Canada has a role to play in moderating the exchanges between SE Asian states.²⁹⁶

²⁹⁰ David J. Berteau and Michael J. Green, “U.S. Force Posture Strategy in the Asia Pacific Region: An Independent Assessment,” *Center for Strategic and International Studies*, (August 2012), 40, accessed 21 May 2013, http://csis.org/files/publication/120814_FINAL_PACOM_optimized.pdf.

²⁹¹ Hillary Rodham Clinton, “America’s Pacific Century,” *US Department of State* (October 2011), accessed 9 May 2013, <http://www.state.gov/secretary/rm/2011/10/175215.htm>.

²⁹² Bonnie Glaser and Brittany Billingsley, “US Pivot to Asia Leaves China off Balance,” *Comparative Connections E-Journal*, January 2012, accessed 8 May 2013, http://csis.org/files/publication/1103qus_china.pdf.

²⁹³ Global Research, “Rising China-US Tensions: Heading Towards Military Confrontation?,” 22 January 2013, accessed 5 May 2013, <http://www.globalresearch.ca/rising-china-us-tensions-heading-towards-military-confrontation/5320013>.

²⁹⁴ Bandar Seri Begawan, “ASEAN leaders work to defuse China tensions,” *Channel News Asia*, 25 April 2013, accessed 3 May 2013, <http://www.channelnewsasia.com/news/asiapacific/asean-leaders-work-to-defuse-china-tensi/651738.html>.

²⁹⁵ JN Mak, “Sovereignty in ASEAN and the Problem of Maritime Cooperation in the South China Sea,” *Rajaratnam School of International Studies*, no. 156 (April 2008), 6, accessed 18 May 2013, <http://www.rsis.edu.sg/publications/WorkingPapers/WP156.pdf>.

²⁹⁶ Campbell Clark, “MacKay presses China to take regional disputes to UN,” *Globe and Mail*, 4 June 2013, accessed 5 June 2013, <http://www.theglobeandmail.com/news/politics/mackay-presses-china-to-take-regional-disputes-to-un/article12329483/>.

Canada's Security engagement in SE Asia

Canada's participation in SE Asian maritime territorial security dialogue is not a recent initiative. Beginning in the early 1990's, the Canadian International Development Agency (CIDA) sponsored track two²⁹⁷ diplomatic efforts through a series of workshops entitled "Managing Potential Conflicts in the South China."²⁹⁸ The goal of these workshops was to "foster functional cooperation and leave aside the thorny issue of sovereignty,"²⁹⁹ while helping to develop policies." These workshops happened concurrent to the federally sponsored track two efforts undertaken by the Council for Security Cooperation in the Asia Pacific (CSCAP),³⁰⁰ whose focus is to encourage Asia Pacific inclusiveness on "security issues and challenges facing the region through the organization of working groups that would provide policy recommendations to various intergovernmental bodies."³⁰¹

As noted by Robin Fraser in his paper *Track Two Diplomacy – A Distinct Conflict Prevention Category*, track two work is important as many participants in the ARF have indicated that formal track one efforts have not been a source of security innovation.³⁰²

²⁹⁷ University of British Columbia, Managing Potential Conflicts in the South China Sea," accessed 4 May 2013, <http://faculty.law.ubc.ca/scs/>.

²⁹⁸ Amitiav Acharya, "The South China Sea Remains a Dangerous Flashpoint," *Asia Pacific Foundation of Canada*, 3 August 2011, accessed 11 May 2013, <http://www.asiapacific.ca/editorials/canada-asia-viewpoints/editorials/south-china-sea-remains-dangerous-flashpoint>.

²⁹⁹ JN Mak, "Sovereignty in ASEAN...", 18, <http://www.rsis.edu.sg/publications/WorkingPapers/WP156.pdf>.

³⁰⁰ Desmond Ball and Kwa Chong Guan, "Assessing Track 2 Diplomacy in the Asia-Pacific Region," *Strategic & Defence Studies Centre and S. Rajaratnam School of International Studies*, (2010), 79, accessed 2 May 2013, <http://www.rsis.edu.sg/publications/others/CSCAP%20book.pdf>.

³⁰¹ Council for Security Cooperation in the Asia Pacific, "CSCAP Charter," accessed 1 May 2013, <http://www.cscap.org/index.php?page=cscap-charter>.

Despite the contribution these two informal working groups had in garnering Canadian good will in the region,³⁰³ the lack of long term federal interest and vision in Asia manifested itself again as funding for both groups has stopped. Citing lack of “progress to move beyond dialogue and get specific projects underway,”³⁰⁴ the notion of the Government of Canada losing interest in Asia appears to be founded. Moreover, when it is noted that one of Canada’s six key foreign policy goals is to increase Canada’s economic and political engagement in Asia through deepened partnership with the Association of Southeast Asian Nations (ASEAN) and operationalization of the ASEAN Connectivity Fund³⁰⁵ government actions and policy appear fragmented. A return of funding to these two organizations would support the operationalization of connecting with ASEAN informally, however formal track one engagement is also required if Canada is to have a role in formal SE Asian maritime security dialogues.

Canadian international diplomacy has seen a changing structure in recent years. The Department of National Defence (DND) has risen to become a leading, if not, *the* leading department in the Government of Canada’s foreign affairs tool box.³⁰⁶ DND has

³⁰² Robin Fraser, “Track Two Diplomacy – A Distinct Conflict Intervention Category,” (master’s thesis, University of Victoria, 2012), 32, accessed 18 March 2013, http://dspace.library.uvic.ca:8080/bitstream/handle/1828/4278/Fraser_Robin_MA_2012.pdf?sequence=1.

³⁰³ Hugh Stephens, “Don’t Shoot the Messenger — Asia Matters and Canada has Ground to Make Up,” *IPolitics* (blog), 26 September 2012, <http://www.ipolitics.ca/2012/09/26/hugh-stephens-dont-shoot-the-messenger-asia-matters-and-canada-has-ground-to-make-up/>.

³⁰⁴ Scott Snyder, Brad Glosserman, and Ralph A. Cossa, “Confidence Building Measures in the South China Sea,” *Pacific Forum CSIS*, no. 2 (August 2011), 2, <http://hoangsa.org/forum/downloads/90048-issuesinsightsv01n02.pdf>; JN Mak, “Sovereignty in ASEAN...”, 18, <http://www.rsis.edu.sg/publications/WorkingPapers/WP156.pdf>

³⁰⁵ Department of Foreign Affairs and International Trade, “Our Priorities Priorities for 2013–2014,” accessed 25 May 2013, http://www.international.gc.ca/about-a_propos/priorities-priorites.aspx.

signalled its intentions to help solidify the relationship with China by developing ties with the Chinese military upon which dialogue and trust can be built.³⁰⁷ In a recent track one meeting with his Chinese counterpart, the Minister of National Defence raised the issue of conflict in the South China Sea and “called upon [his] colleague to work more constructively with other countries, including Canada and internationally, in moving towards a more rules-based forum and mechanism,³⁰⁸ including submitting to arbitration through UNCLOS to solve sovereignty claims.³⁰⁹ This notion of a rules based approach to solving South China Sea disputes is supported by the track two work of Ian Townsend-Gault, a member of the Maritime Working Group of CSCAP who argued “that ratification of UNCLOS implies that a state is willing to set aside historical claims in favor of UNCLOS methods for defining the extent of a nation’s claim. He urged states to draw baselines and justify their claims based on clearly accepted international precedent.”³¹⁰

However, China has responded to these calls by stating such issues should be resolved “under the Declaration on the Conduct of Parties in the South China Sea (DOC) that [declares] disputes relating to territorial and maritime rights and interests be resolved

³⁰⁶ Roland Paris, “Foreign Policy Is Not Just Defence,” *Canadian International Council* (blog), 30 April 2012, <http://opencanada.org/features/blogs/roundtable/foreign-policy-is-not-just-defence/>; Lee Berthiaume, “Military Carrying Diplomatic Torch as Foreign Affairs Struggles to Stay Above Water,” *Canada News* (blog), 7 June 2013, <http://o.canada.com/2013/06/07/military-carrying-diplomatic-torch-as-foreign-affairs-struggles-to-stay-above-water/>.

³⁰⁷ *Ibid.*

³⁰⁸ Lee Berthiaume, “Canadian military wants to get friendly with China,” *Canada News* (blog), 3 June 2013, <http://www.canada.com/news/Canadian+military+wants+friendly+with+China/8472504/story.html>.

³⁰⁹ Campbell Clark, “MacKay presses China...” <http://www.theglobeandmail.com/news/politics/mackay-presses-china-to-take-regional-disputes-to-un/article12329483/>.

³¹⁰ Scott Snyder, Brad Glosserman, and Ralph A. Cossa, “Confidence Building Measures...”, 13, <http://hoangsa.org/forum/downloads/90048-issuesinsightsv01n02.pdf>.

through negotiations by sovereign states directly concerned therewith.”³¹¹ It is this bilateral push by China that has caused nations to increase defence procurement of naval capabilities and hedge with the United States out of fear of China’s rising economic and military clout.³¹² This was acknowledged by Minister MacKay at the International Institute for Strategic Studies meetings known as the Shangri-La Dialogue, where he noted “the incipient development” of blue water navies in support of strategic and economic interests.³¹³ Further to this, he reiterated to the wider SE Asian members Canada’s commitment to the rules based principles of engagement, security architectures and governance mechanisms and noted specifically indicated the Canadian Armed Forces ability to contribute to maritime security,³¹⁴ which could further Canada’s trade interests.³¹⁵

As international peace and security is a pillar of the Canada First Defence Strategy (CFDS) and the Government of Canada has indicated its desire to further trade and cooperation with China and Asia, addressing the destabilizing effect of maritime insecurity should be a key thrust of the Canadian Forces, in particular the Royal Canadian Navy supported by the Royal Canadian Air Force and Canadian Army.³¹⁶ This maritime insecurity is not solely as a result of overlapping claims, but it also has to do with “non-

³¹¹ Editorial, “China reiterates to resolve territorial disputes via bilateral negotiations,” *English East Day News* (blog), 27 April 2013, <http://english.eastday.com/e/130427/u1a7355512.html>.

³¹² Editorial, “Shopping spree - Countries are buying lots of weapons, but does it count as an arms race?” *The Economist*, 24 March 2012, accessed 3 May 2013, <http://www.economist.com/node/21551056>

³¹³ Peter MacKay (Speech, New Trends in Asia-Pacific Security, Singapore, June 2, 2013), accessed 10 June 2013, <http://www.iiss.org/en/events/shangri%20la%20dialogue/archive/shangri-la-dialogue-2013-c890/fourth-plenary-session-0f17/mackay-1f8b>

³¹⁴ *Ibid.*

³¹⁵ Campbell Clark, “MacKay presses China...” <http://www.theglobeandmail.com/news/politics/mackay-presses-china-to-take-regional-disputes-to-un/article12329483/>.

³¹⁶ Marko Babic, “Pacific Pivot Point,” *Frontline Defence Journal*, no. 1 (2012), accessed 8 May 2013, http://www.frontline-canada.com/downloads/12-1_PacificPivot_MarkoBabic.pdf.

traditional security concerns: piracy, drug trafficking, the illegal movement of people and weapons, illegal fishing, and smuggling, all of which have maritime dimensions.”³¹⁷

James Boutilier, a senior advisor to Canada’s Maritime Forces Pacific, indicates “that the RCN can telegraph its national and naval resolve in this quintessentially maritime region through naval diplomacy and appropriate contributions to regional security.”³¹⁸ The challenge for DND is how to define an “‘appropriate contribution’ in the region that is in line with our interests and the expectations of regional actors.”³¹⁹ One of the first steps to enabling reassertion of credentials in the Pacific³²⁰ has been the recent establishment of an operational support hub in Singapore.³²¹ This operational support hub will help enable RCN deployments across the Pacific and provide a key repair and maintenance period (RAMP) node that permits extended deployments. With limited resources in MARPAC³²² and lengthy transit times to the SE Asia theatre, the operational support hub concept enables all other theatre activity, including routine and contingency ops in support of foreign policy.³²³ The deployment of warships “has great symbolic

³¹⁷ James Boutilier, “Does Canada Have Security Interests in the Asia Pacific?” *Asia Pacific Foundation of Canada*, accessed 21 April 2013, <http://www.asiapacific.ca/thenationalconversationonasia/conversations/does-canada-have-security-interests-asia-pacific>.

³¹⁸ *Ibid.*

³¹⁹ Brian Job, “Realizing the Other Half of Diplomacy in Southeast Asia,” *Asia Pacific Foundation of Canada* (blog), 7 August 2010, <http://www.asiapacific.ca/editorials/canada-asia-viewpoints/editorials/realizing-other-half-diplomacy-southeast-asia>.

³²⁰ Simon Kent, “Canadian military ups Asian Presence,” *The Toronto Sun*, 23 June 2012, accessed 1 May 2013, <http://www.torontosun.com/2012/06/23/canadian-military-ups-asian-presence>.

³²¹ Cambell Clark, “Canada Seeks Asian Military Hub,” *Globe and Mail*, 4 June 2012, accessed 2 May 2013, <http://www.theglobeandmail.com/news/politics/canada-seeks-asian-military-hub/article4231097/>.

³²² David S. Mc Donough, “A Pacific for the RCN?” *Vanguard Magazine*, (February/March 2013), accessed 3 May 2013, <http://vanguardcanada.uberflip.com/i/111458/45>; Canadian Defence Matters, “A Canadian Pacific Pivot” (blog), 2 March 2013, <http://jgmjgm516.blogspot.ca/2013/03/a-canadian-pacific-pivot.html>

³²³ Department of National Defence, “Fact File: Canada's Navy is Important to Foreign Policy,” accessed 15 May 2013, http://www.navy.forces.gc.ca/cms/10/10-a_eng.asp?category=24&id=291.

value, as they are the only military units recognized under international law as legal extensions of their parent state and this quality provides government with a highly effective means to signal its interest in a region and build confidence and relationships with other nations.”³²⁴ James Manicom in his article *Canadian debates about China's rise: Whither the “China threat”?* concurs with the notion of confidence building and suggests that in an era of growing naval spending and numerous maritime flashpoints,³²⁵ Canada could play a key role through maritime diplomacy. He suggests that as the US is legislatively prohibited from exercising with the Chinese Navy, Canada could lead bi-lateral and multilateral non-US exercises to build confidence of China and her neighbors in Canada as a bridge - builder.³²⁶ Moreover, the near continuous presence of a Canadian warship in SE Asia will increase government awareness of what is happening in the region, “increase operational and environmental knowledge, build defence and political relations, develop interoperability, project own reach and capability and portray national interest, intent and industry.”³²⁷ Additionally, as noted by Rear-Admiral Bob Davidson of the Royal Canadian Navy in his paper titled *Modern Naval Diplomacy – A Practitioner’s View*, Canada’s first response to virtually every war and serious international crisis has been the deployment of maritime forces.³²⁸ By having a forward deployed presence, the Royal Canadian Navy would be ready to respond quickly to crisis

³²⁴ *Ibid.*

³²⁵ James Manicom, “Canadian debates about China's rise: Whither the ‘China threat’?” *Canadian Foreign Policy Journal* Vol 18, no 3 (2012), accessed online 2 June 2013, <http://dx.doi.org/10.1080/11926422.2012.737337>.

³²⁶ *Ibid.*

³²⁷ Kamlesh Kumar Agnihotri, “Role of Navies in Furthering International Diplomacy,” *National Maritime Foundation*, accessed 10 June 2013, <http://maritimeindia.org/article/role-navies-furthering-international-diplomacy>.

³²⁸ Rear-Admiral Bob Davidson, Canadian Navy, “Modern Naval Diplomacy – A Practitioner’s View,” *Journal of Military and Strategic Studies* Vol. 11, Issues 1 and 2 (Fall and Winter 2008/9), 8, accessed 1 June 2013, <http://jmss.org/jmss/index.php/jmss/article/viewFile/80/90>.

in the South China Sea and could provide a government platform of moderation, if required.

Summary

In summary, Canada is promoting a rules-based society in South East Asia through the various forms and summits to build predictable norms of behavior.³²⁹ With the main source of tension in the region surrounding maritime territorial disputes, Canada hopes that this messaging will garner us a seat at the EAS and ADMM +8. By declaring our role as an honest broker with a past history of goodwill will, Canada is hoping to reopen doors that have been shut through lack of engagement. In order to do so, track one and two diplomatic efforts must not only be espoused by Canada, they must be recognized by China and SE Asian states. With tensions between longtime ally the United States and newfound economic partner China increasing, Canada finds itself in a precarious position. As highlighted in sections above, conflict in the region would have significant economic impacts for Canada, therefore promoting security in the region would help alleviate concerns surrounding our questionable history of engagement in Asia and serve our own economic interests. With the government indicating its desire to operationalize its ASEAN fund, track two establishments such as CSCAP and the Managing Potential Conflicts in the South China Sea workshops should be given priority for funding as they are both oriented towards resolving the primary source of unease in

³²⁹ Peter MacKay (Speech, New Trends in Asia-Pacific Security, Singapore, June 2, 2013), accessed 10 June 2013, <http://www.iiss.org/en/events/shangri%20la%20dialogue/archive/shangri-la-dialogue-2013-c890/fourth-plenary-session-0f17/mackay-1f8b>.

the region. Track one diplomatic efforts should be focused on maritime engagement with the PLAN and ASEAN states through bilateral and multilateral defence dialogues, the conduct of joint exercises and demonstration of diplomatic commitment through Canadian warship visits to Chinese and Asian ports of call. This will not only help relieve our economic concerns, it will ease the perceived alienation of China given the increased US presence and garner credibility for our geopolitical and economic diplomacy as we will not be seen to be an extension of the United States.³³⁰ By increasing Canada's formal and informal security and military cooperation with China and SE Asia, defence diplomacy would be directly supporting the national imperative of taking a more active role in the region.³³¹

³³⁰ James Manicom, "Canada's Return to East Asia: Re-engagement through Maritime Diplomacy," *Centre for International Governance Innovation Policy Brief*, no. 25 (February 2013), accessed 25 February 2013, <http://www.cigionline.org/publications/2013/2/canada%E2%80%99s-return-east-asia-re-engagement-through-maritime-diplomacy>.

³³¹ Department of Foreign Affairs and International Trade, "Baird Addresses Asia Society of Hong Kong," accessed 1 April 2013, <http://www.international.gc.ca/wet30-1/aff/photos/2013/03/13a.aspx>.

CHAPTER IV – CONCLUSION AND RECOMMENDATION

Let it be said of Canada and of Canadians that we saw the crisis; that we did act; that we took risks; that we were loyal to our friends and open with our adversaries; that we lived up to our ideals; and that we have done what we could to lift the shadow of war.³³²

Pierre Elliott Trudeau
House of Commons,
February 9, 1984

There is little doubt that globalization has gripped the world's economies into a tighter fist. As our financial markets and supply chains become more intertwined in free market conditions, a state's diplomatic efforts can have a great effect on a nation's economic well-being.³³³ Canada has never been a unilateral world power, but instead has relied on diplomacy and multilateralism to ensure our middle power interests are represented. With our prosperity being tied to our geographic neighbor who is in the midst of financial uncertainty, Canada has diversified its trade to remain resilient. With market growth in China and Asia predicted to far outpace developed economies,³³⁴ the government of Canada has recognized this as a critical avenue for exploitation. However, China's rise to pre-eminence on the global economic stage has caused some unease as the CCP's direction of state owned enterprises operations in overseas markets³³⁵ is divergent to free market norms. Specifically, SOE clandestine operations in

³³² Pierre Elliott Trudeau, (Speech, House of Commons, Ottawa, Ontario), <http://munkschool.utoronto.ca/trudeaucentre/about-pierre-trudeau.html>.

³³³ Dr. Boštjan Udovič, "The Role of and Changes in National Commercial Diplomacy in the Time of the Current Economic Crisis," *International Journal of Diplomacy and Economy*, accessed 4 May 2013, <http://www.inderscience.com/info/ingeneral/cfp.php?id=2128>

³³⁴ The Conference Board of Trade, "Global Economic Outlook 2013," accessed 1 June 2013, <http://www.conference-board.org/data/globaloutlook.cfm>.

³³⁵ Zhu Xiaochun, "Why China Is Still So Far From A Free-Market Economy," *World Crunch News*, 1 December 2012, accessed 2 May 2013, <http://worldcrunch.com/business-finance/why-china-is-still-so-far-from-a-free-market-economy/chinese-economy-markets-free-markets-capitalism-state-owned/c2s10229/>.

the cyber realm to support industrial espionage and Chinese state foreign policy goals places host nation governments in a difficult position when trying to implement a coherent foreign policy. China has attempted to quell these fears by shifting their foreign policy from Mao's isolationism to regional engagement.³³⁶ Multilateralism in SE Asia has primarily been focused on ASEAN who have created a number of preeminent forms and summits to discuss issues concerning the region. Canada has had past success in diplomatic efforts with ASEAN states either through the ARF or APEC. However, our entry into the main defence ministers meeting (ADMM +8) and head of state level engagements (EAS) have been denied, primarily because of failure to demonstrate consistency in our regional presence. Although it could be argued that our economic successes point to this being addressed, diplomacy is more than economics. If Canada is succeed in addressing the impacts of China's rise, it must develop a coherent foreign policy that addresses not only economics but also investment policies surrounding SOE's and more importantly it must be take into account China's new regional approach.

This regionalism is succeeding for China on the economic front, however clashes with neighbors and the United States over maritime territorial claims have caused SE Asian states to increase defense cooperation with the United States to counter China's growing regional hegemon status. As China represents an ever increasing portion of Canada's trade, stability in SE Asian waters is important to Canadians and the health of our economy. However, without an overarching policy that directs government of Canada engagement with China, defence planners will have difficult time understanding

³³⁶ Harish Kapur, *The End of Isolation: China After Mao*, (Dordrecht: Martinus Nijhoff Publishers, 1985).

how to approach Chinese ambitions in the South China Sea. Recent announcements by the Canadian Defence Minister are pushing for a rules based approach to solving the disputes and this attempt of moderating the exchanges between SE Asian states could be supported by increased track two efforts and deployment of Royal Canadian Navy maritime forces to SE Asian waters. This forward presence, supported by increased infrastructure in Singapore would demonstrate support to the rules espoused by the Treaty of Amity Cooperation (TAC) and demonstrate Canadian commitment to regionalism in SE Asia. These efforts would hopefully result in favorable admission to the ADMM +8 and EAS where the Government of Canada could further their track one goals.

In summary, Canada is without an overarching policy that addresses the realities of China's grand strategy. As China's economic rise has fuelled increased ODI activities in foreign countries through SOE's, Canada's lack of clarity surrounding the Investment Canada Act has paralyzed decision makers in Ottawa who are attempting to balance Canadian opportunities in Asia while providing some control over precious natural resources. Any Canadian foreign policy with respect to China, must first address how Canada will confront SOE investment into critical Canadian economic sectors while balancing national security concerns. Additionally, as China continues to rise in the Pacific Century, Canada will need a venue for dialogues. As China has signalled increase use of regional forums to further their economic rise, the failure of the Canadian Government to garner representation at the summits must be addressed. As admission authority into the key events is held by ASEAN leadership, efforts must be made to increase our perceived lack of presence in the region. As the Department of National

Defence has risen to become a key foreign policy outlet for the Government of Canada and one of the main concerns of ASEAN states is maritime security, the increased deployment of Canadian Naval forces would aid government admission efforts. This naval thrust could also support Canada and China's strategic partnership announcements, by providing the missing security element of the policy. Finally China represents opportunity and danger for Canadians and if our efforts are not guided by a well thought out whole of government policy, we risk marginalization in SE Asia and present ourselves as ambiguous and risky Chinese investors. A coherent Canadian Chinese geopolitical, economic and military policy must be developed to ensure Canada's influence on global affairs as a middle power remains relevant as China and SE Asia rise.

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