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The Soft Hedge: A New Approach for Canadian Relations With China

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**THE SOFT HEDGE: A NEW APPROACH FOR
CANADIAN RELATIONS WITH CHINA**

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THE SOFT HEDGE: A NEW APPROACH FOR CANADIAN RELATIONS WITH CHINA

INTRODUCTION

The arrest of Meng Wanzhou, on 1 December 2018, proved to be an inflection point in Canada's relationship with China.¹ Before this, Canada's approach to China generally followed a strategy of engagement. Through this approach, Canada sought to deepen relationships and pursue economic opportunities, with the expectation that China would gradually liberalise and become a responsible member of the international community.² However, in retaliation for Meng's arrest, China arbitrarily detained Canadian citizens and imposed import restrictions on certain Canadian commodities.³ This disproportionate response served to underline a broader shift occurring in China. In the past, China showed willingness to follow international norms, as it quietly built up its national capabilities. With its economy thriving, China has now adopted a far more assertive stance under the leadership of Xi Jinping.⁴ This is evident within China in ongoing efforts to suppress Hong Kong's democratic institutions, and in the repression of the minority populations.⁵ Externally, China has ignored international rulings regarding claims in the South China Sea, and has shown increased willingness to punish smaller countries for defying its

¹ Canada. Global Affairs Canada. *Deputy Minister of Foreign Affairs Document Package Submitted to the Special Committee on Canada-China Relations*. (Ottawa: GAC, 5 February 2020), Annex 7, 59.

² Roland Paris. *Canadian Views on China: From Ambivalence to Distrust*. (London: The Royal Institute of International Affairs, 2020), 2.

³ Global Affairs Canada, *Deputy Minister...*, Annex 1, 1.

⁴ Preston Lim. "Sino-Canadian Relations in the Age of Justin Trudeau." *Canadian Foreign Policy Journal* 26 no. 1 (2020): 31, 32.

⁵ Charles Burton. *Remaking Canada's China Strategy: A New Direction that Puts Canadian Interests First*. (Ottawa: Macdonald Laurier Institute, 2019), 3, 4.

wishes.⁶ It is within this context that Canada's Minister of Foreign affairs has called for a new approach to relations with China.⁷

Many academics and foreign policy specialists concur with the minister's assessment, and have responded with a range of potential measures, from the benign to the more confrontational. However, what has been missing from this debate is a strategic framework to clearly organise and identify the options available to Canada.⁸ To address this deficiency, this essay will introduce a spectrum of strategies that has become common in Asian security literature. At one end of the spectrum is the familiar strategy of engagement, and at the opposite end, is a strategy known as balancing. In the area between these poles is hybrid strategy, known as a hedge. These strategies will be analysed against Canada's national interest, where it will become clear that engagement and balancing are unsuitable to the current environment. Instead, this essay will argue for a soft hedging strategy as the most effective means of balancing Canada's interests in an increasingly unpredictable world.

INTERESTS AND STRATEGIES: A FRAMEWORK

Before delving into our analysis, we must first define Canada's national interest. Judging by past policies we might conclude that Canada's interests have been predominantly economic.⁹ This emphasis has carried over into the current debate, where new approaches to China are often measured against their potential cost to Canadian

⁶ Lim, "Sino-Canadian Relations...", 33.

⁷ Global Affairs Canada, *Deputy Minister...*, Annex 1, 2.

⁸ Tsuyoshi Kawasaki. "Hedging Against China: Formulating Canada's New Strategy in the Era of Power Politics." *Canadian Foreign Policy Journal* (April 2021): 2.

⁹ Global Affairs Canada, *Deputy Minister...*, Annex 7, 59.

business.¹⁰ This is understandable given the benign international environment that has prevailed since the end of the Cold War. However, in reality the national interest is multidimensional. Economic prosperity is but one dimension in a hierarchy of interests, where security assumes priority, closely followed by sovereignty.¹¹ In Canada's past relationship with China, economic prosperity assumed prominence, because Canada's security and sovereignty were never under serious threat. This has now changed. The detention of Canadian citizens, and growing tensions between the US and China, make it clear that security can no longer be taken for granted. What is more, China's increasing disregard for international norms has shaken the rules based system that has been at the foundation of Canada's values and conception of sovereignty. Any new strategy towards China must carefully balance the desire for economic prosperity, against the need to preserve sovereignty and ensure security.

With an understanding of Canada's interests, we can outline potential strategies for achieving those interests. The dominant theories of international relations are helpful in this regard, but *do* present some limitations. Neoliberalism, with its emphasis on international institutions and interdependence has been a good guide in the decades following the Cold War. Indeed, neoliberalism has been central to most engagement strategies with China. This approach, however, has its limitations in a world where China has the means and desire to challenge the status quo. As tensions between China and the US grow, neorealism provides a useful alternative perspective, with its emphasis on balance of power and

¹⁰ Burton. *Remaking Canada's China Strategy...*, 6; Kawasaki. "Hedging Against China..." 3; Leigh Sarty. "The Fragile Authoritarians: China, Russia, and Canadian Foreign Policy." *International Journal* 75, no. 4 (2020): 625.

¹¹ Steve Kendall Holloway. *Canadian Foreign Policy: Defining the National Interest*. (Peterborough, ON: Broadview Press, 2006), 14.

alignment behaviour. Unfortunately, neorealism sacrifices nuance for parsimony.¹² The theory focuses on great powers because of their large impact on the international system, but provides only limited prescriptions for small or middle powers.¹³ Asian security scholars have addressed many of these limitations in defining the strategies of Asia's small and middle powers. Like Canada, many of these states have sought economic opportunities with China through engagement. But, unlike Canada, their proximity to China has highlighted sovereignty and security issues, and hastened the need to consider alternatives to engagement.¹⁴ The approach chosen in the Asian context represents a hybrid of traditional theories.

Neorealist theory emphasises two opposite strategies for dealing with a rising great power such as China: balancing and bandwagoning.¹⁵ In a balancing strategy, a threatened state will balance against an aggressor, *internally*, by building up its national power, and *externally*, by allying itself with likeminded states.¹⁶ If a state is weak, and has limited alliance options, it will choose a bandwagoning strategy, where it concedes power to the aggressor and joins with them in the hopes of achieving some gain in an otherwise difficult situation.¹⁷ Bandwagoning is a viable option for some underdeveloped Southeast Asian states.¹⁸ However, it is not a realistic alternative to balancing in the case of developed states

¹² John J. Mearsheimer. *The Tragedy of Great Power Politics*. (New York: W.W. Norton & Company, 2003. Apple Books), 41.

¹³ *Ibid.*, 34.

¹⁴ Examples include Japan and South Korea as outlined by: Jeffrey W. Hornung. "Japan's Growing Hard Hedge Against China." *Asian Security* 10, no. 2 (2014); Woosang Kim. "Rising China, Pivotal Middle Power South Korea, and Alliance Transition Theory." *International Area Studies Review* 18, no. 3 (2015).

¹⁵ Mearsheimer, *The Tragedy...*, 191; Cheng-Chwee Kuik. "How do Weaker States Hedge? Unpacking ASEAN States' Alignment Behaviour Towards China." *Journal of Contemporary China* 25, no. 100 (2016): 500. These two opposing strategies are characteristic of *defensive* neorealism as developed by Waltz. Mearsheimer, and others, have proposed additional strategies and variants.

¹⁶ Mearsheimer, *The Tragedy...*, 211, 212.

¹⁷ *Ibid.*, 191.

¹⁸ Kuik, "How do Weaker States Hedge...", 503.

such as Japan and South Korea, who have long established alliances with the US.¹⁹ In these cases engagement is employed as a substitute for bandwagoning. Whilst engagement is not an opposite of balancing in the neorealist sense, it satisfies the requirement as a cooperative approach in contrast to the competitive emphasis of a balancing strategy.²⁰ What is more, selecting engagement as an opposite to balancing, acknowledges the potential transition from hegemonic stability to great power rivalry. Given this, and Canada's close geopolitical links to the US, it makes sense to select engagement and balancing as the opposite strategies for our analysis.

It has become common in Asian security literature to refer to the middle ground between opposite strategies as a hedge. In essence, the hedge is a risk mitigation strategy. In adopting such a strategy, a state will work towards the best outcome, whilst also preparing for the worst case.²¹ Such a strategy can be quite useful for middle powers. Middle powers do not have the means to independently drive system level change, and they lack the ability to definitively predict the actions of the great powers. This creates significant uncertainty. Instead of relying on assumptions that might prove wrong, the hedge pursues both competitive and cooperative measures simultaneously.²² Ideally, the combination of these measures will help influence the system towards the desired outcome, whilst retaining maximum political and economic benefits. If the hedge fails to achieve the desired outcome, the middle power will be reasonably positioned to shift towards a more competitive balancing strategy. There is no single method of hedging. A state will use a combination of political, economic, and military means to achieve its objectives. The

¹⁹ Hornung, "Japan's Growing Hard Hedge...", 99.

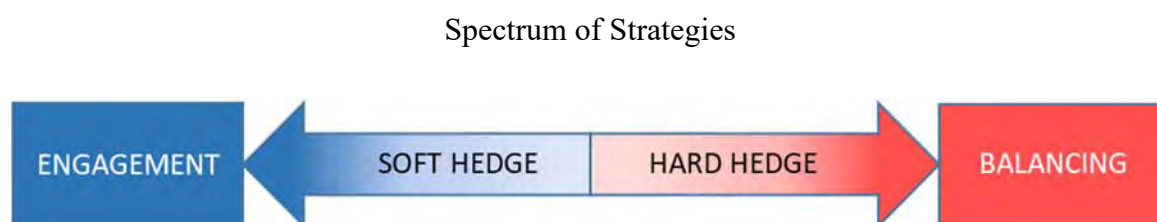
²⁰ *Ibid.*, 99.

²¹ Kuik, "How do Weaker States Hedge...", 505.

²² Hornung, "Japan's Growing Hard Hedge...", 99; Kuik, "How do Weaker States Hedge...", 505.

relative weight given to these means, and the specific methods employed depend on the behaviour of the potential aggressor, and the particular circumstances of the state employing the hedging strategy. If viewed as a spectrum (figure 1) between engagement and balancing, a hedging strategy that emphasises cooperative methods is known as *soft hedge*.²³ Conversely, a strategy that emphasises competitive methods is known as a *hard hedge*.²⁴

Figure 1²⁵



ENGAGEMENT AND BALANCING IN THE CANADIAN CONTEXT

With our analytical framework established, we can proceed with an assessment of the strategies in the Canadian context, beginning with engagement.

In its most recent engagement strategy Canada attempted to balance its various interests through a comprehensive approach. This included efforts to: deepen trade links; enhance people-to-people ties; mitigate security risks; promote the rules-based international order; and engage on values.²⁶ Efforts to implement this strategy were soon overcome by events. As Canada attempted to reinvigorate its engagement strategy, relations between the US and China began to sour, making it difficult for a middle power like Canada

²³ Hornung, “Japan’s Growing Hard Hedge...,” 99.

²⁴ *Ibid.*, 99.

²⁵ *Ibid.*, 99.

²⁶ Global Affairs Canada, *Deputy Minister...*, Annex 1, 1.

to achieve meaningful progress. Chinese retaliatory measures following the arrest of Meng Wanzhou led Canada to abandon its engagement strategy in December 2018.²⁷ Despite these difficulties, Wendy Dobson has advocated for a renewed and deeper engagement strategy. Rather than the comprehensive approach, most recently adopted by the government, Dobson argues for an engagement policy focused on trade. In Dobson's view Canada is overly dependent on trade with the US, and should diversify its economy by building closer economic links with China.²⁸ To successfully pursue this goal, Dobson believes that Canada should abandon the promotion of values and institutions, and accept that China is different.²⁹ Despite growing tensions with the US and a desire to re-shape the international system, Dobson trusts in Xi Jinping's commitment to a peaceful and cooperative world order.³⁰

The contrast between Canada's comprehensive engagement, and Dobson's narrow economic engagement, highlights the flaws in continuing the strategy. Canada chose to adopt a comprehensive strategy because it must consider *all* of Canada's interests. This approach was difficult, as evidenced by the problems encountered in free trade negotiations. Dobson's narrow approach seeks to avoid such difficulties by focusing efforts on the economic dimension. This is not workable as it ignores key elements of a national strategy necessary to ensure sovereignty and security.

The promotion of liberal values and institutions is not simply an effort to export Canadian beliefs, it is a key policy to help in preserving Canada's sovereignty. Canada

²⁷ Global Affairs Canada, *Deputy Minister...*, Annex 1, 2..

²⁸ Wendy Dobson. *Living with China: a Middle Power Finds its Way*. (Toronto: University of Toronto Press, 2019), 118.

²⁹ *Ibid.*, 117.

³⁰ *Ibid.*, 118.

interacts in an international system that can be unpredictable. States with weak institutions and legal traditions can become a source of instability. Larger states, who fail respect international norms, may wield their power arbitrarily. In such an environment, the promotion of liberal values and institutions helps cultivate an international system where interactions are predictable and productive. It may be difficult for a middle power like Canada to influence Chinese values, but working through such difficulties, and developing workable strategies, *is* the purpose of diplomacy. Abdicating these diplomatic responsibilities sends the signal that Canada is only interested in trade. This can only embolden China to continue with its harmful behaviours, and make it impossible to effectively intervene in future transgressions.³¹

In advocating for economic engagement, Dobson takes an optimistic view of the security environment. She acknowledges growing tensions between the US and China, but chooses to discount the possibility of future confrontation.³² Instead, Dobson hopes that China and the US will accommodate each other, or negotiate a form of *détente*.³³ Optimism, however, is not the best approach in developing a foreign policy strategy. If we use history as our guide, confrontation between the US and China is not only a possibility, but a strong probability.³⁴ Since the 15th century there have been 16 instances where an ascending power has challenged an established power, and in 12 of these cases, rivalry has resulted in war.³⁵ In the cases where war did not occur, cultural commonality, higher authority, and

³¹ David A. Beitelman. "Living with Giants and Inconvenient Truths: The US, China, and Everyone Else." *American Review of Canadian Studies* 50, no 1 (2020): 95.

³² Dobson, *Living with China...*, 113.

³³ *Ibid.*, 113.

³⁴ Graham Allison. *Destined for War: Can America and China Escape Thucydides's Trap?* (New York: Houghton Mifflin Harcourt, 2018. Apple Books) 16.

³⁵ Allison, *Destined for War...*, 63.

institutional constraints were decisive factors.³⁶ Such mitigating factors are not present in the current China-US rivalry. This does not make war an inevitability, but highlights a risk that must be considered when developing future strategies. If the China-US rivalry continues, Canada cannot be a neutral actor. Canada has long established geographic, cultural, economic, and security links to the US. Canada's relationship with China, on the other hand, has been driven by economic opportunity, and has been fraught by cultural and political differences.

Dobson is justified in her concern for Canada's lack of trade diversification. Deeper engagement with China, however, is not the solution. Accepting China's flaws in pursuing economic gain undermines the soft power that Canada relies on to positively influence the international system. What is more, deepening trade links in a time of growing US-China rivalry risks undermining Canada's security. A rival to the US is a *de facto* rival to Canada. If Canada deepens trade links with a potential rival, it may further expose itself to punitive trade disruptions, intellectual property theft, and Chinese influence operations.³⁷ Such trade links might also antagonise the US and undermine its security, a situation that would ultimately undermine Canadian sovereignty. Given these risks, economic diversification should not be pursued through China, but through new trade partnerships.

It is clear that engagement is currently unworkable, but is balancing a desirable alternative? The short answer is no. Current circumstances make a balancing strategy both impractical and ineffective in meeting Canada's interests. Balancing is a strategy that aims to deter a potential aggressor through the use of clear, confrontational measures.³⁸ Such

³⁶ *Ibid.*, 226, 231, 237.

³⁷ Burton. *Remaking Canada's China Strategy...*, 5, 6.

³⁸ Mearsheimer, *The Tragedy...*, 210.

measures include suspending trade, snubbing, and reinforcing defence through increased military spending and the establishment of alliances.³⁹ Repositioning Canada to implement these measures would not be easy, or fast. Suspending trade with Canada's second largest trading partner could not happen overnight, unless there was a willingness to accept significant economic losses and supply shortages.⁴⁰ Likewise, expanding Canada's military would be a long term effort. These efforts and sacrifices could be justified if the threat from China was sufficiently grave, but at this time it is not. China has not attempted to overthrow the established world order. Instead it has attempted to grow from within it, and pursued incremental change where it has felt it necessary.⁴¹ There have been challenges with this process, but adopting the confrontational approach closes the door to dialogue and conciliation, and increases the risk of escalation. Balancing can be an effective strategy, but if adopted prematurely, can have the opposite of its intended effect.⁴²

CONCLUSION: FROM ENGAGEMENT TO SOFT HEDGE

It is clear that options at the poles of our strategy spectrum are unsuitable to Canada's current interests. Canada needs an approach somewhere in the middle. This next section will lay out the broad details of a hedging strategy that will meet Canada's needs and allow room to adapt as circumstances change. In our earlier discussion of hedging, we introduced the concept of the *soft* and the *hard* hedge. In the current environment, a soft hedge is the best approach. There are two reasons for this. First, are sensitivities in managing the ongoing situation regarding the extradition of Meng Wanzhou and the

³⁹ Kawasaki. "Hedging Against China..." 7.

⁴⁰ Sarty, "The Fragile Authoritarians..." 625.

⁴¹ Joseph N. Nye. "Power and Interdependence with China." *The Washington Quarterly* 43, no. 1 (Spring 2021): 17.

⁴² *Ibid.*, 13.

detention of Canadian citizens. The second is geographic. Canada is physically distant from China. Because of this, changes to Canada's military capabilities and alliances, if not managed carefully, could be viewed as offensive rather than defensive. This could inadvertently drive a hedging strategy into the realm of balancing. With this in mind, we will discuss political, economic, and military measures necessary for a soft hedge, but also outline options to shift toward a hard hedge, should it become necessary. We will then conclude with a discussion of multilateralism as a means of increasing the effectiveness of the hedging strategy.

Politically, Canada has already taken some of the measures necessary for a soft hedge. These measures include: condemnation of Chinese actions in Hong Kong and Xinjiang Autonomous Region; and the use of the Magnitsky Law to sanction Chinese officials involved in human rights abuses. Further measures need to be taken domestically to counter Chinese influence operations. To this end the government should demand greater transparency from media and educational institutions regarding Chinese state funding. Government and law enforcement should also take more aggressive steps in uncovering and curbing the activities of Chinese agents and organisations such as the United Front Works Department.⁴³ There has been discussion regarding a boycott of the 2022 Olympics. A boycott would be blow to Chinese prestige, and if adopted by many countries, could shift into the realm of hard hedging. Such a boycott should be carefully considered in light of the ongoing detention of Canadian citizens.

Economically, Canada must act to protect its natural resources and intellectual capital by carefully scrutinising Chinese investment in Canadian businesses. Canada must

⁴³ Burton. *Remaking Canada's China Strategy...*, 7.

also look beyond China in diversifying its trade. An area of focus in these efforts should be India. India's market is almost as large as China's, and continues to grow. By participating in this growth, Canada will not only diversify its own trade but, help build India into a viable regional balancer to Chinese power. Should Canada need to harden its position, it can take deliberate actions to block Chinese investment in Canada and reduce its trade flows.

Military measures for hedging have already been initiated. Doctrinally, there has been a shift away from peace and stability operations, towards an emphasis on higher intensity conflict. This doctrinal shift needs to carry over into force structure and capital acquisitions. Force structure needs to shift from its current emphasis on land forces, towards greater maritime and air forces. High level requirements in capital acquisitions should reflect the need to survive and win in a contested environment. This is already reflected in the Canadian Surface Combatant project, and needs to carry over in the selection of a winning bid for a future fighter. Immediate consideration should also be given to modernise and expand Canada's submarine force. These changes to force structure are significant, but relatively agnostic regarding the threats to be countered. If the need arises for harder hedging, Canada should seek further force expansion and a formal shift in force posture and alliances. This would involve reducing commitments to NATO and formally pivoting towards Asia, through force allocations and participation in Asia-Pacific alliances.

There is an oft-quoted line in Thucydides' Melian Dialogue: "the strong do what they will and the weak suffer what they must."⁴⁴ This need not be Canada's fate in its relationship with China. As a middle power, Canada is weak if it acts alone. Fortunately,

⁴⁴ Thucydides, *History of the Peloponnesian War* 5.102.

Canada is surrounded by like-minded middle powers that share its commitment to multilateralism and the rules based order.⁴⁵ The most important measure that Canada can take in its hedging strategy, is to build consensus and unity in this coalition of middle powers. Such a coalition could form effective multilateral hedge, not only against Chinese hostility, but also against potential US tendencies to steer relations with China towards confrontation.⁴⁶

⁴⁵ Erik Brattberg “Middle Power Diplomacy in an Age of US-China Tensions.” *The Washington Quarterly* 44, no. 1 (Spring 2021): 219.

⁴⁶ *Ibid.*, 225.

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