

## **Canada and China: The Ties that Bind**

**By Yuen Pau Woo**

The visit of President Hu Jintao this month, on the margins of the G20 meeting in Toronto, marks another important step in the strengthening of relations between Canada and China. It has been five years since his last visit – a relatively short time considering the forty-year old diplomatic relationship between the two countries, but a momentous period in international affairs which has set a new context for Canada-China relations.

China's ascendancy as a world economic power pre-dates the global financial crisis of 2008-2009, but the crisis has in so many ways driven home the importance of China for the world economy. It isn't simply that China did not slip into recession in the last two years, unlike most of the western industrialized world. It is rather that the continued expansion of the Chinese economy kept the world from falling into a deeper slump and that the pattern of Chinese growth in the future will to a large extent determine if the world economy can avoid another major downturn.

In the same way that the United States and European countries have to increase savings and reduce debt, China has to save less – effectively shifting its engine of growth away from exports to domestic demand. This shift has already begun, with the central government in Beijing putting emphasis in its stimulus spending on rural infrastructure, health care, and social services. The highly publicized labour unrest in Southern China in recent weeks, resulting in a sharp increase in workers' wages, can be seen as another sign of the shift towards consumption, rather than investment, as a source of growth. An increase in the share of national income going to Chinese workers will improve their welfare and likely contribute to social stability in China. But the world will also benefit from the rebalancing of global demand, in that China can pick up some of the slack that is left by western countries seeking to sharply reduce spending.

The intersection of Chinese and Western interests is not lost on status quo powers. While there is no "G2" as such, Beijing and Washington are forging an ever-closer relationship. The recent Strategic and Economic Partnership Dialogue between the US and China saw the heads of 15 American federal agencies travel to Beijing for consultations with their counterparts. One seasoned observer remarked that the motorcade ferrying the American visitors to their official meetings at Diaoyutai State Guest House – consisting of more than 40 vehicles -- was the longest that he had ever seen descend on the Chinese capital.

The US-China relationship is not always smooth, and there are a number of areas which remain tense (exchange rates, military relations, human rights, Tibet), but the high-level attention that

the United States is giving to China is unprecedented, and marks a sea change in international relations.

This is a radically different world from the 70s when China was first opening diplomatic relations with the west. Pierre Trudeau led the way for much of the western world by recognizing Beijing in 1970. Forty years on, the west is again lining up to court China, this time for business and strategic reasons. Canada is no longer at the front of the pack, and Ottawa has had to work harder to get the attention of Beijing. The days of a “special relationship” between Canada and China are over, even though there are a number of areas in which the relationship between the two countries remains special.

The first is people movements. For its size, Canada’s people-to-people ties with China are arguably longer, richer, and deeper than that of any other western industrialized country. Chinese migration to Canada’s west coast can be traced to the mid 19<sup>th</sup> century and the ethnic Chinese population in Canada today numbers around 2 million. It is estimated that 20 percent of the ethnic Chinese diaspora outside of Asia live in Canada. With over a million Chinese immigrants landing in Canada in just the last 15 years, the Chinese demographic in this country is very much “plugged in” to contemporary China. Indeed, many recent immigrants have returned to Hong Kong and China as Canadian citizens or landed immigrants, and are in effect a “Chinese diaspora” turned “Canadian diaspora”. The Asia Pacific Foundation of Canada estimates that there are perhaps 300,000-400,000 Canadian citizens in Hong Kong, mainland China, and Taiwan.

Canada-China people flows will increasingly be characterized by two-way movements and by transnational citizens with personal, business and emotional attachments on both sides of the Pacific. The potential for leveraging this trans-Pacific network for business, diplomacy, and innovation remains largely untapped.

Seen in this light, the Canada-China human capital nexus is a unique focal point for relations between Ottawa and Beijing. While other countries are lining up to sign trade and investment deals with China, Canada can go a step further and investigate the possibility of an agreement on human capital. Such an agreement could encompass issues such as citizenship, visa, education and training, professional accreditation, social security, taxation and even extradition. Given the large number of Canadians and Chinese with deep connections across the Pacific, it is a certainty that these bilateral issues will become bigger policy challenges for Beijing and Ottawa in the years ahead. There is an opportunity now to address these issues in a comprehensive fashion, and to turn potential problems into a competitive advantage for the bilateral relationship.

The second area in which Canada stands out for China is in resource endowment. While China watchers in Canada may bemoan the perennial characterization of Canada as a resource-rich

country (to the exclusion of other industrial attributes), the reality is that China's current interest in Canada is focused principally on resources. Indeed, it was resource exports to China (including coal, iron ore, copper, pulp, and potash) that kept the Canadian economy from a sharper downturn in 2008-2009.

China will continue to be a vital growth market for Canadian resource exports for the foreseeable future. The new frontier for Canada-China resource cooperation, however, is not the export of resources, but Chinese investment in Canada. Until recently, there has been little Chinese investment in the Canadian resource sector, in part because of Chinese fears that their overtures would be spurned. The drought was broken at the end of 2009 when the Chinese Investment Corporation placed \$1.9b in Teck Resources for a seven percent stake in the company. This was followed by multi-billion dollar investments by Chinese oil majors in the Alberta tar sands. It is likely that these investments are only the tip of the iceberg and that there could be a lot more Chinese capital on its way to Canada, if investors can be convinced that Canadians are receptive to Chinese investment, including from Chinese state-owned enterprises.

The importance of Chinese investment in Canada is not simply that it will provide capital for the development of untapped resources such as the oil sands. The greater significance is that if Chinese investment in the Canadian resource sector is deemed to be successful, the attention of Chinese investors will inevitably be drawn to other Canadian industries. Given the opportunistic nature of Chinese outward investment and the complex linkages among Chinese enterprises, there is a good chance that when a critical mass of Chinese investment is established in Canada, the interests of these investors will broaden beyond the resource sector. Ironically, the best way to dispel the Chinese stereotype of Canada as merely a resource-rich country may be to encourage Chinese investment in the resource industry.

At 40, the Canada-China relationship is only just beginning to mature. Youthful notions of a special relationship have given way to a more realistic assessment of the national interests that drive bilateral ties, and of the growing importance that China is playing in the world economy. And yet, the Canada-China relationship remains special because of two-way people flows and Canada's resource abundance. In the same way that human capital and natural resources constitute the fundamental underpinnings of an economy, these bedrocks of bilateral ties are a formidable foundation for the further development and strengthening of Canada-China relations.

*Yuen Pau Woo is President and CEO of the Asia Pacific Foundation of Canada*

*An edited version of this article appeared in China Business, July 2010, Volume 19.*