

The Myth of Simple Choices: Canada and its China Policy

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The ban on high-level visits did not last long. Brent Scowcroft, President George H. W. Bush's National Security Advisor, was sent secretly to Beijing in less than a year, senior Chinese were received in both Tokyo and Paris in less than two, and Canada hosted a visit by Vice Premier Zhu Rongji shortly thereafter. But much of the rest of the policy framework was to survive, albeit refined and recalibrated.

Four Pillars of Engagement

Less than seven years after the Tiananmen crisis, I was appointed Canadian Ambassador to China and my mandate letter made explicit that I was to pursue Canada's relationship of engagement with China based on four pillars: an economic partnership that would benefit Canadian commercial interests; sustainable development; peace and security; and human rights and the institutionalization of the rule of law. The four pillars were based on the belief that China was on a general path of convergence with the West with respect to both economic and social change and that Chinese institutions and practices would adjust or evolve accordingly, and that western countries could play a supportive role in that evolution.

To us foreign policy practitioners, engagement meant the pursuit of a variety of interests, including the encouragement of change in the areas of human rights and the rule of law. But neither my mandate letter nor any government pronouncement suggested that our engagement would lead China to become a western-style parliamentary democracy.

Between the early 1990s and December of 2018 the official relationship between Ottawa and Beijing went through some warmer and cooler phases, but the importance of China to Canada never ceased to grow. China emerged as Canada's second largest export market, a significant market for our insurance and aerospace companies, a major source of capital investment for our resource industries, and a key source of international students for our universities. In short, Canadian economic interests became ever more deeply engaged in China and the government did its best to help support and pursue those interests.

to consolidate his own power by focusing on ambitious competitors and particularly

phrase “Yi Fa Zhi Guo” (“law-based country”) has sadly come to simply mean the party using laws to rule as it sees fit.

If advances in legal reform have been reversed and hopes of convergence in the rule of law blunted in recent years, what about other dimensions of change and other objectives in our broad-based policy of engagement?

Economic Reform

In the realm of economic policy, the situation deserves an easy answer. There has been some real movement in the positive direction. The regulatory environment facing business has been constantly lightened, with red tape reduced for both domestic and

In spite of the newfound love for the state sector in the halls of Zhongnanhai, and indeed in part because of the desire to favour and protect them, most state-owned enterprises are still financially struggling, inefficient and decidedly un-nimble. But it really doesn't seem to have mattered to the Chinese leadership, as long as they are big and do the party's bidding, particularly in participating enthusiastically in such strategic ventures as the Belt and Road initiative.

The "Made in 2025" Program and Industrial Policy

An even more radical divergence from the earlier path of economic reform, if not an egregious setting aside of formal obligations under the WTO, was the "Made In China 2025" policy, developed under party instruction in 2014 and formally announced early in 2015. This was the clearest indication of Xi Jinping's vision for the dominant role of China in tomorrow's globalized economy. It was nothing short of a direct repudiation of the retreat of the state as a direct economic actor. Ten priority sectors of the modern economy, from electric vehicles and high-end medical devices, to robotics and aerospace, were selected to be domestically dominated by Chinese brands to the tune of 70 percent by 2025, and this was to be achieved by directing massive amounts of state capital into Chinese companies, primarily state firms or firms with close ties to the state, indigenizing and substituting foreign technologies, and capturing global market share in each sector as well. The international reaction to this aggressive industrial policy has of course been negative and has resulted in both general and specific measures to limit Chinese corporate access to international markets. The case of Huawei is but one example.

Primacy of the Party

Alongside the reversals embodied in the new approach to SOE reform and the muscular industrial policy that impacted on the strategic plans of both state and private companies was an intrusive effort to increase the influence of the Communist Party in both. All firms were obligated to have party committees and party representatives in senior management. While this had always been the case in theory, the practice in most firms was not taken very seriously. This changed quickly. By 2016 it was clear that party supervision was real and intrusive. Management "audits", led by and reporting

to the party, were conducted on both domestic and international subsidiaries of major SOEs, and the results and recommendations imposed on management. Large private firms with significant international footprints, many of which had paid only light lip-service to party directives and party involvement in the past, now had to take both very seriously or risk having their business interests circumscribed or, in some cases, even their senior executives detained.

And as a further effort to eradicate sources of impurity in the party, individual party members, whether active or retired from their professional careers, were instructed to resign their membership on foreign boards and other bodies, even international advisory boards of most academic and non-governmental organizations (except those created by or sufficiently controlled by China). I personally have friends who were instructed to step down from the boards of elite American universities and professional schools that they had attended.

Will the Counter-Reform Be Reversed?

Xi Jinping's aggressive approach to international and Hong Kong affairs has led many countries to re-assess their China policies. We all watch China's island-building in the South China Sea, its heavy-handed measures to bring Hong Kong to

Party Central Committee issued a policy document with the catchy title of “Guidance on Speeding Up the Improvement of the Socialist Market Economic System in the New Era”. This was a somewhat surprising compilation of key reforms remarkably similar to those elucidated in the discarded “60-Point Policy” of more than six years earlier. It called for better respect of and protection for private rights, business and intellectual property, deeper fiscal reform, a reduced role of government in the allocation of resources and in the setting of prices, land reform, reform of the labour market and the household registration system, a crackdown on counterfeit goods, and a rollback of non-tariff barriers to trade. It also explicitly stated that China would “unswervingly expand opening-up, draw on the experience of other mature market economy systems and achievements of other civilizations, and accelerate efforts to align domestic systems and rules with international ones”.

Will the Xi Jinping Consensus Hold?

Will the “Guidance” document of this past May have more traction than the 2013 Third Plenum policy piece? It is simply too early to tell. A number of subsequent minor policy announcements imply positive movement. The recently concluded 5th Plenum suggests renewed commitments to international rules and cooperation. The “Made in China 2025” policy has evaporated in favour of the more-modest goal of technology self-sufficiency by 2035. The plenum’s language is general, however, and we will learn more when the 14th Five-Year Plan is published early next year. It does appear, however, that there are at least some senior people at the centre of the party as well as in the key agencies of government who believe that errors have been made during these past six years.

If there are party leaders who believe that the policies of Xi Jinping’s counter-reformation were misguided, they are not alone.

Somewhere deep in the back alleys of my brain is something I read, probably sitting in a corner of McGill’s Redpath Library, about the dual challenge of authoritarian governance: the challenge of sustaining authoritarian rule over the masses and the challenge of sharing the benefits of rule with key elites. Over the last forty years, China has done this magnificently. The support of the masses has been effectively purchased with real and sustained economic progress for the average citizen. The

support of the elites has been purchased through their participation in that progress as well, amplified by outsized benefits far beyond those enjoyed by the average citizen. And that resulted in the Chinese leadership being able to forge and maintain a strong and supportive consensus among elites: SOE leaders, private businesspeople, academics, military leaders, the stars of the worlds of film and television, of fashion and sport.

That consensus is beginning to fray. Reformist SOE leaders are not happy with the sidelining of real reform in the state sector. Private business leaders are not happy with increased party intrusion into their decision-making, and unhappy being treated as second-class citizens when it comes to being strong-armed into participating in "mixed-ownership" models in the state sector. They do not like being treated as instruments of party policy in either controlling domestic social media or advancing foreign expansionist objectives along the Belt and Road. Along with many in think-tanks and progressive internationalist corners of the state bureaucracy, they

In spite of the deep damage the Meng-Michael-Michael crisis has had on the Canada-China relationship and also on Canadian attitudes towards the Chinese government, general views of Canada among the Chinese people remain positive; we should continue to reach out well beyond official circles. And well beyond Beijing and Shanghai to the elites and markets in the 2nd and 3rd and 4th tier cities and markets, many of which are the size of mid-size European countries.

There are literally hundreds of thousands of Chinese who have studied in Canada, three or four thousand at McGill alone, and who now live back in China. Add to them the many thousands of academics, professionals, business leaders, sportspeople, actors, musicians and film producers with whom Canadians have built and sustained relations. These extensive networks are our synapses for the exercise of Canada's soft power.

We must not become prey to McCarthyist propaganda that uses nationality or race to impute hostile intent. While there is no doubt there have been efforts to steal industrial or technological secrets from our companies, laboratories and universities, there is no evidence to suggest that the vast majority of cooperative research projects or academic exchanges have had nefarious intent or damaging results.

Risks can be mitigated with vigilance at both the institutional and personal levels, combined with zero tolerance by our security and public safety agencies. We must keep our eyes wide open to ensure that the hands of cooperation we extend or the doors we keep open are never abused. Confucius Institutes and Chinese corporations, both private and state-owned, should be welcomed, but we should establish clear rules of acceptable behaviour, and then enforce those rules assiduously.

The federal government has a responsibility to continue to pursue export markets for goods that Canadians make or grow and services that Canadian insurers and financiers provide. Supporting the well-being of farmers in the prairies or miners in British Columbia or lobster fishermen in the Atlantic provinces should not be sacrificed on the altar of a unidimensional value-based foreign policy. We should of course do our utmost to attract more productive investment from other Asian powers, like Japan, Korea, Taiwan, and India. And we should increase our student intake from

Korea and Vietnam and South Asia. But calls for us to diversify completely our export markets away from China are as silly as they are hollow: how many smaller country markets would we have to monopolize completely to offset the Chinese market for life insurance, for canola, pork, lobster, copper or potash, for Canada Goose jackets or Lululemon leggings?

And of course our government must never fail to protect Canadians, including those whose origins are from China, and to do its best to deter China from unacceptable behaviour, internationally, in Canada and even in China. We should do so quietly, and usually if not always in concert with countries who share our views and values. "Megaphone diplomacy" is rarely successful, and when conducted alone it is generally more about pleasing domestic audiences than making real progress.

Canada has always used multilateralism to increase our weight internationally, to further our own aims. Over the years we have found in China much support for multilateral institutions and a willingness to live, not always perfectly, by international rules. In fact, much of the structural changes behind economic reform in China would never have been politically possible in China without multilateral pressure. Witness China's entry into the WTO, one of the most significant motors of domestic change since 1978.

The Trump presidency, which eschewed all forms of multilateralism, greatly strengthened the hand of Chinese unilateralists. In the expectation that the new US administration will return to multilateral tables, we should intensify our pursuit of our own interests in China and bring through multilateral efforts and institutions a coherent and collective encouragement to China to resume its path of convergence with the broader international community. The departure from the scene of one of the two great unilateralists may well weaken the hand of the other.

The alternative to sustained and vigilant engagement, to exclude or shun China, would ignore all the good that has come from past interchange, and would

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Balancing all this is not simple. Foreign policy, which is the pursuit of the complex and not always consistent interests of Canada in a turbulent and often unwelcoming world, was never meant to be easy.

In closing, I would encourage us all to remember that China is not monolithic. China is not only Xi Jinping any more than the United States is or has been only Donald Trump. China is also not static. It has changed fundamentally and enormously over the last forty years and will keep on changing. China will continue to evolve economically, socially and, yes, as all educated and well-off societies everywhere have done over time, in its own way and according to its own timetable, politically.

About the author

Former diplomat Howard Balloch is a corporate director and private investor, and a partner of Hong Kong-based PacBridge Partners, an investment group that specializes in providing early stage capital to Canadian companies using disruptive technologies to build scalable businesses.

During his time serving under the Canadian Government, he was Ambassador to China, and was also accredited as the Ambassador to Mongolia and the Democratic People's Republic of Korea. From 1991-1994, he held the position of Assistant

