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by Hugh Segal
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POLICY PAPER

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The proposed purchase of a Canadian oil company with global reach by a state-controlled Chinese oil company is not about a mortal Canadian enemy seizing control of a single and strategic asset. Neither buyer nor seller has earned either reputation. It is more about the inexorable, patient, and long-term strategy, of China to gradually own preferred access worldwide to the resources it does, and will, need, and the degree to which short-term western financial markets seek rapid fire returns and profits. When a fiduciary manager or a target company can add 40% to shareholder value quickly, they are hard pressed to look away and may well be sued by institutional and other shareholders if they do. The very market forces that built, with some regulatory help (like Mr. Diefenbaker's Ottawa Valley Line), the traditional oil and gas basins of Canada's west now make it hard for the market and senior managers to resist the high valuation blandishments of state-owned entities abroad. One need not pre-judge what should be a rigorous net benefit assessment process on the proposed Nexen deal to underline some other strategic questions Canada and Canadians should assess.

Building a deep trans-Pacific trade relationship with Asia matters, and India, Malaysia, Japan and China are vital parts of this puzzle. China has shown no interest in the trans-Pacific partnership to which Canada seeks to negotiate entry. What will this imbalance mean?

China recently submitted a "nine dash map" of the South China Sea, (where each dash underlines a critical area of Chinese territorial claim) to the UN. This impacts the legitimate fishing and mineral rights of other Canadian trade and Commonwealth partners, such as Malaysia, who is also a large investor in our energy resources. No global power is increasing its military spending or naval expansion in any way that compares to Chinese investment in these areas. While China argues that it seeks peaceful co-existence and constructive negotiation on any regional disputes, it clearly means to be the best and most combat-ready power entering any such negotiations.

Around the world Chinese investment and diplomatic synergies have been profoundly unhelpful to democracy, the rule of law, humanitarian intervention and effective global engagement. Canada backs sanctions against Iran. China does not. Canada and the rest of the world sought to engage when Sudan's attacks on their own minorities were genocidal. China, heavily invested in Sudanese oil, used its veto to stop that, as they have with Russia, by emasculating the UN on Syria. The fact that China allows little democracy, human rights or real religious freedom at home, while Canada fights for all of these around the world as foreign policy principles, is also worth noting. The Caribbean/Chinese construction companies that built key infrastructure on a lost leader basis had onerous requirements, such as 75% of the work force coming from China, immunity from local labour rules, proprietary Chinese leasing and economic requirements. Throughout Africa, despite some notable improvements, repressive Chinese attitudes towards local indigenous populations and labour have produced considerable resistance. Generally speaking, most authoritarian leaders worldwide (like Mr. Mugabe at the height of his excesses) could count on Chinese support.

Do we face the prospects of Canadian oil or its profits from enabling Chinese crackdowns on democracy, neighbouring territorial rights, or territorial assertions, even by the use of force? Or would Canadian oil and rights worldwide be supporting an anti-democracy China-based axis supporting the likes of Iran, Assad and conspiring with Putin's authoritarian excess? This is likely an exaggerated fear. But exaggerated does not, in this context, mean baseless.

Part of being an 'energy super power', believing in open markets and living in a quarter by quarter corporate reality, makes these kinds of bids and debates in Canada unavoidable. The



tremendous work over the decades by generations of Alberta oil and gas engineers, investors, managers, oil field workers and the rest has created a compelling and large asset base. This effort should never be taken for granted. Profit-taking is a normal part of this cycle and the profits go to many unions, pension funds and other stakeholders that serve millions of middle class Canadians from coast to coast.

There is an economic net benefit and a larger "what are we doing here?" perspective that we should embrace through the coming analytical process. China's economic growth, her lifting of millions out of poverty, her amazing domestic productivity and employment growth challenges, should not be outside this analysis. We need not hypothecate all economic relations to concurrence between domestic political values in our two countries. But where democracy and human rights are so absent from a major power's domestic or worldwide pursuits, it is certainly cause for thoughtful pause and careful reflection.

The Prime Minister's advice that nothing should be taken for granted here is not only spot on but appropriately reassuring.

► **About the Author**

Senator Hugh Segal, C.M., is a former Chief of Staff to the Prime Minister of Canada, Associate Cabinet Secretary (policies and priorities) in Ontario and a former President of the Institute for Research on Public Policy. A former Chair of the Senate Committee on Foreign Affairs, a member of the recent Special Senate Committee on Terrorism. He is a Senior Fellow of the Queen's School of Policy Studies, and a Member of both the Council of the International Institute for Strategic Studies in London, and of the Institute for Democracy and Electoral Assistance in Stockholm. He is also Senior Fellow at the Canadian Defence and Foreign Affairs Institute in Calgary, and a regular Lecturer on Defence Policy at the Canadian Forces Staff College in Toronto. A graduate in history from the University of Ottawa, Senator Segal is an honorary captain in the Canadian Navy and holds honorary doctorates in law from the Royal Military College of Canada. He sits on a range of private, public and not-for-profit boards of directors, and is Senior Research Fellow at the McMillan law firm in Canada.



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CDFAI was created to address the ongoing discrepancy between what Canadians need to know about Canadian international activities and what they do know. Historically, Canadians tend to think of foreign policy – if they think of it at all – as a matter of trade and markets. They are unaware of the importance of Canada engaging diplomatically, militarily, and with international aid in the ongoing struggle to maintain a world that is friendly to the free flow of goods, services, people and ideas across borders and the spread of human rights. They are largely unaware of the connection between a prosperous and free Canada and a world of globalization and liberal internationalism.

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