Careful What You Wish For: China is "Quietly Reshaping the World"

Canadian business wants a notch in China's Belt and Road Initiative. In Asia, as in Canada, there are domestic and foreign policy risks to consider

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In mid-January at a forum in Shanghai, the Chinese government presented the latest additions to its global economic strategy known as the Belt and Road Initiative (BRI), the largest infrastructure project in the world. The BRI consists of economic corridors — roads, pipelines and maritime links — connecting Asia with the Middle East, North Africa and Europe. Chinese spending on BRI infrastructure projects, including mines, ports and other mega-projects at home and in countries along each corridor, could reach $8 trillion over the next 20 years; $300 billion had already been spent by October 2017.

With this massive investment China is "quietly reshaping the world," in the words of *Atlantic Monthly*, in particular the lives of its closest neighbours. The BRI, which was launched in 2013, has so far funded a China-Pakistan Economic Corridor (CPEC) passing through the latter's Balochistan province, a new military base in Djibouti in the Horn of Africa, which opened in August last year, a high-speed China-Thailand railway line, and collaborative projects with 16 East and Central European countries.

Chinese Foreign Minister Wang Yi announced in December that there were Belt and Road co-operation agreements with 80 countries and organizations, and that China had built 75 overseas economic and trade cooperation zones in 24 countries.

With so much money on the table, even rich countries are angling for a piece of the BRI action. The British government, for example, has declared the U.K. "a natural partner" for China, and the German government claims the country's private sector is "willing to support BRI."

But not everyone is so enthusiastic. There is major opposition to the BRI in Pakistan's

Balochistan province, where ethnic Balochis are fighting a separatist insurgency against a Pakistani army accused of massive human rights violations. Balochistan is in fact crucial to the creation of the CPEC, which in turn is a major part of the BRI.

Gwadar Port in Balochistan, a BRI-funded project, will give China an important alternate route for oil imports from the Middle East. Pakistan and China are also building road and rail networks between Gwadar and Xinjiang, China's largest province bordering Pakistan.

> "If [the BRI] is like a symphony involving and benefiting every country, then construction of the [CPEC] is the sweet melody of the symphony's first movement," said Minister Wang in 2015.

Balochistan comprises 43% of Pakistan's land area and holds most of its natural resources, including a rich supply of oil, natural gas, coal, copper, gold, silver, platinum, aluminum and uranium. Yet the Balochis, who represent 3.38% of Pakistan's population, have long been oppressed by the country's army, and 63% live below the poverty line. Natural gas from Balochistan produces 40% of the country's primary energy, but only 6% of Balochis receive it and the province only gets 12.4% of gas royalties.

Given such deprivation, it is not surprising there have been five Baloch insurgencies against the central government since 1948, the latest one starting in 2005. Balochi insurgents and nationalists have called on

China to stop the construction of the CPEC until the province becomes independent.

An estimated 18,000 Balochis have been forcibly disappeared by the Pakistani army. Naela Quadri Baloch, president of the World Baloch Women's Forum, accuses the army of "using rape as a tool of oppression," and blames increased violence by the Pakistani state on Beijing's interference.

> "China is looting the resources of our province, including the gold reserves, and turning a blind eye to the genocide of the Baloch," she told The Indian Express in April 2016, adding that many new roads for the CPEC were being destroyed by Balochi insurgents.

Balochistan should be a cautionary tale for Canada, whose participation in the BRI is being encouraged by Beijing and domestic corporate lobby groups. Not only could Canadian companies vying for BRI funding get pulled into potential human rights disasters abroad, but there are possible concerns related to Chinese government influence in Canada as well.

> "China's economic strategy has grown to include much of the world," says Gordon Houlden, director of the China Institute at the University of Alberta. "With so much money being spent by China, there are opportunities for Canadian companies to participate in BRI infrastructure projects, as some of them have substantial engineering capabilities."

Canadian companies such as Montreal's Bombardier and Calgary's Grand Power Logistics Group are already tapping into the BRI by investing in Turkey's high-speed rail line and a rail service in China respectively. But overall, Canadian participation in the Chinese infrastructure vision is not yet extensive.

> "With a few exceptions, our business community is behind the curve in terms of taking advantage of Belt and Road opportunities," writes Eva Busza, vice-president of research at the Asia Pacific Foundation of Canada, a corporate and government-funded think tank that promotes closer Canada-Asia relations, in a recent blog post.

In a business survey released by the Canada-China Business Council in April 2017, 74% of respondents knew about the BRI and 44% saw opportunities for themselves in it.

In Canada, many business groups see a free trade agreement with China as a way to quickly increase profit-making opportunities in Asia, and the initiative has been taken up enthusiastically by the Trudeau government.

> "There is an opaqueness to the Chinese economy," claims Houlden. A free trade deal "could act a cudgel to break down barriers to investment and trade."

In return, China will expect "loosened investment rules" in Canada, he tells me, including a lighter touch when it comes to foreign takeovers.

Image below: Canada's PM Trudeau and China's President Jinping

Canada's Investment Act allows the federal government to apply a national-interest or "net benefit" screen on foreign takeovers above $1 billion, though it is rarely used — a sign of Canada being "open to business," as espoused by successive federal governments. Chinese state-owned enterprises, however, face additional screens, first introduced by the Harper government in 2007, when investing in Canadian energy and infrastructure.

The majority of Chinese investment in Canada is in the energy sector and in mines and minerals, and Beijing will undoubtedly seek a relaxation or elimination of "net benefit" screens in these areas under any FTA. The second Chinese priority is an oil pipeline in Canada that would take tar sands bitumen to the West Coast for shipment to Asian markets. The Trans Mountain pipeline expansion approved by the Trudeau government aims to accomplish this but faces legal challenges in B.C.

> "Since NAFTA looks like a train wreck, it is very important for Canada, whose prosperity is based on trade, to look for diversification in this area," argues Houlden. "We're dependent for 75% of our trade on the U.S.market — I'd like

> to see that number go down to 50%. The sheer size of the Chinese economy and the rate at which it is growing makes it a very attractive trade partner. Having a range of trading partners will give Canada greater economic stability."

The Canadian Centre for Policy Alternatives (publisher of the *Monitor*) agrees with Houlden on one point — that it is important for Canada to deepen economic, political and cultural ties with China. But, as Senior Researcher Scott Sinclair adds in the CCPA's submission to the federal government on a possible China FTA, pursuing this goal through a standard free trade deal "creates unacceptable risks for Canada, and particularly for Canadian workers."

Sinclair warns that a CCFTA will reinforce Canada's high trade deficits with China (which increased from $8.5 billion in 2001 to more than $43 billion in 2016), further erode Canada's manufacturing base, intensify competition with lower-waged and poorly protected Chinese workers, and likely worsen domestic inequality.

> "China is a superpower," he writes. "However painstaking Canada's negotiating strategy or skilled its negotiators, due to the vast power imbalance between the two parties, China will ultimately be the rule-maker and Canada the rule-taker in any one-on-one FTA negotiation."

This was, after all, the experience in negotiating the Canada-China Foreign Investment Promotion and Protection Agreement (FIPA), signed by the Harper government in 2012. The FIPA, which protects Chinese investment in Canada to a much greater extent than Canadian investment there, includes a controversial investor-state dispute settlement (ISDS) mechanism. Under NAFTA's ISDS process, Canada has been sued more times than either Mexico and the U.S., frequently by U.S. companies whose resource projects were frustrated by public interest regulation or community opposition.

The Hupacasath First Nation, based in Port Alberni, B.C., sued the government in federal court in 2013 over the Canada-China FIPA, arguing that the agreement undermined its control over resources in its territory and that the government had failed to consult with the First Nation as it was legally required to do. The Hupacasath lost the case, which the judge decided to be based on speculation, ignoring completely the NAFTA and international ISDS record of companies running roughshod over democratic decisions.

The Trudeau government has signalled it will be more welcoming to Chinese investment than the Harper government. Since taking office, it has approved the sale of high-tech firms Norsat and ITF Technologies to Chinese buyers, even though both companies manufacture "military-edge" technology. The ITF sale approval essentially reversed official Canadian policy. Canada blocked the deal in 2015 after the Department of National Defence warned

> "China would be able to domestically produce advanced military laser technology to Western standards sooner than would otherwise be the case, which diminishes Canadian and allied military advantages."

The Trudeau government is now reviewing the sale of Aecon, one of Canada's largest construction groups, to CCCI, an overseas financing arm of the China Communications Construction Company. Canada's domestic construction industry opposes the takeover — for fears of undue Chinese government influence and the potential to suppress prices —

though Aecon shareholders have already voted their support. CCCI has been previously delisted by the World Bank for fraudulent activities in the Philippines, and is criticized for recent worker deaths in Guangzhou and Dongguan.

A free trade deal with China, like the FIPA before it, would arguably make it more difficult to hold Chinese firms accountable for their actions in Canada. Sinclair recommends instead that Canada should consider "a sectoral approach focused on developing ambitious strategies to co-operate in achieving both countries' urgently needed transition to renewable energy," an area where China has made great progress. "A successful co-operative model in renewable energy could be built on and extended to other sectors."

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