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Opening Keynote Address

**Post-Colonial Transformations in Hong Kong & Macao:
Implications for Cross-Taiwan Strait and Canada-PRC Relations**

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Good morning scholars, ladies & gentlemen:

Many Canadians believe that we are regarded as friends of China because of Trudeau, and because of the sacrifices of Norman Bethune. And, of course, Dashan is our best cultural ambassador to China. So why is it that, when Canadians travel to China today, we are asked by ordinary people, like taxi drivers, why we hate them?

This morning, I will present an overview of the relationship between our two countries, since the establishment of the People's Republic of China, with the ever changing economic and political dynamics of greater China. You will notice that I won't be mentioning Macao, and that is purely because of my ignorance of that Special Administrative Region.

Canada was the leading western country in building a relationship with China in the early days. Despite the lack of formal economic or political ties, Canada started to sell wheat to China in 1958. Sales grew from \$9 million in 1960 to \$147 million two years later. Until the end of the 1960s, the total exports from Canada varied from \$100 million to \$185 million annually, and they almost entirely consisted of wheat.

In October 1970, China and Canada established formal diplomatic relations. And in 1973, the two countries signed the Canada-China Trade Agreement which allowed for the mutual extension of "most-favoured nation" status. By 1973, Canadian exports to China had doubled.

After the death of Chairman Mao in 1976, the Open Door Policy was introduced which led to further improvements to Canadian access to Chinese markets. In 1978, the Canada-China Trade Council was established, which was later renamed the Canada China Business Council. In 1980, Canada granted "preferential" trade status to China, reducing tariffs on imports from China by over one-third from the regular "most-favoured nation" tariff rate. However, many products were excluded from this agreement.

Between 1978 and 1988, Chinese exports to Canada grew, averaging an increase of 26% per year, while Canadian exports grew only by an average of 18% per year.

As early as the 1960s, Britain began to differentiate passports carried by Hong Kong residents. This was a prelude to the negotiations between Margaret Thatcher's government and Beijing, on the return of sovereignty of Hong Kong to China, which subsequently led to an exodus of Hong Kong residents, many of whom came to Canada. Emigration from Hong Kong was on many people's minds. I remember hearing of the fear of change whenever we visited Hong Kong. Many were sure that it would be for the worse.

On the other hand, Canada, like many other immigrant receiving countries, opened its doors to attract wealthy immigrants by making it easier for business people, entrepreneurs and investors to immigrate to Canada.

The influx of immigrants from Hong Kong was due to fear of political change, but the movement of people also coincided with changes in the economic situation in Canada and Hong Kong. This, we will see, in subsequent years, was the reason why so many returned from Canada to Hong Kong or mainland China.

During those years, I watched with great interest, as many of my extended family members immigrated to Canada. The only person who said he would never leave Hong Kong was my father. He passed away before the final agreement was signed between Britain and China.

The return of sovereignty at the end of the last decade had far-reaching consequences for Canadian relations with that part of Asia. The number of Canadians of Chinese heritage suddenly swelled, and Chinese became the third most spoken language in Canada.

In the mid 1990s, the economy boomed in Hong Kong which seemed to overshadow the fear of Communism. Many immigrant heads of households returned to Hong Kong to work, while leaving their families in Canada, and the children attended school here. These children grew up being bi-cultural, with one foot in Canada and one in Asia.

As greater China flourished economically, many Canadians of Chinese heritage born or raised in Canada were drawn by the opportunities there. Now, about ¼ million Canadians live in greater China, and 1.3 million Canadians in Canada claim Chinese heritage. As a result, Canada's relations with greater China have grown closer largely through the movements of people that feel equally at home in both worlds.

Ideally, this should mean that Canada has increased its ties and influence over greater China in the last decade. But this is not the case. Ironically, just as greater China has grown in importance as a global economic power, Canada has decreased its influence and presence.

Relations between our two countries, like that of other western nations, were strained after the Tiananmen Square massacre in 1989, even though trade continued to grow. By 1994, the two-way trade exceeded \$6 billion. In the same year, Canada established its four-pillar policy

on China, comprising the elements of: economic partnership; peace and security; sustainable development; human rights, good governance and the rule of law.

In 2001, China joined the World Trade Organization, and in the following six years, Chinese exports worldwide quadrupled, rising 29% per year. By 2007, globally, China accounted for more than 8% of exports, and almost 7% of imports.

Over the past 10 years, China has expanded its international trade dramatically, and transformed many of its cities into vibrant financial and manufacturing centers. The Chinese growth rate averaged about 9% over the last two decades, and was often in the double digits. As a result of this astonishing growth, many millions have climbed out of poverty and joined the middle class. Despite all the problems China still has to overcome, this phenomenon cannot be ignored by the rest of the world.

Appearing before the Senate's Standing Committee on Foreign Affairs on April 29th this spring, China's Ambassador to Canada, His Excellency Lan Lijun said, "Over the past few years, we have seen a downturn in our relationship. There has been no active exchange of high-level visits. The approach taken on certain issues is not conducive to developing a sound, better relationship." So, what happened?

Successive Canadian governments, and many companies, have failed to understand the extent of China's transformation. Canada's dependence on trade with the U.S. has paid dividends in the past, but as we can see recently, we are dragged under when there is an economic crisis in the United States.

Some individuals in the current government still seemed fixated on the cold-war dichotomy, fearing communism in any form. This is ironic because, when I am in Hong Kong or on the mainland, I recognize how socialistic we are in Canada.

Some in our government feel that closer economic ties would mean condoning Chinese labour conditions and its poor record on human rights. There is also national security and other concerns that state-owned Chinese companies, using sovereign wealth funds (pool of government-owned financial assets), should be limited in their ability to acquire foreign assets. Much of the tone from the present government has been judgemental and negative, and we all know that this approach doesn't work, whether it's between people or governments.

With the recent economic crisis, the dramatic changes in greater China over the last decade are now being recognized more widely. China surpassed Germany as the third largest economy in the world at the beginning of this year. As America's banker, with huge savings among its many citizens, and as a global trader, it is roughly five times more involved in the global economy than other emerging economies such as India, Russia or Brazil. The recent Chinese contribution of USD 40 billion to replenish the International Monetary Fund was an international triumph for China.

It is, therefore, not surprising that Hilary Clinton went courting. She said, "some believe that China on the rise is by definition an adversary. To the contrary, the U.S. and China benefit

from, and contribute to, each other's successes." This certainly offers China's leaders strategic opportunities. So it was no surprise when in April, at the G-20 summit in London, many were musing about the G-2, a China-America duopoly to guide world affairs. This came as a wake up call to Prime Minister Harper.

Nationalism is on the rise in China. The Beijing Olympics in 2008 were a huge source of pride for both China and the Chinese Diaspora around the world. The next big international event is the Shanghai Expo. Criticism of China at these international events will only serve to spur on this nationalism.

Many have overcome poverty in China, but many more have yet to be swept up by the wave of progress. Despite its economic miracle, there is huge disparity between the coastal regions and the vast hinterland. With the recent economic crisis, millions of university graduates are joining the tens of millions of migrant workers among the unemployed. Economic decline of this magnitude could lead to the destabilization of Chinese society.

China faces huge environmental issues as well which will affect us all if climate change continues unabated. As a global citizen, despite its economic power, China has a long way to go in assuming a leadership role because of its human rights records. It can be, however, an arbiter of conflicts, such as that with North Korea.

On the positive side, despite early fears of repression, citizens of Hong Kong were able to mark the 20th anniversary of the Tianamen Square Massacre without incident. It is also not surprising that, in the Fraser Institute's annual report of 2008, Hong Kong SAR has retained its status as having the greatest economic freedom in the world. Recently, Shanghai hosted its first gay pride festival, which would have been unthinkable a mere decade ago.

With respect to Taiwan, since the election of Ma Ying-jeou as President, China's cross strait relationship has improved dramatically. In late April, China Mobile, announced that it would acquire 12% of the third largest provider in Taiwan, Far EasTone, in the amount of 525 million US\$, which is the first ever investment from China in Taiwan. Another significant development this May was when Beijing agreed to let Taiwan have observer status at the World Health Assembly in Geneva, using the name "Chinese Taipei."

In 2006, when the Harper government discontinued Canada's dialogue with China on Human Rights, citing ongoing concern over China's lack of progress, President Hu Jintao snubbed Prime Minister Harper at an economic summit in Vietnam. So why, with Columbia's dismal record on human rights, and with its violent past as a narco-state, did the government conclude a free-trade deal with that country this March?

I don't want to suggest that the previous Liberal government had sufficient foresight to move from its dependence on U.S. trade to recognize the economic importance of China. There was dialogue, and a few Team Canada missions, but it is only recently that the Liberals recognize Canada's need to look towards the emerging economies in Asia.

The Harper government has taken pains to criticize China's human rights record publicly at every opportunity, meeting with the Dalai Lama at the Prime Minister's Parliament Hill office. The Prime Minister also refused to attend the Beijing Olympic Games. There has been little contact at senior political and diplomatic levels. This is a major impediment to engagement since the Chinese culture places great importance on long-term personal relationships.

Members of our present government seem to be ignorant of the fact that we need China, China doesn't need us. China has a global reach, and has also negotiated a free-trade pact with ASEAN countries. China is Canada's second largest trading partner overall, and our third largest market for Canadian merchandise exports, just behind the U.S. and U.K. And yet, 80% of our merchandise exports still go to the U.S., with only about 2% going to China. Despite the tremendous commercial potential of China, Canada lags behind in foreign direct investment (FDI) there, which is less than 1%, and China's investment in Canada is similar.

Canada is also failing to take advantage of its biggest long-term asset – the ¼ million Canadians, many of whom are young professionals, who live in greater China.

Particularly regressive is the new citizenship law, which took effect this April, which created a two-tiered citizenship that will affect the Canadian Diaspora. The Asia Pacific Foundation of Canada urges Ottawa to update its understanding of the global knowledge-based economy, and to “embrace Chinese Transnationalism.”

Chinese civilization has been around thousands of years and we have long memories. So I am very puzzled by the Government's recent about face regarding restarting dialogues with China. The visits of Ministers Stockwell Day, and Lawrence Cannon to China, with an upcoming visit planned for Prime Minister Harper seem like a good start, but it is not nearly enough to build any kind of permanent relationship.

The Harper government did do some things right. The significant appointment of David Mulroney as Ambassador to China, will, I hope, enable a more sustained approach involving high-level officials in DFAIT. Another positive recent appointment was Dashan as the Canadian Commissioner General for the 2010 Shanghai Expo.

Canada has finally identified China as one of the priority countries in its Global Commerce Strategy (GCS), and has stated that it wants to double the level of bilateral trade by next year. As of 2008, we suffered from a substantial trade imbalance with China with imports surpassing exports by a ratio of 4 to 1. Given the diminishing opportunities for exports to the U.S., it is important that Canada revitalizes our relationship with China. However, it will take more than stated goals on paper. Canada is not spending very much on the Global Commerce Strategy – \$50 million – an amount that many of our competitors would direct towards one single country.

Unlike Australia, Canada has failed to have a “whole government” strategy towards China. Australia has had this approach since the 1980s, involving immigration, post secondary education, and trade, with an Australian brand.

Australia's approach emphasizes a constant flow of positive visits between senior level officials. For example, in 2008, the Prime Minister of Australia visited China twice, the Governor General went to China, the Minister for Trade visited China 3 times, and no less than five other Ministers from various portfolios went to China. It also maintains a number of ongoing bilateral dialogues with China on trade, resources, aid, defence, human rights, climate change, and regional security, and is working actively towards a free trade deal with China.

On human rights, Australian policy revolves around dialogue, and technical assistance, and an incremental approach. Their Department of Foreign Affairs and Trade notes, "though progress is slow, this approach is preferable to the alternative – public condemnation of China – which is often counterproductive." The policy notes that while differences on human rights exist, substantial progress by China has been made over the last 30 years.

Australia's overall two-way trade was more than A\$ 67billion in 2008, an increase of 28.3 % year over year, and more than 14% of Australia's merchandise exports go to China. Needless to say, our government has much to learn.

Given Canada's status as an exporter of natural resources, our leadership in scientific research and environmental technology, and our role in the Asia Pacific Gateway, China should be our natural ally. For Canadian corporations, Hong Kong, and now, increasingly Taiwan, can be our gateways into China.

China's Foreign Minister, Yang Jiechi was in Ottawa this Tuesday, taking the initiative to turn the page on the rocky relationship that exists between the Harper government and China. I'm sure all of us will be watching to see what follows.

As is often the case, the Canadian public is ahead of the government. A poll by the Asia Pacific Foundation of Canada, taken three years ago, found that most Canadians identified China as the export market with the greatest potential, way ahead of the U.S., and 60 % of Canadians believe that the rise of China is more of an economic opportunity than a threat.

The Canadian government needs to make China a priority, so that other countries will not continue to realize substantial gains at our expense, and Canada will not become irrelevant on the world stage.