

Canada-China Relations: Trade, Investment and Human Rights

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Happy Chinese new year. Gung Hay Fat Choy.

China's 5000-year-old civilization has given much to the world. One of myriad examples is the economic policy launched by Deng Xiaoping after 1978, which lifted hundreds of millions of citizens out of grinding poverty. My respect for the Chinese people grew during several visits to the country and I was honoured to represent some Canadians of origin in the Middle Kingdom in Parliament for almost 27 years.

Among many things I admire are the often heroic protests by the people against a government, which is essentially of, by and for Party members only. (Tsinghua University estimates that there were 180,000 'mass incidents' across the country during 2010 alone)

Former premier Wen Jiabao spoke often about the necessity for democratic reform.



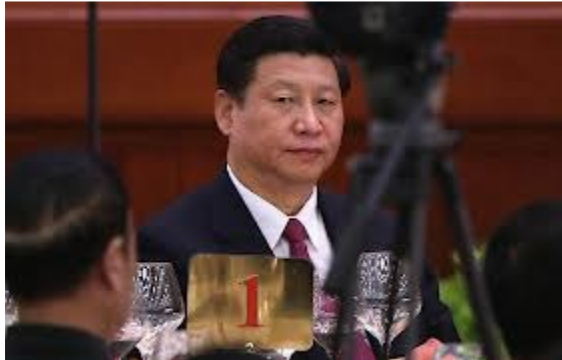
Wen Jiabao

Photo credit: zimbardo.com

Wen also blocked the advance of Bo Xilai to the Standing Committee of the Party, although many democratic governments, including Canada's, and business people had naïvely courted him for years. While governor of Liaoning Province, Bo and his now-jailed police chief, Wang Lijun, were among the worst persecutors of Falun Gong, pillaging and selling their vital organs to wealthy nationals and foreigners. Wen used the lawsuits launched against Bo in 13 countries, including Canada, to have him removed as Commerce minister in 2007. Bo, former president Jiang Zemin and other Party members should face the International Criminal Court for crimes against humanity.

Unfortunately, the new seven-member Standing Committee has a majority of Jiang faction members, but the two key ones, president-designate Xi Jinping and premier-designate Li Keqiang, appear for now to offer some hope on the corruption front. In reality corruption is the system. One recently leaked speech by Xi suggested hostility to political reform. The respected Beijing writer Gao Yu

reports that Xi discussed the Soviet Union collapse, stressing the need to maintain Party control over the military in China.



General Secretary Xi Jinping



Dep. Sec. Li Keqiang

Canada should, of course, remain engaged with Beijing despite the constant difficulties created by its governance. Democracy with very Chinese features is probably closer than many think. Nor should we forget in this engagement that the values we represent are both Canadian and universal, including dignity for all, the rule of law, multi-party democracy, corporate social responsibility and the current need for more jobs everywhere. The Chinese people should know that Canadians stand with them, not with their government, just as we did in central Europe during the cold war, and with South Africans, particularly during the late '80s and in the lead-up to the election of Nelson Mandela.

To the best of my knowledge, Jean Chretien and Paul Martin as prime ministers did not raise these values effectively with leaders in Beijing. Stephen Harper, after indicating that Canadian values would not be sacrificed to the “almighty dollar” in dealings with China, appears to have opted in recent months for the Chretien-Martin approach.

In my opinion, selling goods, services and raw natural resources to virtually any country is fine (subject to security considerations), but investing in ones with neither rule of law nor government respect for their own people is highly problematic. Nor should Ottawa permit the sale of our businesses which make exports to state-owned companies in non-democratic countries.

So many things have gone wrong for investors in China. McDonalds Corp opened in central Beijing a number of years ago with a 20-year lease for its first restaurant. About two years later, it was told to get out because a large developer wanted to build over its location. If one of the largest companies on earth is treated thus, what hope is there for most Canadian businesses?

‘Ponzi Capitalism’

International affairs columnist Jonathan Manthorpe concluded in the Vancouver Sun a couple of years ago that one observes in China variations of a Ponzi

scheme. “A local government, without a functioning system for raising tax revenue—and...riddled with corruption...sells development land to garner cash... (first getting rid of (farmers) living on the land)... And, this being China...the municipality has the power to instruct banks to lend the development company the money for the sale. So the local government gets its cash, the municipally-owned company gets to build a speculative residential or industrial complex, and all seems well”.

In the Financial Times not long after Manthorpe wrote this was a story about how in one coastal city luxury apartments were to be built for as much as 70,000 Yuan (\$11,000) a square metre, which is about twice the annual income of the average resident. To finance a 150 square metre apartment in the building would consume every penny of a typical resident’s income for 350 years.

Recently, He Qinglian, a Chinese author and economist, wrote that in China today. “Over 100 million farmers do not have land. Tens of millions of city dwellers are unemployed...there are four basic requirements for a society to sustain itself: the ecological system...; the moral system...; basic living rights...; (and) a political system that maintains the normal operations of a society. Currently, the...only thing left is the political dictatorship. “

Canadian Investor Experience

A family I knew in Edmonton invested their life savings and those of friends in a pharmaceutical firm not far from Beijing about a dozen years ago. The mayor of the adjacent city had run the company before it was privatized, but wanted it back. He evidently pulled enough levers under the table that before long the plant gate was padlocked. The family lost every penny and the embassies of Canada in Beijing and China in Ottawa said they could do nothing to help.

If anyone thinks that the proposed investor protection treaty with China will prevent similar problems in future, consider the experience of Clive Aynsley of British Columbia. Aynsley practised law in Shanghai for 13 years and observes: “There is a ... saying amongst Chinese lawyers and judges who truly believe in the Rule of Law... ‘Those who hear the case do not make the judgment; those who make the judgment have not heard the case’ “. Another factor that caused him to return to Canada was an edict that went out years ago to all judges in China to the effect that foreigners were not to win in China ‘courts’ in future.

Governance

The meticulous research by Jung Chang and Jon Halliday in *Mao: The Unknown Story* demolished virtually every claim to legitimacy or respect for Mao. They conclude that Mao, holding absolute power over the people of China for decades, was “responsible for well over 70 million deaths in peacetime, more than any other twentieth century leader.” This places him with Russia’s Stalin and Nazi Germany’s Hitler as the 20th century’s three worst mass murderers. Jung and Halliday sum up Mao’s regime as of 2006, “Today Mao's portrait and his corpse still dominate Tiananmen Square...The current regime declares itself to be Mao’s heir and fiercely perpetuates (his) myth”.



Jon Halliday and Jung Chang



Mao portrait today in Tiananmen Square

Unfortunately, the legacy of Mao continues. In 2003, for example, the Party sought to hide the impact of the deadly SARS virus. Only when a surgeon, Jiang Yanyong, sent to foreign media the actual numbers of Beijing residents struck by SARS did it launch quarantine measures. Similar indifference to the public good recurred in 2008 over the Sanlu dairy tainted milk scandal, which caused sickness or death to some 300,000 Chinese babies. Zhao Huibin, a dairy farmer, revealed that quality testers at Sanlu took bribes from farmers and milk dealers in exchange for ‘looking the other way’

on milk adulterated with melamine. Arthur Kroeber of Beijing later stated that the Sanlu disaster was rooted in the Party’s continued involvement in pricing control, company management and flow of information, “(It) views control of all three as necessary to its rule....Further scandals are thus inevitable.”

The Party was published in 2010 by Richard McGregor, former China bureau chief for the Financial Times. It chronicles the continuing role of the Party. Among his conclusions:

- “Top leaders adhere to Marxism in their public statements, even as they depend on a ruthless private sector to create jobs. The Party preaches equality, while presiding over

incomes as unequal as anywhere in Asia.”
(Among the hand-picked delegates at the most recent National People's Congress were 61 billionaires-DK.)



Richard McGregor

- “...the three pillars of (the Party) survival strategy (are): control of personnel, propaganda and the People’s Liberation Army...(It) has eradicated or emasculated political rivals; eliminated the autonomy of the courts and press; restricted religion and civil society; denigrated rival versions of nationhood; centralized political power; established extensive networks of security police; and dispatched dissidents to labour camps.”
- “The communists rode to power on popular revulsion against corruption but have become riddled by the same cancer themselves...Since 1982, about 80 per cent of the 130,000 to 190,000 officials disciplined annually for malfeasance ...received only a warning. Only 6 per cent were criminally prosecuted, and of them only 3 per cent went to jail.”

State Capitalism

Manufacturing remains the lifeblood of most successful economies. Canadians have watched numerous manufacturing jobs at home - including thousands of garment industry ones in Montreal after quotas were lifted in 2000 - disappear because irresponsible investors felt they could make bigger profits in China. A report on state capitalism in the January 21, 2012, issue of the Economist made two key points:

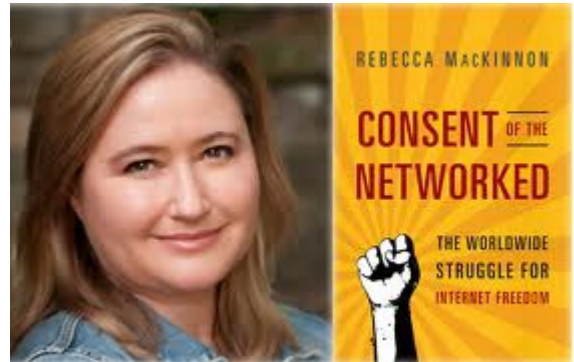
- State capitalism (fuses) the power of government with capitalism through such mechanisms as listing government-owned companies on international stock markets. The Chinese party-state is the largest shareholder in the country’s 150 largest companies and directs thousands of others. The heads of the 50 or so leading companies have a “red machine” on their desks, providing a link to the Party’s high command. It also has cells in most companies in the private sector.
- Transparency International ranks China 75th on its perceived corruption index for 2011. The Economist quotes a central bank of China estimate that between the mid-1990s and 2008 some 16,000-18,000 Chinese officials and executives of state-owned companies “made off with a total of \$123 billion (about six million each).” It concludes, “By turning companies into organs of the government, state capitalism simultaneously concentrates power and corrupts it.”

This is why it was wrong in my opinion for our prime minister to permit the nationalization in effect of Nexen of Calgary recently by the party-state in Beijing. Nexen's 3000 employees have been hurt most. The U.S.-China Business Council's president, John Frisbie, said about a week ago that in a recent survey of its 230 member companies, nearly ten percent of respondents reported that they had stopped or delayed a planned investment in China because of foreign ownership restrictions.

Former Premier Wen noted about a year ago, "The reform in China has come to a critical stage. Without the success of political structural reform, it is impossible for us to fully institute economic structural reform. The gains we have made... may be lost, new problems that have cropped up in China's society cannot be fundamentally resolved and such a historical tragedy as the Cultural Revolution may happen again."

Abuse of Internet

Rebecca MacKinnon worked for CNN in Beijing from 1992 to 2001. Her book, *Consent of the Networked: The Worldwide Struggle for Internet Freedom*, published two years ago is in part about empowering the oppressed and disaffected among two billion Internet users worldwide. Here are three of her points of particular relevance to China:



Rebecca Mackinnon

- "Absolute power in cyberspace corrupts absolutely as it does in physical space." Yet Western companies have helped to legitimize what she terms "networked authoritarianism" in which their networks become the paid extensions of China's party-state power, with most failing to accept responsibility to the public interest in any way by helping the regime to create and enforce its "great firewall".
- Google stopped censoring its Chinese search engine, Google.cn, and moved it out of China in March, 2010 in response to attacks on its G-mail service. Later in the year, Google's Eric Schmidt, and Jared Cohen wrote, "Democratic governments have an obligation to join together while also respecting the power of the private and nonprofit sectors to bring about change."
- In China today, an estimated five million of 500 million Internet users are able to evade censorship screens in cyberspace. Until this number can grow to a critical mass large enough that truthful information can become known generally by the Chinese people, party-state censorship will be able to maintain a 'gilded cage' around the country.



A Foxconn factory

Are the technologies developed under the rule of law in open societies propping up authoritarianism in China? Many of us now know that the working conditions at Foxconn in China, where so many Apple products from the iPhone to the iPad are manufactured, were so bad that in 2010 a number of employees killed themselves by jumping from the roof of one of its buildings. Both Apple and Foxconn have promised to improve conditions, but how many other firms across China continue to treat employees inhumanly in sweat shops?

Chrystia Freeland, editor of Thomson Reuters Digital, has asked questions about this phenomenon. Technology, which could only be developed in open societies, is today a factor in preserving authoritarianism in China. Google's Schmidt, in his book, *The New Digital Age*, to be released in April, reportedly labels the Chinese party-state as an "IT menace".

Conclusion

Governments, investors and business at home and abroad should examine why they are supporting the violation of so many universal values in order to increase trade and investment with China. For years this has resulted mostly in Canadian jobs being outsourced to China and a continuous increase in our bi-lateral trade deficit (about \$30 billion the last time I looked). Does the part of our business community so overinvested in China have no responsibility to the job needs of Canadians, including Quebeckers? Are the rest of us so focused on access to inexpensive consumer goods that we ignore the human, social and natural environment costs paid by many Chinese nationals to produce them?

In mid-January, 2013, Wal-Mart pledged to hire more than 100,000 veterans and boost its sourcing from domestic suppliers. The retailer announced a three-part plan to help jump-start the American economy, which includes spending \$50 billion to buy more American-made goods over the next ten years and helping its part-time workers move into full-time positions. How about Canadian companies again recognizing that Canadians with manufacturing and other jobs are their best consumers?



Peter Navarro

Peter Navarro, a professor at the University of California with a Harvard PH.D. in economics, argues convincingly that consumer markets worldwide have been "conquered" by China largely through cheating. Navarro has proposals to ensure that trade becomes fair. Specifically, he says all nations should:

- define currency manipulation as an illegal export subsidy and add it to other subsidies when calculating anti-dumping and countervail penalties;
 - respect intellectual property; adopt and enforce health, safety and environmental regulations consistent with international norms;
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- ban the use of forced labour effectively-not merely on paper as now- and provide decent wages and working conditions for all; and
 - adopt "zero-tolerance" for anyone selling or distributing pirated or counterfeit goods.

The Nobel laureate economist Paul Krugman has predicted that Beijing's ongoing refusal to let its currency float will cause retaliation in a world struggling with overcapacity. He adds that by displacing the output and jobs of other nations with its own low-wage goods, China is arguably the prime culprit in holding back a robust recovery in global economies.

The Chinese people want the same things as the rest of us, respect for all, education, safety and security, good jobs, the rule of law, democratic and accountable governance and a sustainable natural environment. If the party-state ends its systematic and gross violations of human rights at home and abroad and begins to treat its trade partners in a transparent and equitable way, the new century can bring harmony and coherence for China and the world.

Thank you.