

Speech by His Excellency Ambassador Joseph Caron Canadian Ambassador to China

Good afternoon. It is an honour and personal privilege to introduce our speaker, the Canadian Ambassador to China, Ambassador Joseph Caron. Joseph and I have known each other for close to 25 years. The Canadian diplomatic core has served this country well, certainly in recent times. Ambassador Caron has had a long, distinguished, and remarkable career, beginning in 1971 when he joined the Department of Labour and Immigration. In 1972 he joined the foreign service. Subsequently he's had a number of posts including the US Language Institute of Yokohama; First Secretary, commercial section, Tokyo; Canadian Embassy, Counselor; and Consul, again at the Embassy in Tokyo. Some of us remember him fondly for the days when he was responsible for the G8 economic summits, and also the APEC department of external affairs. He was Director, Ottawa, North Asian Relations, and before his current posting, Assistant Deputy Minister for Asia Pacific and Africa. He was appointed Ambassador to China in 2001. If I could say in a more personal way what is important is the extent to which Ambassador Caron seeks the views of Canadians. He's tireless; he's unremitting in the amount of time that he's given to Canadians in all walks of life. He's won the esteem and trust of his colleagues, but it's never gone to his head. He does listen. He's an astute man; he's clearheaded; he has a remarkable ability. I've always thought that he would be a fine professor, especially because of his communication skills and his ability to think analytically through questions. It seems to me the mark of leadership is the willingness and eagerness for others to want to do something for you, and certainly his career has been marked by people who want to go out of their way to help him. Finally, he's pragmatic in the sense that he gets things done. In these jobs where the difficulties are sometimes overwhelming, Ambassador Caron has this extraordinary capacity not only in his zeal and his dedication, but also in his ability to do things well based on principles. He's Ambassador to the People's Republic of China, but also has dual accreditation to the Democratic People's Republic of Korea, and also to Mongolia. Ambassador Caron.

Thank you very much, Michael. That was effusive. About three days ago Professor Frolic phoned me and asked if I would come and speak to a gathering this afternoon in the

absence of Ambassador Mei Ping. I'm just glad he didn't ask me to read Mei Ping's speech.

I suspect that many of you believe that the life of an ambassador and the work of an ambassador consists largely of attending grand dinners in the evening and having absolutely brilliant conversations and thinking great thoughts about the issues of the day and Canada's place in the world. While that's true for maybe 95% of the time, in fact, there is another dimension. I have also the responsibility of managing what is one of our largest Embassies. We have 289 people at our embassy in Beijing. We have 7 or 8 departments that are represented. The Province of Quebec has a large office, and the Province of Alberta has a large office, all within the Embassy. CIDA has a huge operation. 120 people work just on immigration.

Actually, the amount of time one can devote to things other than managing and overseeing that operation, as well as receiving a very large number of delegations from Canada with a constant flow of visiting political and business leaders, academics and presidents of universities, is only 5%. I can devote maybe 5% of my time to thinking about such issues as

Canada-China. I always feel that I'm not adequate to the task because my academic training and experience has been in other areas. Nevertheless, one does one's best, and being in China is such a privilege. It is, of course, of infinite interest, and it is of very significant importance to Canada. China has just about everything that a diplomat could possibly want in terms of a *tableau d'action*, if you like, a place where one can work.

Given the relatively short notice, what I thought I might talk about is Chinese foreign policy as seen by someone like myself who is a practitioner on a day-to-day basis, and at the receiving end of China's policies. The few *caveats* are that I'll be expressing my own views. These are not the views, necessarily, of the Government of Canada. I hope you can respect Chatham House rules. I don't want to be quoted. I am simply someone who is thinking about these things, and I hope you also realize, as you can see from my handwritten notes, that this is very much a work in progress. I

will reflect on a few things that are relevant to Canada with respect to Chinese foreign policy, and hope that we can then have a useful exchange.

I'm always interested in history, and came to my modest knowledge about China through history. I studied Chinese history and politics at university, and I'd like to begin my comments by quoting a memorial that was prepared on behalf of the Chen Long Emperor in 1793 on the occasion of the visit of Lord George McCartney of Belfast. McCartney had been dispatched to develop relations with the Qing Empire, and in particular sought to open formal trading relations. He brought clocks and toys and maps, some of which you can see in the National Palace Museum in Beijing. The memorial from the Emperor in response to this request for opening trade relations was a categorical refusal to do so: "We in China possess all things. I set no value on objects strange and ingenious. I have no use for your country's manufactures."

This was said in 1793. In 2001, 208 years later, China joined the World Trade Organization, a rules-based organization designed to facilitate the movement of goods and services globally. I don't want to put too much emphasis on just joining WTO, but this vast transformation, which took 200 years, symbolizes a China that is infinitely more engaged than 200 years earlier.

When you think of, and deal with, Chinese foreign policy you always start from the ground up, at least in my opinion. I don't have academic training, so I'm not sure that my views are particularly easy to place in an academic framework, but I always start from the ground up. You have to look at what China is today to determine the parameters within which China's interests and objectives are to be pursued, and there are a series of determinants of that pursuit. Let me just give a few. All define and set the parameters for China's actions. Obviously, economic growth. Thirty years ago, China was almost as big as it is today; it had a population of a billion people. We are paying attention today to China in a way that we didn't twenty years ago, or

even ten years ago, because it has become so economically significant. China will surpass Italy's GDP this year; it will be more than \$1.4 trillion US. France and the UK are in the neighbourhood of about \$1.7 trillion, so in about two years China will surpass that, and then Germany probably by the end of the decade.

What has to be remembered, however, is if China's economic growth continues at current rates of about 8-9%, at about \$1000 US per capita roughly this year-if you look at a model developing country, for example, Malaysia, it has an annual per capita GDP of something like \$3600 US-to reach Malaysia's level, at current growth rates, it would take China 23 years. For only half of China's population to reach Malaysia's growth rate it would take 15 years.' These are just mathematical projections, but they do provide some balance to the notion of growth and Size.

In international relations terms China is now putting on the table the sixth largest economy in the world. It is the fourth largest trader, with probably close to \$1 trillion in imports and exports this year. That's what matters, that's why people are paying attention, and that's why the United States, Japan, and EU, the other big trading nations are also taking China into account. Economic growth is obviously an important determinant.

China's geopolitical weight. I have been dealing with China as a diplomat for many years, and what I see is a situation where China's geopolitical weight is now reaching a level commensurate with its population, history, geographic size, and economic size. Size matters in geopolitics, and China is now up there in terms of size, and when it sits at the table at the WTO, it brings almost a trillion dollars worth of trade. Canada brings roughly \$700 million Canadian in trade, so we're not as powerful. We have less to trade.

It also has other elements in its geopolitical weight. I flagged the intertwining of Chinese interests with the G3-Japan, United States, and European Union. China has decided to exercise a very active diplomatic agenda. It is very skillful in setting priorities, perhaps more skilled than other countries. Sometimes I've been frustrated with what I sense is Canada's difficulty in being able to set a clear set of priorities. In China, there is a great skill. They have very good diplomats, and very technically competent people. All these things payoff. It also brings, in terms of its diplomatic weight,

a strong regional leadership. China has built successful relations with its fourteen neighbours. If you walked around all of China's borders, and looked at China's management of its relations with all of its neighbours, you would see that China has made strategic advances with virtually all of them, except with Japan, the notable exception. A very well-thought out set of advances.

We need to balance these strengths with China's weaknesses, which are also part of the objective reality of China today. It is not militarily a very strong country. It has a big People's Liberation Army, a huge 1.6 million ground force, a small number of intercontinental ballistic missiles, medium-range missiles, very sophisticated radar systems, and shore to shore missile systems, but its most sophisticated equipment is imported largely from Russia. The Russians, while they provide the equipment and provide repair and maintenance for the submarines, for SU fighter aircraft, etc., don't transfer the means of production to China. Looked at objectively, China is militarily not yet a significant strategic big-power.

China has many economic weaknesses. Its macro performance is the sum total of all of its micro performances, but within the structure of its microeconomy, it does not yet demonstrate all of the instrumentalities you need to run a sophisticated modern market economy. If you look at the financial system, for example-some of you are familiar with the non-performing loan problems-23.4% is the official line on non-performing loans. It's probably double that. There are stock markets in Shanghai and in Shenzhen, but of the 1287 listed companies in Shanghai, only about 12 are truly private companies. They're all basically SOEs. Only about 150 to 175 million shares (30%) are tradeable. You can't take over companies using the stock market. So China does not yet have the features of a modern financial system that it will increasingly need as it goes up to scale.

It has tremendous inequalities. The *gini* coefficient now is 0.45, higher than that of India, and it is rising. The coast, western, and northwestern China have huge income discrepancies, very large differences in per capita income between and among regions, problems that have to be overcome for China if it hopes to gain more power and authority in the future.

It also has a situation where the official ideology is not of great use to those who must govern a modern state. Marxism, Leninism, Mao Zedong Thought, Deng Xiaoping Theory is the official ideology. There's not much in there that will help you run a bank or an SOE, which is why there is such a huge amount of borrowing of western thinking, what this morning Pitman referred to as that "lib-

eral western thought" essential to the tools of a market economy. These tools emerged from history and from the experience of running modern market economies. When we think of China, we have to look at the whole picture, particularly when making strategic decisions for a business, or for a university.

Virtually all of the factors I've touched on are in constant evolution. What we see today and what we will see a year from now or two years from now will be very different. This was reflected in the morning discussion and also yesterday on several occasions. In one sense there is no such thing as China. There are many Chinas. Even institutions that have been designed at the centre can function very differently elsewhere in China, depending on where you are. This is a very dynamic, very rapidly evolving situation.

What does that mean in terms of what China wants to obtain from its international relations? The fundamental notion of foreign policy is using what exists, what is happening, the dynamics, the threats that are beyond one's borders, to one's advantage, either responsibly and proactively. Those realities shape how China pursues its multiple foreign policy objectives. I won't pretend to be able to capture even the principal ones. Sovereignty and territorial integrity are central to all states, and are particularly important to China's leaders. Security. Every country is concerned with security. Retention of Taiwan, economic development and the centrality of economic development. Also, China wants to be seen positively around the world. That's a fundamental objective.

What do you get as a result? This sounds mechanistic, and for the purposes of this talk it has to be. What you get is a complex mix of often contradictory policy directions. The most distinctive feature, when you're looking at Chinese foreign policy from the ground up, is what I'd call a foreign policy of transition, pragmatism, flexibility, and innovation.

One of the interesting examples of this flexibility, innovation, and far-sightedness you will find in the Shanghai Cooperation Organization, with which some of you are familiar. It's basically Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan, in the far-west of China, plus China and Russia. The central Asian republics had been, until the fall of the Soviet Union, a traditional sphere of influence of Russia. Nevertheless, China has developed a sophisticated set of tools to draw these countries into closer association with China, through energy diplomacy, security diplomacy, and high politics. These suits, in a very far-sighted way, will benefit China. In

the short term that's not obvious, but in the longer term it can be argued it will. You see this as well in China's relations with the ASEAN countries. China has bilateral agreements with each one. ASEAN Plus One is a far-sighted trade relationship development process which will lead to a free trade zone.

You can find other examples of this flexibility and pragmatism, but you also have a great deal of stasis and conservatism in Chinese foreign policy, and the exercise of much caution.

That too is a framework. One of the interesting examples is the WTO, how China has or has not used the WTO. It's been a member now for a couple of years. The WTO is not like the UN nor many other international institutions, APEC for example, which are, to varying degrees, activist, and able to make decisions. WTO is rules. It is negotiation of rules, it is agreement on rules, and then implementation of these rules. When China proceeded in its decision to join the WTO, it quite consciously used the WTO rules regime to strengthen its own effort at rules and economic development, "to bring in competition, and move the economy forward. That took courage.

China took a big risk.

I spent a long time in Japan. One of the truly interesting comparisons between the Japanese 1950-70s development model and the current Chinese development model is that the Japanese proceeded as independently as they possibly could. They did not depend on foreign investment. They did not depend on trade. In the 70s and 80s, Japanese trade was about 7% or 8% of the GDP, whereas for China, this year it'll be 55% or 60% of GDP. Two very different models, and WTO membership for China contributes to that difference. WTO is a great venue for moderating bilateral relations. You can use the WTO for bilateral dispute resolution mechanisms. I say you are dumping steel. You say you're not dumping steel. Let's have a review, and may the best man win. This aspect is interesting. Call it, "the WTO meets Vladimir Lenin," because the Communist Party of China does not really like these kinds of mechanisms.

It still prefers to deal with relations, rather than rules. Dispute resolution in WTO is a public exercise. You state your case, and the other country states its case, and it's all out in the open. That's great and very heady if you win, but humiliating and may reveal things about your trading practices if you lose.

Given the Leninist nature of the government, and of the polity, the Communist Party can never be wrong. In using WTO as a tool, there are restrictions self-imposed by China because of its current approach to decision making. The other dimension where

there is a great deal of conservatism, one might even say reactionism, is using the WTO to serve Chinese interests. Big countries do that. It's hard for us to do this. We try to be systemically supportive, but we don't bring as much power to the table as China, or the United States, or the European Union.

China has the wherewithal, and it certainly has the brains. We had a so-called training program on WTO for Chinese officials. It was never entirely clear who was training whom. First class experts and first class diplomats. China didn't invent the WTO, it inherited it, and it has not yet set WTO norms that might be more in conformity with its view of how such an institution should run. With respect to where China is today, the management of the WTO is a good example of China being cautious, unadventurous, and, perhaps, not terribly imaginative.

Chinese foreign policy is something we're all going to live with, and we have to adjust.

Part of my job on a day-to-day basis is that modulation. There's probably an issue every day in which we have to modulate. That comes with the territory. A lot of these are issues of national interest, because the relationship with China is of national interest. That's a reality. China can either use institutions to pursue institutionally valid and institutionally strengthening policies, or it can choose not to. Canada does not bring to the table that much strength and power. ... We bring a lot more than most Canadians realize, but we have to work around the reality of China either exercising its power, or not.

Many people believe that 1997 was a watershed for foreign policy thinkers in Beijing, yet China's engagement in multilateral institutions at that point was fifteen years old. It was only in 1997-98 that a larger number of policy makers and thinkers realized that China could use economic institutions effectively to deal with its own domestic issues. You'll recall 1997 as the period of Asian financial crisis. China's position on exchange rates was an essential contribution to dealing with the Asian financial crisis. China got a great deal of credit for the way it managed its part of that crisis. It could have taken steps that would have made it worse, even if in the short term it would have improved the competitive position of its own companies. A number of academics tell me that experience contributed to a decision for China to become more active.

At the end of the day, foreign policy is not only about the power and assets that you bring to the table. It's also about the values and the norms that you believe are important, and issues such as human rights, which are animating a lot of people, or the liberal nature of trade rules. Was it Jeremy who said this morning that following trade rules is just as

important as following human rights covenants, because of the whole idea of rule of law and the value of rules? Our ease in dealing with China will depend not only on relations of power, but also on issues of values, and that too will be a determinant of how we manage China. Values in diplomacy are just as important as other aspects: We need to get those in harmony to maximize the benefits to Canada that come from our relationship with China. Thank you.

Commenting about other governments' foreign policies, specifically on India and Japan, is usually a career shortening move. You should ask the Chinese and Indian and Japanese governments. I will say that there has been a great-and this is obvious to everybody, which prompts your question-transformation in the India-China relationship. This is very significant for reasons as simple as where India places its forward troops on which border. Two alternative poles of power, let's put it in those terms. Japan-China is also very interesting, and I can't say very much in public, but it has more of a burden of history than other relations. Governments alone, even the best-willed authorities in Beijing and in Tokyo, cannot develop an approach that is too far removed from the feelings and the history of the two peoples. It's a very difficult relationship to manage. It brings in more elements that have to be managed than, perhaps, let's say, Canada-China relations.

[N o microphone ...] in the next stages of its increasing engagement with multilateral economic institutions. I have in mind two that affect Canadians, if not the Chinese. The G7, G8, particularly after Chinese attendance at the Evian Summit, and then the G20 Finance Minister's meeting, which some Canadians see as playing a larger role for global governance in the future.

I'm not going to comment on what the Chinese government may or may not do. With respect to the G20, that's an idea that isn't quite aborning. There's a lot of academic work, but at this particular juncture, internationally, with so much uncertainty as to power relations in the coming few years, it is particularly difficult to try to create yet another venue to deal with issues that almost inevitably get caught up in what is the reality of the day, which is lack of security, terrorism, etc. So that agenda hinders further progress on issues

such as broadening the G8 to a larger institution overall. Having said that, I know that, particularly with the latter, Prime Minister Martin is very interested in pursuing that agenda, but these are very complex times to undertake initiatives such as that, when non-economic issues rank way ahead on the international agenda.

Over the past 50 years China has gone from being mistrustful of multilateral strategic institutions to being more confident in operating within them. You mentioned the Shanghai Cooperation Organization. We also have the Six Party Talks. I was wondering if you could comment on these changes and also on what opportunities they present for Canadian foreign policy towards China.

What you have is a combination of more power to bring to the table, greater skills, greater self-confidence, greater understanding of the contribution that international organizations can make to the promotion of their interests, an understanding that we in Canada have had for a much longer time. Indeed, that is why we have chosen to be as active as we can and in so many different institutions. Overall, what we're dealing with is a large country that is, for the moment, a *status quo* power. Even in institutions like the WTO, the UN, etc. the experience is that this is not the China of the 60s, and it's not even the China of the 90s. It's a more active, if cautious, agenda. There's still a tendency to maximize the benefits for China, while minimizing the costs. Even that is no longer an entirely fair characterization, because China is becoming increasingly active on such issues as peacekeeping. The debates are still going on as to how far it should go at this stage of its development, given the high priority that it gives to economic growth, in terms of stability and international comity to allow foreign investment, etc. It needs effective functioning of international institutions so that it can get to its next stage of development. China has, as we all know, objectives set for 2020, and 2050, and, for all I know, 3050. For the moment they're working on 2020.

How does a middleweight tell a heavyweight how to play by the rules? In conjunction

with that, have you actually had any occasion to engage the Chinese on that particular issue in any capacity?

You have to look at this from different levels. If you're talking about a debate that is framed by a dispute that you have to resolve, or a debate-framed vehicle such as a bilateral human rights discussion, you can only win by the force of your argument. You can only win by referring to the common underpinnings of the common rules and norms that were set by what you have agreed to do, if it's a human rights charter or what have you. So there has to be first and foremost a debate on principles.

Secondly, you also have to frame it in terms of the interests of the other side. About human rights and rule of law and good governance. We have so internalized these values and these norms that we think of them as values. We don't think of them as instruments for doing things. The notions of democracy and representative government institutions are)nbred in Canadians because that's our cultural milieu. We are fortunate that we've inherited that, and we have a fine country and society as a result. Not without its problems, I always hasten to add, but, nevertheless, if you do comparisons, we're not doing badly. That will carry you so far in an argument, but you also have to define and demonstrate the functional advantages of the achievements or mechanisms that make these values real in society.

When I'm in discussion with my Chinese colleagues, whether it's formal or informal, over dinner or in a formal dialogue with the Foreign Ministry or other ministries, I always put it in terms of representative institutions, rule of law. The best argument is that they work. The best argument is that they provide a better framework for achieving what it is that China wishes to achieve, which is to be a rich country that is not only economically powerful in a macro sense, but brings to its own people a better standard of living, a better environment, a better infrastructure. My argument is always that if you have accepted the notion

that market signals in an economy are more efficient and more effective in achieving economic objectives than is central planning, the fact of the matter is that the same principles apply to social decision making, and to political decisions. Where do you put the school? Where do you build the road? What should be the overall direction of economic development in a province? What should be the foreign policy choices?

I don't argue that they must have a British, Westminster parliamentary system. China has to develop its own institutions as the Japanese did, as the Thais did. Those systems work. I find it difficult to believe that China will achieve all of its objectives in the end without representative institutions that are valid, enshrined in law. In addition to the theoretical argument we have to demonstrate the value of these norms for the achievement of China's objectives.

The third area that immediately comes to mind is providing models. Regarding whether Canada is influencing China's foreign policy, we had a degree of influence in the evolution of China's very autarchic policy of the 60s and 70s towards greater engagement. We were a legitimate interlocutor. We were one of the first countries with which they established relations after the hiatus of '65-'70. We played a role then. Today we have less capacity to influence China's grand strategies. We certainly can and do influence China's governance internally at the institutional level, because for the last 20 years we have had a consistent policy and practice of helping them shape their own institutions, everything from training judges to bank inspectors, to showing them how to develop agricultural policy, etc. They do listen to us, and one of the basic components of our relationship with China is this constant flow. We have an intellectual flow, which is funded in part by CIDA. So that is a way to move the argument forward. The more their institutions are in harmony with our rules and international rules, the easier it is for our companies and our institutions to work with Chinese institutions.

I'm a believer in the view that not only big countries have good ideas, that in the last 50 years, smaller countries have helped shape the world. We, of course, think immediately of Lester Pearson and peacekeeping, but look also at what Norway is doing in Sri Lanka, even if it's extremely difficult. Small countries can have a big influence, but you have to have clarity of ideas, and, this is a job

of a diplomat obviously, you have to explain it in ways that resonate as beneficial to your interlocutor.

Ambassador Caron, thank you for coming to the University of Toronto, to the Munk Centre, to the Asian Institute. We knew you would speak in a forthright fashion about your job as an Ambassador. Clearly, principles matter. Values matter. Resources matter. Strategies matter. Good, sensible leadership matters. You've helped us understand that more than ever. So on behalf of us all, thank you very much .

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