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Master Thesis

Sino-Canadian External Relations: A Case Study in Canada's Energy Sector: Linking Canadian Supply-Lines to Increased Chinese Demand

A thesis submitted for the fulfillment of a Master's in Political Science: International Relations

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Abstract

This paper will provide an analysis of the potential latent in Sino-Canadian energy commodity trade. Chinese expansion in terms of GDP, GDP per capita, industrial output, and global trade has meant a consonant expansion of its energy consumption. As consumption continues to outpace growth, China is left with supply-side energy scarcity. As one of the world's preeminent producers and exporters of energy commodities, including crude oil and natural gas, Canada must find a way to link its energy commodity supply chains to increased Chinese demand. Thus far, Canada has been ineffective in doing this as China accounts for a mere 2% of its total energy exports. Conversely, Canada exports a staggering 91% of its energy exports to its southern neighbor, the United States. A shale revolution has the U.S on pace to make itself energy self-sufficient which means diminishing markets for Canada's undiversified exports. Canada's ability to diversify its exports to China is at present time constrained by infrastructure inadequacies but also, more crucially, is back dropped by geopolitical instabilities with the People's Republic of China.

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Kyle Dettner,
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Tables & Figures

Abbreviations

AML	**Anti-Monopoly Law**
BCG	**Boston Consulting Group**
BCM	**Billion Cubic Meters**
BP	**British Petroleum**
Bp/d	**Barrels per Day**
BRI	**Belt & Road Initiative**
CAD	**Canadian Dollar**
CCP	**Chinese Communist Party**
CNPC	**China National Petroleum Corporation**
CNOOC	**China National Offshore Oil Company**
CPPCC	**Chinese People's Political Consultative Conference**
CPTPP	**Comprehensive & Progressive Agreement for Trans-Pacific Partnership**
CSIS	**Canadian Security Intelligence Service**
DFAIT	**Department of Foreign Affairs And International Trade**
EIA	**Energy Information Administration**
FDI	**Foreign Direct Investment**
FIRA	**Foreign Investment Review Agency**
FYP	**Five Year Plan**
GDP	**Gross Domestic Product**
ICA	**Investment Canada Act**
IEA	**International Energy Agency**
IMF	**International Monetary Fund**
IOC	**International Oil Company**
IPE	**International Political Economy**
IPR	**Intellectual Property Right**
IR	**International Relations**
LNG	**Liquefied Natural Gas**
M&A	**Mergers & Acquisitions**
MOFCOM	**Ministry of Commerce (China)**
NAFTA	**North American Free-Trade Agreement**

NATO	**North Atlantic Treaty Organization**
NDRC	**National Development & Reform Commission**
NOC	**National Oil Company**
NPC	**National People’s congress**
OECD	**Organization for Economic Co-operation and Development**
PRC	**The People's Republic of China**
SASAC	**State-owned Assets Supervision and Administration Commission**
SCO	**Shanghai Cooperation Organization**
Sinopec	**China Petroleum & Chemical Corporation**
SOE	**State Owned Enterprise**
TFC	**Total Final Consumption**
TPP	**Trans-Pacific Partnership**
TSX	**Toronto Stock Exchange**
UBC	**University of British Columbia**
USD	**United States Dollar**
USMCA	**United State-Mexico-Canada Agreement**
WTO	**World Trade Organization**

Map of Canada

Source: Maps of the World (2016)

Map of China

Source: Maps of the World (2015)

CHAPTER I

Research Introduction

1.1 Introduction

The intended purpose of any research is to frame and explicate a social reality, to identify a problem latent within that reality, and finally to pose a question on the basis of that problem. The goal of this paper is to set forth and explicate the reality of China's growing energy demand which cannot be satiated or met by domestic production. Thus, China's economic growth is making it increasingly reliant on the import of energy resources. Canada, meanwhile, has an economy which heavily relies upon the export of its vast energy resources. This paper wishes to explore the interconnectedness of China's supply-side energy scarcity and subsequent energy security strategy with Canada's capacity to become a more prominent and reliable exporter of energy commodities for China, in particular, crude oil and natural gas. The problem is that a turbulent and rocky political relationship, inadequate infrastructure, and an over-reliance on American exports (from a Canadian perspective), means that Canada has thus far not been successful in linking its energy supply chains with growing Chinese energy demand. Despite its designation as the world's fourth largest oil producing/oil exporting nation in the world, China accounts for only a negligible 2% of Canada's total oil shipments. (Dawson & Ciuriak, 2016: 6). The question is therefore, how can Canada and China successfully forge a mutually beneficial, strategic relationship in the area of energy trade. China remains keen to diversify its energy import security and Canada, on the other hand, its export locations and well as to diversify its sources of foreign direct investment (FDI) for the further development of capital intensive oil sand projects, overland pipeline infrastructure, and port facilities. An enhanced and more deeply integrated Canadian-Chinese relationship should therefore be framed as a strategic partnership and should focus primarily on enhancing levels of mutually beneficial trade and investment. On the surface, there appears to be very good prospects for the intensification of Canadian/Chinese bilateral engagements. As this paper will explain however, a working political relationship with China's ruling party, the Chinese Communist Party (CCP), is a prerequisite for having a working economic relationship. Canada meanwhile, with its strong civil society and democratic governance structure, must balance competing pressures with respect to a China policy that satisfies concerns of national security as well as special interest groups involved in, for example, environmental and First Nations protection and economic lobbies. A relationship with China must therefore simultaneously serve Canada's national interest and respond to the demands of its constituencies.

Emerging and rapidly industrializing Asian markets (with China at the head) and a declining (in relative terms) United States serves as the catalyst for this new social reality, that being the mutual desire for Canada and China to broaden and deepen trade and investment relations. Asian markets have taken notice of North America as being one of the few remaining large and untapped oil reserves in the world. Furthermore, they have taken notice of the advantageous price point as a result of North American oil and gas trade being relatively inclusive and oil/gas products inculcated from the global market. Thus, North American energy commodities are largely disassociated with global oil/gas commodity prices. In particular, Chinese oil buyers are showing an increased interest in Canadian crude oil which is sixty percent cheaper than American oil. Furthermore, Canadian heavy crude from the Alberta oil sands is very rich in bitumen, a highly coveted ingredient for Chinese infrastructure projects like roads, runways, and roofs, especially as Chinese infrastructure spending increased five-fold in the latter half of 2018. (South China Morning Post, February 5, 2019). As supply from traditional sources in the developing world become less reliable due to political and economic crisis, the Chinese government apparatus is placing a larger emphasis on Canadian crude. China purchased 1.58 million barrels in September of 2018 alone, an increase from the 1.05 million barrels purchased in April of that same year. (Bloomberg 2018).

An elemental component to China's evolving energy security strategy is to acquire oil and gas sources in resource rich regions rather than to merely import from them. The primary vehicle utilized by China for this strategy is their massive and transnational State-Owned Enterprises (SOEs), in particular their national oil companies (NOCs). Since 2007, Chinese NOCs have been steadily investing and increasing their activities in the strategically important Alberta oil sands primarily via mergers, acquisitions, and joint-venture projects with Canadian and other international oil companies (IOCs) active in the region. As will be discussed further in this paper, China's government regime exercises a high degree of synergy between its economic engagements with foreign nations and its political/diplomatic engagements. Thus, it could be said that economic relations with China carry political implications and vice-versa. (Burton, 2015: 57). As such, the state-owned nature and opaque governance structure of NOCs is the subject of intense scrutiny and national debate in Canada as an influx of NOC investment continues to change the nature of the Canadian energy sector. Structural changes facing Canada's oil and gas industries in their quest to find new markets in Asia are a foundational backdrop to debates surrounding investments by Chinese SOEs. (Woo, 2014: 11). For example, climate change is a pervasive issue in Canada and the oil sands are characterized as being particularly "dirty" as a result of the higher than normal emissions associated with the recovery of the heavy crude oil. In fact, each barrel of bitumen rich crude produced in the oil sands emits three-times as green-house gas as a barrel of conventional oil. There is a nervous sense that an influx of Asian investment will delay an overall strategy of transition towards cleaner sources of energy. (Nikiforuk, 2011). Specific to China and the interconnectedness between the state apparatus and its NOCs is a perceived reputation for being negligent and inattentive to environmental degradation. Concerns about track record on human rights/labour rights as well as accusations of state-sanctioned espionage by SOEs operating in foreign countries also feature prominently in the debate surrounding NOC investment and activity in the oil sands and serve as immense obstacles towards the realization of a mutually beneficial and strategic Sino-Canadian trade relationship based on energy commodities.

1.2 Objective

The overriding objective of this paper, framed in the most simplistic way possible, is as follows: To denote and establish the fact that Canada and China, as trading partners, have an immense amount of untapped potential. This is primarily because China is the second-largest economy in the world and still growing, and furthermore has a rapidly expanding middle class which soon, in line with global trends, will begin to demand an increase of high-quality goods and services. Canada, with its technologically advanced economy and world-class finance and insurance sectors, must find a way to service this massive market better than it was able to optimize its involvement in the initial stages of China's rise over the past few decades. The obvious point of departure for this increase in bilateral relations is with respect to Canada's energy sector. China's meteoric expansion in terms of gross Gross Domestic Product (GDP) and GDP per capita has created a congruent and parallel expansion of its energy consumption. Canada, with its capacity to be an energy-exporting super power, must find a way to, in part, serve this demand. As it currently stands, Canada's energy sector in woefully undiversified with 91% of energy commodity exports going to the United States. This paper simply seeks to explore the potential for enhanced Sino-Canadian trade and investment relationship by focusing on its current and prospective relationship within the purview of energy. This entails the following steps. To establish that China's increasing energy demand means they experience resource scarcity. One aspect of their energy-security strategy is to diversify their import markets and to lock up overseas resources though mergers and acquisitions of companies in resource rich regions. Second, to demonstrate that China has a centralized or authoritarian state-society complex which means that strategies such as the one denoted above are directed by the leading cadres of China's single party-state, the CCP. This is crucial for establishing the interconnectedness of China's political engagements and their economic engagements.

Conversely, this paper will then seek to demonstrate that Canada is endowed with vast energy resources. However, as one of the most energy-resource rich nations on the planet, Canada has incredibly inadequate infrastructure to support a diversification to overseas markets like China. Next, to establish that even in the hypothetical case that Canada possessed the infrastructure required to immediately increase the volume of its energy-commodity exports to China, Canada's government apparatus and its very powerful civil society are incredibly distrustful of China at present time and are apprehensive to accept deepened and more enhanced relations on energy trade or any other area of engagement. Lastly, to explicate the issues which have led to distrust and issues which must be addressed moving forward in order to allow for a flourishing trade relationship based on, or at least beginning with, enhanced energy commodity trade and investment. Many of these issues transcend mere economic pragmatism or physical infrastructure but instead are orbiting a geo-political gravity emanating from perceived oppositional positions in the global order. The key to any economic engagement must therefore stem from a reconstruction of the existing social reality which pits China and Canada as foes rather than potential partners. In order to help explain the feasibility of this, this paper adopts a theoretical framework (explained later in this chapter) based on Robert Cox's critical theory, which crucially establishes a social rather than material bases of geo-political relationships, as well as the state-society complexes explicated by Amineh and Guang.

1.3 Research Question

The question of this paper is therefore: How can Canada overcome geopolitical and logistical challenges in order to successfully (better) link its energy-commodity supply chains to increased Chinese energy demand and to help in alleviating their supply-side energy security challenges. What are the opportunities latent in this possibility? What are the challenges?

Additional sub questions, serving as the basis for chapters two, three, and four, respectively, will help in exploring this question and explicating the variables which affect the outcome.

Chapter two will ask:

i) What is China's current energy situation?

ii) What are China's supply-side energy security challenges?

iii) How does China's centralized state-society complex link energy security with foreign policy?

Chapter three will ask:

i) How Can Canada help alleviate China's supply-side energy security challenges? What is the nature of their energy relationship as it currently stands?

ii) Why should Canada pursue closer economic ties with China?

iii) What are the social forces impeding closer relations with China/ opposing further Chinese FDI in its energy sector?

Chapter four will ask:

i) Is China impinging on the established world order and leading the creation of a new order? If so, what part will Canada play in it? Will Canada embrace China's ambitions and leverage them for a flourishing trading relationship or will Canada balance against it?

ii) Should Canada take proactive steps to limit NOC investments the oil sands in light of the concerns surrounding them or welcome them?

iii) What role do energy relations (defined as import/export of commodities, inflows and outflows of FDI) play in the broader context of enhanced Sino-Canadian trade/political relations?

iv) How can Canadian and Chinese firms forge a win-win relationship where firms can protect IP but share productivity and knowledge?

v) How can Canada and China work towards a Free-Trade Agreement

1.4 Theoretical Framework

1.4.1 Critical International Political Economy: Robert Cox

As stated, the objective of this paper is to explore the unlocked potential for energy commodity trade between Canada and China, to illuminate the additional benefits that may come as a result, and lastly, and very crucially, to explicate the logistical and especially geopolitical challenges which impede or inhibit this potential. There is an extensive and diverse list of key actors involved in the exploration of a Sino-Canadian relationship with energy commodity trade as the focal point. Although the CCP holds an iron grip over most facets of Chinese society, it is nonetheless not a monolithic entity and must balance many competing interests. As will be explored in further in chapter II, China's centralized state party is experiencing a proliferation of wealthy individuals among the ranks of its legislative and regulatory bodies who have their business interests at heart. Transnationalization of China's SOEs means that the SOEs are pursuing ever-more commercially motivated and profit oriented agendas while operating overseas. Lastly, China's expanding middle-class will slowly but surely become better positioned to make demands of its authoritarian government. In Canada, the democratic nature of its government and liberalized nature of its economy means that all policy decisions are heavily influenced by a very strong civil society, a very powerful business class, and a wide array of special interest groups lobbying for environmental protection, protections for indigenous land, protections for particular industries etc. Canada's government apparatus entails municipal, provincial, and federal government parties and legislators each with differing areas of influence and domain. Finally, Canada has a fully independent and autonomous judiciary whose input must be adhered to by all parties involved. As such, a state-society complex within the purview of critical IPE in which organized social forces/social relations and the connection of domestic spheres to the international serve as the point of emphasis appears most pertinent for this paper.

One of the core underpinnings of this paper, in particular the geopolitical challenges imbedded in a closer Sino-Canadian trade and investment relationship, is the perception of China being a challenger state to the established liberal order under American hegemony. As will be shown in chapter III, the prospects of deeper and enhanced trade and investment with China from a Canadian perspective, including government, business class, and civil society alike, is couched in distrust, trepidation, and apprehensiveness. Such negative connotations associated with China stem from a conceived identity as being an underhanded adversarial power, one who circumvents or outright flouts international laws, "rules of the game," and business decorum on issues such as intellectual property theft, whose socialist economic structure runs counter to Canada's free markets, and whose authoritarian government impinges on core Canadian values of liberty and democracy. With the relative decline of American power and influence, expedited by their intentional pursuit of a more protectionist trade policy, the world order appears to be in a state of flux and transition which could be described as a post-hegemonic system. Contending powers like China push for changes in the self-made rules of the hegemonic order so far as they interfere with or impede their own domestic arrangements or global objectives. (Amineh & Guang, 2017). Power transitions and subsequent conflict between states about the rules of interaction in the global political economy could be said to be the crux and point of contact for ensuing discord and antagonistic economic/political relationship between Canada and China. This paper will argue that in-so-far as Canadian/Chinese political, economic, and social institutions may become compatible enough to support a flourishing trade/investment relationship based on energy commodities, Canadians must be willing to alter their perspective on a rising China and be willing to play the part of a neutral and honest broker in a multi-polar, post-hegemonic order. China, meanwhile, must continue to show that its interests and goals in the global sphere can to a large extent be compatible with existing institutions and must demonstrate a penchant for cooperation if it wishes to obtain crucially important market share for its surplus production and access to resources for its energy deficit from Western nations. Because Chinese energy companies are often directed by the state or by some kind of SOE, China’s centralized state-society complex naturally entails that the state and their policy vehicles in the form of NOCs are primarily responsible for addressing the challenges of energy scarcity and supply security. However, as these companies become transnational and begin to operate outside of state boundaries, the state- to some extent loses its monopoly over the ability to direct the behaviour of SOEs as they begin to formulate links with Western IOCs and consequently take on many of their characteristics. This demonstrates that, as Robert Cox and Antonio Gramsci both postulate, counter-hegemonic ideas (represented by China) may simply become coopted by the hegemonic institutions.

Although this paper seeks to explore the potential for increased connectivity between Canada’s energy supply lines and Chinese demand, for reasons mentioned above, it is not suitable for this paper to employ a theoretical framework which has the state alone as the primary unit of analysis. For much of the disciplines history, the Neorealist/rationalist paradigm has held preeminence within the field of International Relations (IR). Although the stringency of all major paradigms was called into question by Ole Weaver (1996) in one of his seminal works "The Rise and Fall of the Inter-paradigm debate," Neorealism in particular has been challenged, not because of any perceived flaws in its methodology, but rather on the basis of the paradigms primary focuses and concerns.

While Steve Smith (2004) credits "rational choice theory," for being technologically efficient when dealing with simple, mechanical issues of input and output in IR, there are many drawbacks which make it ill-suited to accurately represent the real and the modern realities of the world, including the realities discussed in this paper. (Smith, 2004: 499). The role of the state is in and of itself a core feature of the realist theory and a primary reason for the flaws in its structure. The political stakes are affected in the sense that, with the state being the primary unit for analysis within the realist paradigm, the security of the state is given special privileges and supersedes the security of the individual or humanity in general. State as the unit of analysis illustrates an outdated mode of thinking and an outdated conception of political activity and it proves its inability to adapt to a world more interconnected at many different levels, in many different forms and through various institutions. Its focus on state vs state conflicts and distinction between inside of state and outside of state makes it ill-positioned to deal with the increasingly present need for international relations to deal with issues is a multi-scalar way. These facts are exacerbated by the realist tendency to historically draw a clear distinction between economics and politics, with only the latter falling into the purview on international relations. Economic considerations therefore become excluded from a multitude of issues regarding violence, death, and distribution of resources when crucially they need to be very much included. This provides, as Smith remarks, "at best incomplete, at worst a totally distorted," view of the world. (Smith, 2004: 501). The state-centric orientation of Neorealism is therefore not a sufficient theoretical framework for this study.

Robert Cox goes beyond this state-centric approach and, building on the works of Antonio Gramsci, brings out connections between material conditions, ideas, and institutions which formulate what he terms "world order." World order is a term that Cox prefers in lieu of "international relations," and a concept in which states, while important, are but one component. In developing his own unique strand of critical International Political Economy (IPE), Cox foremost intention was to expand the notion of the "international" beyond reductionist and simplistic neorealist parameters which consist almost exclusively of military and political interactions among states. Cox instead postulates that social forces are the starting point for thinking about possible futures (Cox and Sinclair, 1996: 133) and that states are products of evolving societies but also "shapers of those societies" which in turn are both shaped by and shapers of the world order. (Cox, 2007: 514). Cox goes beyond a Westphalian state system and instead gives credence to the importance of internal characteristics of a state changing their external behaviour and vice-versa. (Moolakkattu, 2009: 442). This is apropos for this paper as it maintains and hopes to convey the fact that external changes to the relations (economic and political) between Canada and China will be precipitated and manifested by forces internal to each nation. Cox's conceptualization of world order or global political economy is used to bridge the domestic spheres with the global in a scheme of, again, linking ideas, institutions, and productive forces in order to circumvent state-centrism.

Foundational to the Gramscian/Cox strand of critical political economy is the concept of hegemony and counter-hegemony which was developed by Gramsci at the national level and was extended to the international by Cox. Both maintain that latent in the conceptualization and exercising of power are both coercion and consent. To the extent that consent is in the foreground and coercive powers in the background or rarely exercised, hegemony can prevail. (Moolakkattu, 2009: 448). Hegemony is not taken to be merely an ordering principle; at the international level for instance, it is not merely the hierarchy of states strongest to weakest. Rather, for Cox, it is an order within a world economy with a dominant mode of production which penetrates into all countries and links to other subordinate modes of production. (Moolakkattu, 2009: 449). This conceptualization also involves a complex of international social relationships which connect social classes of different countries. Cox (1983) writes that "basic changes in international power relations or world order, which are observed as changes in the military-strategic and geopolitical balance, can be traced to fundamental changes in social relations." (Cox, 1983: 167).

1.4.2 Geopolitical Economy

In moving away from limited and constraining paradigms like neorealism towards something more holistic, nuanced, and multifaceted, the unit of analysis likewise shifts. Rather than using the state as the primary unit for analysis, this paper focuses on state-society complexes as the primary unit of analysis based on the work of Amineh and Guang (2017). In part one of their edited volumes, "The Transnationalization of Chinese-National Oil

Companies," this is defined as "complexes of self-identifying, state organized groups that are in continuous interaction with one another at inter-state and inter-societal levels." (Amineh & Guang, 2017: 12). As they go on to explain, state-society complexes in the industrial age are, at their core, state-made institutions which regulate and connect markets domestically and abroad. At the domestic level, state-market relations are part of the growth-promoting/restraining institutions in society while at the international level they reflect the order-building and rule setting capacity of a hegemonic state. (Amineh & Guang, 2017: 12). The authors draw two distinctions as far as ideal-types of state-society complexes; i) liberal state-society complexes like in western capitalist countries with a relatively autonomous and self-regulating market and ii) centralized or authoritarian state society complex, a dichotomy aptly represented by this paper in the respective cases of Canada and China. In a centralized state society complex like China, the business (or capitalist class) is typically non-existent, underdeveloped, or too weak to act independently of state power. Furthermore, the business class is part and parcel of state power or otherwise indirectly controlled by the state. Most key economic sectors are state-owned and controlled which limits the formulation of a strong business class. The sovereign state rather than a self-regulating market (with strong capitalist class), determines the long-term, strategic orientation of society and lastly, domestic society actors face stiff constraints on their capacity to articulate their own unique self-interest in the transnational space which is still today dominated primary by advanced capitalist actors. The concept of energy-security strategy is an important element of Amineh and Guang's theoretical underpinnings and will likewise be an essential component of Chapter II.

1.5 Hypothesis

On the basis of the research questions and accompanying theoretical framework, this paper identifies two possible, contrasting hypothesis:

Hypothesis 1: China will use recent American isolationism and protectionism as an opportunity to enhance its global standing and emerge as a leader on the world stage. China will enhance its soft power in part by extending olive branches vis-a-vis addressing trade and investment concerns shared by many of its trade partners. Canada will recognize the utility of moving out of its firmly-entrenched position inside the American sphere of influence. As a result, Canada and China will develop deeper links in a flourishing and cooperative trade relationship.

Hypothesis 2: Canada will continue to be of little importance to China as it fails to reconcile a turbulent political relationship with the CCP nor move out of America's sphere of influence to a more neutral position in the global geo-economic, geo-political order.

1.6 Method and Operationalization of Research

This paper employs a qualitative research method by making case studies out of a plethora of keystone issues deemed to be essential for their capacity to either advance or impeded enhanced Sino-Canadian trade relations depending on their resolution. In broaching some of these issues briefly, they include the protection of sensitive intellectual property rights, of the role and perceived unfair competitive advantages of Chinese SOEs in China's economic dealings with Canada, the implications of new legislation such as China's new foreign investment law, the employment of a progressive trade agenda in Canada's engagements with China etc. In establishing the requisite variables culminating in the fourth chapter which features these issues, this paper will first employ quantitative statistical data to, among other things, establish Chinese energy scarcity and Canadian capacity for increased export volume to China. This paper furthermore makes extensive use of news articles. These are deemed to be very important to this paper for their ability to be far more up-to-date than academic journals on what can be considered a very fluid and fast-moving issue. The recent arrest of Huawei CFO on Canadian soil for example has incredibly significant implications for the future of Chinese-Canadian bilateral relations which any academic journal written before December 2018 could have foreseen or accounted for.

1.7 Organization of Research

To reiterate, the purpose of this paper is to explore the interconnectedness between China's energy security strategy and Canada's capacity to be a major exporter of natural resources, in particular crude oil and natural gas. Logistical challenges persist largely in the form of inadequate infrastructure and lack of binding trade agreements, however this issue is back dropped by crucially important geopolitical concerns. In order to explore this connection, the paper will be written in five chapters broken down in the following way;

Chapter one has of course been a delineation of the research including the objectives of this paper, the specific questions it wishes to answer, the theoretical framework which will be employed as well as the promulgation of two contrasting hypothesis'.

Chapter two will explain that China's transition into an urban-industrial society relies predominantly on domestically coal supply, as well as an increase in the import of oil and gas. (Mehdi, Yang). Furthermore, the increase in domestic oil production (27% 1990-2013) is vastly being outpaced by domestic consumption (137% in that same period). As a result of this reality, China has been continuously increasing its strategic investment in resource rich countries. Growing dependency on imports means China likewise increasingly relies on uninterrupted supplies from beyond its state borders. Projected growth (while slowing) is still significant and will exacerbate China's supply shortages in the coming decades. Therefore, in terms of natural resources and derived products, China is facing supply-side pressures which are making it increasingly difficult to meet the demands of a rapidly expanding economy. Canada looks to be well positioned as a reliable supplier to (in part) meet China's needs and provide an innovative solution for sustainable use and efficient management of China's natural resources. (Global Affairs Canada, 2012: 4). As a result of its supply-side shortages, China's vehicle for its external energy security strategy, its NOCs, are becoming increasingly active in Canada, especially since 2007. Chapter two explores the complex links between China's centralized state-party and these increasingly transnational NOCs and their state-directed strategy of going out. This is framed by Amineh & Guang's theoretical political economy framework, underpinned by their explanations of energy security.

Chapter three will explore the fact that Canada, conversely, has a vast abundance of natural resources including energy commodities like natural gas, crude oil, and uranium. Although Canada itself has very intense energy consumption per capita, its vast resources and relatively small domestic population has positioned the nation as one of the world foremost exporters of energy commodities, exports on which the economy is heavily reliant. Currently, an overwhelming majority (91%) of Canada's energy commodities are exported south of the border to the United States, a market which is becoming smaller and less lucrative for Canadian producers and investing less in its energy sector as the United States aims to become increasingly self-sufficient in terms of energy as well as exerts an increasingly isolated and antagonistic trade policy with the rest of the world. As such, Canada is desperate in its attempts to diversify its export markets and sources of investment in its energy sector. China's growing interest in its natural resources, characterized by proliferating inflows of Chinese FDI, is adding a diversity of investment sources at the country's disposal for the continued development of capital intensive energy projects, in particular, in the oil sands of Alberta. This has been the catalyst for a very important national debate about the realities inherent in the acquisition of large quantities of Canada's most strategically important commodities by foreign, state-owned companies.

Chapter four will be the culmination of chapter two (Chinese energy scarcity + top down policy making) and chapter three (Canada needs export markets for its energy commodities but its populace is apprehensive about having China as a business partner). This chapter will explore and detail a wide-array of issues deemed pertinent to the overall discussion and leading towards a conclusion about the feasibility of Canada linking its energy commodity supply chains to increased Chinese demand.

Chapter five will provide comprehensive concluding remarks reiterating the purpose of the paper, the questions each chapter attempted to answer, and the overall findings as well as recommendations. The argument of this paper is based on the notion that significant opportunities exist for mutually beneficial growth in terms of trade and investment as well as ample room for coordination and partnership on the research and development of technologies.

CHAPTER II

CHINA'S ENERGY SCARCITY & GOVERNANCE

2.1 Introduction

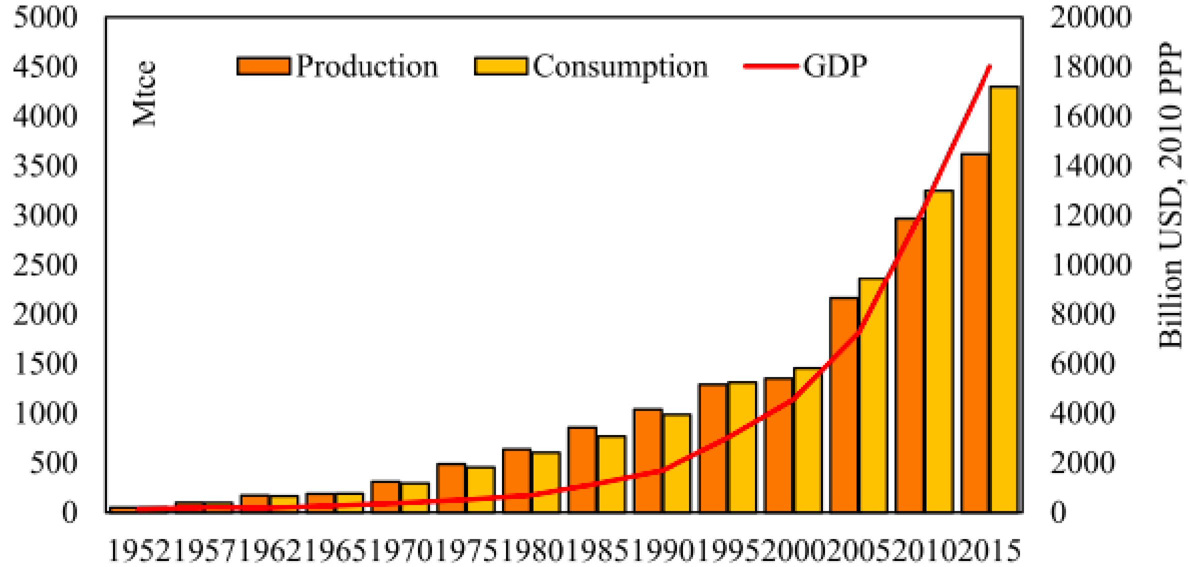
According to Amineh and Guang (2018), within the theoretical framework of political economy, fossil fuels are far more than commodities traded on the global market but rather strategic commodities which are limited, cannot be reproduced at will, and which can paralyze states if the flow is disrupted. (Amineh & Guang, 2018: 14). Thus, the implications surrounding fossil fuel energy goes far beyond merely economic considerations. Acquiring access to resources abroad bridges states, corporations, markets, households and nature. (Amineh & Guang, 2018: 14).With this established, the core elements of chapter two will therefore be; i) to introduce and explicate China's energy security/scarcity situation (i.e. goals, needs, strategies, policies, production/consumption data etc.). ii) To demonstrate China's power structure and why their fossil fuel needs bridges Sino-Canadian business classes and markets. It is pertinent to establish China's existing and growing fossil fuel dependency and it is therefore likewise important to give a snapshot of China's energy picture how this pertains to demand-induced scarcity. Location of Chinese NOC investments and their involvement in a particular host country (in this case, Canada), is part and parcel of China's energy security issues. Political and economic instability in the developing regions in which China has to date focused much of its investment (Middle East, Africa) is tantamount to resource supply unreliability and as such, China looks to diversify its import sources. Entry into markets like Canada appear to be part of a broader strategy for China distance itself, or at least to hedge against risk inherent within markets in developing regions of the world. In essence, changes internal to China (industrialization, growth = resource scarcity), are reflected by changes to its external policies (need for the acquisition of resources from resource rich regions). In order to discern this, it is first necessary to demonstrate China's resource scarcity issues and the structure of its government. The core questions to be answered in chapter two therefore are as follows; 1) what is China's current energy situation 2) What are China's supply-side energy security challenges and 3) how does China's centralized state-society complex link energy security with foreign policy? In order to address these core questions, chapter two will be broken down into two parts; i) energy structure and ii) government structure.

Phases

2.2 China's Current Energy Structure

China's energy consumption has been on a dramatic incline in recent decades in direct correlation with, among other things, a large increase in industrial output, GDP, GDP per capita, and increasing volume of global trade. Figure 2.1 gives a clear visual of the perfect correlation between GDP increase, an increase in energy production, as well as consumption. Furthermore, it depicts the fact that China was more or less energy self-sufficient until the 1990's when consumption began to outpace production and has continued to do so on a sharp trajectory. China's energy consumption rose sharply from roughly 131 million tons in 1965 to over 3 billion tons in 2017 according to British Petroleum (BP) online data sets. China's energy consumption mix primarily consists of five types of energy; coal, oil, gas, nuclear, and renewables. (BP, Statistical Review of World Energy, 2018). Subsequently, these energy resources are used overwhelmingly in four sector categories; transport, industry, building, and other. Each of these four sectors has a varied mix in terms of predominance (i.e. transports industry heavily reliant on oil). It is important to note in talking about China's energy situation that it is still using coal as its primary source of energy, as it has been since the founding of the People's Republic of China (PRC). The reason for coals preeminence as a fuel source, (although reliance is on a steady decline in terms of its total percentage of the energy mix), is due to the fact that coal is overwhelmingly abundant in China in comparison to oil and natural gas reserves. China is desperately working to get away from coal as its primary energy source in order to i) increase their energy efficiency (part and parcel of improving energy security is to require less energy and coal is a highly inefficient source), and ii) decrease their carbon emissions.

Figure 2.1: Chinese Energy Production and Consumption (Mtce) and GDP Growth: 1952-2015



Source: Zang, Sovacol et al. (2017).

Although China's domestic energy production has been rising, it is increasingly being outpaced by massive economic growth in terms of GDP and GDP per capita.

China's continued and rapid economic growth and corresponding expansion of its manufacturing sector have led to supply-side shortages of energy. Although GDP per capita remains comparatively low with respect to Western nations, China's national energy consumption has become the largest in the world while its energy efficiency remains low by international standards. As such, China has become increasingly reliant on imports. This reliance on imports due to supply-side shortages is further exacerbated by simultaneous policy initiatives which strive to reduce dependency on coal, (China's most abundant energy resource), as it moves towards lower emissions targets. China's total trade in resources expanded at a rate of 25.6% per year between 2001-2011 and is currently the second largest net importer of natural resources in the world. China became a net importer of oil in 1993 and currently is world's second largest oil consumer behind only the United States. (Table 2.1). Forecasts put China's oil-import dependency at 60-80% of total consumption in the near future. China is likewise concerned about structural scarcity, meaning the geopolitical threats which can reduce or entirely cut off access to overseas resources. As a glaring example, American maritime dominance threatens the shipping lanes through which China receives a large quantity of its resource imports. In summary, China is, on the one hand, facing demand induced scarcity fueled by its massive population with a growing GDP per capita as well as a massive manufacturing sector. On the other hand, China is looking to hedge against structurally induced scarcity via land-based infrastructure projects and through resource acquisition via mergers and acquisitions, primarily driven by their state-owned energy firms.

Table 2.1: World's Leading Oil Consumers: 2017

Country	Million barrels per day	Share of world total
United States	19.69	20%
China	12.79	13%
India	4.44	5%
Japan	4.01	4%
Russia	3.63	4%
Saudi Arabia	3.30	3%
Brazil	2.98	3%
South Korea	2.61	3%
Canada	2.47	3%
Germany	2.38	2%
Total top 10	58.31	60%
World total	96.92	

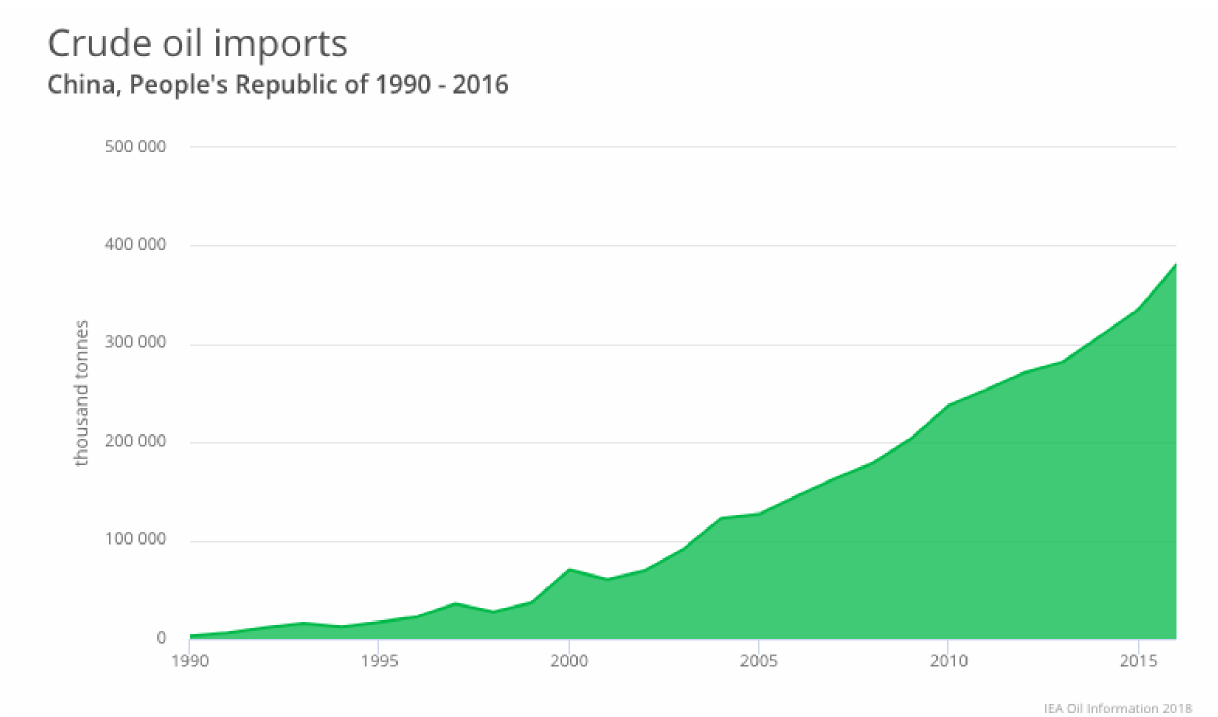
Source: EIA 2017

China's economy grew 6.9% in 2017 and will continue to maintain a strong pace in the medium-term, even as the country attempts to implement reforms designed to rein in excessive credit growth. (Dong, Sun, et al., 2017: 214). As previously stated, rapid economic growth and corresponding growth in China's vast manufacturing sector have led to supply-side shortages of energy which China makes up for with increasing dependency on imports of energy sources from beyond its borders. Per capita energy usage remains relatively low in China when contrasted to per capita usage in advanced economies, however China's overall national usage is now the highest in the world, exacerbated by the fact that China's energy efficiency is relatively poor by international standards. (Global Affairs Canada, 2012: 44). With the CCP at the helm, the state-party almost exclusively responsible for directing the Chinese economy, China's economy is in a state of transition from investment-based to domestically driven growth. The CCP furthermore is continuing to direct the Chinese economy towards enhanced sustainability after decades of feverous and unrestricted growth which took an immense toll on other, non-economic variables such as environmental degradation, alarming levels of CO2 emissions, massive wealth disparities between developed economic hubs and less-developed, rural regions, and run-away credit growth. Current economic policies being directed by the CCP target these crucially important areas as China moves from developing to advanced economy status. Chief among these new initiatives are tackling the problem of pollution, mitigating risk to China's financial system, as well as anti-poverty measures designed to bring lagging regions of the country up to the same standards as the economically developed coastal regions. (Global Affairs Canada, 2018: 9). Pursuit of these initiatives are projected to have a slight cooling effect on China's recent growth rates, however these effects are considered manageable in the short-term and pertinent for long-term stability.

Coal: Coal has been China's primary source of energy since the founding of the People's Republic of China in 1949 as a result of coal being overwhelming abundant in China in relation to oil and gas reserves. China is relatively self-sufficient with respect to coal production/consumption ratios, however it is looking to diversify its energy mix in order to decrease its reliance on coal, a resource which is low on efficiency but very high on pollution. Thus reduction of coal dependency has been paying dividends as coal represented 87% of China's total energy consumption in 1965 but only 63.7% in 2015. (Dong, Sun, et al., 2017: 214). Despite a decreasing percentage of the total however, overall quantity of coal consumption has drastically increased since the turn of the century (1.05 billion tons in 1990, 3.97 billion tons in 2016), as a result of economic development, urbanization, as well as occasional energy shortages among other commodities. 2018 represented the second consecutive year in which overall coal consumption rose, a 1% increase over 2017 in absolute terms, after four consecutive years of decline prior to 2017. (Dong, Sun, et al., 2017: 214). However, 2018 also represented a continuing trend of coals decline as a share of total energy consumption. In fact, 2018 saw a 1.4% decline as a share of total consumption bringing its total share below 60% since the founding of the PRC (to 59%) and closer to the PRC's latest initiative to bring coals share down to 58% by 2020. (China National Bureau of Statistics, 2018).

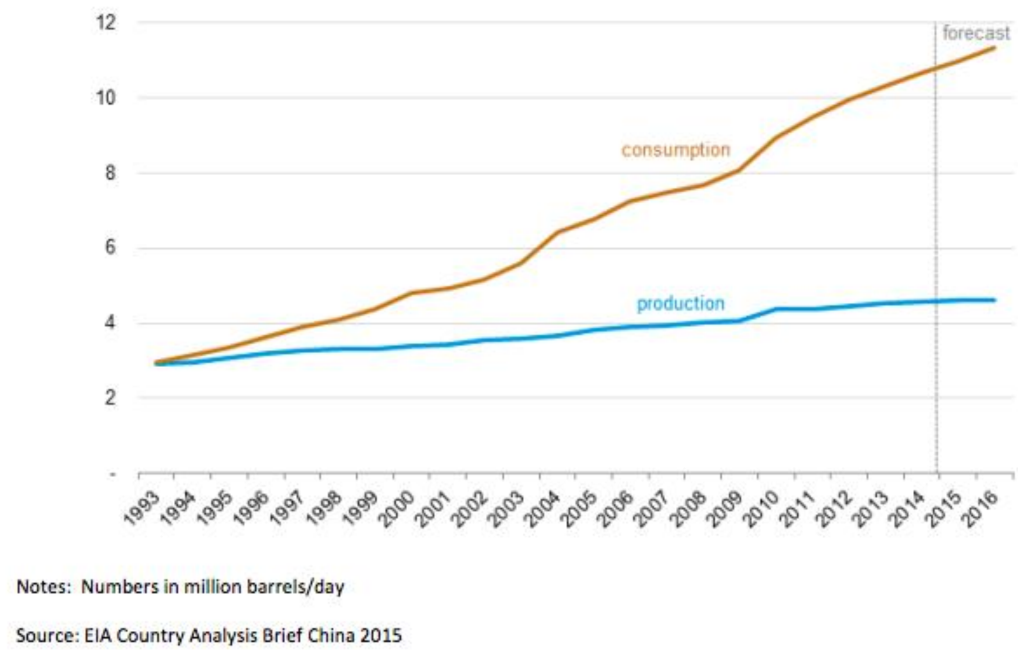
Oil: Oil is rapidly becoming one of China's most important primary energy sources and has a strategic role in the promotion of further domestic economic growth, a role that is expected to become even more prominent as aforementioned initiatives to reduce coal consumption press on. Currently, China already accounts for more than 13% of the world's total oil consumption. (Dong, Sun et al., 2017: 215). Between 1978-2015, average annual growth in oil consumption was 5% and while growth has slowed in the past three years, consumption is still expected to grow at a rate of roughly 2.6% per annum until 2040 (EIA, China Analysis, 2016). The crux of the issue for China however is that it is not very rich in terms of oil reserves, reserves which account for merely 2% of the global total despite accounting for nearly 20% of world population. Hence, China is evidently heavily reliant on imports of oil. (Figure 2.2). Despite domestic production which situates it as the fifth largest oil producer in the world, China nonetheless became a net import of oil in 1993, (see figure 2.3) indicating that while it has become increasingly exacerbated, heavy import dependency in terms of oil is not a new problem for the country. Furthermore, in 2002 China became the world's second largest net oil consumer and in 2014 the world's largest net importer of oil. Overall, the share of oil in China's overall energy consumption mix increased from 8.3% in 1965 to 18.6% in 2015.

Figure 2.2 : China's Oil Imports 1990-2016



Source: EIA 2017

Figure 2.3: Production vs. consumption of Chinese Oil - 1993-2016



Source: EIA 2017

Gas: Natural gas is an important energy source in China for power generation as well as chemical feedstock and residential usage. China is relatively rich in natural gas with 6.1 trillion cubic meters of proven, recoverable deposits. Despite this richness, China's natural gas industry was slowly developed during its rapid industrialization and as such, China has been a net importer of natural gas since 2007. In 2015, natural gas accounted for merely 5.9% of China's domestic energy needs, however the government has recently increased the development of natural gas as part of the broader strategy to offset the declining use of coal.

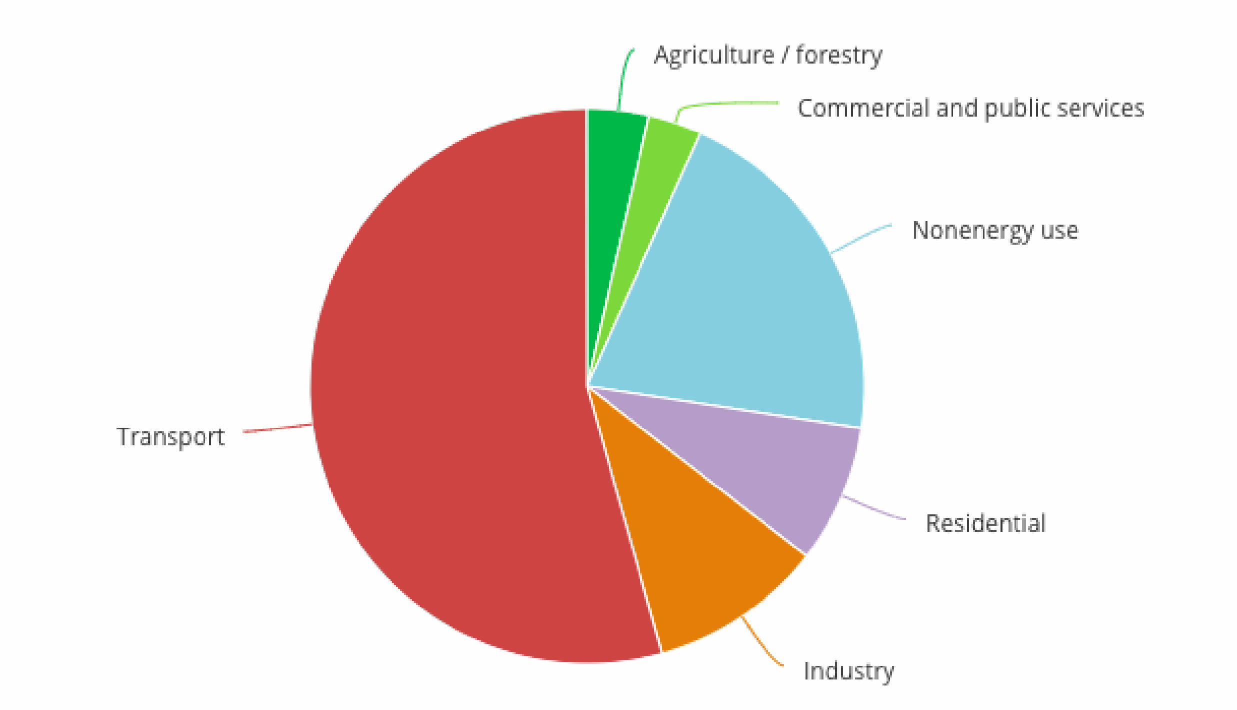
Nuclear: Inevitably this will become an important strategic option for China as a result of projected rising cost of gas and oil as well as increasing concern and policy from government with respect to environmental preservation and lowering of CO_2 emissions. At the end of 2013 China has 17 nuclear power plants in commercial operation which accounted for negligible 1.3% of China's energy needs.

Renewables: Renewable energy sources in China predominantly includes hydroelectric, wind, bioenergy, geothermal, and solar. The industry has been making major breakthroughs, especially between 2005-2009 as China began emerging as a world leader in renewable energy production and had an average consumption growth rate of 10% during the aforementioned four year period

Sector: China's transport sector accounts for a major share of China's total energy consumption with 8.2% at the end of 2013. This was an increase of over double (4%) from 1990. The most important component used in this sector is oil, a demand that rose in the transport sector from 71% in 1990 to 91% in 2013. During that same time period, coal dropped from 29% to only 1% largely explained by the transition from coal powered locomotives to electric and diesel. The industry Sector saw a rapid expansion over the past two decades which has meant concurrently rapid increase in energy used by industry sector which as of 2013 accounted for 29% of China's total. Historically, China's industry sector has been powered by coal. While that is slowly changing, energy demand for oil and gas in this sector remain relatively modest at 7% and 3% respectively. China's building sector is currently the second largest building sector in the world behind USA. The share of total energy in this sector however has dropped from 35.7% in 1990 to just 16.7% in 2013. Energy types in this sector has shown diversified trend- oil 2% to 9%- Gas 1% to 7%- Electricity 2%. To 26%- Decrease: coal from 29% to 15%. Below, a breakdown of total oil and natural gas use by sector (2017) is illustrated. (Figure 2.4, Figure 2.5).

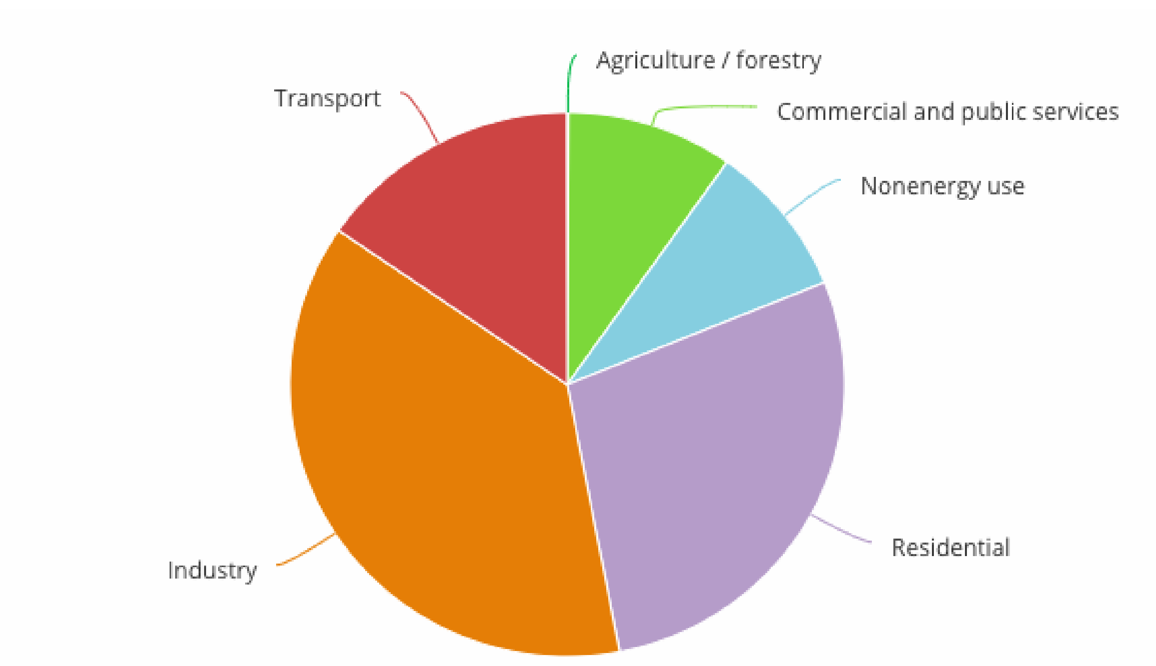
China is currently the world's largest electricity producer with total installed generation capacity of 1650 GW. In 2017: Coal accounted for 57%, Hydro 20% , Gas 4%, Nuclear 2%, and Wind/Solar 13%. Together with economic growth, growth of electricity consumption in China is on a rapid incline, more than quadrupling between the year 2000 and 2018 (IEA World Energy Outlook, 2017).

Figure 2.4: Oil: Total Final Consumption by Sector: 2017



Source: EIA World Energy Outlook, 2017.

Figure 2.5: Natural Gas: Total Final Consumption by Sector: 2017



Source: EIA World Energy Outlook, 2017.

2.3 Scarcity: China's Increasing Demand for Resources

Central to this paper is Amineh & Guang's (2017) designation of three types of resource scarcity which serves as the impetus for China to seek external relations with energy rich nations like Canada. China's emergence as a contender state, challenging the existing American, liberal institution, based hegemony meant first establishing hegemony at home. With centralized and consolidated power in China and total control over the domestic economic sphere, the CCP oversaw a process of industrialization designed to help China catch up to its Western counterparts. Four decades of expedited development and industrialization led to two key structural changes which helps to locate the logic and rationality of China's current external engagements. First, rampant industrialization created the conditions for overproduction whereby China's domestic market was no longer sufficient to facilitate and maintain economic growth. Conversely, growth of manufacturing productivity, a growing population, and rising GDP and GDP per capita meant domestic stocks were likewise no longer sufficient to satiate China's energy consumption needs. Thus, China necessarily became compelled to look outwards and to integrate further into the global economy in search for market share for its manufactured goods on the one hand and access to energy commodities beyond its borders on the other. This change led to innovations to China's foreign policy and external relations which we see today, one which can be adequately described as growth + control. Related to this are the aforementioned three types of resources scarcity, all three of which China is afflicted by and all of which Canada can serve to, in part, alleviate. These will be broached very briefly;

1) **Supply-Side of Energy:** Known minerals depending on the technology available and cost of extracting resources in relation to the market price of said the refined product. As will be mentioned throughout, investment and enhanced relations with Canada from a Chinese perspective will not be solely based on the capacity for an increase in export volumes or acquisition of resources through mergers and acquisitions. (Amineh & Guang: 17). Canada, the oil sands in particular, is home to some of the world's most cutting edge technology in terms of recovering unconventional resources such as oil sand crude oil, tight gas and oil and shale gas and oil. Acquisition of these technologies will allow China to bridge the gap between cost of extraction and market value for unconventional sources on its own territory.

2) **Demand-induced Scarcity :** Scarcity caused by three factors;

1. Population growth in consumer country
2. Rising per capita income in advanced industrial societies
3. Cost of a substitute.

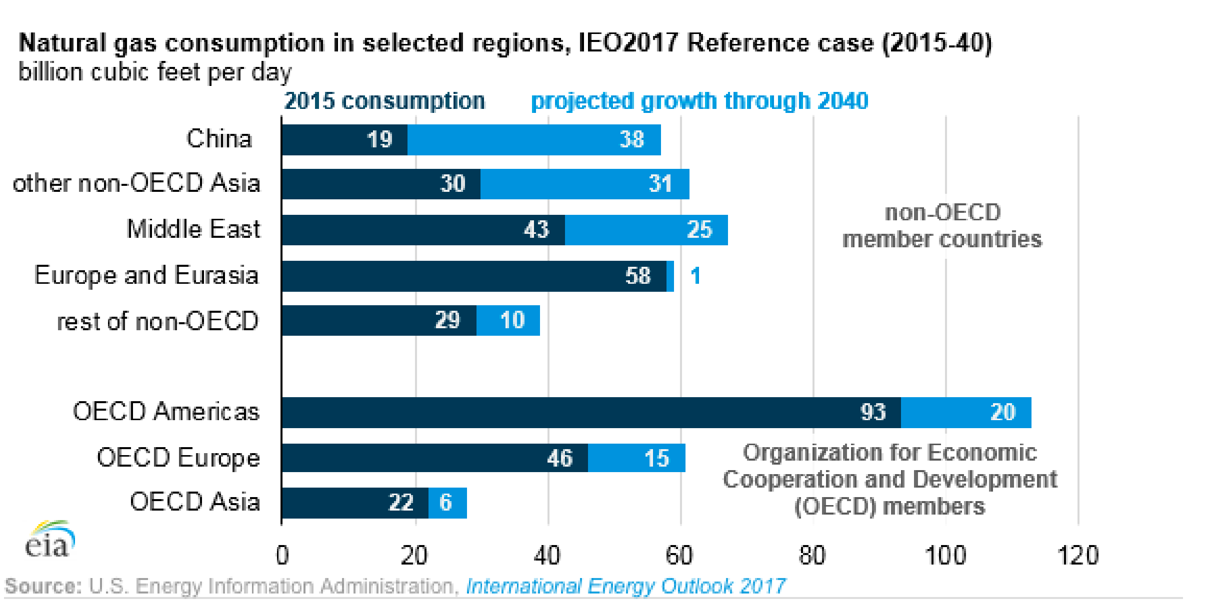
As alluded to, much of China's energy scarcity can be traced to its rapid growth in terms of manufacturing, its volume of global trade, its growth in population, and its growth in GDP and GDP per capita. Canada, as one of the world's foremost natural resource producing nations, has a vast amount of potential in terms of increasing its exporting volume if the infrastructure can be upgraded and likewise has potential for China to access resources directly through direct investments which is beneficial for Canada in terms of developing capital intensive projects.

3) **Structural Scarcity:** Scarcity that is supply induced by deliberate action of a major power, by producer cartels (OPEC), or powerful state-led NOC's. In the context of the current global system, the USA can opt to induce structural scarcity by interdicting the maritime transport of oil and gas. China attempts to counter this via diversification of its import sources and targets for FDI, as well as through the establishment of its own institutions to circumvent American-dominated supply lines such as the Belt and Road Initiative. Canada of course serves the former purpose, but as will be discussed in chapter four, can likewise help with the latter by being an investor and helping to facilitate rather than stymie China's global ambitions.

In connecting their theory about resource scarcity to empirical realities, it is pertinent to note that China is of course the world's most populous nation and has an expeditiously expanding economy. These factors conspire to make China the world's leading energy consumer (as of 2011) with a still growing demand for energy resources, especially liquid fuels. China was a net exporter of oil and other petroleum products as recently as the early 1990's, however China became a net importer in 1993 and its reliance on imports has grown immensely ever since. The U.S. Energy Information Administration (EIA) reports that China surpassed the United States at the end of 2013 as the world's largest net importer of petroleum and other liquids. (EIA World Energy Outlook, 2017). One year later, in 2014, China's oil consumption growth accounted for a staggering 43% of the world's oil consumption *growth*. China's dependence on imported petroleum has been increasing and, therefore, as Amineh & Yang have discussed, "Capitalist industrial development in China generates domestic resource scarcity and the social pressure of unfulfilled demand." (Amineh & Guang, 2014: 514). As the largest importer of crude oil in the world, China took in 39.23 million tons of crude in February of 2019 alone, equivalent to 10.23 million barrels per day (bp/d) (Reuters, March 8, 2019), which represents a 21.6% increase over the same month in 2018.

China is likewise becoming increasingly prolific in its consumption of liquefied natural gas (LNG), as it identifies the commodity as being instrumental and an important fixture in China's initiative to reduce future coal dependency. China is currently the world's third-largest natural gas customer in the world, trailing only the United States at number one and Russia at number two. China is however expected to show the greatest growth in demand over the coming decades (see figure 2.6) and is projected to overtake Russia as the second largest consumer by 2040 (EIA, Energy Outlook 2017). As gas helps to, in part, fill the demand deficit in the industrial and residential sectors left by declining coal consumption, China seeks to raise gas imports via pipeline as well as ramping up output from its own underdeveloped natural gas industry. Projected increase of LNG as a portion of China's energy mix is driven by the aforementioned environmental aspect of coal reduction but also relative cost competitiveness of natural gas in the industrial and transportation sectors. (EIA, Energy Outlook 2017). China's current strategy sets a natural gas target of 10% of energy consumption mix by 2020 and 15% for the following decade in 2030. (Energy Production and Consumption Revolution Strategy (2016-30). China's LNG imports tripled between 2010 and 2016, reaching 3.5 Bcf/d (17% of total supply) in 2016. In 2017, China surpassed South Korea as the world's second-largest LNG importer. By 2040, China is expected to import about 11 Bcf/d, as much as the world's largest LNG importer, Japan. (EIA, Energy Outlook 2017).

Figure 2.6: Projected growth in natural gas consumption



Source: EIA 2017

China is the world's top coal producer, consumer, and importer and accounts for almost half (49%) of global coal consumption, an important factor in world energy-related carbon dioxide emissions. (EIA, Energy Outlook 2017). As a manufacturing country that has large electric power requirements, China's coal consumption fuels its economic growth. The top 10 coal-producing countries supplied 90% of the world's coal in 2012. China produced nearly four times as much coal as the second largest producer, the United States, which had a 12% share of global production. China has accounted for 69% of the 3.2 billion ton increase in global coal production over the past 10 years. (EIA Energy Outlook 2018). China's coal consumption increased by more than 2.3 billion tons over the past 10 years, accounting for 83% of the global increase in coal consumption.

2.4 Power Structure: Government Structure and Policies.

This section of the chapter will explicate how China has gone about mitigating the scarcity threats mentioned above. The Belt and Road Initiative (BRI) for example is a way to counteract American hegemony at sea, as well as to boost concerted Chinese efforts to enhance its maritime capabilities. The relevant response/policies in this paper however is China’s going-out policy and the proliferation of activity and foreign direct investments of Chinese massive NOC’s. Import dependent actors like China can improve their energy security by i) reducing dependency via improved efficiency or advancement in renewable technologies or ii) improving supply security from resource rich exporting nations, in this instance, Canada. (Amineh & Guang, 2017: 11). The paper will of course focus mostly on the latter, although the advanced technologies available in Canada are part and parcel of the former. One of the important aims for China in improving its resource security to improve/proliferate its access to resources and technologies abroad, a strategy which it implements via its NOCs and by virtue of foreign direct investments, mergers, and acquisitions. Key components of China's "going-out" strategy include overland pipelines, drilling rights, acquiring foreign energy companies, securing percentages of production in foreign countries etc. Here in this section, China's centralized state-society complex can help to paint a clearer picture about the dynamic between the CCP and China's major NOC's like China Petroleum & Chemical Corporation (Sinopec), China National Petroleum Corporation (CNPC), and the China National Offshore Oil Corporation (CNOOC). There is a lot of debate about the autonomy and financial independence of Chinese NOCs when they are engaging in cross-border relations. Does the apparent trepidation of Chinese NOCs to further investment in Canada (as early returns on investments yield poor results) disprove the line of thinking that their expansion into foreign energy markets is merely part of a mercantilist strategy to lock up energy supplies around the globe? Or, conversely, are Chinese NOCs more profit driven and independent than they are thought to be by western observers?

2.5 Socialist Market Economy

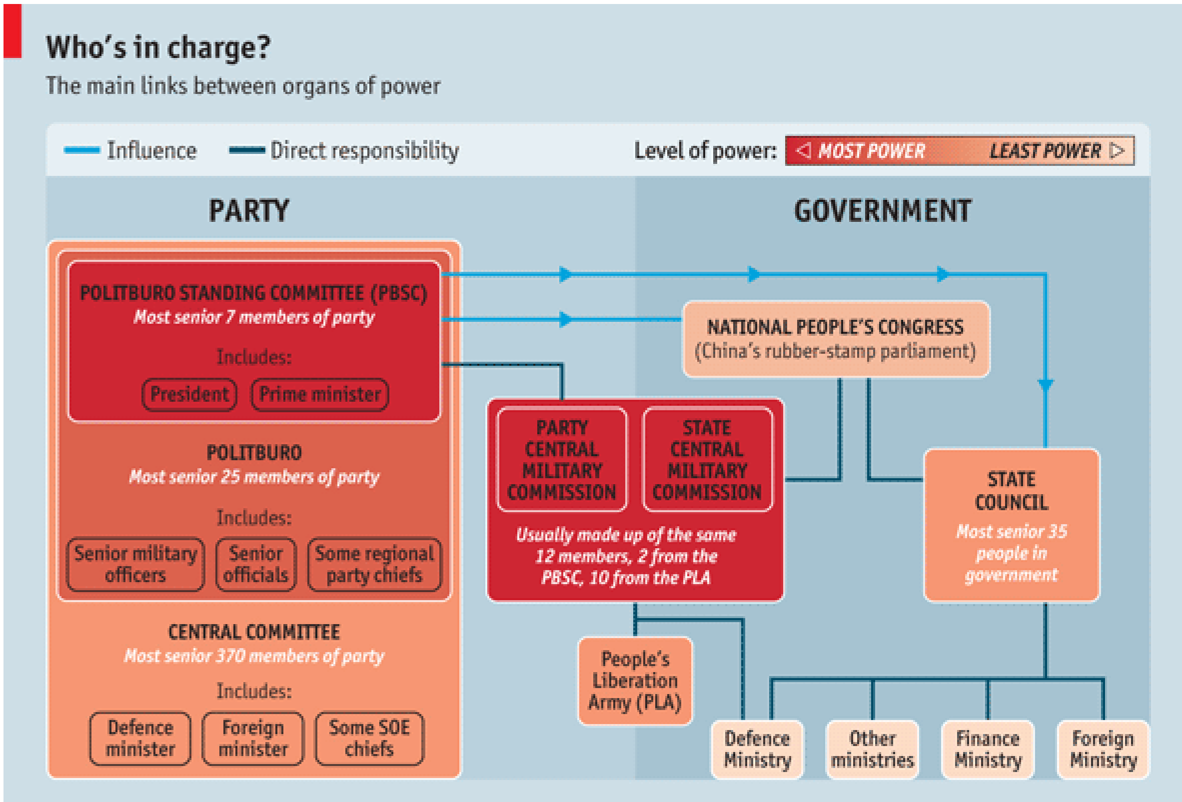
If Canada wishes to diversify its sources of FDI for capital intensive projects in the oil sands as well as its export locations by linking its energy commodity supply lines with growing Chinese demand, it is essential to understand within which framework and under which conditions a prosperous economic relationship with China can exist. A working and amicable political relationship between Ottawa and Beijing is a prerequisite for a working economic relationship founded on commodity trade and inflows of direct investment in the energy sector. In order to fully grasp how and why political and economic engagement with China are so heavily intertwined, and to understand that political tensions with the PRC can carry economic costs and vice-versa, it is pertinent to establish that power and policy in China emanates exclusively from the very top and cascades down over the rest of the political apparatus and civil society. 1978 marked the launch of China's "open-door" policy in which the explicit aim was to unroll and enact a series of market-oriented economic reforms. (European Commission, 2017).

Prior to this initiative, China was essentially an isolated and closed-off "planned" economy primarily consisting of state-owned or collectively-owned enterprises. The initiation of the "open-door" policy represented a shift to what can be termed a "social market economy." This economy is characterized by far greater integration into the global economy and far broader and more enhanced participation of non-state actors in China's domestic market place, all the while the decisive and overarching role of the centralized and authoritarian state party remains firmly intact. In essence China moves from a fully-planned economy to something of a hybrid, an amalgamation of a planned and market economy. The "bird in the cage" analogy is often used as an apt description for this arrangement whereby China's state party recognizes the necessity of allowing its giant enterprises (national champions) to internationalize and move beyond state borders in order to facilitate continued economic growth at home while also not wanting to relinquish total control over their investments or general activities. Chinese SOEs participate and engage in the global economy in much the same way other private, international companies do, however the state and market roles remain fused by the centralized CCP. (Gruin, 2016).

The leading role of the CCP with respect to China's development (figure 2.7), especially in its role of developing the socialist market economy, is affirmed by the Preamble, seventh paragraph of the Chinese constitution which was most recently revised October 24, 2017th at the 19th party congress. (European Commission, 2017). As constitutionally entrenched, the CCP is the only ruling party in China and is mandated with upholding the basic economic system in which public ownership is dominant in key, strategic sectors. Article 15 reiterates that China practices a socialist market economy in which the state party plays an exclusive role in the strengthening of economic legislation, improves macro-regulation and control, and prohibits any law, organization, or individual from disturbing the socio-economic order. Lastly, the constitution makes it abundantly clear that China's state-owned sectors are the leading force of the economy and does not limit itself to merely encouraging and supporting the private elements and sectors in the economy but rather directing them. In order to exercise such extensive control over the economy in particular, the ruling party has at its disposal a myriad of tools and instruments, both restrictive and incentivizing, in order to guide the economy. Broaching these very briefly, they may include: market access controls, project approvals, land supply approvals, loan approvals, financial support, licensing, and government procurement. (European Commission, 2017).

The power of the CCP, aside from constitutional endowment, rests upon control over the Chinese armed forces, their ability to appoint cadres, control over the media, as well as by holding a tight grip on the judiciary through commissions of political and legal affairs at all levels of government hierarchy. Any and every significant policy initiative will have been kicked off or at the very least approved by the highest reaches of the party leadership. Ostensibly, China's National People's Congress (NPC) is the highest organ of state power and in theory is granted the power to amend the constitution, supervise adherence to it, to enact or amend laws, and to elect top officials. In the past, there were subtle signs that the NPC was evolving as a government body that could push back against the ruling party. Under president Xi however, who has consolidated and reaffirmed the leading role of the CCP's upper echelon, any alternative to or challenge to its rule has been mitigated and nullified. China's "Two Sessions " meetings in March of 2019 provides some insight into this power dynamic. Delegates met in March in order to put into action laws ranging from new GDP targets to additional holidays and days off which contrasts the massive scope of these meetings. These changes, large and small, were part of the thousands of proposals put forth to the CPPCC and NPC, China's highest legislative body and its top political advisory body respectively. Previous sessions led to large changes in policy direction, which combined with pressures stemming from ongoing trade war the US, meant the two sessions meetings drew a lot of attention both domestically and internationally. Despite the attention, the sessions have been described as being no more than political theatre, a spectacle to give the illusionary facade of transparency and openness. It was reported that the CCP disempowered thousands of delegates to the NPC/CPPCC from most means of challenging in any substantial way policy directive of the party by censoring or removing the most controversial proposals. (Valdez-Bettcher, 2019). In reality, the NPC exercises very little power in its execution of the functions listed above and performs its powers in name only. It is believed that under Xi, the NPC acts as a "rubber stamp" body whose 3000 delegates (many of whom are themselves members of the CCP) do little more than officially ratify decisions and pass laws which reflect the visions of the top CCP brass. The CCP furthermore keeps control through creation of "party organizations" which exist in virtually all areas of society and allows the CCP to keep close tabs and even directly influence business decisions of individual companies. With absolute and uncontested power over all aspects of Chinese political, economic, and social arenas, one of the most important functions of the CCP hierarchies, especially within the context of this paper, is to turn Chinese enterprises into world class and globally competitive firms via state support, direction, and consolidation.

Figure 2.7: Structure of Chinese government (Source: the Economist).



2.6 State-Class Relations: Linking Wealth & Power

As China's economy opens up and liberalizes and its largest firms continue on a trajectory of internationalization, one of the implicit assumptions underlying political economy commentary is that this process will inherently lead to a process of power transition and power transfer from the state to private and corporate actors. The CCP, however, has demonstrated a high degree of resilience in the face of challenges to its (domestic) authority which have been raised by an evolving market economy. (Gruin, 2018). One of the principal explanations for this is due to the fact that the CCP's exercise of power over economic entities extends far beyond its ownership structure of public enterprises. Here, the conceptualization of China as a "shareholding state" can be introduced, referring to the process "in which the Chinese state fashioned itself as a shareholder and institutional investor in the economy and resorted to financial means to manage ownership, assets, and public investments." (Wang, 2015). Instead of the Chinese state-party asserting direct control over all capital via trade and investment flows as done in a planned economy, the party has successfully linked growth + control (authoritarian capitalism) by tapping into corporate decision making of otherwise private firms. This is done via strategic funding on the one hand, and through dense networks of interconnectivity between individual managers and political cadres on the other hand, as the primary expressions of state control over business decisions. China's capacity to tap into corporate decision making by controlling or funding most of the production and financial companies in the country necessitated an extension of its investment bodies in order to adequately fund corporate activity. One of the outcomes of the previously alluded to 19th CCP National Congress is the implementation of a "special management stake," a 1% stake enabling the CCP to appoint government officials to the boards of companies and thus influence their decision making. (Borak, 2017). "Special management shares" had already been trialed with small multimedia companies prior to the congress, however after the National Congress, arrangements were made to implement the initiative and take stakes in much larger companies such as Tencent, Sina Weibo, and an offshoot of Ali Baba called Youku Tudou. Such actions all but confirm previous reporting by the Wall Street Journal indicating that the CCP were already pressuring large Chinese tech firms into giving them a stake in ownership and consequently a direct role In the corporate decision making process. (Yuan, 2017).

Beyond tapping into corporate decision making through the realization of a share-holding state, the CCP likewise is able to direct the economy even as it becomes increasingly open and market-oriented due to the close links shared and maintained between private enterprises and the state-party. Corporate and political elites are mutually embedded in extensive social networks of overlapping ties and affiliations at the top of the corporate and political world through interlocking directorates. (de Graaf, 2017: 44). The basis of power in China is not to be found in private ownership as it is in Western capitalist countries but rather in state-owned capital. Thus, there is an incentive for those in the private sphere to seek more explicitly political/bureaucratic roles. Often times, the closeness of private companies and their managerial elite to the CCP is determined on the basis of the strategic importance of their products. Since the "three represents" in February of 2000, many private entrepreneurs have been welcomed into the ranks of China's highest bodies. (Forsythe, 2015). This implicitly acknowledges the central role of managers and entrepreneurs in the facilitation of party goals. In essence, this can be viewed as a "reward" program where good behaviour, or more aptly, private enterprises placing themselves in the service of party goals, comes with appointment to the NPC or Chinese People's Political Consultative Conference (CPPCC). These positions are not desirable so much on the basis of the power inherent with such appointments, but rather for their ability to serve as a channel for direct commutation with the highest members of the CCP. Furthermore, prestigious political appointments signal to business partners and rivals alike that they have political clout. Lastly, they provide some small measure of assurance that their most immediate and pressing business interests will be protected or best served. Thus, it could be said that, unlike in Western liberal democracies, lawmakers in China are not influenced by billionaires, rather they are the billionaires. Lack of institutional checks and balances allows money and politics to come together in China in a way that is unimaginable in western countries.(Forsythe, 2015). Among the 1,271 richest Chinese, 203 (1 in 7) are delegates to the nations parliament or top advisory body. As a point of reference, the richest member of the American government would only rank as the 166th richest member of NPC/CPPCC. According to 2018 research from a Huron report, CPPCC and NPC had among their ranks 153 delegates worth more than $300 million USD. (CITE Huron report). While the NPC and CPPCC may not be much more than "rubber stamps" under the Xi regime, nonetheless, the growing concentration of wealthy business men and women among their ranks is a clear indication of the growing influence of the rich on China's political landscape. This power dynamic is embedded in China's designation as a centralized state-society complexes in which its markets are not self-regulating or detached from power.

2.7 Oil Governance: SOEs, the State, and Transnationalization.

With it firmly established that I) China is experiencing supply-side energy scarcity and increasingly so and ii) the ruling party of China, the CCP, is solely in charge of China's economic development and policies including the resolution of its energy scarcity, it is now an opportune time to introduce the primary vehicle for China's strategy to secure overseas oil and gas resources, this being their state-owned enterprises. More specifically in the context of this paper, this is with reference to their national oil companies (NOCs), who are increasingly taking on transnational characteristics. A state-owned enterprise is defined as any corporate entity recognized by national law and in which the state exercises majority or outright ownership. (European Commission, 2017: 86). With specific reference to China, the complex networks and opaque ownership structures as outlined above place limitations on how easily Chinese SOEs can be identified and defined. Furthermore, concerns about the reliability of data and statistics coming out of China means that the importance of SOEs in the Chinese economy can only be roughly estimated; however their immense importance and magnitude is without question. Domestic assets of centrally controlled Chinese SOEs are thought to worth $5.6 trillion USD with additional assets worth an estimated $690 billion USD abroad (European Commission. 2017). From a revenue standpoint, China has three of the world's four largest SOEs, including (relevant to this paper), Sinopec at number three and CNPC at number four. Ownership of firms in sectors deemed strategic for the national interest (like energy) are typically reserved for state ownership. Although strict requirements for state owned enterprises in these sectors have been eased in recent years, there remains a built-in bias for state ownership in these sectors (European Commission 2017). A key channel of government control over SOE actions (beyond of course owning majority shares) is via the exercising of power to appoint key management personnel as well as the expanding presence of party organizations within the SOE structure. The CCP's "Central Organization Department" appoints top executives of some 50 core SOE's. As such, rather than being aligned exclusively with market principles, SOEs must also be in pursuit of strategic and social goals as mandated by the state party when they are operating abroad.

As the process of government-led transnationalization and overseas expansion of Chinese SOEs unfolds, SOEs are under directives to help in promoting the optimal allocation of both resources and state capital by centering their activities on missions which are relevant to and concurrent with the national interest. More specifically, SOEs are encouraged to push capital towards sectors deemed to be strategic as it relates to national security, national economic lifelines, and the livelihood of Chinese people. The relationship and interconnectivity between the CCP and China's NOCs in particular as they diversify their energy resource portfolio overseas can be characterized as one of interdependencies. Whereas the state controls SOEs via various tools of control as well as through related institutions NOCs rely on, in particular for funding, on the other hand the state relies on NOCs as vehicles for energy-related policy implementation abroad. China's has complex state-market structure fosters and facilitates a codependent relationship between state and economy to a greater extent than is practiced in Western capitalist societies. While China's NOCs are (predominantly) state owned, they are not necessarily state run. While, as stated previously, the CCP taps into business decisions indirectly through strategic funding or more directly by occupying top executive positions, this is often ceremonious. It is unclear the extent to which these high ranking government officials with dual roles actually involve themselves in the day-to-day operations of China's largest NOCs. It does however unquestionably indicate that the CCP keeps close supervision over their activities and keeps itself privy to the latest information. The emergence and rapid proliferation of the transnationalization of SOEs as the primary driver of China's strategy to enhance its energy supply-security overseas has to do with the possibility they provide for the government to strengthen its control over economic development and income redistribution while promoting national pride. This is of course in stark contrast to the model of western capitalist countries which instead promote private ownership and redistribution of wealth via taxation. State control over NOCs is crucial in helping to internalize the value added chain of the energy sector inward to the domestic economy. (European Commission, 2017).

China's three largest national oil companies, Sinopec, CNPC, and the China National CNOOC (in descending order largest to smallest,) have recently emerged as strong competitors in the global energy market. As previously iterated, Chinese NOCs have a "dual character as both state-owned domestic monopoly and commercially operating international company." (Amineh & Guang, 2017). Although they lag behind most Western IOCs in terms of leading edge technologies, their advantage is their ability to draw upon vast amounts of loans and financing at low interest rates from giant state-owned Chinese banks, as well as draw on other forms of support from the Chinese state. In recent years, these three oil conglomerates have gained considerable experience in transnational economic activities, particularly in the field of global mergers and acquisitions in upstream oil and natural gas which will be discussed further in chapter three. A critical element serving as the backdrop to the potential of enhanced interconnectivity between China's desire for energy supply-security and Canada's capacity to link its supply chains to this demands is the duality encompassing the fact that i) China's primary vehicle for overseas energy security are their national oil companies and ii) China is still broadly viewed in the West as an adversarial and untrustworthy power. This combination lends itself to trepidation and apprehension on the part of firms and governments alike who are targets of increased NOC activity and FDI. This is largely because Chinese NOCs are often portrayed by Western IOCs as merely instruments of Chinese state. (CITE Mehdi). This is of course true to an extent; as has been thoroughly stated in this chapter, the state-party of course exercises considerable control over these enterprises even as they take on transnational characteristics. However there also exists a growing tension between state and SOEs aspiring to expand their overseas businesses and are becoming increasingly driven by profit motive and commercial considerations. Hypothesis about whether or not NOC activities and investments will act predominantly as a function of the Chinese state and its strategic interest or whether or not autonomy gained while engaging in transnational activities will lead to greater cohesiveness and convergence with the interests, customs, and world views of the established liberal order are paramount in terms of the broader implications surrounding China's rise. More specifically, it is central to the question about whether or not further engagement and deeper integration with the global economy makes China a threat to the established liberal order or a new addition. The degree to which Chinese NOCs integrate with existing "elite power structures (de Graaf, 2017: 50), or conversely do not integrate, will go a long way towards demonstrating the likelihood that China simply melts into the established order as a prominent member rather than disrupting it. It is noteworthy not only the extensiveness with which Chinese NOCs have involved themselves in cross-border relationships with other oil companies in the short time they have been "transnational," but also the identity of those they've engaged with. "What is interesting in this respect is that the CNPC and [its subsidiary] PetroChina engage not only with foreign state-agencies and NOCs, but also collaborate with many private and western firms, and increasingly so." (de Graaf, 2017: 57).

Gramcian (and Cox co-opted) IPE notion of hegemony provides insight into the social basis of hegemony and its constructions of a social artifact. (Moolakkattu, 2009: 449). There is furthermore a close connection between this understanding of hegemony and institutionalization. Resulting from the internationalization of production, we see a consequential knock-on effect which leads to the internationalization of the state and finally the emergence of a transnational class. As mentioned in the introduction, the internationalization of dominant "hegemonic" modes of production which penetrates into all societies likewise includes a complex of International social relationships connecting social classes of different countries. This process can be viewed with respect to China's NOCs who are increasingly developing new transnational characteristics. A high degree of globalization in the energy sector means intensive daily exchanges of information, technology, and resources (CITE ex thesis 39). Western oil companies have been fostering and maintaining these intricate networks for decades. As relative newcomers, Chinese NOCs must tap into these global networks and deepen their integration with other IOCs and It appears as though they are doing exactly that. When isolating CNPC (and their subsidiary

PetroChina), we can see a large proliferation in their transnational networking in just a five-year period (2007-2012). Whereas in 2007 the only major IOC in the CNPC/PetroChina network was Shell, in 2012 they engaged in corporate cross-border alliances with a host of the world's largest western international oil majors, such as ExxonMobil, Chevron, BP, Total, ConocoPhillips, and ENI.13 In addition, many of the major NOCs, such as Saudi Aramco, Gazprom, PDVSA KazmunaiGaz, ONGC, NIOC, Qatar Petroleum, are part of these global networks established by CNPC/ PetroChina. CNPCs growing involvement with these key players in the global oil market therefore indicates that, with its overseas expansion, it is not so much 'locking up' oil abroad and depriving IOCs of opportunities on an uneven level playing field, as some authors claim—but increasingly integrating into the global networks at the top of the oil and gas sector. (de Graaf, 2017).

In-so-far as China may be viewed as a contender state to American hegemonic institutions and modes of production, Cox envisions three possible scenarios. First, the formulation of hegemony through coalition. Second, a non-hegemony by returning to a neomercantilism nation- focused mode of production. Third, A counter-hegemony based on third world coalition. (CITE COX). Through cooperative pacts like the Shanghai Cooperation Organization (SCO) or BRICS, institution building initiatives on China's part make the first scenario the most likely outcome, although it is too early to see to what extent this will supplant current hegemonic structures or merely alter them. However, integration into global energy networks appears to definitively disprove the Western perception that Chinese SOE expansion into foreign energy markets is part of a mercantilist strategy intended merely to lock up energy supplies around the globe and subsequently that they therefore pose a threat to profit oriented western companies. Western perceptions tend to frame Chinese SOEs as fully governmental institutions whose explicit and sole purpose is to carry out mandates set forth by the CCP and within the purview of the national interest. This is a primary source for the consternation shown by the West about the expanding presence of the PRC in global political economy. CNOOC's $15 billion CAD takeover of Calgary-based oil company "Nexen" represented a 60% premium over and above Nexen's listed share value. This helped in perpetuating the notion that, because Chinese NOCs have deep pockets and are backed by China's massive state-owned banks, therefore they care little for profit margins and only about acquisition of assets and, as such, represent unfair competition and a threat to the liberalized trade order.

A competing theory seems to suggest that China's NOCs who have been investing heavily in the oil sands are developing a deep anxiety and that the large premiums have not been paying off. The NOCs have been grappling with the same issues which have plagued Canadian oil companies and other IOCs operating in the oil sands including high cost of extraction, high overall operation costs, high cost of legal disputes with aboriginal groups, and volatile bitumen prices. (Financial Post, June 20, 2018). An announcement in May of 2019 by CNOOC's Calgary-based operations that it would be laying off 100 workers and downsizing its Calgary office spaces in an effort to "keep competitive" with rival companies. "As with all companies in our industry, we must take actions to remain competitive amongst our peers and ensure our long-term economic viability," was the message from CNOOC International spokesperson Brittney Price. (Financial Times, June 6, 2019). While, as earlier described, the 'going out' of Chinese NOCs is often seen as being primarily driven by state interests, clearly there have been many indications of commercial drivers rather than (geo)political ones. Through proliferated overseas activities of NOCs, we can see the dual roles being conducted by the director of the state-owned oil companies whose corporate and political careers depend on their ability to demonstrate that they value the interests of the party-state, while at the same time showing that they are competent managers of globally competitive firms. (de Graaf, 2017). In trending towards a post-hegemonic system, current powers like China are pushing for changes in the self-made rules of the hegemonic structure in-so-far as these are seen to interfere with domestic arrangements and international global objectives.

In the current state of the global system, we find power transitions at the top of the worlds wealth-power structure and ensuing conflicts between these states about the rules of interaction in the global political economy. (CITE). Leaders of centralized contenders states have to deal with the existing global order which have been created without their extensive involvement. Consequently, contender states challenge the global liberal order in multiple ways. First, by participating in global level transactions under domestic arrangements that are in some respects at odds with liberal prescriptions. Second, efforts are made to bring global level arrangements more in line with their domestic wealth and power structure. More advanced states find it difficult to accept newcomers as, in the not-too-distant past, majors powers created a state of dependence in these societies through trade and investment in primary commodity sectors. However, it appears China creation of a new order does not appear to be as incompatible or misaligned with western companies and their liberal order as maybe first thought. As Cox postulates, countries peripheral to the dominant world order (as China was until recently), may come to established international institutions only with the intention of subverting the structure from within. Potentially however, counter-hegemonic ideas find a "comfortable pillow to rest their heads" and may to some degree just become co-opted into the hegemonic scheme. Eventually, as predicted by Cox, Chinese NOCs will (and have been) create transnational linkages and will form strategic partnerships which may transcend the competing national interests of their home countries. In explicating the fact that NOCs are primary vehicles for enhancing Chinese energy supply security and the small degree of detachment from state power which results from transnationalization, and in order to segue to chapter three, it is likewise important to explicate the strategic underpinnings which precipitated their activities abroad.

2.8 Going Out Strategy

In order to prevent an impediment to economic growth induced by resource scarcity, the CCP came up with the "going out" strategy to balance against this threat. Significant growth in overseas assets and activities by China's state-led NOCs is a critical aspect of China's energy supply security. This section is about investigating how Chinese companies pursue outward investment for the purpose of enhancing energy-supply security. They do this largely through mergers and acquisitions, in particular as publicly traded stocks which can be used as a means for payment for equity in foreign companies. In the wake of its accelerated economic development, China's dependence on imported petroleum has been increasing rapidly. Therefore, as Amineh & Yang (2014) have discussed, "capitalist industrial development in China generates domestic resource scarcity and the social pressure of unfulfilled demand" (Amineh & Yang, 2014: 514). In order to prevent an energy shortage that would impede economic development, the Chinese government has come up with a strategy of 'Going Out' for NOCS; an important measure for securing energy safety at the beginning of the twenty-first century. (Dong, 2017). The process of Chinese NOCs 'Going Out' can be traced back to the early 1990s. Just after China became a net crude oil importer, on 23 October 1993, the CNPC acquired a service contract on Block 7 in the Talara Oilfield in Peru, marking the beginning of Chinese NOCs' international operations. China's accession to the World Trade Organization (WTO) in 2001 meant a new impetus for encouraging Chinese companies to "step out" into the global economy by investing overseas and for its "national champions" to become transnational. The April 2003

"State Asset Supervision and Administration Commission" (SASAC) was created with the mandate of transforming State Owned Enterprises (SOE's) under its control into fortune 500 companies. The use of mergers and acquisitions referred to as a "fast-lane" to developing national champions. Undeniably these mergers and acquisitions are highly controversial, especially in western countries. This controversy and suspicion is predicated on state control of China's transitional and their opaque governance structure. Many of the mergers/acquisitions have been driven by a strategy fixed on the securitization of natural resources abroad in order to help perpetuate and sustain growth at home. Prioritizing valuable and finite natural resources exacerbates concern and trepidation among recipients of Chinese FDI. Aspects of going out include overland pipeline. Drilling rights, acquisitions of foreign energy companies, securing percentage of production via oil-backed loans from Chinese banks. China's "going-out" strategy with NOCs as the principal vehicle for facilitating cross border activities to enhance China's energy security is not a deliberate choice but is rather an inescapable necessity for overseas energy commodities.

Going-out meant large increases of outward FDI; Historically, the vast majority of this investment was in developing countries (de Graaf, 2017: 61), however, recently there has been a proliferation of investment in OECD (Organization of Economic Cooperation and Developments) countries as well. Chinese investment in Canada only began to achieve large scale volume in 2005 and grew rapidly between 2005-2016. The bulk of this investment (68%) has come from State Owned Enterprises. The key factor for this predominance? China's ambition to gain a larger share of the world's economy and resources means that a large amount of Chinese investment in Canada is centered on raw materials and energy, sectors which are predominantly the domain of SOEs in China. Interesting to note that the flow of Chinese investment into Canada declined by 47% from 2017 to 2018 (from $8.35 billion CAD down to $4.43 billion CAD) and number of overall transactions declined by 37% from 111 in 2017 to 70 in 2018. This can be explained in three ways: first, Chinese government imposing restrictions on capital outflow (November 2016 and again August 2017). Second, growing uncertainty that shadows US-China trade relations and subsequently the uncertainty that looms for all other parties involved. Lastly, increasing scrutiny of Chinese investments by Western countries. The CNOOC takeover of Nexen caused Canadian politicians to step back and reevaluate the notion of allowing foreign SOEs to engage in wholly-operated projects in the natural resource sector.

Verbiage and the goals laid forth in recent, successive, Five Year Plans (FYP) appear to indicate that the Chinese government has, as of late, slightly tapered its expectations about the degree to which its NOCs are capable of acquiring oil and gas interests in research rich countries in order for the nation to secure imports. The following sampling of China's three most recent FYPs illuminate this evolution. China's 10th FYP (2001-2005) states that NOCs role is "to make effective use of overseas assets, build overseas oil and gas supply bases, diversify the oil imports." In the 11th FYP (2006-2010), expectations are lessened to simply "Broaden international oil and gas cooperation." 12th FYP (2011-2015) states NOCs are to "strengthen reciprocal international energy cooperation." Here, there is not even a specific mention of oil or gas. The Chinese government has appeared to have gone back to strategies which make heavy use of domestic oil and natural gas supply, including unconventional sources. (Dong, 2017). China is less than enamored with the risk and instability associated with investment in many of the developing countries in which they typically operate. In light of this, Canada is welcomed in two regards: One, it is a more stable overseas source of energy imports and two, it is home to much of the world's leading edge technology in unconventional energy resource recovery which could assist China in making better and more prolific use of its own domestic deposits. Sinopec may have had such ambitions when it acquired a 9.03% share of oil-sand company Syncrude which is a leader in technology related to tight oil. Given the close relationship between NOC's and Chinese government, NOC involvement in resource rich countries is commonly cited as being intrinsically politically motivated. While there is of course much truth to this narrative, it fails to capture the nuance and complexity of the relationship. China's government requires assistance from NOCs in order to implement certain strategic policies overseas (like oil and gas backed loans) while NOCs have flourished in part because of easy access to capital from large Chinese state-owned banks. However, despite being assigned the task of securing the energy supply for the state, NOCs remain primarily motivated by profit maximization vis-a-vis expansion of overseas commercial actives. (Dong, 2017: 94). Contrary to any implication that NOCs don't care about sustaining financial loss, they are rather actually very risk averse and cautious when making investments.

2.9 Conclusion

In researching the ways in which Canada can more successfully links its energy commodity supply chains to increased Chinese demand, this second chapter performed the essential function of outlining and explicating the realities most relevant to this question from a Chinese perspective. As far as identifying the impetus for China to pursue such an initiative and what are the variables which make this proposition more or less likely, this chapter set out to answer the following core questions; 1) what is China's current energy situation 2) what are China's supply-side energy security challenges and 3) how does China's centralized state-society complex link energy security with foreign policy? The findings of this chapter indicate that China's energy structure is in a state of transition; historically, coal has reigned supreme in China's primary energy mix and has until recently, quite literally fueled its economic growth. While this is still more-or-less the case, with coal still accounting for just under 60% of the total energy mix and China using more coal in absolute terms than ever before, initiatives to reduce dependency in terms of its percentage of total energy consumption have been successful.

The consequence of this however is an increase in consumption as a percentage of energy mix for oil and natural gas. These are resources in which China is far less endowed than it is in terms of coal and, exacerbated by continued, skyrocketing economic growth and growing GDP per capita, means that China is becoming increasingly reliant on energy sources from beyond its border. A reliance on uninterrupted energy imports from beyond a nation's border makes a nation subject to what Amineh and Guang (2017) term "supply-side" energy scarcity. This consequently also means that China counts on its supplies being interrupted by major world powers with the capacity to do so, (currently this means the United States) or conversely an oil cartel like OPEC. This means China is subject to structural scarcity as well. This supply-side and structural scarcity serves as the impetus for China to look for diversified sources of energy commodities both in terms of imports and also through mergers and acquisitions with international oil companies to commandeer ownership of resources abroad. With Canada being home to some of the world's most vast energy reserves, especially crude oil, Canada has the potential to play an enhanced role in China's energy security strategy.

Crucial to the development of China looking towards Canada for deeper integration on the basis of energy commodities is knowing that China has what is termed a socialist market economy which is solely directed by an authoritarian government. This is highly relevant to this paper since it serves as the single largest factor in why Canada, from its government to its business class, to its civil society, may exercise trepidation towards deeper links with China. In essence, China is viewed as being fundamentally at odds with Canadian values and with the liberalized order in which it views itself as being a part of. China's centralized state-society complex means that its market is not self-regulating but rather directed by its state-party, the CCP. This means that economy and politics are highly intertwined and means that, with respect to China, economic engagements are highly synchronized with political engagements. In attempting to direct policies aimed at alleviating China's supply-side energy scarcity, China's state-party have adopted a "going-out" strategy whereby its national oil companies act as a vehicle through which the state attempts to procure resources abroad. This leads to the "transnationalization" of these NOCs and subsequently leads to them acquiring increasingly transnational characteristics as they develop closer links with other IOCs and are furthermore required to demonstrate commercially-oriented policy decisions. This casts doubt about the degree to which Chinese NOCs represent a mercantilist strategy and therefore the degree to which they truly represent a threat to the established world order.

CHAPTER III

CANADA'S EXPORTING CAPACITY & CHINESE NOCs IN CANADA: A NATIONAL DEBATE PROFILE

3.1 Introduction: Economic Overview & Energy Sector in Canada

The core questions of this chapter include; how Can Canada help alleviate China's supply-side energy security challenges? What is the importance of Canada to China's energy situation and what is the nature of their energy relationship as it currently stands? What are the impediments from a Canadian point of view about enhancing energy commodity-based relations with China? Canada's economy recorded an overall economic growth of 1.8% in 2018, a slowdown from 3% growth in 2017. (CITE). Canada's merchandise exports rose 5.6% in 2017 to an all-time high of $546.3 billion CAD, a total that is 29.2 billion higher than in 2016. Relevant to this paper, the largest gains were experienced in the export of energy products. Energy products represented more than one-fifth of total merchandise exports and regained the top spot in merchandise export ranking. Higher commodity prices (than the year previous) were unsurprisingly a large contributor to the increase of export value, however, it was not the sole reason. About two-thirds of the increase can be attributed to a rise in commodity prices in the case of crude oil, it explains 80% of the increase for natural gas, roughly 60% for refined oil, 95% in the case of coal. The remainder was a result of increase in actual export volume. Canada's economy is very top-heavy with only three provinces (from a total of ten provinces and three territories), Ontario, Alberta and Quebec, accounting for 78.1 percent of Canada's total exports in 2017. Ontario was the only province to experience a decline in exports,, falling by $8.9 billion CAD (down 3.6 percent). Automotive exports, to a large degree were mainly responsible for this decline (down 5.8 percent), with additional impact coming from declines in exports of precious stones and metals (down 8.2 percent) and pharmaceutical products (down 29.1 percent). The Ontario decline, however, was offset to some degree by growth in exports from Quebec and British Columbia (up $4.7 billion CAD and $4.9 billion CAD respectively), while Alberta's exports grew quite drastically, in total by $21.1 billion CAD (up 26.4 percent), restoring it to the second rank among Canada's exporter jurisdictions. Exports of energy products were driving Alberta's growth. (Global Affairs Canada, 2018: 106). 2017 saw Canada experience a decline in FDI inflows, in particular as 12% decline in FDI to its energy sector. However this was indicative of a broader continent and worldwide trend. FDI inflows to developed economies across the globe declined in 2017 by 27% to $810 billion USD which still represents 53.4% of global FDI inflow. North American inflows in particular declined by 33.2% to a figure of $330 billion USD. The following is a breakdown of key elements of Canada's economy. (Table 3.1, Table 3.2, Table 3.3).

Table 3.1: Selected Key Economic Indicators: Canada 2000-2016

Indicator	2000	2005	2010	2016	Change 2000-16
GDP (PPP) (2016 USD billion)	1 240	1 408	1 490	1 682	36%
Share of world GDP	1.8%	1.7%	1.5%	1.4%	-
GDP (PPP) per capita (2016 USD)	40 401	43 658	43 809	46 477	15%
TPED (Mtoe)	257	281	273	292	14%
TPED per capita (toe)	8.4	8.7	8.0	8.1	-4%
Total CO_2 emissions (Mt)	516	541	528	541	5%
Energy intensity TPED/GDP (PPP) (toe per USD 1 000)	0.21	0.20	0.18	0.17	-16%
Carbon intensity TPED CO_2/GDP (PPP) (tCO_2 per USD 1 000)	0.42	0.38	0.35	0.32	-23%

Source: IEA 2018

Table 3.2: Canada's Top 10 Export Partners 2017

CANADA'S TOP 10 EXPORT PARTNERS

	VALUE 2017 ($B)	CHANGE 2017/2016 ($B)	GROWTH 2017/2016 (%)	SHARE 2017 (%)
World	546.3	29.2	5.6	100.0
United States	414.9	20.5	5.2	76.0
China	23.6	2.6	12.5	4.3
United Kingdom	17.6	0.5	3.1	3.2
Japan	11.8	1.1	10.3	2.2
Mexico	7.8	0.2	2.8	1.4
South Korea	5.2	0.8	18.9	1.0
India	4.2	0.2	5.8	0.8
Germany	4.1	0.1	1.8	0.8
Belgium	3.5	0.2	7.5	0.6
France	3.4	0.0	0.2	0.6
Top 10	496.3	26.3	5.6	90.8

Source: IEA 2018

Table 3.3: Canada's Top 10 Import Partners 2017

CANADA'S TOP 10 IMPORT PARTNERS

	VALUE 2017 ($B)	CHANGE 2017/2016 ($B)	GROWTH 2017/2016 (%)	SHARE 2017 (%)
World	561.0	27.8	5.2	100
United States	288.0	9.8	3.5	51.3
China	70.9	6.5	10.1	12.6
Mexico	35.5	2.3	7.0	6.3
Germany	17.9	0.7	4.2	3.2
Japan	17.5	1.7	10.9	3.1
United Kingdom	8.9	0.6	7.7	1.6
South Korea	8.7	- 1.9	- 17.8	1.6
Italy	8.2	0.6	8.1	1.5
France	6.2	0.2	4.2	1.1
Taiwan	5.4	0.4	7.1	1.0
Top 10	467.2	21.0	4.7	83.3

Source: IEA 2018

Canada, much like China, also has growing energy demands as its large size, cold climate, high standard of living and expansive industries make Canada one of the most energy intensive countries in the world, especially on a per-capita basis. Energy demand has grown on average at 0.8% per year for the past 15 years and projections expect demand to continue rising as such. (IEA, 2018: 3). In terms of total final consumption (TFC), the transport and building sectors are the largest consuming sectors, each accounting for 32% of the TFC in 2016. Industry accounted for 23% and agriculture and non-energy use combined for 13%. Since 2000, energy consumption in transport increased 18%, residential use increased 3%, while the demand in industry actually declined to a significant degree with a 21% decrease in consumption. Consumption is all other sectors remained stable. Resource industry continues to benefit from slight rebound in global energy commodity prices. Final energy demand is expected to grow in all end-use sectors except transport. (CITE). Gas used in fossil fuel extraction and in power sector is main driver of primary energy demand. Despite its intensive energy demand, vast abundance of resources means that Canada's production easily meets domestic demand and that Canada can look to market its excess production to the world. Despite Canada's overall trade deficit with the world, Canada always maintains a surplus in the energy sector and 2017 was not any different. Crude oil and natural gas exports totaled a value of $112.6 CAD in 2017 (22% of total goods exports) while imports only totaled $41.2 CAD (6% of total goods imported) for an overall surplus of $71.4 billion CAD.

Canada's immense and well-developed energy sector contributes heavily to Canada's overall economic well-being, accounting for roughly 30% of total exports and contributing 10.6% of total GDP (or $213 billion CAD) in 2017 (Ministry of Natural Resources Canada, 2019). Canada's combined oil and gas industries employ more than 276 000 people directly and nearly 1 million Canadians indirectly, representing 5.2% of total employment (Ministry of Natural Resources Canada 2019). Canada currently ranks as the world's sixth largest net energy producer in the world, accounting for 3% of the global total production. (Table 3.4)**.** In terms of proved reserves/capacity, Canada ranks third overall in the world for crude oil and uranium, sixth for electricity, sixteenth for coal and seventeenth for natural gas. In terms of actual production and export, Canada ranks as the world's 4th largest oil producer/exporter, second largest uranium producer/exporter, sixth largest producer but second largest export of electricity, twelfth largest producer of coal but eighth highest exporter, and finally, the fourth largest producer and fifth largest exporter of natural gas. (Table 3.5). In 2018, Canada produced 4.6 billion bp/d of liquid fuels. (Canadian Association of Petroleum Producers, 2019). This represents a 300.000 bp/d increase over 2013. Between 2003-2013, exports of Canadian crude oil increased by a staggering 263% and in 2013 and 72% of all production was exported. Canada's energy strategy is divided into three areas of distinction: 1) Sustainability 2) Technology and Innovation and 3) Delivery of Energy. (International Energy Agency, 2017). As of 2013, Canada's main energy production was: Oil- 44.9% Natural Gas- 30% Coal- 8.1% Hydro- 7.7% Nuclear- 6.2% Biofuels- 3% Renewable- 0.2% .

Table 3.4: World's Largest Energy Producers

Rank	Country	Percentage
1	China	18%
2	United States	15%
3	Russia	10%
4	Saudi Arabia	5%
5	India	4%
6	**Canada**	**3%**

Table 3.5: Canada's Global Energy Rankings

Energy Resource	Proved Reserve/Capacity	Production	Exports
Crude Oil	3	4	4
Uranium	3	2	2
Electricity	6	6	2
Coal	16	12	8
Natural Gas	17	4	5

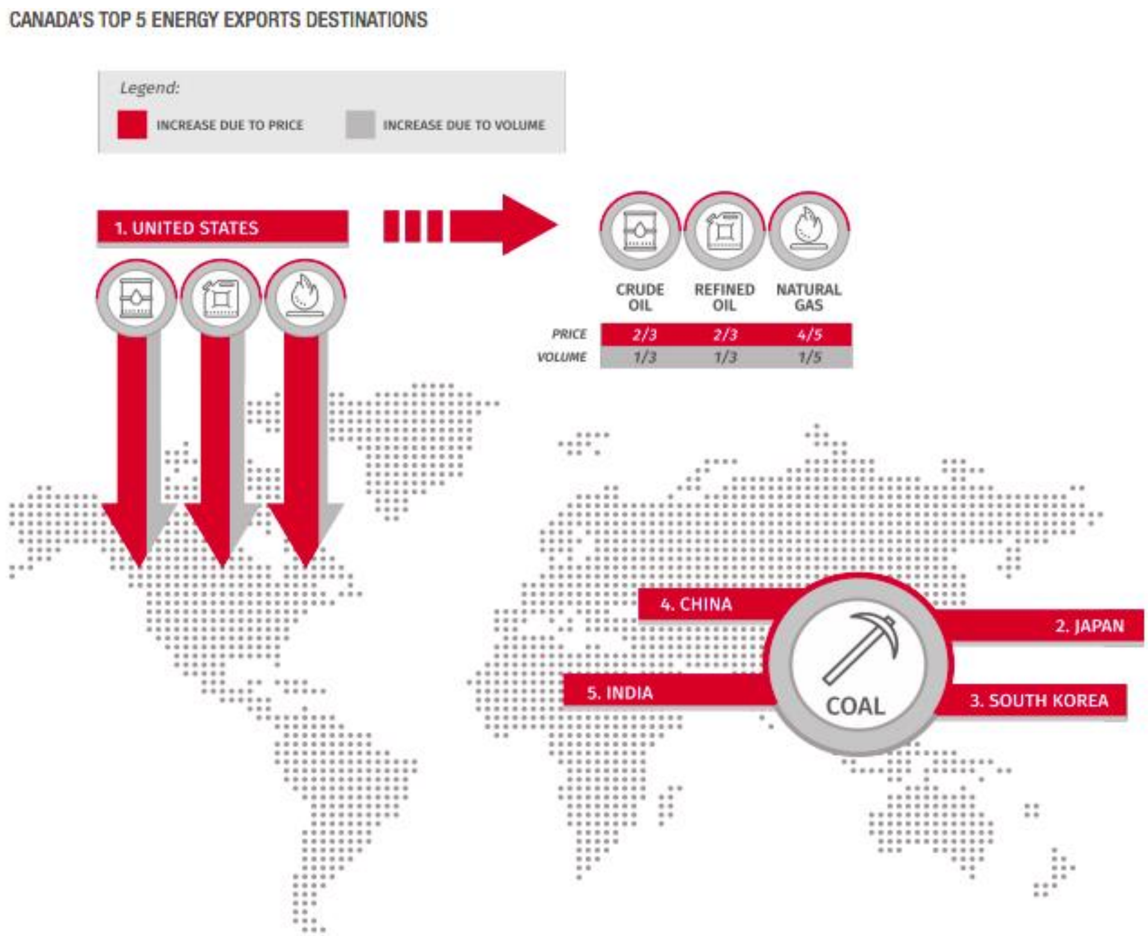
Source: Table 3.4 & 3.5: Data from IEA 2018, tabled by author

In terms of sector organization, Canada's oil sector is almost entirely privatized and includes participation of many domestic and international companies. Sophisticated production processes required to recover the unconventional energy sources in the oil sands has fostered and promoted specialization in the field. This specialization in terms of leading edge unconventional energy recovery technology and managerial expertise acts as a catalyst and one of the leading motives for IOCs to become involved with oil sand projects. The technological expertise and production methods fostered in the oil sands, once acquired, can then be applied to the recovery of unconventional oil sources elsewhere in the world. In wake of recent downturn and low commodity prices beginning with the 2008 global financial crisis, many Canadian oil companies underwent "strategic corporate restructuring" as well as consolidations. Economic downturn likewise meant a slowing down of inflows of investment and even divestments among many private IOC's. This created the requisite conditions for Chinese NOCs to get their foot in the door as it meant 1) weak financial performances for Canadian oil companies and thus opening them up to the notion or a merger or acquisition and 2) China's currency appreciation allowed for it sustain loses in order to increase its relative capability by absorbing western assets and accompanying technology.

3.2 The Need To Diversify

Canada is a world-class producer of natural resources and, consequently, international energy trade serves as a cornerstone feature of the Canadian economy. As the world's third-leading natural resource exporter in the world, its energy sector dominates its trade with the world ($105.3 billion USD worth of energy exports in 2011), and furthermore, as one of the world's largest *net exporters* of energy, Canada holds a trade surplus on all of its energy commodities. The keystone of Canada's energy export industry is crude oil, emanating from the epicenter of the energy sector, the oil sands of Northern Alberta. At the end of 2017, Canada proven oil reserves of 168.9 billion barrels and was producing 4.831 million barrels per day (bp/d) in 2017, a growth of 8.1% over 2016. (IEA 2018.) Currently, the major deficiency of the Canadian energy sector is its overwhelming reliance on one particular market; currently the United States accounts for 91% of Canada's total energy exports and 75% of all exports from the oil sands in particular as Canada presently lacks adequate infrastructure for crude oil refinement as well as the overland pipeline infrastructure and port facilities to export to other markets in large volume. (EIA, 2017). While these circumstances are not extenuating and can be circumvented via infrastructure investment and subsequent export market diversification, breaking the path dependency of American-bound exports will be a big challenge for Canada in the coming decades, but one in which it must take head-on nonetheless. A shale revolution in the United States has prompted a new American strategy of enhanced energy self-sufficiency while an increasingly isolationist and antagonistic trade regime under the Donald Trump administration means a likely decrease In overall energy demand and capital flow from US in coming years. Although the market for US bound energy exports did grow by 31.2% in 2017, it represents a relatively modest growth when compared to the aggregate growth of 56.1% in all other markets. (IEA 2018). Behind the USA, the four biggest markets for Canadian energy exports were all in Asia (Figure 3.1) and all four experienced a Canadian energy export-market growth of more than 50% each. The main energy exports heading for Asia (coal and bitumen) did not even figure into the top three sub-products of Canada's overall energy export menu (which were crude oil, refined oil, and natural gas). This not only reiterates (once again) the overwhelming predominance of the American market with respect to Canada's energy exports but furthermore demonstrates that there exists ample room for Canadian energy exports to grow in Asia as crude and refined oil as well as natural gas becomes a larger segment of its export mix to the region. Exports of crude oil did however figure prominently in Canada's exports to China in particular.

Figure 3.1:



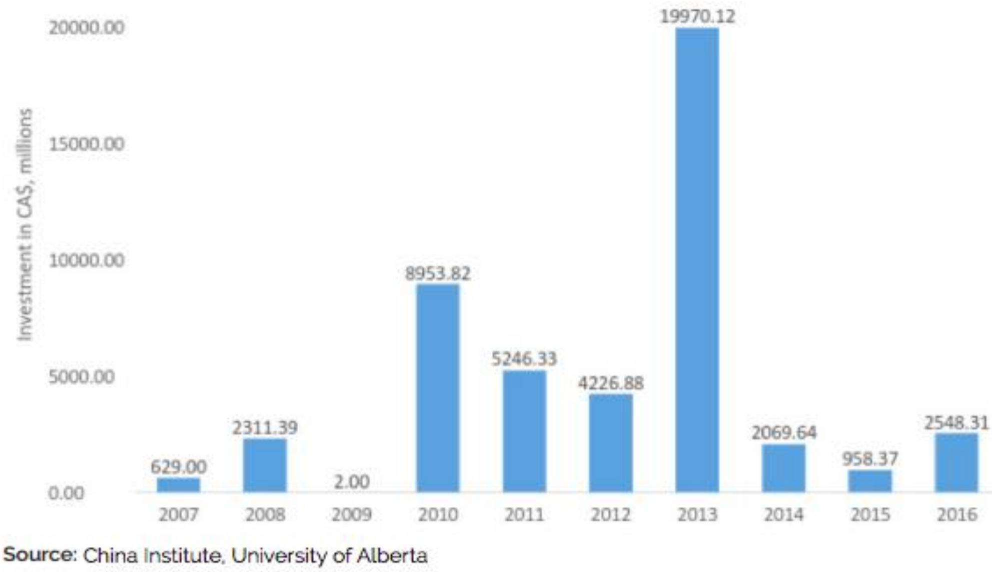
Source: EIA 2017

3.3 Looking Towards China

A shrinking and increasingly uncertain American export market from the perspective of Canadian producers of many stripes means a pertinent quest to find alternative markets to help fill the void. Emerging and rapidly developing markets in Asia are the obvious candidates and appear most primed to satisfy this need, in particular, the People's Republic of China. China is by far Canada's largest trading partner in the Asia-Pacific region and is in fact Canada's second largest overall trading partner in the world and 7th largest source of FDI. China's investment in Canada has shown a salient upward trend in the past decade, most of which clusters around the energy, agriculture, mining, entertainment, and real estate sectors. For Alberta in particular, Chinese investment is highly sporadic (Figure 3.2) highly and also highly concentrated with more than 95% of Alberta-destined Chinese investment in 2015 flowing into the energy sector

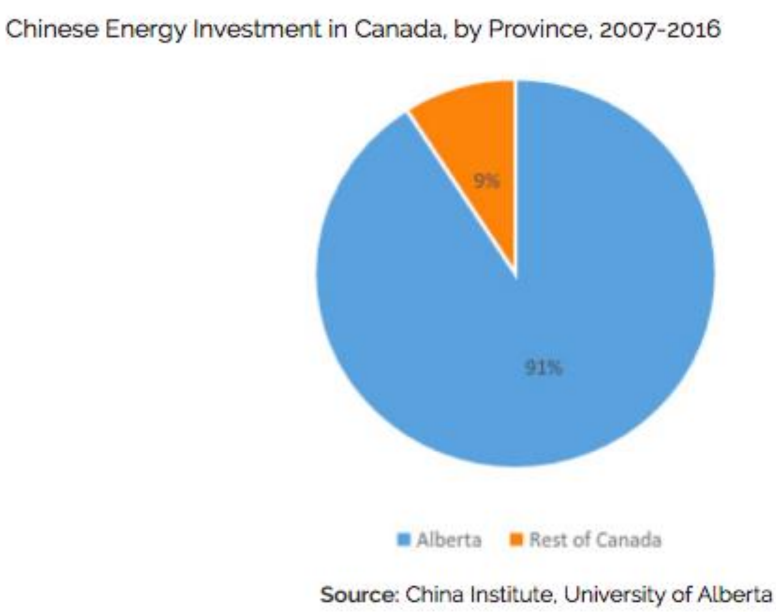
(U of Alberta, 2018: 11) and 91% of total Chinese energy investment going to Alberta from 2007-2016. (See figure 3.3). China and Canada are engaging in a blossoming although still severely underdeveloped energy-trade relationship with, as stated in the introduction of chapter one, China purchasing 1.58 million barrels of Canadian crude in September 2018. (Bloomberg, 2018).

Figure 3.2: Chinese FDI in Alberta: 2007-2016.



Source: China Institute, University of Alberta

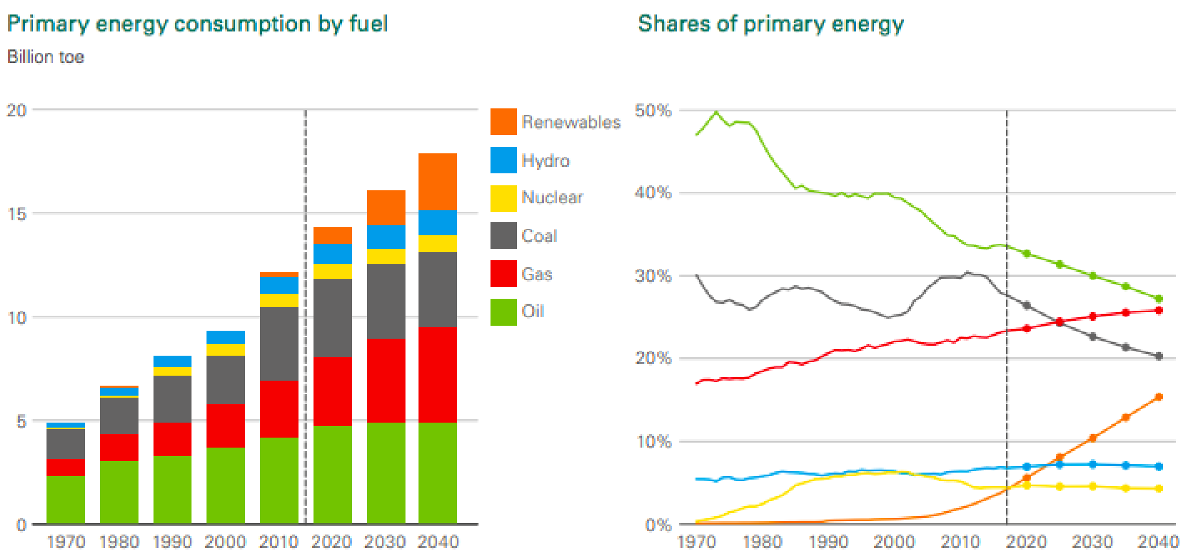
Figure 3.3: Chinese Energy Investment in Canada by Province: 2007-2016



Source: China Institute, University of Alberta

This paper wishes to illuminate the vast potential for enhanced oil and gas trade which lies dormant in Canadian-Chinese economic relations (and for Alberta in particular). According to British Petroleum's (June 2018) Statistical Review of World Energy, global oil consumption growth in 2017 averaged 1.7 million bp/d or 1.8% above its ten-year average. (BP Statistical Review of World Energy, 2018: 2). China was the nation with, by far, the greatest increase in growth with an average growth of 500,000 pb/d in 2017. In terms of natural gas, global consumption in 2017 grew by 96 billion cubic meters (bcm). Here, once again, China represented by far the great growth, in fact accounting for nearly one-third of the total growth with a growth of 31 bcm. The International Energy Agency's (IEA) "World Outlook 2017" projections indicate that by 2030, China overtakes the United States as the world's leading oil consumer with net imports of oil reaching as high as 13 million bp/d. (IEA 2017). Projections also indicate that by 2040, over 70% of the world's oil exports will end up in Asian ports. Diverting back to natural gas, BP's "Energy Outlook 2019" states that, although renewables will be the fastest growing energy source until the end of their 2040 outlook, natural gas consumption will outpace both oil and coal and will overtake coal as the world's second leading energy source (BP, Outlook 2019: 72) and will close the gap on first place oil by a significant margin. (Figure 3.4) China is set to provide a quarter of projected natural gas demand in 2040 with projected imports of 280 bcm, second to only the European Union if taken as a collective. (EIA, 2017). With adequate planning and an ambitious strategy, Canada can be well positioned to help meet this Chinese-led increase demand. Factoring in extra volumes produced in Canada, the United States, and Mexico, North America will emerge as the largest source of additional crude oil on the global market (IEA 2017) as well as the largest source of the increase in LNG exports. (BP, Outlook 2019: 99). At the end of 2017, Canada's total proved reserves of oil stood at an estimated 168.9 billion barrels, 10% of the total global share of oil and third largest reserve behind only Venezuela and Saudi Arabia respectively. (BP Statistical Review of World Energy, 2018: 12). Canada was furthermore found to have natural gas reserves estimated at 1.7 trillion cubic meters at the end of 2017. Although this represents only 1% of the global total, Canada still represented 4.8% of the world's natural gas production in 2017. (BP Statistical Review of World Energy, 2018: 12). In terms of marketable production of natural gas, 2017 saw Alberta produce 72% of Canada's total, means linking Canada's natural gas supplies to China's growing demand stands to benefit Alberta above all. Production of Shale and Tight resources will vastly enhance Canada's recoverable natural gas supply. These refer to gas which is latent in shale, meaning low permeability sedimentary rock, and is recovered via horizontal drilling and hydraulic fracturing. (Ministry of Natural Resources Canada). Shale and tight resource production is growing and will offset the decline of conventional production. This is not only an added benefit for Canadian production, but all around the world will serve to unlock vast amounts of gas as conventional reserves diminish. Thus, the leading-edge technology related to the extraction of shale and tight gas will be as coveted by China as the resource itself. Shale and tight gas combined to account for 51% of Canada's total gas production in 2014 but is expected to account for upwards of 80% by 2035. (Ministry of Natural Resources Canada). This means that as global conventional supplies decline and China's consumption and total demand increases, Canada will be at the forefront of unlocking new methods for natural gas recovery.

Figure 3.4:



Source: BP Statistical Review 2018

As it currently stands however, Canada's export oil and natural gas exports to China (in terms of potential and capacity) remains undeveloped. 51% of Canada's natural gas, for example, is exported, however all of these exports go to the United States. Because of American decline in gas imports, Canada's imports consequently shrunk in 2017. Capacity to diversify these exports to the Asia-Pacific region, and China in particular, remains limited by infrastructure constraints and inadequacies. Canada could stand to see itself lose credibility and attractiveness as an energy-sector investment destination if this reality persists. After spending $35 billion CAD in

Canada’s energy industry when oil and asset prices were high, Chinese energy companies are reeling from the crash in oil prices and are, as a result, cutting jobs and investment. According to a retired senior executive for CNOOC, Canada’s lack of export infrastructure emanating from its oil sands is compounding these financial losses rather than serving to alleviate concerns. (CITE Financial Post). Whereas an increase in production and export volumes could offset lower oil prices, lack of pipeline infrastructure means the capacity to increase exports is very limited. Slow regulatory processes in Canada are seen to be among one of the largest impediments as over 20 pipelines already proposed are slow to be tangibly realized. This furthermore exacerbates the already low global prices of energy commodities, in particular crude oil and natural gas. The United States is already saturated with much of its own production, production which is still being increased in effect to lessen import dependency. Having only one market to sell to leaves Canadian crude oil and natural gas commodities with nearly zero leverage or bargaining power. The additional issues of environmental and First Nations-related hang-ups in the ability to break ground on infrastructure proposals highlights and in fact epitomizes the difference between China’s centralized state-society complex and Canada’s liberal state-society complex. Canada’s government is much weaker and therefore not resilient in the face of societal pressures and, thus, not able to maximize efficiency or garner maximum utility for its strategic economic policies. Selling incredibly cheap crude oil (relative to global commodity prices) is only a feasible strategy if the infrastructure exists to allow for high volume of export as well as export to diversified markets to hedge against disruptions to export supply chains like, for example, the American “shale revolution.”

Construction of pipelines to the Canadian west coast and Pacific Ocean port facilities would open up the Chinese market for oil and gas producers in a significant way if the political will can be manifested and concerns of powerful lobbies be satiated. Under the current leadership of Prime Minister Justin Trudeau and his Liberal Party government, Canada has vowed to work towards even deeper trade and investment as well as improved diplomatic relations with China. (CITE Minister, 2018). Canada is looking at China’s massive economy, rapidly expanding middle-class, many yet-to-be developed regions in Western China, its ambitious global infrastructure projects, and especially its massive and still growing natural resource demand as reasons for pursuing a new China-Oriented trade strategy. Canada’s goods exports to China rose 11.5% in 2017, a rate nearly triple that of 2016. Meanwhile, Canada’s goods imports from China grew even faster, a rate of 13.3% to reach a figure of $42.6 billion CAD and currently runs a trading deficit with the PRC. China is and will remain Canada's most important trading partner on the emerging Asian continent; as it stands, China accounts for over two-thirds of Canada's exports and three-quarters of its imports from Asia. (Global Affairs Canada, 2018: 40). As a region, Asia accounted for 16.6% of Canada's total imports in 2017 and 6.2% of its exports. In terms of merchandise imports, China ranked number two in terms of value with Canada importing $70.9 billion CAD in 2017, an increase of 6.5 billion from the year previous, representing a growth of 10.1 % and an overall share of Canadian merchandise imports of 12.6%. Imports from China grew robustly and were broadly distributed among top import categories. (CITE). Canada must attempt to balance this account by increasing its market share in China. Chinese SOEs dominate China's investment activities in Canada and Alberta. From the data gathered by the China Institute at the University of Alberta from 1993 to December 2016 roughly 77% of $72.69 billion CAD of Chinese investments to Canada was made by SOEs. In Alberta, 89% of the cumulative Chinese investments of $48.54 billion CAD came from Chinese SOEs. Chinese SOEs are therefore significant players in Chinese outbound investment in Canada, in both the Canadian and Albertan contexts, and particularly with respect to the Canadian energy sector. (U of Alberta, 2017). The top three state-owned energy companies, CNPC, Sinopec, and CNOOC, are the most active investors, contributing 95% of total Chinese investment in Canadian energy companies, and 66% of total Merger and Acquisition (M&A) deals. 80% of the deals occurred after 2010, and SOE investment decreased as the international oil price slumped in 2014

As much as additional capital inflows are a welcome addition to Canada's strategically important yet capital intensive energy sector, the political challenge will be managing a new reality with Chinese state-owned enterprises as regular, prominent investors in the sector. Canada has stated that while it will accept investment, it does not intend to approve any further acquisitions by SOE's which give full or controlling share of oil sand projects. The concerns of Canadians about the proliferation of Chinese NOC investment in the energy sector are primarily related to the loss of natural resources in case of eventual global scarcity, their poor record with respect to human rights, as well as relinquishing technology to a global competitor. (Woo, Zang, 2006). As it stands, foreign investors must demonstrate that their investment is for the "net benefit" of the country, a stipulation many in favour of enhanced trade and investment flows with China find needlessly restrictive. If one can agree that FDI is a good thing, then additional stipulations may be counter-productive. Many in Canada have suggested that Canada should implement an Australian-style policy whereby investments simply must not be "contrary to national interest," which may help to attract more FDI. Aside from government trepidation to allow more investment, Canada's energy sector is a very attractive destination for Chinese NOC investment on the grounds that it 1) is more politically and economically stable than the developing countries who are traditionally targets of Chinese FDI 2) is very rich in oil and natural gas reserves 3) is home to some of the world's most sophisticated technology and know-how, in particular with respect to the recovery of unconventional energy sources. Following the approval of the highly controversial and much debated acquisition of Canadian oil company "Nexen" by CNOOC in 2013 (to be discussed further in this chapter), Canada's incumbent Prime Minister at the time of the purchase, Conservative Party leader Stephen Harper remarked at the conclusion of the deal that this marked the end, not the beginning of a trend by stating that "Canada being open for business does not mean it is for sale to foreign governments." (PM Stephen Harper, address in 2013). At the level of politics, Chinese-Canadian shareholders and producers have highlighted the need for increased regulatory clarity, efficiency, and predictability in the context of direct investments in each other's country. Differences in technical certification requirements and lengthy approval processes on goods such as equipment have a negative impact on the competitiveness of both sides of exports. (Global Affairs Canada, 2012: 46). Substantive agreements towards a Canada-China Foreign Investment Promotion and Protection Act will increase protection and predictability for Canadian and Chinese investors alike. Over the coming decades, massive investment will be required to continue the development of Canada's natural resource industry. Chinese investors seeking solid and stable investments which will lead to direct or indirect access to energy sources as well as leading edge technology and management expertise will find Canada an attractive market and will prominently feature in the procurement of required investment capital.

3.4 NOCs in Alberta

The importance of SOEs to China's overall economy has been steadily declining over the past decade as private market forces become, conversely, steadily more prominent in China's economic output and activity. In the past ten years, overall share of SOE revenue from principal business has dropped from 34.4% to 21.8%, while the contribution of SOEs to total national employment in China has fallen from 27.2% to 18.2%. (U of Alberta 2018). Despite this decline however, and of crucial importance to this paper, Chinese SOEs continue to be overwhelmingly dominant is several key sectors including oil and gas. China's three preeminent NOCs, CNPC, Sinopec, and CNOOC, remain of vital importance to China's economy, accounting for 9% of all SOE accumulated profits in 2015 with profits totaling $600 Trillion USD. (U of Alberta 2018). On the other hand, Alberta is a trade-oriented province specializing in oil and gas as well as agriculture and has a strategic imperative to enhance relations in terms of trade and investment inflows/outflows with China. Canada's energy sector, of course largely based in Alberta, has attracted the greatest interest in terms of Chinese FDI inflows. Chinese SOE investment in Alberta specifically has dominated the policy conversation and media attention in recent years. However, Canadian companies have also invested in China, and this investment has grown significantly over the past five years: about 14,000 Canadian companies, with $10 trillion USD in asset values, operated in China in 2015. As such, the heart of any prospects for increased interconnectivity between Canadian energy supply lines and increasing Chinese demand for energy resources lies with NOCs, their proliferating and expanding investments and activities in Canada's oil sands, and the geopolitical implications and ramifications of this phenomenon. These activities serve as the epicenter of Sino-Canadian energy relations and are the gravity around which energy trade orbits. From this trade, geopolitical tensions, rivalry, misconceptions, and points of divergence are exposed, but conversely, areas of cooperation and future collaboration are likewise identified.

Although there were a few modest and sporadic investments in Canada during the 1990's, it is only since 2007 that substantive investments and collaborations by Chinese NOCs in OECD countries have been taking place. SOE investment in Canada proliferated substantially between 2007-2016 with the bulk of this investment (68%) coming from SOEs. (Houlden, 2018, 27). Chinese FDI in Canada grew substantially in particular between 2010-2013 with Chinese investment flow into Canada peaking in 2013 with $20 billion CAD as a result of CNOOCs Nexen acquisition. Growth, however, fell flat between 2014-2016, likely due to restrictions placed on SOE investment in the oil sands following public outcry related to the Nexen deal. A key factor for the predominance of SOE investment is the plenary of Chinese investment in raw materials and energy, strategic sectors, as stated, still largely controlled by the Chinese state. Furthermore, Chinese SOE's have vast and ready access to capital, in part due to their success in

China's domestic market and in part because they have privileged access to loans from China's giant state owned banks. Alberta attracted more than 90% of Chinese investment in the Canadian energy sector, and around 89% of Chinese energy investment in Canada was made by China's big three NOCs, CNPC, Sinopec, and CNOOC. Chinese NOCs (meaning their "three barrels"), are eager to tap into unconventional energy sources found in the oil sands as they are seen as a rich and abundant resource which can be part of sustaining future development.

The proliferation of Chinese SOE investment abroad, in the oil sands especially, increasingly reflects a desire to move from cheap products to more sophisticated technologies. Chinese firms must acquire competence in innovative products and services manufacture to move up global value chains. (CITE SOE Paper 4). The 1970's marked a worldwide nationalization of oil reserves and oil companies which consequently ended the monopoly of a select few western oil companies, commonly known as the "Seven Sisters." By 2012, 90% of the world's oil reserves were under the control of a national oil company. Private IOC's as such no longer had access to the worlds "easy" oil and had to direct spending into new technologies for the recovery of less accessible conventional and non-conventional oil and gas deposits like deep-sea drilling and oil sand crude. Chinese NOC FDI in developed countries like Canada in particular could in large part be seen as being motivated by their desire to access and accrue these advanced and very specialized technologies held by firms in advanced nations. For developing nations, FDI is a desirable means for this technology oriented and focused acquisition in order to harness and benefits of these technologies held by these firms in order to help achieve their goal of "catch-up" and internationalization.

Canada in particular is world class in terms of the key technological and managerial expertise/specialization which is coveted by China. Chinese NOCs are far less profitable in their domestic market as they are more micro-managed and less autonomous in China and furthermore because China keeps domestic oil and other energy commodity prices artificially low (inflationary reasons). Therefore, the best way for NOCs to turn a profit is to lower production cost via acquisition of newer and more advanced technological and operational techniques such as those utilized by private companies in the oil sands of Alberta. Economic downturn, in particular a downturn in global energy prices meant withdrawals and divestments from many IOC's. This provided the impetus and requisite conditions for NOC's, backed with extensive and cheap loans from Chinese state banks, to take advantage of a lagging energy sector and purchase

Canadian and other IOC oil sand assets, in turn securing not only the resources, but critically, also access to technologies which enhance their relative capacities. Thus, it can be seen that Chinese SOEs have adopted an approach of strategically acquiring targeted companies abroad with the intention to both secure technology that can bolster NOCs' positions in the (foreign) domestic market as well as develop competency in core technology assets and expertise needed for operating in global markets.

Table 3.6: CNPC (PetroChina) Wholly-Owned and Joint Operations in Canada (as of 2019).

Operation	Venture Ownership (%)	Product	Ultimate Production(oil) or Producing Capacity (gas)	Location
Mackay River Oilsands	100%	Oil	150,000 bbls/d	30 km west of Fort McMurray, Alberta
Dover Oilsands	100%	Oil	250,000 bbls/d of bitumen	95 km northwest of Fort McMurray, Alberta
Grand Rapids Pipeline	50%	Oil & Natural Gas	900,000 bbls/d of oil and 330,000 bbls/d of diluent	460 km between Fort McMurray region and the Edmonton/Heartl and region
Duvernay Shale Gas	49.9%	Natural Gas	+20,000 boe/d, net	west-central Alberta
Groundbirch Tight Gas	20%	Natural Gas	10,000 boe/d, net	approximately 50 km from Fort St. John, British Columbia

Source: PetroChina Canada website, tabled by author.

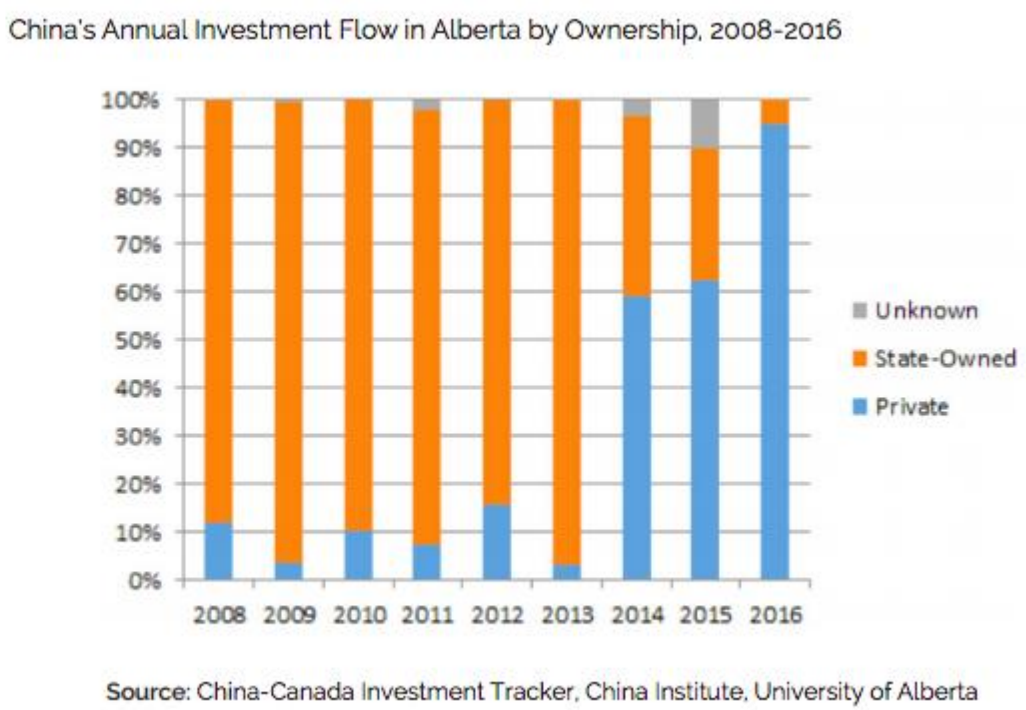
Table 3.7: Sinopec Operations in Canada (as of 2019).

Operation	Description	Location
Pacific NorthWest LNG Project	10% interest in the project. Upstream natural gas project which will feed the natural gas liquefaction and export facility in coastal region of British Columbia	North-East British Columbia
Wapiti	150,000 net acres of liquid rich land with many projects planned on the site	Grand Prairie region, North-West Alberta
West Central Alberta	Development of horizontal wells	West-Central Alberta
Pembina	300,000 net acres of oil and liquids rich natural gas	West-Central Alberta
Syncrude Oilsands	9.03% joint venture in an oil sand project which currently has a capacity of 350,000 bp/d.	North-East of Fort McMurray, Alberta

Source: Sinopec Canada website, tabled by author

The flow of Chinese investment, after years of incremental increase, saw a 47% decline from 2017 to 2018. (from $8.35 billion CAD to $4.43 billion CAD) and the number of new transactions declined 37% from 111 in 2017 to 70 in 2018. This drop in Canada was in line with an overall global decline of Chinese FDI, a decline of roughly 40% from 2017 after six consecutive years of mostly double digit growth. This decline is indicative of a few broader trends. 1) Chinese government restriction on capital outflow (imposed in Nov 2016 and again Aug 2017). 2) growing uncertainty that shadows China-US trade relations and 3) increasing scrutiny of Chinese investments by western governments and outright denial of major acquisitions by Chinese firms. Not only have investments declined but the investments by SOE's in the oil sands have had diminishing early returns and have not proven to be entirely economically viable endeavors, due in part to low energy prices and also large overpayments for the assets. Investment trends between 2015-2018 have shown rising importance of private rather than public Chinese investment in Canada and Alberta especially (Figure 3.5), in particular in real estate. Private investment in this sector has surpassed SOE investment in resource sector over this 3 year period. It is too early to say as of yet if this represents a long term trend and permanent fixture of Chinese investment in Canada or if it is simply an anomaly due to present circumstances i.e. low commodity prices. Overall, SOE investment stock in Canada still far outstrips private stock and furthermore, would only take a small number of mergers or acquisitions for SOE's to regain their year-on-year lead over the private sector and reverse the previous 3 year trend. Furthermore, foreign investors tax in BC has tempered the private real estate market. Chinese SOE capital will nonetheless remain a prominent dimension of the Canadian resource sector and of Canada's expanding relations with the PRC. However, as recent trends demonstrate, Canada should not take it for granted that FDI from SOEs in sectors vitally important to Canada's economy will continue to proliferate in a linear fashion, nor treat FDI as a given. Therefore, Canada must be prudent in striving to not alienate Chinese investors as it searches for tenable arrangements for the peaceful and prosperous coexistence of Chinese NOCs and private IOCs in the oil sands. As one such example, an overly restrictive and discriminatory Investment Act, which will be explained below, in conjunction with low commodity prices for Canadian crude and high extraction cost, may be enough to push China away from Canada's energy sector.

Figure 3.5:



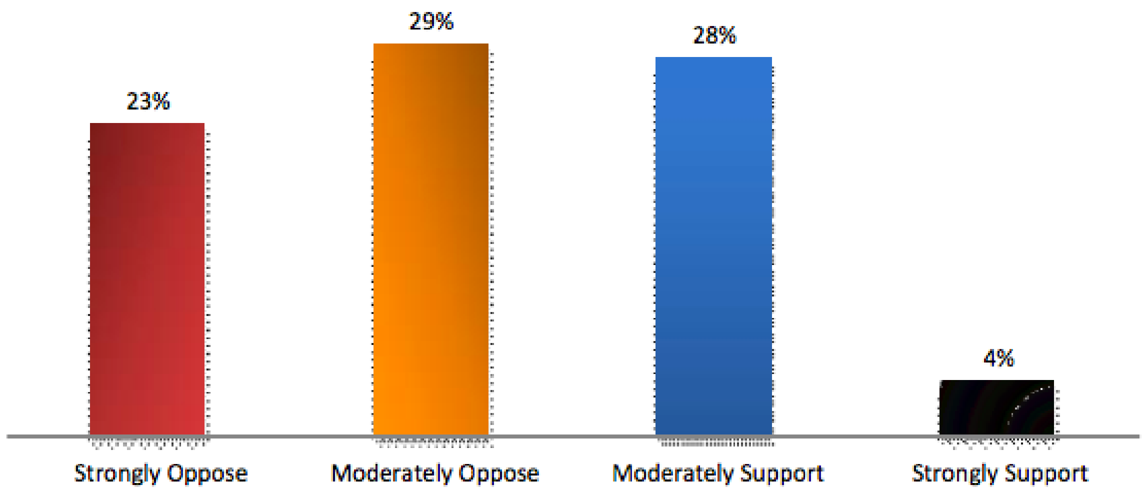
3.5 Investment Canada Act

The Investment Canada Act (ICA) is an important document with the explicit purpose of regulating investment, mergers, and acquisitions of (in this context) foreign oil companies and which stipulates that any investment must be proven to be a "net benefit" for Canada. This stipulation implicitly Indicates a limit on foreign control of what are considered to be strategic commodities. To date, actual limits and application of laws have been infrequent, however SOE investments from China are poised to change that. The "net benefit" test assesses potential investments on grounds such as: i) will inward investors, mergers, acquisitions generate jobs, increase productivity, enhance industrial efficiency? ii) What is the contribution of the investment to Canada's global market competitiveness? iii) What are its compatibility with Federal and Provincial cultural policies? The ICA did not initially distinguish between SOEs and private enterprises until July of 2007 when special guidelines were included in order to specifically address governance of SOE investment as well as the extent to which they operate commercial entities. (Woo, 2014: 13). It remains unclear why extra guidelines were added at this time in particular since there were, at that point, no high profile cases involving SOEs with respect to high-volume investment. Unrelated to the guidelines imposed (since it would make investments harder rather than easier), SOE investment coincidently began to sharply rise from 2007 and despite the late addition of SOE-centric guidelines, there was still nothing addressing majority vs non-controlling stake nor anything making specific mention or insinuations about China in particular, although both variables were believed to be partially behind impetus for sudden clarification. The 2012, Nexen acquisition, which happened to coincide with Malaysian NOC "Petronas" USD six billion bid for Calgary based oil company "Progress Energy," represented first phase of scrutiny on guidelines. CNOOC's 100% acquisition of Nexen crossed both "red-lines" as it gave an NOC a controlling share and furthermore, was a Chinese state-owned entity in particular. Rather than providing clarity on SOE investment in anticipation of the 2012 acquisition, the 2007 guidelines were viewed as having been proven inadequate. Trepidation and concern anoint the acquisition were in spite of the fact that CNOOC had gone out of its way to satisfy the criteria defined within the pretense of "net benefit to Canada." First, CNOOCs' $15 billion USD bid represented a 60% premium above the Nexen's listed share price. CNOOC promised to keep in place Nexen's management team as well as its Calgary head office and to furthermore expand the Calgary head office responsibility to include other CNOOC operations in North and Central America. They likewise promised to keep the enterprise (at least partially) publicly traded by listing in on the Toronto Stock Exchange (TSX) and to ensure that Canadians accounted for minimum 50% of its board of directors.

3.6 Nexen: A National Debate

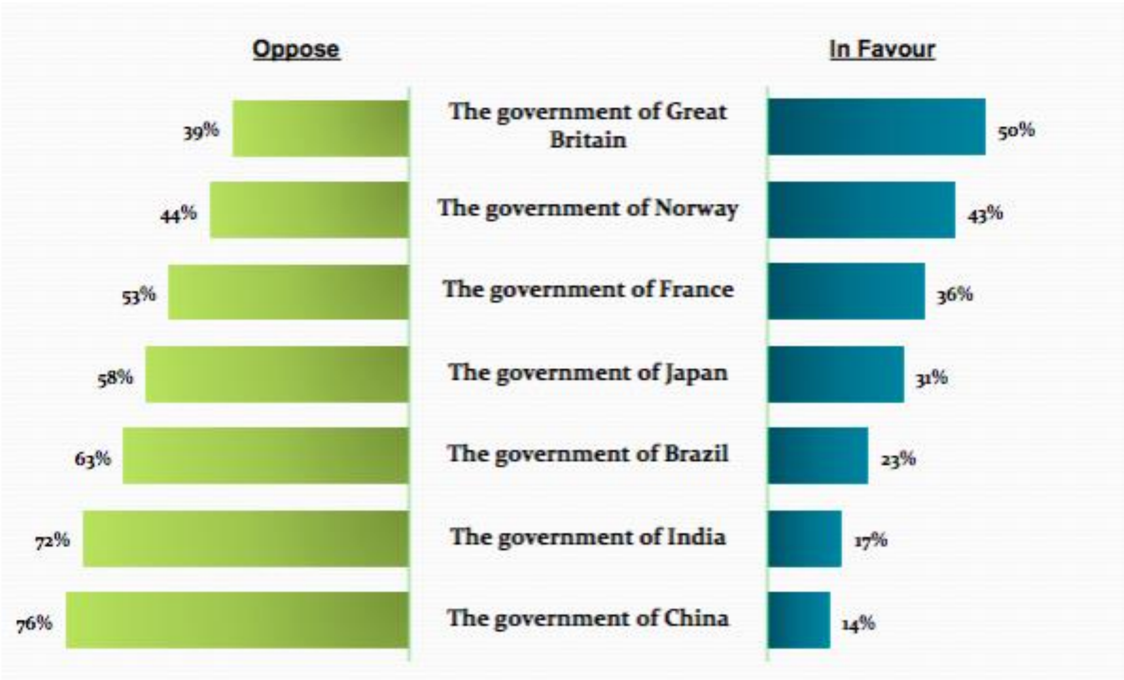
CNOOC's 2012 (formally completed early 2013) acquisition of Calgary-based oil company "Nexen" quickly became a subject of considerable controversy and precipitated a national debate. Debate centered on the implications of companies owned by a foreign and, for some, an adversarial state investing in one of Canada's most strategically important sectors and acquiring ownership over one of its most valuable resources. Following the purchase, and despite CNOOC's best efforts to satisfy the "net benefit test," the Canadian disposition reflected a deeper anxiety about these implications. (CITE:Financial post, life after Nexen). Although 99% of Nexen's shareholders cast a vote in favour of the acquisition, (unsurprising given the 60% premium above share prices paid by CNOOC), a poll conducted by Abacus Data (in September 2012 when the deal was pending approval) was meant to gauge the opinions of average Canadians and the findings were vastly different: a resounding "no." According to the results, as published in "The Sun," a nationally distributed newspaper, of the 1,208 respondents, 69% opposed the takeover, only 8% actively approved of the deal. 73% of the respondents admitted to feeling uneasy about Chinese companies buying natural resources in Canada. (CITE Abacus). A subsequent poll conducted by the Asia-Pacific Foundation of Canada in 2013 (following approval) found that a mere 4% of Canadians "strongly supported" foreign direct investment by foreign, state-owned companies. (Asia Pacific Foundation of Canada, 2013). (Figure 3.6). In terms of majority stake investment on a per-country basis, Canadian's were found to be least favorable to the prospect of Chinese ownership in particular. (Figure 3.7). Cynicism towards Chinese (and in particular Chinese SOE) activity in Canada on the heels of the CNOOC/Nexen acquisition has hardly subsided in 2019. Contemporary polling shows that, while Canadians appear to appreciate the growing importance of China as a trading partner as well as the efficacy of inward direct investment, overall dislike of China remains consistent. Support for an eventual free-trade agreement with China remains relatively high (64%) but image favorability of the PRC remains low. According to polling conducted by the University of British Columbia (UBC), (1,161 respondents), only 3.45% had "very favorable" opinions of China with an additional 19.55% having "somewhat favourable" views. (Table 3.6). Likely explained by the highly publicized political spat related to the arrest of Huawei CFO Meng Wanzhou on Canadian soil (and subsequent fallout including the arrests of Canadian nationals in China), China's standing in the eyes of the average Canadian has actually fallen since a similar poll was conducted by UBC in 2017. In the 2017 iteration of the poll, 5% and 31% of Canadians had "very favourable" or "somewhat favourable" opinions on China respectively. (Figure 3.8).

Figure 3.6: Canadian Support for Foreign Direct Investment in Canada by State-Owned Foreign Companies, 2013



N=3474, margin of error ± 1.7%.
Source: Asia Pacific Foundation of Canada (2013).

Figure 3.7: Canadian Favorability to SOE Investment by Country of Origin

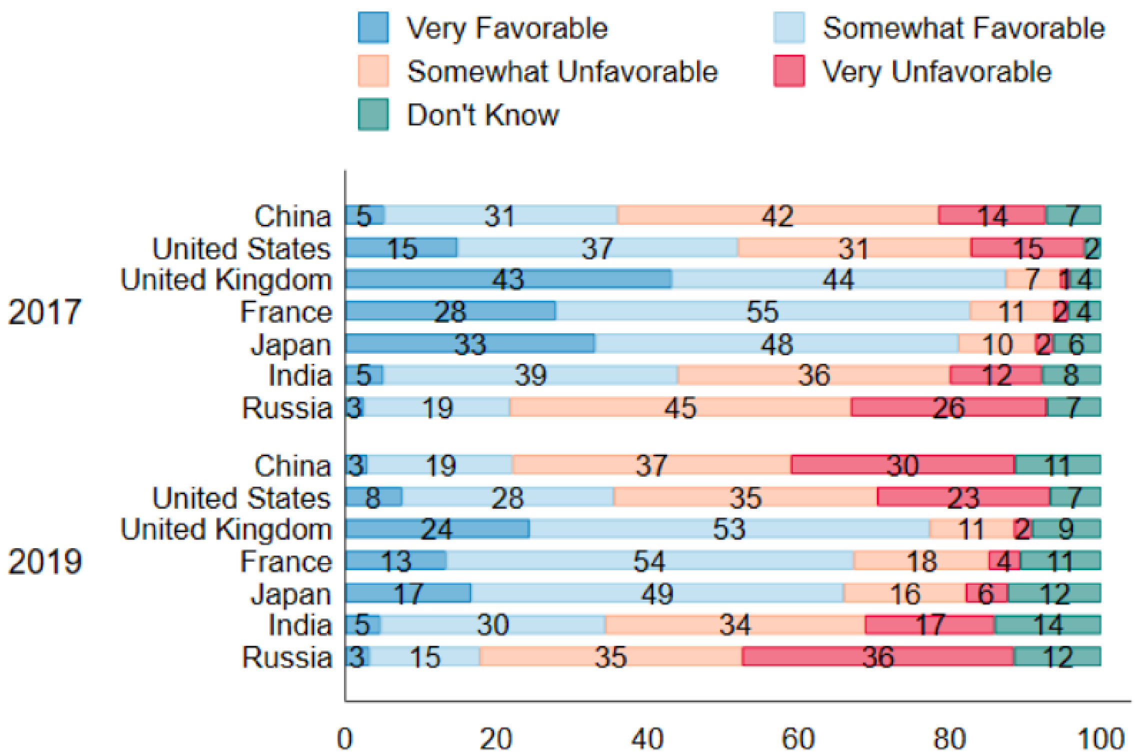


N=3474, margin of error ± 1.7%.
Source: Asia Pacific Foundation of Canada (2013).

Table 3.6: UBC Favorability by Nation: 2019

	Very favorable		Somewhat favorable		Somewhat unfavorable		Very unfavorable		Don't know		Total
China	3.45%	40	19.55%	227	36.95%	429	29.11%	338	10.94%	127	1161
United States	7.92%	92	28.42%	330	34.37%	399	22.91%	266	6.37%	74	1161
United Kingdom	24.38%	283	53.14%	617	11.28%	131	2.33%	27	8.87%	103	1161
France	14.04%	163	54.01%	627	17.57%	204	4.22%	49	10.16%	118	1161
Japan	17.40%	202	49.61%	576	16.02%	186	5.25%	61	11.71%	136	1161
India	4.74%	55	30.49%	354	34.02%	395	16.71%	194	14.04%	163	1161
Russia	3.70%	43	14.81%	172	34.19%	397	35.75%	415	11.54%	134	1161

Figure 3.8: UBC Favorability Poll by Nation: 2017 vs. 2019



The CNOOC-Nexen acquisition was, at the time, China's largest ever foreign purchase in a market economy. As previously stated, CNOOC went to great lengths to satisfy the terms set forth by Canada's Investment Act and by its Foreign Investment Review Agency (FIRA). The key was to demonstrate that Nexen becoming acquired by a Chinese state-owned firm would be a "net benefit" for the country. Debate centered around a number of core issues including CNOOCs less-than stellar environmental record (particularly in Burma), penchant for Chinese state-owned firms to flout the laws of foreign countries in which they operate (related to issues of bribery, tax evasion, and labour standards), as well as concern over China's extensive use of Chinese labour in foreign countries rather than hiring from within the country in which they operate. Lastly, and maybe most important, large concern over the possibility that China would use CNOOC as a vehicle for political, economic, and technological espionage (in the latter case for the unauthorized transfer of Canadian technology to China with paying for the licensing fee). These factors served to frame the Nexen acquisition as a matter of national security. Opposition party members, as well as factions within the (at the time) incumbent Conservative party expressed dire concern that if the Chinese state obtained a significant degree of control over strategically important Canadian assets, it would provide China with "undue political and economic leverage" over decisions of the Canadian government including the ability to pressure China on human rights abuses. (Burton, 2015: 51).

Collective anxiety and distrust among Canadian politicians, private commercial enterprises, and civil society alike with reference to China emanates from China's notoriety with respect to issues like state-sponsored espionage and intellectual property theft as well as the perception that China operates as an international business partner and diplomatic counterpart in bad faith. Such perceptions are amplified and to some degree validated in cases like that of a Calgary-based oil company called "Shanghai Energy Corporation" which had previously undisclosed links to Beijing and the CCP and who emerged as a major buyer of distressed energy assets. As one of a handful of Chinese companies who pumped over $4 billion CAD into the sector during an economic downturn, Shanghai Energy Corp had an opaque ownership structure, a structure which corporate documents revealed a previously unreported CCP ownership stake in the company. This magnifies the fact that clearly China's political apparatus has a growing financial interest in Canadian energy sector but also the fact that the lines are often blurred when it comes to Chinese companies, even those ostensibly private companies often times have mixed ownership. This discovery of unreported ownership ties came at a time of already high tension and levels of distrust towards Chinese state-owned commercial entities as three major Canadian construction companies were urging the government to block a takeover of Aecon Group by China Communications Construction Co. The Chinese government protested this and said that its SOE's should be treated no differently than any private enterprise making the same bid.

Divisiveness on the Nexen acquisition among different governmental bodies perfectly illustrates the dual frame of mind when it comes to dissecting the issue of SOE investment/activity in Canada, in particular its most strategically important sector. In the aftermath of the Nexen acquisition, (then) Prime Minister Harper insisted that, moving forward, relations with China should have an emphasis on concerns over China's spotty human rights reputation as well as addressing concern over Chinese state-sponsored espionage in Canada. Meanwhile, Canada's Department of Foreign Affairs and International Trade (DFAIT) disapproved of such an approach, urging relations not be hamstrung by such matters but instead focus solely on economic transactions so as to benefit Canada in more tangible ways rather than parroting humanitarian concerns which were sure to have little or no effect. Former director of Canadian Security Intelligence Service (CSIS) Richard Fadden conversely stated that: “When foreign companies with ties to foreign intelligence agencies or hostile governments seek to acquire control over strategic sectors of the Canadian economy, it represents a threat to Canadian security interests.” (Burton, 2015: 53). It should be of little surprise that agencies whose mandate is to enhance Canada’s level of economic engagement with the world (including China) would be in favour of SOE investments and as such prescribe policy measures at odds with those agencies whose mandate is preservation of national security (CSIS). However, these alternative viewpoints which different points of focus (economic vs geopolitical) represent the crux of the issue: should China be viewed as a “hostile” geopolitical rival or a potential business partner in mutually beneficial commercial activities? Even within the (then) ruling Conservative party itself there was differentiation with respect to the question of how to best move forward in future dealings with China and their SOE’s now active in Canada. A right-wing faction of the conservative government, much like their parties leader, staunchly emphasized the need to hold China’s proverbial feet to the fire in any and all economic/political engagements. Commonly cited were concerns over lack of due process in China, restrictions on freedom of speech, freedom of publication etc. Furthermore, this faction disparaged China’s support for “rogue” regimes, accusing it of currying favour and supporting dictators to further Chinese interests. Primarily, the concerns about SOE investments stemmed from perceived issues of (diminished) economic sovereignty and fears surrounding economic and political espionage. (Burton, 2015: 53). Another faction of the party however took a different outlook and maintained that many of the charges levied against the Chinese regime were erroneous and not based so much on fact as they were based on preconceived ideological bias. Public criticism, it was maintained, especially criticism emanating from Canada’s highest offices, was counterproductive to Canada’s best national interest in terms of relations with China being seen as a net benefit. (Burton, 2015: 52). In essence. instead of framing a future relationship with China as a moral crusade, it should be framed as a strategic commercial partnership. Linking Canadian supply lines to Chinese demand necessitates an ideological movement towards the latter among all facets of Canadian society. Much like China, changes to Canada’s external relations must come as a result of internal change. For China, domestic changes (industrialization) was the impetus for changes to external relations which now today sees China seeking engagement with Canada and partners around the globe. Growth in production of some products (manufactured goods for example) meant a surplus of commodities which needed market share beyond China's borders. On the other hand, growth in consumption of commodities like natural resources meant the need for access to resources beyond China's borders, culminating in new institutions geared toward transnationalization and external relations. Canada's incredibly strong civil society, interest groups, and self-regulating market economy requires internal changes of a different kind in order to precipitate necessary changes to its external policies; the need to change intersubjective understanding about China.

The responsibility of the government moving forward is to balance competing pressures in civil society and to craft a China policy which adequately addresses the concerns of environmental degradation, human rights abuses, and espionage while at the same time not souring China's lucrative appetite for enhanced relations with Canada, in particular its energy sector. Polling results included above would suggest that the government needs to do a better job of communicating the logic behind NOC investment in energy sector as it appears the consensus within Canadian society is to view China as an adversarial power. This fits into the possibility of realigning the interests and identities of Canadians as not necessarily being fixed to a particular association (engagement with globalization as being a junior-partner of the United States and via their global supply chains) or fixed to a particular outcome (the stymied rise of China). International institutions of which China has become integrated with, but also new institutions formulated by China itself, can serve to transform the identities and interests of states via internal states within those states. Identities and interests can be changed through an evolution of cooperation and through international efforts to transform egoist identities into collective identities. Cooperation must be viewed as a necessary component for security. (Wendt, 1993: 395). The acquisition of Canadian resources by Chinese SOEs is imbued with the intersubjective meanings and shared knowledge Canadian's have with respect to China, their firms, their (conflicting) goals and interests, and their orientation and position vis-a-vis global order.

As it currently stands however, the Nexen Acquisition was nearly universally panned and disparaged by most facets of Canadian society, save for the few actors and agencies whose concerns are purely economic, and as such, this reaction prompted the government to give further and more comprehensive elaboration about SOE investment review in 2013. Key suppositions of this elaboration included: 1) SOE's are inherently susceptible to foreign government influence, an influence that may not be consistent with Canadian economic objectives. 2) SOE acquisition of Canadian firms may have adverse effects on efficiency, productivity, and competitiveness and 3) Oil sands are of immense strategic value to future economic prosperity of all Canadians. (Burton, 2015: 53). Furthermore, it provided a ringing endorsement of the merits of having a privatized energy sector when the vast majority of global energy deposits are state-controlled. State ownership is out of fashion in Canada due to the substantiated belief that they are consistently outperformed by their private counterparts. The post-Nexen acquisition elaboration noted that "if oil sands are to be developed to the benefit of all Canadians, role of the private sector must be reinforced." (Woo, 2014: 16). Matters added to the review process included 1) Investors must satisfy the Minister of Investments commercial orientation, including: freedom from political influence, adherence to Canadian laws, and positive contribution to productivity and industrial efficiency. 2) Examine degree of control an SOE is likely to exert on Canadian business being acquired as well as influence likely to be exerted on the industry more broadly. 3) Extent to which a foreign state is likely to exercise control over an SOE: Due to high concentration of ownership, a small number of acquisitions by SOE's could undermine private orientation of the industry. The most important decree in the aftermath of the Nexen Canadian policy debate was that oil sand acquisitions by SOE's henceforth would be granted in exceptional cases only. The April 2013- Bill C-60 2013 went a step further to indicate that "SOEs" can furthermore be defined as individual actors who are deemed to be "under the influence or direction of a foreign state." (Parliament of Canada, 2013).

3.7 Conclusion

Chapter three was meant to demonstrate that Canada represents the inverse of China's situation; whereby China is desperate to satiate its supply-side energy scarcity by diversifying its import and investment locations in resource rich regions, Canada on the other hand is a well-endowed Country with vast reserves of natural resources. It was meant to answer questions about how Canada help alleviate China's supply-side energy security challenges, the importance of Canada to China's energy situation as well as the impediments (from a Canadian point of view) about enhancing energy commodity-based relations with China? The findings of this chapter indicate that Canada is home to the world's third largest proven oil reserves in the world and is currently the world's fourth largest producer and fourth largest exporter of crude oil in the world. In terms of natural gas, Canada owns 1% of the world's total proven reserves, however, more crucially, it producers nearly 5% of the world's total and is home to some of the world's leading technology in the field of unconventional recovery like the recovery of shale and tight gas. These facts in conjunction with Canada's desire to export to increasingly diversified markets and China's conversely dire need to acquire resources from diversified sources make them ideal partners for enhanced relations centered on energy commodities, at least from within the purview of purely economic considerations. The problem however, as found in chapter two, is that, in the case of China, economic engagements cannot be distinguished or separated from political engagements. This leaves all facets of Canadian society deeply distrustful about the prospect of deepening relations with China, especially in terms of allowing for greater investment by Chinese SOEs in strategically important sectors.

CHAPTER IV

SINO-CANADIAN EXTERNAL RELATIONS: TOWARDS AN FTA

4.1 Introduction

The most recent and contemporary news items linking Canada and China are fraught with political tensions, controversy, and overall negativity which is threatening to impede or serve as an outright breakdown of what could otherwise be a flourishing economic partnership between the two nations with so much to offer one another. The most prevalent issue dominating the Sino-Canadian bilateral landscape is Canada's arrest of Huawei CFO Meng Wanzhou on an American warrant as part of an extradition treaty Canada has with its southern neighbor. This sparked the subsequent arrests of two Canadian nationals on Chinese soil as well as the halt of Canadian canola imports into the Chinese market, a move not explicitly stated to be but widely recognized as a consequence of Wanzhou's arrest. (CBC News, 2019, 31 May). This event has precipitated Sino-Canadian relations to plummet to their lowest point in decades. Prompted by the transpiring of these events, Canadian Prime Minister Trudeau has recently been quoted as stating that "China is making stronger moves than it ever has before to try and get its own way on the world stage." (CITE Global News). This is invariably true; China is no longer a nation which can be dictated to with impunity by Western powers, it is rather now entrenched as a global superpower which represents the end of the unipolarity which has existed since the collapse of the Soviet Union. While Canada is correct to exercise prudence in this case and not acquiesce to China's hardline, Canada must dispatch a discourse on this matter which does not paint it as merely a junior-partner to the U.S. This new Chinese feature of geo-political economy represents a seminal moment for Canada as far as its diplomatic and economic policies and allegiances moving forward. Canada can ill-afford to continue with a myopic strategy which would see itself engaging with the globalized world predominantly intermediated by the United States as a junior-partner and tapping into American global supply chains. Canada must recognize and navigate new international norms which means finding amenable and mutually beneficial agreements with the PRC.

If Canada is to benefit from booming demand in mainland China then a break in the current pattern of bilateral trade, investment and diplomatic ties will be needed. How does trade and investment relate to bilateral relations? Chinese FDI inflows into Canada's energy sector and, more broadly, overall enhanced trade with China based on energy commodities comes with very important implications about the future of geopolitical relations between Canada and China. Fears about China as a threat to the liberalized global trading order, as a threat to "Canadian values" on issues such as the environment, democracy, and human rights, concerns about intellectual property theft, state-sanctioned political/economic espionage carried out via NOCs, lack of reciprocity for Canadian firms in China who experience arbitrary and unfair judicial rulings or forced transfers of sensitive technologies. This chapter is about the need to modulate and manage these risks and to overcome the predominantly negative connotations Canadian government, firms, and civil society alike associate with China so that Canada can successfully become a more diversified trading entity and to bring its bilateral trade with the world second largest economy more in line with the growth of China's economy and its rapidly expanding middle-class.

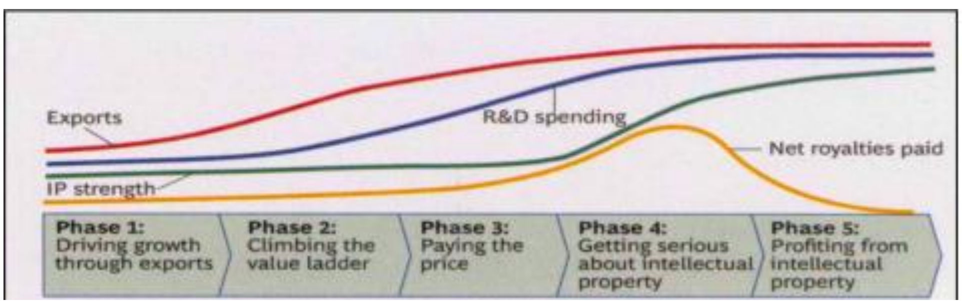
If Canada wants access to Chinese markets and other developing markets which are the object of Chinese infrastructure initiatives, then the key will be in developing a cohesive and strategic partnership first in Canada, especially with SOE's who still dominate key sectors like energy/resources and finance, two sectors which happen to be most predominant in Canada's economy. Canada needs to view SOE FDI and M&A in Alberta as not only a way to develop capital intensive projects for continued export of energy commodities, but also a way to develop crucially important relationships. Risk can never be eliminated, only managed and modulated. This is Canada's best chance to do this. Canada's approach to market entry in China, or Canada's efforts to enhance the conditions of such entry via trade or investment, should be informed by knowledge of China's competition policies and practices.

In order to set this chapter up, this paper has so far attempted to establish (in order) four central components; i) that China is experiencing supply-side energy scarcity as its increase in consumption continues to outpace its production and its reliance on imports proliferates. ii) that China's domestic sphere is characterized by its centralized state-society complex with its authoritarian state-party, the CCP, exercising control over all facets of China's domestic society. However, as its state-owned enterprises expand their operations overseas, they exhibit increasing autonomy and pursue commercially oriented goals. iii) Canada is an energy exporting super power as one of the world's leading energy commodity exporters. However, it has thus far been unable to break away from reliance on the American market and unable to link its supply chains to emerging Asian markets, in particular China's. Finally, vi) Canada's government must deal with competing pressures emanating from its power civil society and business class. As it stands, most facets of Canadian society view closer links with China with concern and apprehensiveness. The core question(s) of chapter 4 are as follows; With China's impingement on the old world order and its role in the creation of a new order, what will be the nature of Canada's geo-political orientation? Will Canada embrace China's ambitions and leverage them for a flourishing trading relationship or will Canada balance against it? Should Canada take proactive steps to limit NOC investments the oil sands in light of the concerns surrounding them or welcome them? What role do energy relations (defined as import/export of commodities, inflows and outflows of FDI) play in the broader context of enhanced Sino-Canadian trade/political relations? How can Canadian and Chinese firms forge a win-win relationship where firms can protect IP but share productivity and knowledge? In the longer term, it is the active involvement of Canadian firms in more value-added manufacturing and service global supply chains, rather than a narrow focus on boosting exports of energy commodities, that will allow Canada to better reap and balance the gains from globalization.

4.2 Addressing Contentious Issues

Enhancing relations with China is not without its structural or practical challenges. In order to expedite a necessary change in mindset from a Canadian perspective as far as doing increased business with China and being more receptive to inflows of Chinese investment in the strategic energy sector, two key and interrelated flashpoint issues must be addressed in order to better emphasize overlapping areas of strategic interests. On the one hand, intellectual property rights (IPR), and on the other, the role of SOEs must be clearly delineated and understood in any free-trade agreement or any other trade/investment related legislation similar to the Trans-Pacific Partnership (TPP) moving forward. Both are issues which have been alluded to many times throughout this paper. Structural traits related to China's entry into the global economy and their position as a country low on the valued-added supply chain (assembly rather than designing of high-tech products) reinforces China's dependency of foreign, mostly Western/Japanese technological innovation. Because of this, IPR violations are part and parcel of the growing fear about China as representing a threat to the existing liberal, free trade, global order and its laws and "rules of the game." Technology is becoming more and more important vis-a-vis global competitiveness and relative capabilities. As such, IP theft has been one of the biggest red flags are far as Canadian firms being apprehensive about operating in China or, conversely, countries wanting to accept inflows of Chinese FDI, especially from SOEs. The question then is how can foreign firms operating in China or recipients of Chinese FDI have joint ventures or wholly owned operations where they can protect their IP but share their mutual productivity and knowledge? China has a history of allowing inward investment and participation by foreign firms until a targeted, desired technology has been transferred and then closing them out. (European Commission: 16). Article 22 of China’s new investment act (to be explained more below), articulates China’s message to the world that it is capable of being introspective about the concerns of its global partners and that it prefers to be open to trade as an honest broker. Concern is how to deal with issues of enforcement and ambiguity of the law. Details of the law will be assigned to Chinese regulatory bodies which are not known to be transparent or forthright in explaining their decisions. For example, the “negative list" of sectors off limits to foreign investment is curated by the state council behind closed doors and at the discretion of a regulatory with little to no consultation from outside influence. China could elect to hide behind this negative list to protect technology that it wishes to keep in the country or to favour local investors. As technology is viewed to be the leading driver of future global economy, it remains an issue Beijing will want to maintain a tight grip over and a negative list may allow for such control while simultaneously championing the rule of law. China is itself on its way and transitioning to become an “innovation based economy,” (Chai et al, 2011) a process being expedited by initiatives like the “Indigenous Innovation” campaign which links government procurement preferences to products whose IP is owned and/or originally trademarked in China, gives active support for Chinese technological standards that are bestowed to SOE’s and an increase in research & development spending in select sectors. (Houlden, 2018). Boston Consulting Group (BCG) issued what it deems the “five stages of intellectual property development” (figure 4.1) which breaks down in the following way; stage 1: exporting of low-tech products to drive economic growth, exploiting the low costs of labour and materials. Stage 2: increase in research and development spending and acquisition of pertinent knowledge for the development and eventual export of higher tech products. Stage 3: Entails companies suffering the consequences of IP owners from more developed nations aggressively defending their own marketplace. Stage 4: Companies in developing countries invest in the protection of their intellectual property. Stage 5: Reaching parity with developed nations and having advantageous from owning certain IPR. (Chai et al, 2011). Informed policy makers and observers indicate that China is past stages 1 & 2 and maybe as far as stage 4; as such, China now has a considerable (and growing) amount of its own IP to protect and may be more inclined now than in the past to obey and uphold laws pertaining to the regulation of IP. In the meantime, while China manifests the conditions for the effective fostering of its own technology, trading of domestic market access to foreign firms based on their willingness to share technology remains a key strategy for achieving access to the leading edge technology held by many private, mostly western firms. Sharing blueprints for cutting edge tech can help win government contracts in China such was the case for Westinghouse Electric and their contract to build nuclear reactors. Canadian firms have been struggling to move past stages 3 & 4 and to derive profits from its IP. Perhaps it is more prudent for these firms to instead leverage their technological expertise in strategic engagements in China. (Poon, 2012, 332). Canadian firms in possession of leading edge technology in the field of energy, in particular for the extraction of unconventional oil and shale can strive for a mixed models with SOEs whereby Canadian IP is shared in exchange for market access and government procurement contracts in China and where Canadian firms and Chinese SOEs participate in mixed investments and work in mixed economies.

Figure 4.1: Five Stages of Technology Development



Source: Boston Consulting Group

In addition to the pertinent issue of IP, deeper engagement with China in any prospective free-trade agreement or Trans-Pacific initiatives (like the TPP as a template) must address the perceived unfair advantages possessed by China’s SOEs. In the current iteration of TPP proposals, the main principle at the core of SOE guidelines is the concept of “competitive neutrality” which requires that government business activities should not enjoy net competitive advantage over their private sector counterparts by virtue of public ownership. This declaration is meant to be an upgrade/update over vague WTO/GATT rules which do not comprehensively discipline “unfair” SOE behaviour.

"Canadian businesses, as well as American and European businesses, may have reasonable concern about the antitrust regime in China, and in particular, the benefits this regime confers on SOEs. China's Anti-Monopoly Law (AML) came into force in August 2008 and regulates SOEs as well as other types of enterprises by prohibiting monopoly agreements and the abuse of dominant positions, and by controlling mergers and acquisitions. China's antitrust authorities, including the Ministry of Commerce (MOFCOM), the National Development and Reform Commission (NDRC), and the State Administration for Industry and Commerce (SAIC), are routinely criticized for weak enforcement of AML against Chinese SOEs." (U of Alberta, 2018: 35).

As much as there may be an inclination to protest and disparage Chinese-state led protection of its largest companies and most strategically important sectors, the reality is that Canada itself has many protections in place, protections utilized as a means to help its poultry, grain, dairy producers among others. Thus, it could be said that it is actually China who is most attuned to the need for "managed" trade deals rather than outright free-trade at all times and in every scenario. China understands the necessity of getting "buy-in" from various aspects and interest groups within its society, even as a far more centrally controlled/authoritarian state-society complex. This necessity is magnified and exacerbated in liberal state-society complexes like Canada as government policies and trade initiatives must be able to assure certain protections to strategic domestic interests. Canada should see such flexibility as an opportunity rather than a threat to the global order of which it is a major part and therefore project a nuanced Canadian posture towards China in recognizing the need for both pressure and flexibility when dealing with China's domestic political and developmental dynamics.

Canada's old strategy of engaging globalization as a junior-partner primarily intermediated by the United States is one which is ill-suited for a new reality with China's establishment of a multi-polar world order. Canada moving forward only focusing on markets with which it is familiar would be a large oversight. Thus, Canadian producers and policy makers alike must be amenable to the fact that relationships like the TPP or a free-trade agreement with emerging Asian markets will not always be navigated and negotiated purely on their terms or done in their own way. A strategy of US partnership whereby Canada leverages its relationship with the USA to strengthen its global position depends on the vitality of the American economy. In the current US-China trade show down, it is not entirely clear that the US is in a position of strength. Furthermore, even with a flourishing American economy atop the world's political order, it is unclear if Canada's position as simply a reliable junior partner to American-led global supply chains holds sufficient leverage in the first place. In such a scenario, China may see Canada as no more than a hand-maiden to the US. (Poon, 2012: 333). Therefore, rather than siding with one superpower or another, it makes more pragmatic sense for Canada to perform multiple hedging strategies to maximize its national room for movement and flexibility moving forward into an uncertain global order.

4.3 China's New Foreign Investment Law: Implications for Canada

One of the core elements of this paper, explicated in the coming chapter, is to look at the ways in which a rising China signals the end of American hegemony and the end of the unipolarity which has dominated the geopolitical sphere since the collapse of the Soviet Union. After leading a liberalized global trading order for decades, the United States appears to be heading down an incongruous path, one characterized by isolationism and uncooperative, antagonistic behaviour towards its trading partners, even those it once considered its closest allies. This contrived geo-political withdrawal on the part of the United States, in conjunction with decreasing American share of the global economy presents an opportunity for China to step forward and establish a multi-polar world. During its catch-up trajectory, China's foreign policy role has evolved from being a contender state, external to the Pax-Americana, to an engine of its transformation through forces exerted from within the global economy. (Amineh & Guang, 2017). Currently, the PRC can be classified as a "contender state," attempting to introduce an alternative social order at the global level and challenging American hegemony. Canada can attempt to balance between these two spheres or balance power against China. This paper argues that Canada must break away from a political alliance with the United States if it means it must take an antagonistic stance towards China. Instead, Canada should frame its relationship with the United States as an economic partnership and not a political alliance. Canada must be certain however that its move towards more neutral position in the global political economy and towards a more amicable relationship with China will be reciprocated.

China's challenge to global hegemony as it takes its place, at least as a tandem with the United States, atop the global supply chain is predicated on becoming more interconnected with the global political economy. Industrialization in China in its attempt to catch up to the major powers of the world has led to two transformational structural changes including overproduction of some commodities which necessitates external markets and scarcity of other commodities due to increase in consumption (individuals and overall economy), especially energy commodities. These structural changes called for a new type of foreign policy strategy in this search for enhanced global market share on the one hand and access to external resources - oil and gas- on the other. China needs to find markets outside of their borders for security of production and employment as well as the need to import natural resources. Innovation in Chinese foreign affairs meant the creation of new type of foreign policies, namely state to state relations and making multilateral institutions like Shanghai corporation, similar to the institutions like the U.S.A created after World War II (including the International Monetary Fund (IMF), North Atlantic Treaty Organization (NATO) and WTO). Enhancing China's interconnectedness with the global economy cannot be done solely through the "going-out" of its SOE's as previously explicated, it must likewise demonstrate its willingness to welcome the world into its own domestic market. A hypothesis laid forth by this paper is that China will learn to harness the faculty of soft power by spectating America's abandonment of it. China will attempt to erase fissures between itself and other major trading powers by addressing their concerns and showcasing its leadership potential and erase past conceptions of China as a shadowy adversary, one who is willing to cheat and steal in order to forward its interests. Since 1978, China has adopted broad reforms aimed at opening up and to some degree liberalizing its economy, an initiative which has recently included enhancing the access of foreign firms to the Chinese domestic market and allowing for greater foreign investment, replacing a formally highly centralized investment management regime. (European Commission, 2017: 169). In 2017, Chinese State Council issued two notices which declared a move towards a new policy with the intention of attracting more FDI inflows and making FDI a more prominent feature of the domestic economy. However, there still remains significant barriers for foreign investors in the Chinese market.

On March 15,2019, China passed a new foreign investment law at its Two Sessions meeting, a meeting of CPPCC and NPC, China's chief legislative bodies. (Kim & Lo, 2019). The new law takes effect January 1, 2020 and is proclaimed to (in part) establish China as a country who is an adherent to fair trade practices and a responsible member of the global trading order. (Kim & Lo, 2019). The current dilemma for many nations is that China's market is simply far too vast and potentially lucrative to ignore, however, as many foreign firms have reported,

business dealings in China is often times couched in risk as lax enforcement of IP laws often times expose them to having their proprietary technology appropriated by partnered Chinese firms. Beijing has faced staunch criticism that it specifically gives the directives and mandates to target IP of advanced technologies from foreign firms that it deems relevant to the national interest via its collaboration with SOE's in strategic sectors, even if this "targeting" is an unauthorized transfer. China's new law appears poised to alleviate some of these concerns and remedy their perception as a trading partner operating in bad faith. Some of the most relevant articles in this new law will be broached very briefly;
Article 4: Foreign investors are to be treated no less favourable than domestic investors. (Exceptions in areas specified in China's market access "negative list.")

Article 16: Guarantee foreign capital enterprises the right to bid for public procurement contracts.

Article 17: Foreign companies can issue stock, bonds etc. to finance operations.

Article 22: Prohibiting of any administrative agency or personnel from forcing technological transfer from foreign companies operating in China.

Article 23: Government agencies must protect commercial secrets of foreign companies.

Article 26: Establishment of complaint mechanisms for foreign investors.

Article 39: Punishment for government employees who abuse their power for personal gain or leak the commercial secrets of foreign companies.

Article 40: China can take corresponding measures against countries who implement restrictive measures.

This article (article 40) is in a different spirit than the ones previously listed and should expounded upon in order to fully contextualize and give a well-rounded evaluation of what this new investment law could mean for Canada. Article 40 appears to implement and in fact import a tit-for-tat retaliatory strategy into its investment regime similar to the one it is known to employ in its trade relations. The terms “corresponding measures” and “restrictive measures” are vague and ill-defined and leave ample room for expedient interpretation by Chinese regulatory bodies, an ambiguity which may leave Canadian investors vulnerable to political decisions. Canada is already much too familiar with Chinese willingness to insert politically induced retaliatory measures into its trade dealings and to compound political and economic relations as a form of broader political leverage. Recently, the high profile arrest of Huawei's CFO by Canadian authorities as part of an extraction treaty with the United States resulted in the banning of Canada’s canola products into the Chinese market, an export with a value above two billion CAD. This strikes at the crux of the issue as far as ambiguity and enforcement which will underpin the credibility of China’s new investment law and any subsequent law, declaration, or initiative aimed at promoting China as a better global partner. Open markets are of course subject to volatility and vulnerable to the actions of foreign investors. The previously mentioned “negative list” (article 4) is ostensibly meant to liberalize certain inbound FDI and, in theory, be more transparent about what investment will not be permitted and be less restrictive than the positive list of what is permitted that is now in place. With respect to Chinese outbound investment, the new “negative list” details two categories of investment projects for 102 central SOEs and is governed by SASAC. (Kim & Lo, 2019). The first category is projects labelled “forbidden to invest,” while the other category refers to projects which need “special regulations.” (U of Alberta, 2018, 30). However, this “negative list” is still curated by a Chinese state council, behind closed doors and with no consultation from outside parties. This means that in theory, the negative list could be applied arbitrary in order to maintain control over key sectors or technologies while technically championing rule of law and compliance with its international commitments and fair-play policies. In essence, this law was designed to expand access to Chinese market for potential foreign investors and to provide a more level playing field for current ones. In order to fully appreciate the significance of this law, it must be viewed within the context of China’s current position vis-a-vis global order. This move can be viewed as an olive branch with US-China trade war as a backdrop as well as an indication that China is introspective and self-aware with respect to the charges commonly levied against it in terms of unfair trading practices and forced transfer of sensitive technologies. This law could be seen as an attempt to de-escalate tensions with the rest of the world as the trade war with the US intensifies, showing that Beijing is no longer an outlier in the global order but rather a power who is ready to lead. As Trump continues to disrupt the global economy with isolationist rhetoric, China looks to reposition itself as an open and responsible trading nation willing and able to continue supporting and possibly leading the international trading system. However, questions about the ambiguity and vagueness about certain articles leave questions abound about the sincerity of this law and China's willingness to enforce article 40 (in particular) in good faith. Willingness to amalgamate trade/investment retaliatory measures with political fallouts reinforce the fact that a working political relationship with China is a prerequisite for any successful economic engagement. A foreign investment law does little alleviate the pre-existing risks for Canadian firms operating in the Chinese marketplace if political relations remain turbulent. The intentions behind such a law however should not be taken as insignificant as it shows China Is attentive to the concerns of foreign investors and recognizes the long-term value of being amenable on such issues and an earnestness in improving its business culture and environment.

4.4 Trade wars

The concluding paragraph of the previous section segues into the pertinent issue of the Chinese- American trade war and where Canada may stand in relation. A rising China, a nation whom may as of now be deem "adversarial" to Canada, and a declining and increasingly isolationist United States makes this somewhat of seminal point in Canada's future as it relates to their foreign policy strategy and external engagement with the global political economy. Now seems like a pivotal moment for Canada to learn how to navigate a new, more neutral position beyond merely a "junior-partner" of the American global supply lines and diversify its trade and investment relationships. Critically however, it must do so without alienating their relationship with America as that market will remain indispensable for Canada indefinitely. The question therefore becomes: how does Canada proceed in response to the US-China trade war? How does it avoid a policy commitment which can be perceived as bandwagoning with China from an American perspective or conversely balancing against China from a Chinese point-of-view? The signing of a new North American Free Trade Agreement (NAFTA), now termed the "US-Mexico-Canada Agreement" (USMCA) raises new hurdles for Canada in its pursuit of a free-trade agreement with China and its effort to diversify trade more broadly. Article 32.10 is a clause which states that signatories of USMCA are sanctioned to veto any other members external trade agreements with non-market economies, a designation which China currently holds. In fact, this "poison pill" clause is thought to be referencing China in particular and makes the previously proposed Canada-China free-trade agreement hostage to American approval, lest Canada voluntarily remove itself from the North American pact. (Ciuriak, 2018).

Recently, an ominous warning was issued from the "Organization for Economic Co-Operation and Development," or OECD, that any intensification of the US-Chinese trade dispute could knock as much as 0.7%, or USD 600 billion off global GDP. (Guardian, May 21). Despite this warning, the Donald Trump administration presses on, insisting that an additional USD 300 billion is tariffs could be levied against Chinese imports if necessary. (CITE CNBC, June 6). If the Trump administration, or its successor, continues along its current path of trade war in an attempt to reduce China and stagnate its global rise, there is not much China can do within reason to appease such a campaign. China is therefore forced to parry American hostilities tit-for-tat as it has already done in the form of retaliatory tariffs on American imports. (Ciuruk, 2018). This conflict has potentially dire implications for the global trading system as a whole and puts Canada in a precarious situation as it has a vested interest in the maintenance of peaceful and prosperous trans-pacific trade and political relations. How can China de-escalate these tensions and how can Canada contribute as an honest broker? With Trump not to be reasoned with, it is possible for China to dial back the conflict while saving face and not directly acquiescing to American intimidation or strong-arm tactics whilst simultaneously enhancing its global reputation is contrast to American petulance and hostility. China can engage third parties like Canada and the European Union who share concerns similar to the ones expressed by America and can identify constructive and de-escalating steps which can be taken to reconcile these concerns which will indirectly alleviate American concerns without capitulating or making concessions to the US directly. Some of these issues which can be tackled head-on by China include adjusting its external policy targets, in particular by accelerating its reduction of external trade surplus. China's account surplus rose as high as 10% of GDP in 2007 but is recently maintaining an account balance of 2% of GDP. Based on latest projections of the IMF, China aims to lessen this balance to 0.6% of GDP by 2023. (IMF, 2018). China can contribute to WTO reform by making unilateral concessions even if these concessions are not in China's most immediate national self-interest, the good-will generated by such moves will serve China well in the medium to long-term as it cultivates a more positive reputation by its western-power counterparts. More specifically, China can assist the EU and Canada in staving off potential crisis spawned by American refusal to appoint new members to WTO appellate body- a key mechanism of the dispute settlement mechanism. China can likewise assist Canada and EU with proposals and reforms set forth including i) the need to limit access to special and differential treatment provisions for more advanced developing economies that do not really require special treatment any long but still exploit their designated status when they should instead be capable of complying fully with WTO rules. ii) Help in addressing Issues related to over over-capacity in heavy industry. iii) Be amenable to open-dialogue about the overall net-benefits of state subsidies on export competition - a source of controversy between the EU and China in particular. This issue in particular juxtaposes contradictory visions about economic development where China believes in subsidies being woven into the fabric of a state led model which stipulates state intervention in industrial policies. In essence, China can attempt to build bridges whilst America is busy burning them by offsetting the damaging effects of American tariffs while at the same time addressing the issues America takes umbrage with, with respect to China, but not directly on America's behalf.

By addressing and constructively responding to the concerns of other nations and multinationals (concerns like discriminatory internal laws, SOE's, IP practices), many of which overlap with those of the United States, China can go a long way in alleviating tensions with the USA while saving face. Even if the USA hold course, China positions itself as the reasonable and more amenable trading entity. China can, in these ways, help to fundamentally shift discourse away from inherently irreconcilable focus on socialist vs capitalist principles to one based on economic science which would represent a beneficial first step toward de-escalated tensions between China and OECD countries. How Can Canada assist China with this? Canada should henceforth engage China on the same grounds and with the same mind-set as it engages the US- This is to say, by seeking resolutions which result in win-win agreements within the framework of a progressive trade agreement. Now may be the correct time to launch long-delayed, much discussed free-trade talks with China in more serious and substantive ways with a minimum objective of identifying realistic points of compromise. Going ahead with free-trade talks despite USMCA "poison pill" provision signals that Canada is prepared to exercise its sovereignty (heavily called into questions by political opposition within Canada after learning of the provision) and furthermore signals that they views the USMCA as addressing commercial matters rather than being a declaration of political affiliations. By working within a consultation framework of USMCA, Canada can act as an important go-between in an intermediary role for the US and China. This way signal to China that Canada prefers a peaceful and fair resolution of the trade war in hopes of de-escalating any crippling disruptions across the Pacific, as opposed to a desire to help the United States stifle and stagnate Chinese ambitions and global initiatives. Lastly, Canada can consider requesting consultations with both China and the US at the WTO on the grounds that their trade war is impairing Canada's benefits under the WTO. The creation of such multilateral forums and their effective utilization is a divergence from purely economic considerations to an essence more concerned about normative values and preferences. In the spirit of social constructivism, liberalized trade and its subsequent institutions like the WTO act as mechanisms within which nations, companies, people can establish meanings, shared expectations, patterns of behaviour, conventions, and agreed upon rule sets. Cox and Sinclair (1996) indicate that as the old world order decays, delineation and outlines of the new order are yet to be clearly perceived. One factor that is predicted to be formative to this new order is a rivalry among different forms of "substantive economies," meaning differences in the ways production and distribution is socially organized. Struggle between hyper-liberalism (Canada) and socialist market (China) economies will be vital in determining a new social and economic order. Cox and Sinclair (1996) prescribe multilateralism as the way in which a "plurality of socially grounded communities can become linked into a coherent global order." (Cox & Sinclair, 1996, 34).

It is important for large trading entities like the EU and Japan and middle powers like Canada to be amenable to China in such forums and demonstrate their capacity to come to real understanding rather than using them to bury China or stagnate its global ambitions. With the United States doing damage to its own institutions, it is crucial to keep China in the fold. Other countries must maintain a liberal, rules-based order while finding a middle-ground with respect to China that does not attack what China perceives as its "core interests." China claims that at the negotiating table, The United States has made many, what it deems, "arrogant" requests, largely centered on the restricting of the development of SOEs. China claimed that this is "beyond the scope of trade negotiations (and) touches upon China's fundamental economic system." CNBC, June 6, 2019). China claims that, in essence, American demands violate China's economic sovereignty and compel China to damage its own core interests. Canada must work to demonstrate to China that it can have reasonable, cooperative trading partners within the existing institutional framework lest economic coercion take the place of economic cooperation. (Adam Posen, 2018: 31). The extent of the damage done in the American initiated trade war against China will largely depend on how willing and able other governments are to uphold the values and structures of the current system. The best course of action is for other countries to bring concerns about America's actions to a discussion at, for example, G20 meetings. This fits into the broader notion of institutionalism and liberalization as the catalyst for cooperative problem solving in place of power politics. Many of the purely economic concerns about national champions, state-owned enterprises, protection of special interests from trade competition can actually be good in moderation, as evidenced by Chinese economic growth over the past 5 or so decades and, as mentioned earlier, Canada engages in moderate protectionism itself. The issue therefore goes beyond pure economics. The dissolution of a centralized world trade order would give liberal, democratic nations less leverage over autocratic regimes and therefore less ability to monitor or influence their attitudes and behaviours towards human rights.

4.5 A Case for Non-Discrimination Against SOEs

SOEs operating in the transnational space are considered an important element for further international negotiations. In centralized state-society complexes, energy companies are often directed by the state or some kind of SOE. However, once these companies move beyond state borders, as in the case of Chinese NOC's, the state to some extent loses its direct monopoly to direct the behaviour of the firms. SOEs therefore do not just reflect government policy but also influence government priorities to serve their individual commercial interests. In fact, the relationship between the government and SOEs is often skewed in favour of the latter, with energy sector SOEs in particular exercising policy leadership. A Canadian trade strategy will need to exhibit a strong awareness of how SOEs operate and have evolved in recent years. (CITE SOE paper). As discussed at length in CH 3, 2012 (formally completed in Feb, 2013) acquisition of Canadian oil company "Nexen" by CNOOC for 15 billion USD set off alarm bells in Canada at both the governmental and civil societal levels and precipitated a nation-wide debate about what FDI inflows from SOE's means for Canada and how the nation should move forward on such matters. The core question of this section: should Canada be taking proactive steps to deny/limit inward flows of FDI from Chinese SOE's? As previously stated, the completion of Nexen deal happened to coincide with a $6 billion US bid for Calgary based oil company "Progress Energy" by Malaysian SOE "Petronas." This subsequently led to the first introspective contemplation about Canada's stance on SOE inward investment and what future policy on the issue should dictate. Until 2008, stock of Chinese FDI in Canada was relatively negligible (4.2 billion). By 2012, that number had tripled to more than 12 billion. Overwhelming majority of this sudden influx of investment was directed towards Canada's resource industries, in particular, oil and gas. As a share of FDI stock, China still only represents a minuscule 2% (check updated number), however China sees Canada as an attractive destination for investment and the number is expected to continue to rise. Debate surrounding Chinese FDI in the energy sector has become muddied and in fact gas taken on even greater importance due to structural changes happening in the sector as a result of America's "shale revolution," their subsequent stated intent to become more energy self-sufficient, as well as continued limitations on North American energy transportation infrastructure. As we know, virtually all of Canada's current energy exports are to the United States and most excess energy transition happening within Canada is for domestic consumption rather than being shipped to the coasts for further export to overseas markets. Tapering energy demand in the United States means increased pressure on Canadian producers to seek diversified markets, in particular the emerging and underserved Asian markets like China. Lack, (or rather non-existent) diversity in terms of export market destination means Canadian energy commodities, in particular bitumen, is mostly disconnected from global price points and is often sold at a discount. Furthermore, lack of international markets as the principle reason for discounted prices serves as the impetus for growing pressure among producers to build coastal-bound infrastructure (pipelines, terminals, liquefaction plants). The objective here would of course to have a jumping off point to new overseas markets which would serve to alleviate the energy deficits and satiate the high demand for energy across developing Asia. This should be the principal focus of Canadian efforts to diversify its exports. Chinese NOC's operating in Canada are grappling with many of the same issues which have plagued IOC's for decades, namely the high cost of extraction, aboriginal issues (land claims), strict constraints related to the environment, and volatile bitumen prices. Questions are now abound among Chinese NOCs about whether the big premiums paid for Canadian assets have paid off and whether others will now follow suit. (Financial Post, Dec 2013). PetroChina is struggling to expand its projects in the oil sands due to a dispute with Fort Mackay band in Northern Alberta. Therefore, it is being suggested here that Canada must tread carefully in how it portrays Chinese NOCs and must be sensitive to the fact that they may not be as desperate to beat a path to

Canada's doorstep as much as Canadians may think. They must not take Chinese investment for granted. China is now boosting investment in natural gas as PetroChina committed to 600 million CDN deal with Encana Corp to develop Albert's Duvernay Shale reserve. Such investments are critical to the future economic well-being of Canada's energy sector which is in turn vital to the well-being of Canada's economy more broadly.

Proponents of Nexen deal (and for increased Chinese FDI more broadly) emphasize the net benefits of inward FDI and furthermore downplayed the risks Chinese NOC's represent when they operate in. Canada. Within the policy debate, an increasingly common line of reasoning was, if Canada is to allow further SOE investment, it should be on the basis of reciprocity for Canadian firms in China. The counter argument to this is, SOE investments have already passed extensive review and were deemed to be of the net benefit to the country. Why should Canada impose further conditions on such an undertaking and risk mitigating the expansion of something found to be good for Canada. Singling out SOE's for special review is a relatively new development and has very little precedent to draw from as the proliferation of SOE inflows is equally as recent. Following a line of logic, concern about SOE's are about their nature and their ownership rather than the benefits or lack thereof since they course are subjected to the "net benefit" test even more rigorously than are private firms. All criteria in the Investment Canada Act applies equally to SOE's and private firms alike aside from the lower threshold for SOE review (300 million rather than only purchases over 1 billion for private firms). Amplified focus is therefore predicated on a fundamental opposition to state ownership and the subsequent belief that this entails inherent risks to the host country. However, the reality is that beyond the ownership structure, all firms, including foreign firms and including state-owned firms, are subject to a wide range of laws and regulations relating to everything from human rights, to environmental preservation, labour rights, illicit transfer or commandeering of technology etc. and therefore they should not in theory pose any further is than do private firms. There already exists a national security element contained within the ICA as well. (article IV.1). Furthermore, it Is argued that if Canada should reject investment from Chinese SOE's on the basis of moral principle, it would be hypocritical to continue engagement with them in any other arena including trade, a prospect which of course no-one would propose or endorse. In essence, Canadians are either willing to do business with China or they are not. Issues go beyond opposition to China's SOEs and opaque governance structure or an opposition to China more broadly. There are already many domestic issues which run contrary to economic interests regardless of who is investing or developing oil sand projects including pipeline opposition by environmental and First Nations as these special interest groups and lobbies are much more powerful and effective in Canada due to the strength of Canada's civil society. Canada is perpetually in a balancing act of exploiting its richness of resources for market while at the same time being mindful of its obligations to the environment and First Nations. If Canada, and Alberta in particular within the context of this paper, are to be competitive and successful in attracting further Chinese investment, smart business strategies and government policies will need to be developed and implemented. Crucially this will hopefully allow for an increase in the presence of and market access for Canadian goods and services in China. However, this investment should be on terms that meet the expectations of local communities, and that are matched by equitable treatment of Canadian investors in China. This begs the questions about how Canada needs to approach deeper relations with China.

4.6 Should Canada Pursue a Progressive Trade Agenda?

The non-market clause in new incarnation of NAFTA agreement (US-Mexico-Canada Agreement), to some degree constraints Canada's ability to negotiate a free-trade agreement with China. A "poison pill" clause gives the US and Mexico a de facto veto over any trade agreement Canada may sign with a country deemed to be "not a market economy." In signing a free trade agreement with China (who are designated as such by the US), Canada would have to exit its North American agreement. Nonetheless, current PM and leader of the Liberal Party Justin Trudeau has reaffirmed Canada's intention of pursuing closer and more intertwined trade/investment relations with the PRC. Negotiating a free-trade agreement with China would be very different than any Canada has signed before, ones which typically share Canada's western values. Non-binding side agreements may be useful in overcoming what has to date been a sticking point in stalling negotiations; inclusion of progressive elements into any would-be agreement. (Stephans, 4: 2018). However, even in transferring such elements from the core of the text to the periphery may not suffice in appeasing Chinese trepidation to agreeing to such elements even if most of said progressive elements are aspirational and not actually binding or subject to dispute settlement mechanisms. This position of China's was reiterated on April 10, 2018 when the Chinese ambassador to Canada, Lu Shaye announced "We do not like factors which have no relation with trade and commerce to be included in negotiations on such matters."

(Stephans, 4: 2018). If Canada is willing to relegate such matters to non-binding side agreements, they can be said to be merely ceremonial and an effort to save face or to imbue Canada with particular characteristics in the eyes of other nations. Perhaps it is best in that case to not complicate trade matters if Canada is not inclined to take a genuine stand on the issue. For China, a free-trade agreement with Canada would be as attractive symbolically as it is pragmatically. It would represent the first trade agreement with a G7 country and yet, the size of Canada's economy makes it a manageable endeavor. Furthermore, it would go a long way towards establishing sought after recognition of China as a market economy and Canada's recognition of China as a market economy would mark a significant step forward for Chinese global trade objectives. There are issues of course: any free-trade agreement with Canada would provide China with a foothold in America's backyard, meaning it is likely that the U.S would exercise its veto, which leaves Canada in a tough spot. Furthermore, any prospective Chinese free-trade deal with Canada may be seen by other G7 nations as a template for their own future agreements and as such, is is likely that China will drive a hard bargain so as to set the bar high. Rather than complicating negotiations further with ceremonial components, Canada should instead be looking at the benefits of a free-trade agreement or any other trade pact purely from commercial and economic perspectives. In September of 2012, Canada and China signed a preliminary version of a Foreign Investment Protection & Promotions Agreement (FIPA). The catalyst for this on the Canadian side was to address a reality that Canadian businesses were (and remain) reluctant to invest or operate in the Chinese market. (Burton, 2015,, 53). The consequence of this is, in essence, that the expansion of Canada's economic engagement with China is falling far short of the growth of the Chinese economy. Several issues which necessitated the FIPA stem from the aforementioned structure of the Chinese state, including the fact that China's judiciary branch is not separate or independent from the Chinese party-state and, as such, Chinese judges are subordinate to the authority of the CCP. Canadian firms consequently report difficulties in getting fair and neutrally arbitrated recourse when Chinese partners violate the terms of the agreement. (Primarily, this is with respect to IP and manufacturing process theft). Furthermore, Canadian firms are bound by Canadian law even while operating abroad which prohibits them from partaking in China's "gift-giving" business culture replete with corruption and bribery which naturally leaves Canadian firms at a competitive disadvantage. The Canada-China FIPA was orchestrated to ensure that each other's firms are treated on equal footing with domestic firms in one another's country, whereby disputes would become subject to binding arbitration by neutral third parties. Canadian firms/government officials are perplexed as to the logic of this however. If Chinese firms are already privy to Canada's fair and non-discriminatory legal system, why does the country have to bargain and make concessions to get the same treatment in China that Chinese firms are already benefiting from in Canada? With Canadian producers and firms already feeling like they are behind the proverbial 8 ball in relation to their Chinese counterparts, perhaps these are the type of tangible issues around which Canada's negotiating position should be centered, rather than ceremonial progressive issues.

4.7 Belt & Road Initiative: Advantages and Challenges of the Chinese Market

In the longer term, it is the active involvement of Canadian firms in more value-added manufacturing and service global supply chains, rather than a narrow focus on boosting exports of energy commodities, that will allow Canada to better reap and balance the gains from globalization. (Poon, 2012, 336). Ideally for Canada, the net benefit for overcoming political hurdles in allowing for enhanced Chinese energy-related investment goes beyond the direct benefits associated with the investments themselves, but maybe more importantly leads to a reciprocity in allowing Canadian firms into the Chinese market and involvement with global Chinese initiatives. It is estimated that from 2014-2030, China will have 326 million *new* urban, middle-class citizens (nearly the entire population of the United States) and a total middle-class population of 854 million citizens by 2030. (Schutt, 2015). Canada's world-class finance sector for example accounted for 7.1% of Canadian GDP in 2017, 4.5% of employment in that same year, and a staggering 48% of Canadian outward foreign investment. (Conference Board of Canada, 2018). While China's financial services sector has traditionally been one of the more government-controlled and restricted, recent economic restructuring has opened up the sector to domestic private investors, and is very slowly opening its doors to make more space for foreign investors as well. (Asia Pacific Foundation of Canada, 2018: 14). Increased urbanization in China means fewer farms for its growing population which means potential markets for Canada's vast food and agriculture industries. (Dawson & Ciuriak, 2016: 7). These are perfect examples of where forward thinking could pin-point future areas of opportunity for Canada's economy and why a foundational groundwork must be placed, emanating from the most frequent point of contact between Chinese and Canadian firms, the energy sector.

In the short term, FDI from Chinese NOCs in Canada's energy sector helps with the vitality of one of Canada's most important sectors. In the long-term however, it can be the catalyst in forging and facilitating a relationship with the Chinese government and their market forces which can possibly lead Canadian firms to participate in Chinese global initiatives such as the Belt & Road Initiative (BRI). Thus, It could be argued that an instrumental long-term advantage of having Chinese partners in the oil fields is ability for Canadian firms/government to establish relationships with Chinese government and firms and can learn how to manage risk based on these experiences and use them moving forward in any future involvements with the Chinese global initiatives which are sure to proliferate in the coming decades as China takes a more prominent role in the global economy. Canadian firms, large and small, indeed should seek to forge partnerships of various kinds, especially on infrastructure projects. (Howard Lin, 44) The BRI was initially floated by president XI in Fall of 2013 and represents another government program focused on infrastructure building, this one in particular aimed at promoting connectivity (over land and sea) between Asia, Europe, and Africa. The initiative is closely linked to China's strategy of internationalization and institution building as the nation's stays committed to basic policy of opening up and integrating further into the global economy.

While it may be difficult to pin down exactly what the Chinese and the BRI founder President Xi, in particular, hope to achieve through the initiative, it is suspected that they view this as more than merely an infrastructure project but rather as one designed to enhance and expand China's global influence. As a BRI-focused forum in Beijing wrapped up in late April, 2019, it has become patently clear that President Xi is aiming higher than mere infrastructural connectivity but rather sees the intuitive as a way to influence technology and governance around the world, to enhance connectivity in financial markets, and strengthen cooperation and synchronize customs. (CITE CNBC Article). It is likewise linked to Chinese strategy of overcoming structurally-induced energy resource scarcity, in particular American naval power and their capacity to close off sea routes. Although Canada would not be physically linked to the infrastructural elements of the project, the BRI nonetheless presents many opportunities for Canada and its firms. In particular, this paper identifies three critically important reasons for Canada to participate in the BRI;

1. Further opportunity to participate in China's economic development/growth. A primary focus for China in undertaking the BRI is to bring China's lagging western regions up to

speed. Canada has been disappointingly late in taking advantage of the opportunities presented by a rising China. Participation in the BRI allows Canada to get in on the ground floor of China's next phase of development. (Lin, 2018: 41).

2. Taking part in BRI allows Canada to tap into many developing regions in which the BRI will pass through and would be otherwise difficult to access. (Lin, 2018: 41). Infrastructure development would create the next round of emerging market opportunities for anyone involved. While China represents the greatest opportunity in Asia, Canada should not have a unitary vision for expansion only into the Chinese market but likewise other developing Asia, African, and Eastern European markets as well. Participation in this project would allow Canada to initially develop relationships on the one hand, and eventually tap into and move commodities along the route into this developing regions on the other.
3. Recent Canadian-American tensions demonstrate the critical need for Canada to diversify into other markets and tap into trade routes beyond the American dominated sea route.

There are of course potential risks involved for Canadian firms and government alike in taking part in these infrastructure projects. There is a strong Possibly low profitability (especially in short-medium term) on account of massive upfront capital and investment required for such a monumental undertaking (roads, pipelines, plants). There exist significant socio-political challenges involved as political fallouts, upheavals, changes in administrations can easily disrupt or change the implications of doing business in any particular foreign country involved with this initiative. Given some of the regions which may be involved, there exists the possibility that projects will include elements which conflict with Canadian values and may engender strong pressures for a withdrawal from the project even if they are economically viable. (Human rights, labour laws, environmental issues). Furthermore, Canada must be conscientious two important issues and learn to shift their mentality on such variables. 1) The inevitable involvement of Chinese government in the management of operations and 2) Chinese governance structures do not have the same level of transparency that western firms and governments are accustomed to. Lin, 2018: 43). Both the BRI and Beijing's trading practices more generally pose a substantial challenge for the West. However, ostracization will not right unfair practices nor will it stop the BRI. Rather, it is likely to perpetuate the former and prevent any realistic ability to affect the latter. (Asia Pacific Foundation, 2018). Chinese-led institutionalization offers Canada a pathway to work with China as a constructive partner in today's new global order. Risks cannot can never be fully eliminated, only modulated and managed. Canada and its wide swath of influential groups in civil society, in the economic sphere, in politics must be aware of this fact that must realize the significance of these projects as being part and parcel of broader strategy to gain entry into China's vast markets and markets all across the developing world. For Canadian small and mid-sized enterprises (who comprise the bulk of the Canadian economy), the scale of China's market may at first appear to be daunting and overwhelming. Chinese NOC investment in Canada may prove to be foundational in providing the basis for Canadian companies to familiarize themselves and forge working business relations with Chinese enterprises in order to be better positioned to make inroads into the Chinese domestic market. While much of China's economy is now driven by private enterprises, SOE's continue to maintain their prominence in key strategic sectors and as such continue to have a large lead in China's overseas investment and activities. A Canadian firm operating in joint-ventures with these SOE's may have advantages in terms of participating in China's domestic market as well as enhancing its global reach by tapping into the networks of China's growing international presence. Therefore, relationships fostered in the oil sands with SOEs should be viewed as important intermediaries and supply chains partners which Canadian firms and political institutions can draw from to increase successes in the Chinese market and to build and strengthen connections with Chinese government bodies and relevant actors who are useful for the advancement of Canadian commercial agendas. SOE FDI in the Canadian energy sector must be viewed within the context of knowledge and preparation for the challenges inherent in future dealings with China. Although Ottawa may be tempted to stand its ground in the recent political spat with China, and as such may be leaning toward a "pushback agenda" in its dealings with Beijing, the reality is a protracted dispute hurts Canada much more than it does China and furthermore, circumventing the world's second largest economy is inconsistent with the goal of trade diversification.

Understanding the inherent challenges which lay in front of Canadian firms who wish to increase their footing in China is important in order to fully contextualize why such connections and learning curves as explicated above are so important and must be prioritized above progressive trade agendas and why SOE investment in Canada must not be subject to unnecessarily restrictive and discriminatory review mechanisms. Any impending free-trade agreement must not leave Canadian firms or government officials unprepared or blindsided by the daunting task of navigating the Chinese marketplace. First of all is the sheer massive scale and scope of the market. The Chinese economy is 7.5 times larger than that of Canada and its SOE's are unfathomably big from a Canadian perspective where, as mentioned, small and medium size firms are the primary drivers of the economy. The four largest global banks in the world are Chinese state-owned banks, and Chinese boast the second and third largest NOCs; some Chinese SOE's have employee totals ranging into the million. Canadian firms find themselves dominated by Chinese SOE's o overwhelmed by the scope and as such must be familiarized with these enterprises via strategic partnerships in the oil sands. Canada firms must also learn to acclimatize themselves to Chinese business culture and decorum, which strategic partnership in the energy sector would help with immensely. Canadian firms with an international dimension, as of now, almost exclusively operate and sell in the American market. The United States not only shares a language with Canada but also many customs and business culture decorum is also nearly identical. China of course, much like Canadian and American firms, prefer to operate in their own language, within the confines of its own familiar business culture, and very importantly, within its own legal framework. The gap between these two cultures can interfere with the prospects for a profitable relationship if they are not accounted for and its why preparation is essential. Competitive balance represents a grave concern for small and mid-sized Canada firms with aspirational hops of excelling in the Chinese marketplace. China is one of the world's foremost trading nations and furthermore the world's largest workshop for a wide array of products. Their prowess and status as a manufacturing giant means that some of their firms may present unmanageable competition. Lastly, capitalization; due to the extraordinary success of China's internal market and ready access to massive state-owned banks, Chinese SOE's have access to capital on very low interest rates. Deep-pocketed SOE's make for first class partners but also formidable business competition. Cooperation therefore requires a greater appreciation for China's economic development dynamics than is currently the case for government officials and business firms in Canada.

4.8 Towards a Free Trade Agreement

The culmination of enhanced dialogue and changing dynamics through alterations to the intersubjective understandings of Canada's position vis-a-vis China and vice-versa would be a comprehensive free-trade agreement (FTA) between the two nations. In the year 2000, the Asia-

Pacific region encompassed 29% of the global GDP; as early as 2021, that number is expected to reach 45%, or almost half. (CITE AP). As the drivers of global economy shifts from the USA and Europe towards the Asia-Pacific region (at least as a co-existence), Canada must eventually develop a strategy which not only enhances trade and investment relations with region but wholly integrates with its economies. An FTA with China will be a very difficult undertaking for Canada, not only because of the complexity latent in the negotiation of any free-trade agreement, but also because, as reiterated many times in this paper, the need for Canadian government's approval of its civil society. The government and its agencies will have to be successful in explaining the limited degree to which changes to another nations core governance structure, rule of law, or attitudes towards human rights can be promoted through trade arrangements. It must be expressed that nonetheless, Canada must press on with deeper integration with China's economy, not only for the benefit of Canadian's and Canada's economy but also because it better positions Canada to exert influence over these issues later on.

The benefits of free-trade agreements in the Asia-Pacific region should not be overly difficult to parlay to the public as they are in fact not hypothetical but rather well-substantiated by the precedent set by agreement's already in place. According to a report (May 7, 2019) published for the Asia-Pacific Foundation of Canada, Canadian importers and exports alike saw significant gains in just the first two months after the signing of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) at the end of 2018. As just one example, Vietnam (one of the eleven signatories of the CPTPP) announced a significant increase in the total value of exports destined for Canada in the first two months of 2019, a total of C$700 million which represents a 37% year-on-year increase. (CITE AP). This allowed Canadian importers and consumers to receive cheap goods like fruit, seafood, and textiles which furthermore, being specific to Vietnam, did not interfere or have negative consequences for an important Canadian domestic industry. As an additional example for the export side, Canadian beef producers saw a 385% increase in beef exports to Japan in the first two months of 2019. In the context of this paper, this deal also is paying immediate dividends for Canada's energy sector as Japanese companies have (since signing the CPTPP) began laying the groundwork for future gas exports, including Mitsubishi's 15 per cent stake in the C$40-billion LNG Canada project which represents the single largest private sector investment in Canadian history. (CITE AP article). Not only do free-trade agreements represent immediate and overt benefits in terms of import/export, but furthermore represent more hidden and harder to quantify benefits. For example, Australia is a key competitor for Canada in terms of the previously mentioned potential, future, natural gas exports to China. China and Australia already have inked a comprehensive free-trade agreement (ChAFTA), signed in June of 2015 and includes a commitment to eliminate 95% of tariffs between the two nations within a decade (from the time of signing). Australian gains in this regard will displace the Canadian competition of similar goods and services, in this case, natural gas. (Downs & Ciuriak, 2016: 2). Future Canadian prosperity entails not allowing global competitors to have a leg-up with respect to market access/market share in the world's largest growing market for natural gas. Canada should instead use the Australian FTA as a template and starting point from which to work towards an FTA of their own with China.

As part of its commitment to transparency, the Government of Canada, as delineated and published on the website for International Trade & Investment, held public consultations with everyday Canadian's and stakeholders about a prospective free-trade agreement with China. Starting March 4, 2017, government officials interacted with 130 Canadians and 600 stakeholders. The following is a snapshot of the issues deemed important to the respondents as well as deemed relevant to this paper.

Market Access: Elimination of export tariffs would vastly enhance the competitiveness of Canada's products entering the Chinese market, especially in relation to competitors with preferential access based in their own trade agreements with China such as Australia, New Zealand, South Korea, and Chile. Some stakeholders on the other hand noted that lowering Canadian tariffs would have significant repercussions for jobs in specific Canadian industries, including certain manufacturing sectors and supply-managed agricultural goods (i.e. poultry, eggs and dairy). (CITE). This ties into previous elements of this chapter which calls for understanding from Canada's perspective about the need for some degree of protectionism which China will surely insist on retaining.

Technical Barriers to Trade: Consulted stakeholders expressed concern over the lack of transparent and consistent regulations in China, including the frequency of changes to regulations without being able to easily identify the catalyst for the change. Stakeholders recommended that Canada should seek to engender cooperation from Chinese regulators in terms of bridging regulatory differences and more closely aligning regulatory outcomes and conformity.

Trade Facilitation: To better ensure a smooth and seamless transition of goods and services over the Chinese border, Canadian stakeholders would like to see a resolution to inconsistent and non-transparent border regulations which means lengthy hold ups for the goods. In essence, a free trade must ensure the expedient facilitation of the trade from a literal, physical standpoint. Furthermore, an end to unannounced changes to border regulations.

Investments: As discussed in this paper, Canadian stakeholders would like to see the establishment of a neutral and non-discriminatory dispute settlement procedure/mechanism which does not leave Canadian firms to the arbitrary whims of Chinese political decisions.

State-Owned Enterprises: Discussed at length in this paper, Canadian firms demonstrate considerable concerns about the ability for small and medium-sized companies (comprising 99% of the Canadian economy) to compete fairly and effectively against massive SOEs with fast and ready access to cheap capital from state-owned Chinese banks. They note the pertinence of ensuring that SOEs in Canada are operating under commercial rather than political imperatives.

Intellectual Property Rights: As discussed at length in this paper, stakeholders are of course concerned about the safety and security of their IPR when operating in China and, despite Chinese efforts to rectify their unfavorable reputation on this issue, would look for enforceable safeguards for their IP in any negotiated free-trade.

The first step towards a prospective free-trade agreement with China is for Canada to explore and inquire about the scope of what China would consider and what they may agree to. Both nations must establish channels of communication whereby they are able to mutually express trade and non-trade areas of concern or clarity. Canada can engage China about their amenability to first accept a framework built around more tractable, sector-specific agreements as a foundation to a later all-encompassing and comprehensive agreement. Initial steps towards a free-trade agreement is an acknowledgment of Canada cognizance about the changing forces which are shaping and reshaping this world. Do to the time it takes to negotiate a free-trade agreement, this could be considered an astute and forward-looking nod towards future prosperity and towards a reorientation of Canada's position vis-a-vis the global order.

CHAPTER V

CONCLUSION

The expressed desire of this thesis was to introduce and explicate the potential for an enhanced and more deeply integrated Sino-Canadian commodity trade and investment fixated on crude oil and natural gas commodities. This was done in order to illuminate the ways in which Canada can better link its energy resource supply chains to rapidly growing Chinese demand as, to date, Canada has not been very successful in doing so. This paper attempted to meticulously frame four important variables. First, to highlight the reality that China is facing energy resource supply-side scarcity. China's domestic energy resource production is being far out-paced by its energy consumption due to its immense manufacturing sector, an increase in global trade, a rise in GDP, as well as in GDP per capita. Second, to illuminate China's government structure and policy making apparatus as well as the interplay between the leading cadres of its state-party and its market. Here we crucially find that with respect to its SOEs, ownership is not always tantamount to control. For many of the biggest NOCs, their immense political power, financial clout, and technical expertise provide them with considerable influence over energy projects and energy policies in China and even more so abroad. The NOC CEOs have higher bureaucratic ranks than do some of the bodies meant to be officially in charge of energy policies. The NOCs are furthermore amongst the most profitable enterprises in China and because they have the expertise to locate, develop and produce, and transport oil and gas commodities both domestically and abroad, NOCs are imbued with even further autonomy and power and have a strong say in policy decisions. (Downs & Meidan, 2011: 5). Third, Canada is an energy resource super power with some of the largest reserves of natural resources in the world. This is especially the case in terms of crude oil where Canada is home to the third largest proven reserves in the world. Not only is Canada home to vast resources highly coveted by China's growing economy, but furthermore home to some of the world's leading edge technology used for the recovery of non-conventional energy sources like oil extracted from oil sands, as well as shale and tight gas. These technologies are as valuable to China's energy security strategy as the resources themselves as they help to unlock immense quantities of resources for China domestically and in other regions in which they invest heavily. There are two primary reasons why Canada has thus far failed to successfully link its supply chains to increased Chinese demand in a meaningful way, or at least relative to the potential which exists. The first reason is the vast over reliance of Canada's energy exports, where 91%, including 100% of its natural gas exports, are shipped exclusively to the United States. This segues into the fourth variable this paper attempted to highlight, and the second primary reason for failed linkages of supply to demand; Canada, from its government apparatus, to its business class, to its powerful civil society is, deeply distrustful about having China has a close business partner and are apprehensive about Chinese SOEs investing in strategically important sectors and especially apprehensive about the acquisition of ownership over the resources themselves. Conversely, Canadian firms report a myriad of challenges and stumbling blocks in their (relatively) limited dealings in the Chinese domestic market. This serves as a massive impediment to enhanced relations centered on energy commodities or of any other sort. Finally, these variables culminate in the fourth chapter where keystone issues are identified for possible points of convergence for any future, more amicable relations centered on a strategic and mutually beneficial trade relationship. A key thread running through this paper is the fact that any changes in the external relations between Canada and the People's Republic of China will not be initiated simply by state-to-state (government) engagements centered on military and political considerations or based around material distributions. Instead, this paper has attempted to identify and validate a social basis for these changes as forces internal to the state are mostly responsible for its changes externally.

This paper takes on a Canadian orientation, focused primarily on the net benefits for Canada intrinsic to enhanced trade and investment relationship with China. Approximately one in six jobs in Canada depend on exports and in 2016, international trade was equivalent to 64 percent of Canada's GDP. This focus on trade has contributed to make Canada into one of the world's most prosperous countries. (Ministry of Natural resources Canada). For continued prosperity, Canada must ensure that its goods, services, and investments have access to growing markets around the world, most pertinently, the growing Asia-Pacific region which is soon expected to comprise nearly half of the world's cumulative GDP. Canada must continue to intensify its efforts to connect and integrate with this region and in particular with China as it not only represents the largest market in the region but also the market with the greatest room for growth for Canadian producers to tap into. Concerns are abound in Canada about the implications, motivations, and quality of Chinese capital, Canada more broadly, or its firms more specifically cannot afford to ignore China as a capital exporter nor outright reject it for fear of concerns about motivations or malpractices. In order to exploit the potential benefits latent within China's massive economy and their massive output of capital investments in foreign countries, Chapter IV attempted to detail many of the issues impeding such a reality and laying forth some potential ways in which they can be overcome or largely mitigated and managed. For those stakeholders with an interest in exporting goods to the Chinese market, tariff elimination and rules of origin are in many cases secondary priorities. Canadian stakeholders and business elite instead report deeper concerns about the lack of transparency and unpredictable regulatory regimes in China. The key issues affecting trade in goods for Canadian businesses in China include inconsistent technical regulations and standards; the lack of protection in the area of intellectual property; and state subsidization of land, labour, and equipment. Despite these bleak conditions, there is an imperative for all businesses, in every sector and in every industry and off all sizes to conceive of and develop a "China strategy." Because China is moving towards an innovation-based society itself, and because its firms, including its SOEs and their elites are developing transnational links and strategic partnerships with Western IOCs, Canadian stakeholders disclose that China's legal system has improved in recent years, especially in areas such as intellectual property (IP). To ensure China would abide by its commitments under an FTA, a range of stakeholders highlighted the crucial importance that a robust and effective dispute settlement mechanism would play in any FTA. In order for Canadian companies to benefit from meaningful market access, a potential FTA would need an innovative approach to resolving disputes that would deliver outcomes in a timely manner and deter bad-faith or non-compliant behaviour. (Ministry of Trade and Investment Canada, 2019).

This paper maintains that the best point of contact for enhanced and more cooperative relations between Canada and China emanates from within the energy sector and has Alberta as its epicenter. The finding of this paper indicate that China has shown an interest in making Canada a greater component of its energy-security strategy, especially with respect to oil and natural gas. This was demonstrated by a proliferation of Chinese NOC investments in Canada's energy sector beginning in 2007, peaking in 2013 with CNOOC's acquisition of Nexen. Canada has the ability to embrace this strategy by China, however to date the realization of this potential has been limited, mainly on account of keystone geopolitical considerations. As chapter this paper demonstrates however, the time is opportune for Canada to shift its orientation in relation to the geopolitical economy and find resolutions to these impediments by not engaging China as an adversarial power in the world order.

Despite the decreasing presence of SOEs in China's economy overall, SOEs do and will continue to play a vitally important and increasingly diverse role in the international sphere are primary drivers of China's trade and outbound investment in most strategically important sectors, especially energy. Frequent contact and engagements and building of strategic partnerships with SOEs in Canada's energy sector will go a long way in terms of the preparation and knowledge needed to navigate the immense challenges latent for Canadian firms wishing to get greater market access in China. It is here that government officials and business elites alike can flesh out points of divergence and dispute, learn to navigate and reconcile differences in terms of business culture and decorum, expectations about the rule of law, and learn to foster and facilitate a restructured understanding about the shared knowledge expectations vis-a-vis one another. Low political risk, high degree of judicial and regulatory clarity and transparency and access to a highly skilled workforce and leading edge technology in addition to the sheer quantity of resources makes Canada's energy sector, in Alberta especially, an attractive FDI destination for China. However, high upfront capital expenditure in the extraction of the resources, lengthy and frequent legal disputes with environmental and First Nations lobbies as well as floundering commodity prices serve to give Chinese NOCs a degree of trepidation about further investment at present time. It is imperative therefore that Canadian policy makers are careful not to make the mistake of assuming FDI from China will remain a given moving forward and should seek to eliminate and discrimination towards SOEs. Beyond this, Canada must generate the political will and engender sufficient public support for the construction of tide-water bound pipelines and port facilities which will allow for a diversification of Canada's U.S-dependent crude oil and natural gas exports. As technological innovation in Canada continues to unlock proliferating quantities of unconventional resources, it must find a way to link its production and exports to China's demand which, for the foreseeable future, the single largest source of market growth in the world in both categories.

As far as making recommendations about how Canada should proceed in its attempts to more adequately link its energy resource supply chains to increasing Chinese demands, Canada should: i) Strengthen direct trade and investment linkages with China (and other emerging Asian markets) so as to better understand, identity, and respond to opportunities and challenges emanating from China's evolving development circumstances. This entails first being receptive to increased NOC investments needed for the development of capital intensive projects in the oil sands as well as capital intensive infrastructure projects like pipelines and port facilities. ii) China's rise must be viewed by Canada as more than simply an opportunity to export more energy commodities. Rather, it must recognize that Chinese efforts to enhance their technological ambitions are beginning to pay off and as such, rather than attempt to block such ambitions, craft strategic partnerships that leverage China's ambitions and its initiative to rise to the apex of the global supply chain. iii) Acknowledge that difficult decisions are bound to arise in sensitive areas like IPR, nature of the involvement of SOEs and their competitive advantages, and free-trade. Canada can speak frankly about the need for both pressure and flexibility in trade rules to deal with domestic political and developmental dynamics which are prevalent in China but Canada itself can sympathize with, rather than holding to an all-out adherence to free-trade. Canada would make itself a well-received voice of reason in developing Asian economies who recognize they would be exploited (as they have been in the past) by developed economies if they move directly in the liberalized world order. More direct and deeper links with China will allow for opportunities for a carefully crafted strategic partnership based on common interests. Given China's current state of development, openings for foreign firms and actors persist, however, they must develop and leverage strategic assets in order to improve their negotiating positions with Chinese counterparts. (Poon, 2012: 332). iv) Last, and maybe most important, Canada must learn to accept China as it is and not as it, or the West more broadly, would like it to be. (Dawson & Ciuriak, 2016: 9). China is not going to cease its efforts nor abandon aspirations to extend it military capabilities, its economic might, or its political influence in its attempt to gain hegemonic status. The extent to which China will successfully supplant the established status quo hegemonic order is unclear at present time, however it is patently clear that China is no longer a nation which can be dictated to with impunity nor does it stand on the periphery of world order. China will continue to work within existing institutions as well as create new ones to change the world in a way which better reflects its own unique political, cultural, and economic circumstances and desires. (Bremmer & Roubini, 2011).

Canada must therefore not view China's rise as a threat or as oppositional towards its own position in the global geopolitical order and subsequently engage in a myopic strategy of hedging against China rather than looking for avenues of enhanced cooperation. Canada must of course remain prudent in its recognition of threats like IP theft and unfair advantages possessed by Chinese SOEs. It must also however recognize the structural changes which are happening related to China; namely that China is moving towards and innovation-based economy itself and thus has incentive to play by the rules of the game with respect to IP but also that it represents new opportunities for collaboration and joint-research ventures. Second, although Chinese SOEs indeed do represent formidable competition on account of their size and financial backing, their transnational linkages developed through strategies of "going-out" means that they are taking on increasingly transnational characteristics and offer opportunities as formidable partners as well. Canadian firms and its government would be wise to see the presence of SOEs in Canada's energy sector as an opportunity first and foremost to become better acquainted with the complex inner-workings of these entities to improve their capacity to launch prosperous and mutually beneficial engagements in a wide range of activities and sectors. They would be wise to furthermore use these linkages to gain access and reciprocity in China's vast and still growing market. Evans (2015) sums this issue up concisely. "China is neither a friend nor an enemy, neither an ally or an adversary. But it can be a good partner. (Evans, 2015).

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