

Beijing pressing for full access to Canada's economy in trade talks

By Robert Fife and Steven Chase

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China's new envoy says Beijing is seeking unfettered access for Chinese state-owned firms to all key sectors of the Canadian economy during free-trade talks now under way with Ottawa – including an end to restrictions barring these enterprises from investing in the oil sands.

The envoy also signalled that China does not want human rights to be used as a “bargaining chip” in free-trade talks with Canada. Ambassador Lu Shaye told *The Globe and Mail* that China will regard as trade protectionism any attempt by Canada to invoke national security to block state-owned firms from buying Canadian companies or doing business with the federal government.

Canadian and U.S. intelligence agencies have warned that these enterprises or even non-state-owned firms, such as Chinese telecommunications and networking equipment giant Huawei, act in the interests of China's Communist Party.

But Mr. Lu discounted the security concerns, suggesting Canadian spy agencies were acting for political reasons. He left little doubt that China would be miffed if the Trudeau government made national security an issue during trade talks.

“Investment is investment. We should not take too much political considerations into the investment,” he said, speaking through an interpreter. “Just like the negotiations of the FTA, we should not let political factors into this process. Otherwise, it would be very difficult.”

Mr. Lu, who sat down for his first exclusive interview this week, said the initial round of exploratory trade talks took place in late

February and a second meeting will happen in April.

Mr. Lu assumed his post as China's new ambassador to Canada in early March.

He said Beijing's focus in the negotiations is to remove Harper-era barriers that limited takeovers of oil-sands companies by state-owned enterprises, specifically from China, and to expand Chinese investment throughout the Canadian economy.

“All enterprises should be treated equally,” he said. “No matter if they are state-owned enterprises or private enterprises, they are equal. They are both Chinese enterprises.”

Fortune Magazine says 12 of China's biggest companies – including massive banks and oil companies – are state-owned. The government appoints the CEOs and makes decisions on large investments. Only 22 of 98 Chinese companies on Fortune's Global 500 list are private.

Mr. Lu, who played a major role as an envoy in Africa where he helped China acquire mineral rights, said his country's investment ambitions go far beyond scooping up Canadian resources.

“China has invested in many aspects in energy and mining. But now other areas are expanding, such as manufacturing, agriculture and scientific research,” he said.

Prime Minister Justin Trudeau has made deepening trade relations with China, including a free-trade deal, key foreign-policy objectives and the Liberals are also loosening restrictions on outside investment. In November, Ottawa announced it would raise the threshold for automatic reviews of foreign

takeovers to \$1-billion two years ahead of schedule.

The Liberals have already signalled a greater willingness than the Harper government to open Canada's economy to Chinese investment.

As The Globe and Mail has reported, the Trudeau government set aside a Harper cabinet order blocking O-Net, a Chinese company with ties to the Chinese state, from buying a Montreal-area high-tech company – despite warnings from Canadian national security agency that the purchase would undermine a technological edge that Western militaries have over China.

“If the technology is transferred, China would be able to domestically produce advanced military laser technology to Western standards sooner than would otherwise be the case, which diminishes Canadian and allied military advantages,” a national-security assessment had warned Ottawa about the O-Net transaction. The Liberals nevertheless are undertaking a new security review.

A concern frequently voiced by Canadian national security officials is that companies owned or partly owned by the Chinese government are not merely profit-seeking operations but make decisions and investments that serve the ruling Communist Party's larger strategic and geopolitical aims, including passing on technology or information to Beijing. The premise is that Beijing's long-term interests are often antithetical to Canada's and that state-owned firms or companies partly owned by the government are liable to be arms of China's political masters.

The former Harper government barred China's Huawei from bidding on federal government contracts in 2012 after the U.S. House intelligence committee issued a report, concluding that its ties to the Chinese state posed a national security threat.

Mr. Lu said Huawei and other Chinese firms are being scapegoated and denied they spy or act in the interests of Beijing.

“High-tech enterprises from China sell their products to countries all over the world, so only why here and your neighbour, the United States, have worries about those enterprises?” Mr. Lu said. “If we abuse the excuse of national security – this is the manifestation of trade protectionism.”

The Chinese envoy argued that Western high-tech companies have no restrictions to invest and sell their products in China.

In fact, many of China's corporations – most notably in its financial and telecommunications sectors – are considered off limits to foreign investment.

Mr. Lu said China was open to negotiating a cybersecurity treaty as it has with the United States and Britain but flatly denied his country engages in industrial spying in Canada or elsewhere. “China never carries out any cyber espionage activities to other countries.”

In 2014, the Harper government squarely blamed a highly sophisticated, Chinese state-sponsored actor for an intrusion into the National Research Council's networks that resulted in a shutdown of the agency's computer system for an extended period.

As part of the free-trade talks, the Liberal government has begun a consultation process with Canadians to hear their concerns about “issues relating to the environment, labour, gender equality, rule of law and human rights.”

Asked whether Canada would address China's human-rights record in a trade deal, the Department of Global Affairs said in the consultation paper that the Liberal government is committed to a “progressive and inclusive approach to international trade that takes into account the impact of trade on areas such as labour and human rights.”

It said a free-trade deal would not deter Canada from “urging and working with China to meet its international obligations in these areas.”

However, Mr. Lu said China has no interest in talking about human rights or democracy during the trade talks. “We don’t want one side to use democracy or human rights as a bargaining chip to make the other side compromise. The negotiations of the FTA should be confined within the area of free trade. If you let too many other factors into it, it would be very difficult.”

Mr. Lu said Canada and China have still not begun formal bilateral talks on an extradition treaty – something that Beijing has become much more insistent upon since President Xi Jinping launched an anti-corruption campaign to track down Chinese citizens accused of economic crimes around the world.

The United States, Britain, and New Zealand have been reluctant to sign extradition treaties while Australia has not ratified one it signed in 2007, largely over concerns that China’s legal system used torture to extract confessions, show trials and the death penalty for non-capital offences.

“We hope to strengthen our co-operations in judicial and law enforcement, jointly cracking down on all crimes including abuse-of-power crimes and economic crimes and making all crimes intolerable,” the ambassador said.

Mr. Lu remarked on how relations had improved under Mr. Trudeau and said there was a possibility that Mr. Xi might visit Canada but he gave no time line.