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# The US-China Rivalry: What Are Canada's Interests?

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## Note from author

This is a realist analysis based on sovereign “interests”: economic, political, and defense. It is rooted in the tradition of E.H. Carr’s realism: limited objectives, limited interference and restraint, with a primary focus on avoiding conflict, and rooted in real (hard) power rather than soft power<sup>1</sup>. This is different from values-based foreign policy and the two approaches are not easily integrated or resolved. Nevertheless, the realist view has something to contribute to Canada’s foreign policy discussions.

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## Background

It is impossible to consider Canada’s foreign policy options without an understanding of the big picture. The international order is currently undergoing a global transition of power in which the interests and values of the United States and China are hotly contested. The U.S., as global hegemon, is defending its position – seeking to curb the rise of China as the leading power in Asia through initiatives launched in conjunction with the ‘Democracy Coalition’. President Biden has extended the economic and security/military measures introduced by President Trump. To prevent China from overtaking it in key advanced industries, the U.S. has launched and maintained ‘decoupling’ measures to cut Chinese firms out of high-tech U.S. global supply chains.

China has a growing capacity and vision to challenge the U.S. as a peer rival, not in the view of western democracies, but across much of the developing world. Regional powers in Asia (namely Japan, South Korea, Indonesia, and Singapore) find themselves balancing at times against China, and at times toward China depending on the issue. Asian and European states may meet U.S. demands regarding China in formal or issue-specific ways that minimize damage to their own economic interests. While there is generally deep skepticism regarding China, the U.S. withdrawal from Afghanistan that has been uncoordinated with NATO allies

and the lack of consultation on AUKUS demonstrate the deeply rooted go-it-alone instincts of U.S. policy makers.

In this complex international environment, Canada has a narrow room for maneuver and must focus its resources on identifying and advancing its vital interests.

## Where does Canada stand?

Canada is accustomed to thinking of itself, as it has been since WWII, as a middle power - a player in the North Atlantic alliance, neighbour to the world’s great power, an acknowledged contributor to global development assistance (decades ago), and influential in the World Bank, the IMF, and the UN. Unfortunately, these attributes are no longer the winning cards they once were. The global centre of gravity and growth has shifted to the West Pacific. Many global institutions are in need of reform in the light of major changes over the past 40 years. South Korea, Japan, Indonesia, Australia and Singapore are economically significant and actively engaged. Canadians stand somewhat apart – not quite convinced that we are a Pacific nation.

Canada is treated as a minor power by both the U.S. and China, although this is not widely understood. Minor power status is when a major power neither consults nor accommodates. We are certainly a minor state to China: not

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<sup>1</sup> Edward Hallett Carr and Michael Cox, *The Twenty Years' Crisis, 1919-1939* (London: Palgrave Macmillan, 2016).

in its region, within the close embrace of the U.S., not irrelevant, but not permitted to flout China's core interests without consequences. And there are many examples of U.S. failure to accommodate Canada's interest: steel and aluminum tariffs, the forced renegotiation of NAFTA, 'vassal state'<sup>2</sup> language inserted at the 11<sup>th</sup> hour into the USMCA (United States, Mexico and Canada Agreement) giving the U.S. veto power over any future Canadian or Mexican trade deal with China, the Michigan pipeline treaty violations, as well as ongoing obstruction on softwood lumber exports despite arbitral decisions in Canada's favour.

American support resolving the extradition request of Madame Meng was at best slow. Most recently, and perhaps fortunately, we were not consulted on the nuclear submarine Pacific security partnership between Australia, the UK and U.S. (AUKUS). This agreement binds Australia to the use of U.S. nuclear submarine technology and to U.S. Navy support and maintenance of the vessels. It also offers Australia a minor role in the U.S.-China rivalry which will ruffle feathers in the region with concerns that "what helps some in Canberra sleep better may keep others in the region up at night."<sup>3</sup>

### World orders: Whose values do they reflect?

International or world orders always reflect the values of the great powers that dominate them – and at present these are contested. Liberal democratic values are the contribution of Western Europe and North America. The Democracy 10 (D-10) notion of largely excluding China from global governance is simply unrealistic given its economic heft, which accounts for an outsized share of the world's annual growth. The U.S. view that America should, and can, retain absolute primacy is simply at variance with the realities of power. If we acknowledge that the global system is inevitably in transition, we need to recognize the right of major powers to a seat at the rulemaking table in order for this transition to proceed in a stable manner.

There are many countries other than China that do not share our liberal social and intellectual roots. Furthermore, much of the existing rules-based order does not depend on democratic or liberal principles. Canada's role is not to ensure that the 'liberal' values of the current system remain unchanged but rather to work with other middle powers to shape global consensus in a range of sectors that build on the existing rules-based order.

<sup>2</sup> Irvin Studin, "Canadian foreign policy has officially died", Toronto Star, December 10, 2019, <https://www.thestar.com/opinion/contributors/2019/12/10/canadian-foreign-policy-has-official-died.html>

### 'Democracy 10': A soft power coalition to contain China?

American moves to decouple trade, investment and supply chains in high-tech are unquestionably a major hindrance to China. However, China is already the engine of East Asian economic growth and integration, the largest trading partner of each country in the region (including Japan), as well as the anchor in most of their supply chains. It is now generally recognized that Asia, and particularly East Asia, will continue to provide the lion's share of economic growth in coming decades. China is additionally the largest trading partner of a wide range of emerging market economies globally. The U.S. has security treaty relationships and military bases throughout the region but its ability to militarily prevail in Asia is no longer absolute. China's area denial missile strategies make active engagement with aircraft carriers risky. In short, it is important to recognize that U.S.-China rivalry in Asia may not result in a clear-cut U.S. victory.

Given its real-power economic deficits, the U.S. maximizes its leverage by focusing on soft power and ideological issues forging a coalition of the 'like-minded', notably the G7 plus South Korea, India and Australia. The coalition's objective is to preserve U.S. primacy in Asia by constraining and challenging China's influence. Various coalitions serve to broaden global support and maximize leverage vis-à-vis China. Human rights violations in Xinjiang and political repression in Hong Kong have provided fertile ground for the U.S. (and the West) to advance their power-related aims, undermining China's regional legitimacy. Other initiatives hobble China's high-tech innovation, reduce Chinese influence in global institutions, constrain Beijing's attempts to modify liberal human rights norms, and rally coalition partners to actively confront China by joining FONOPS or naval operations in the South China Seas. The focus is on China's borders and near-abroad where China seeks influence and stability.

The U.S. campaign to rally treaty partners including Japan, South Korea, Australia and NATO is powerful but has produced mixed results. Asian and European leaders seek to provide verbal support while minimizing damage to their bilateral relationships with China. Most seek an outside power to counterbalance China in the region, but not to destabilize the region through confrontation. This activity is leading regional states to worry about an arms race and unintended conflict.

<sup>3</sup> Natalie Sambhi, "Australia's Nuclear Submarines and AUKUS: The View from Jakarta," Brookings Institution, September 21, 2021, <https://www.brookings.edu/blog/order-from-chaos/2021/09/21/australias-nuclear-submarines-and-aucus-the-view-from-jakarta/>

In real power terms, some regional countries might side with either China or the U.S. depending on the issue and therefore maintain more options vis-à-vis both U.S. and China. Those with the ability to balance both *toward* and *against* the great powers are in the strongest position to achieve some of their own interests, with notable examples including South Korea, Germany, Indonesia and Singapore. Domestic politics in these countries may limit this ability to manoeuvre opportunistically.

The prominent theme of the Democracy Coalition is support for norms of liberal democracy. However, coalition partners also have unpublicized priorities, namely to maximize the leverage the coalition might have on issues relevant to their respective national interests. For Japan, the objective is U.S. military support in the western Pacific; for Australia it is U.S. support in resisting economic pressure from China; for the EU it is gaining U.S. support for WTO reform. For Canada, it was the withdrawal of the extradition request for Madame Meng. While coalition enthusiasm for supporting democratic and liberal values is high, there is less support for extreme political or military confrontation with China. This caution was reflected in the June 2021 G7 Statement<sup>4</sup>.

President Biden's weak domestic political situation is the Achilles heel for U.S. leadership of the Democracy Coalition. There is solid bipartisan support for constraining China's threat to U.S. interests, but at every turn Republicans seek to 'out-hawk' the Democrats on China – especially in the run-up to the 2022 midterm elections. Expending Democratic political capital to deliver on the priorities of allies may well prove a bridge too far. The springboard of U.S. foreign policy is the 'golden age' image of mobilizing allies to support the U.S. mission, not assisting allies to meet their objectives. More significantly, allies must keep in mind the distinct possibility of a Republican President in 2024 with attendant changes in America's international direction. As time passes, these factors will affect U.S. allies' commitment and willingness to support requested missions.

### Protecting Canada's core interests

It is worth exploring briefly how dutiful compliance to U.S. pressure can damage primary domestic assets of coalition partners. Canada must consider the potentially severe damage to our own critical interests when we act on U.S. requests without sufficient reflection.

Consider the impact on Canada's innovation infrastructure: The U.S. has world-leading high-tech companies, but Canada excels on the other end of the spectrum occupied by research

and start-ups. Canada has globally recognized universities (Toronto, Queens, Waterloo, McGill, McMaster) that support and benefit from a concentration of high-tech firms along the Highway 401 corridor. This is Canada's innovation hub in AI, quantum computing, life sciences, etc. – drawing on centres of excellence across the country that are plugged into a myriad of global research networks.

U.S. initiatives aim at pushing Chinese researchers out of global high-tech innovation and manufacturing ecosystems, winnowing out Chinese scientists and PhD students on grounds of potential applications to surveillance technologies or connections to the Chinese government. The consequences for Canada and other allies are much more severe than for the many leading U.S. universities asked to do the same but with greater depth of faculty expertise as well as funding.

Canada certainly has to develop criteria and procedures to avoid sharing potentially dual-use military and related research with China. However, the current U.S. disposition is to draw a very wide red circle. The problem is obviously sensitive and complex, but Canada's response needs to be informed by a clear understanding of what it means for research excellence in each field and how we can offset or mitigate the actions requested of us. It is imperative to respond with a well-developed framework for protecting Canada's innovation infrastructure. Our objective must be to prevent a Canadian brain drain.

Canada's supply chain position is another area at risk in following U.S. direction without careful consideration. Our supply chains are heavily continental and could narrow further as a result of U.S. efforts to segregate high-tech industries. U.S. global corporations have opportunities to manage 'decoupling' across wide-ranging international networks, but the process may well have serious competitive ramifications for Canadian firms further down the component-part food chain.

Cutting down global corporate competitors in the other camp is far more damaging to allies than to either great power. Eliminating Huawei from 5G was very costly for Canadian telecom providers. As a small market, Canada cannot expect to be a high priority customer for the remaining suppliers. The delay and uncertainty creates serious consequences for the speed and comprehensiveness of the fourth industrial revolution in Canada. At present, the policy debate is dominated by those with strong connections to the U.S. national security perspective, one that is, understandably, fairly absolute in its prescriptions. We need a much more nuanced and independent analysis and policy development

<sup>4</sup> "Carbis Bay G7 Summit Communiqué", The White House, *Statements and Releases*, June 23, 2021, <https://www.whitehouse.gov/briefing-room/statements-releases/2021/06/13/carbis-bay-g7-summit-communique/>

process. Ironically this search for a more balanced view of China policy options has already emerged in the U.S. with respect to the critical views of the Quincy Institute, populated, as are the other U.S. think tanks, with foreign policy and security experts from various previous administrations as well as academics.

### **China's economic relevance grows despite efforts to constrain it**

Regardless of efforts to constrain and isolate it, China will become the largest global economy within the decade and is already the engine of Asian integration, growth and trade. Throughout Covid-19 pandemic, China's global economic impact has grown substantially. China's imports<sup>5</sup> from Canada rose 8% in 2020 versus a 12% decline of Canadian exports worldwide, a pattern reflected in other western economies.

China's economic lead may slow, but small and medium powers in advanced and emerging markets alike, western or not, have core economic interests engaged with China. This will eventually be true for Canada, although Canadians remain hesitant to recognize our position as a Pacific nation, preferring to look south and east. This tendency is exacerbated by discomfort with China and a lack of familiarity with Asia. Our views may change if the Coalition support for U.S. efforts to contain China weakens and should there be further instances of U.S. failure to take Canadian interests into account.

Small and medium powers face the cost and competitive disruption of shifting supply chains as well as the broader, industrial and services damage inflicted by China-U.S. rivalry. They are also exposed to the political costs of being pushed to take sides on every contentious issue. The world has gone through enormous changes over the past thirty years, including the rise of 'the Rest' - the non-western world. These changes mean that global institutions are all in need of major reform. The need for effectively functioning international organizations is felt most acutely by the 'non-great' powers.

If the Democracy Coalition serves primarily to heighten geopolitical tensions without delivering needed benefits, coalition partners may well shift their focus toward collaborating with like-minded powers on a raft of needed international agreements and standard-setting. For Canada and many other advanced and emerging market states with a high dependence on trade, the WTO is the most critical

institution in active need of reform. Finding a way through the current impasse at the WTO – which will ultimately require agreement from both Washington and Beijing – is the most pressing. Rather than pushing a U.S.-led agenda, Canada might find a more productive focus working toward a modest consensus on the key issues across both advanced and developing markets. We need to remember that U.S. trade policy interests are somewhat different than our own.

Canada's deep immersion in U.S. mainstream and social media embeds us in the U.S. perception of its national interest. As a privileged neighbour, we are accustomed to having similar interests. We urgently need to formulate an independent view of when and how our interests diverge under great power competition. We have long sheltered in the advantages of U.S. dominance and are now exposed to its drawbacks. While recognizing our responsibilities to the United States as an ally and neighbour, we must attend to our own core interests - a big undertaking. There are many conflicting sectoral and regional interests in Canada that need to be intermediated and compromises worked out. This would be a significant national mission.

### **What are the lessons for Canada?**

Despite the talk of 'competition, not conflict', the world has entered a period of intense rivalry. The issue of how individual countries choose to govern themselves - autocracy versus democracy - may not prove as central as it is now, given the difficulty small and middle powers are likely to have protecting their vital interests as competition accelerates.

Canada must recognize it has very narrow room for maneuver. To avoid damaging errors, such as the arrest of Madame Meng, we must anticipate the interests and moves of both China and the U.S., focus on identifying our essential interests and devote the necessary resources to realizing them. In the present Canadian context, these geopolitical realities are largely unrecognized and unpalatable both to opinion leaders and Canadians more generally.

Canada's interest is the evolution of a peaceful, multipolar, rules-based order. Finding ways to mitigate the collateral damage of great power rivalry means working with like-minded small and medium states to attract support for multilateral arrangements such as the WTO and the Paris Agreement in areas including cyber security, global health, space and standard-setting in data and technology regulation.

<sup>5</sup> Tom Alton, "Canada-China Trade: 2020 Year in Review", University of Alberta China Institute, February 22, 2021, <https://www.ualberta.ca/china-institute/research/analysis-briefs/2021/canada-china-2020-yearinreview.html>

Our credibility will depend on being an independent and productive participant in global policy debates promoting the participation of China and the U.S. To do so, Canada needs to deepen its connections with Asian leaders such as South Korea, Japan, Australia, and Indonesia. We need to evaluate our priorities and what we bring to the table both in terms of expertise, influence and experience. Canada does not have the resources to play at all tables.

### **About the Author**

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