

**CANADA-CHINA GOVERNMENT RELATIONS:
POLITICAL DIFFERENCES VERSUS ECONOMIC RELATIONS
IN COMPARISON WITH
JAPAN-CHINA RELATIONS**

by

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ABSTRACT

Political scientists have traditionally defined "power" in international politics as the capability to exercise coercion, particularly through military force. However, increased interdependence in the international system, as demonstrated through bilateral relations such as those between Canada and China and between Japan and China in their diplomatic ties and economic activities, has necessitated an elaboration of the term "power" in relation to international politics. This is not to suggest that military force is no longer applicable in international relations, but to expand the concept of power to include other forms that have become prominent. This study: 1) analyzes and compares Sino-Canadian and Sino-Japanese bilateral relations in the international political system and 2) examines the implications of economic power in present international politics from the viewpoint of interdependence and "linkage" theories.

This study is divided into theoretical and historical chapters. From the theoretical perspective, the realists hold that interdependence is not necessarily a good thing as they believe that weaker nations are vulnerable in an interdependent relationship. In debate with the realists' view, the pluralists argue that interdependence involves not only political but also economic, social and cultural interaction between nations, and that interdependence involves reciprocal effects among

countries. Therefore issues such as trade, finance, communications, environmental protection, and technology transfer between nations such as China, Canada and Japan all fall within the scope of the pluralists' analysis of interdependence, and are deemed as positive and important as political issues.

In relation to interdependence theory, the linkage theory of James Rosenau provides a way of analyzing a subsystem of the international system and its interaction with the external environment at the national and international levels. When used in this thesis to compare Sino-Canadian and Sino-Japanese relations, it demonstrates that there exists a strong linkage between domestic and international policies.

Since the normalization of diplomatic relations between Canada and China, and between Japan and China in the early 1970's, Japan has emphasized economic gains whereas Canada has emphasized political ideologies. The result is that Japan and China are much more interdependent on each other than Canada and China, and that Canada can afford to place political ideologies above economic goals. This thesis also shows the limitations of applying linkage politics to the Sino-Canadian relationship where national policies have not greatly influenced the direction of bilateral relations, and alternatives can be sought when national interests are contradictory to bilateral political relations.

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CHAPTER ONE

INTRODUCTION

Since the end of World War II, interdependence among nation-states, particularly in economic affairs has become a predominant characteristic of the international system. In fact, with the end of the Cold War signalled by the disintegration of the former Soviet Union and the Eastern Bloc, and the political reforms that Russia and the economic reforms that China have brought about, the world economy has become increasingly more interdependent. National interests such as security are still important and government still the key factor in world politics, yet the impact of economic interdependence has been such that the national economy of a country has become increasingly susceptible to influences from external factors. This study uses the theoretical approach of interdependence, especially with the notion of linkage politics, to explore the scope of bilateral relations between China and Canada on one hand and China and Japan on the other.

The concept of interdependence is a general term widely used by different groups of political scientists to explain changes in world politics, especially since the end of World War II. As Robert O. Keohane and Joseph S. Nye comment:

We live in an era of interdependence. This vague phrase expresses a poorly understood but widespread feeling that the very nature of world politics is changing. The power of nations - that age-old touchstone of analysts and statesmen - has become more elusive... In common

parlance, dependence means a state of being determined or significantly affected by external forces. Interdependence, most simply defined, means mutual dependence. Interdependence in world politics refers to a situation characterized by reciprocal effects among countries or among actors in different countries.(1)

During the 1940s and 1950s, and to a considerable extent thereafter, political scientists tended to describe world politics as a Hobbesian situation in which independent units called nation-states are locked into patterns of fundamental conflict. This state of conflict comes from the idea that international relations is a state of nature which is defined by "the absence of a political authority sufficiently powerful to assure people security and the means to live a felicitous life".(2) Such a state of nature gives rise to the concept of "balance of power" which is a system composed of several independent states possessing roughly equal military power. Each state is expected to act strictly according to its own national self-interests. However, in the event that one state decides that its national interest is to destroy or dominate others in the system, military alliances are quickly made to oppose such aggression with superior force. In this manner an equilibrium is maintained in the system, which ensures independence and freedom of action for all.

This type of international system is said to have developed early in the eighteenth century and to have lasted for much of the nineteenth

(1) Robert O. Keohane and Joseph S. Nye, "Realism and Complex Interdependence", Paul R. Viotti and Mark V. Kauppi, International Relations Theory, New York: MacMillan Publishing Company, 1987, p. 381.

(2) Charles R. Beitz, "International Relations as a State of Nature", Political Theory and International Relations, Princeton, New Jersey: Princeton University Press, 1979, p. 28.

century as an answer to attempts by various individual rulers to create and maintain military and political domination over the whole of Europe. The present-day controversy over the exact meaning of "balance of power" is probably a symptom of the difficulties involved in sustaining such a system during the closing years of the nineteenth century. Indeed, by the time statesmen were fully convinced of the critical importance of the rules of this type of system, world social and political conditions had changed so much that the system was in the process of decay and transformation to a new kind of international system that emerged in the twentieth century.

For example, even during the most confrontational years of East-West relations during the mid-twentieth century, interstate relations in Western Europe were characterized by unprecedented cooperation, with the establishment of international institutions such as the European Coal and Steel Community (ECSC) in 1951 and the European Economic Community (EEC) in 1957. The importance of these institutions led some scholars to examine the developments taking place. In the 1950s, Karl W. Deutsch and Ernst B. Haas as pioneers of the field focused their attention on "regional integration" as an appropriate concept for describing the European process. Then the concept of this integration gradually gave way to the concept of interdependence when the European experience was expanded to include many more nations, and the world saw an increasing development of across-systems relationships. Many more international organizations were set up either under the United Nations such as The Group of 77 (established in 1972) or in different regions of the world

such as the Association of South East Asian Nations (ASEAN, established in 1967) and the Sistema Economica Latina Americana (SELA, established in 1975) to keep up with the fast pace of world integration and to protect and promote national interests through political and economic interdependence.

The term interdependence is commonly known to political scientists as so general that it "is perhaps the most generic of all the concepts in the growing lexicon of across-systems theory and, as such... that it is usually presumed simply to refer to any phenomenon in one system, the functioning of which cannot occur without some events or processes occurring in one or more systems."(3) Frequently, the use of "interdependence" carries highly positive and egalitarian overtones. Interdependence is commonly taken to be a characteristic of mutually beneficial relationships though in some situations, an interdependent relationship may have such negative consequences that both parties would be quite happy to cease contact with one another entirely, forgoing any benefits that such contact may bring.

For the purpose of this study, the concept is used first to identify the necessity of interdependence across systems, in this case across both national and international levels in what is referred to as "linkage politics" as well as across the socialist and capitalist systems. Second it is used to signify the degree of cooperation generated from this

(3) James Rosenau, "Theorizing Across Systems: Linkage Politics Revisited", J. Wilkenfeld, ed., Conflict Behaviour and Linkage Politics, New York: David McKay, 1973, p. 32.

necessity based on both national interests and international environment. Thus this study will take on the positive tone towards the notion of interdependence.

Theorists advocating the concept of interdependence have sought ways in which a systematic approach can be utilized to determine how and under what conditions political behaviour at one level of aggregation affects political behaviour at another level. Aggregation here indicates the context of cooperation in which two or more units of a political system join to put forward their demands.(4) This systematic approach is to link the different systems to see how national units and international system coexist. The international system is a conceptual construct designed to comprehend all the exchanges, transactions, contacts, flows of information and actions of every kind occurring between and among the constituent actors of the world. Within this international system is the "international political system" which is comprised of states, each of which has control within its boundaries and acts to maintain that control both domestically and internationally.

Within such a conceptual framework, two major groups of political scientists, the realists and the pluralists both advocate the study of interdependence. This study uses the works of pluralists Robert O. Keohane and Joseph S. Nye to analyze the concept of interdependence.

(4) Michael Haas, "A Functional Approach to International Organization", James N. Rosenau, ed., International Politics and Foreign Policy, New York: The Free Press, 1969, p. 135.

To the realists, the emphasis is on power in the international system. They believe that states are the principal actors and that national security tops the list of priorities for states. Military and political issues dominate the agenda and are referred to as high politics, whereas trade, finance, monetary exchange, and health are considered mundane and thus low politics.(5) Realists do not feel that interdependence is necessarily a good thing. Their argument lies in the reasoning that instead of being a symmetric relationship between coequal parties, interdependence in the world often appears in the form of dominance-dependence relation patterns, with the dependent party particularly vulnerable to the choices of the dominant party. To the realists, interdependence does not mean equality for nations.

Based on such assumptions, the realists suggest that interdependence connotes some degree of vulnerability of one party to another. In the case of Sino-Canadian relations, it can be argued that China will be the more vulnerable partner in its trade relations with Canada as it depends more on the importation of Canadian products such as wheat than Canada which depends on the less vital Chinese products such as textiles.

Continuing along this line, realists would argue that to reduce such vulnerability, it is better for both China and Canada to be independent or at least to minimize their dependency on the other. For example, when Chinese political and economic policies undergo changes contrary to

(5) Paul R. Viotti & Mark V. Kauppi, "Realism: The State, Power, and the Balance of Power", International Relations Theory, New York: MacMillan Publishing Company, 1987, p. 56.

western philosophies (such as democracy or human rights), then China may be subject to an embargo or price rise by Canada when imported wheat is needed. Under such circumstance, vulnerability is truly realized.

However, to the realists, such vulnerability does not apply equally to all states. The Canadian dependency level on China was not high enough for Canada to be seriously concerned when the Chinese government crack-down on the democratic movement in June 1989 dampened the environment for bilateral relations. Canadian business and trade with China was affected very little during this period.

As a matter of principle, the realists insist that if a state wants to be more powerful, it avoids or minimizes economic dependence on other states just as it avoids political or military dependence on other states if this amounts to a reduction of its relative power position. But this can be realized for larger powers in the world, whereas for those smaller and weaker nations, avoiding dependence and interdependence still means subordination and vulnerability to those that are bigger in size, richer in economic development and stronger in military might.

Based on such assumptions, it can be inferred that there is little benefit for China to be too closely linked with Canada since such interdependence can be a source of power for one state over another. Similarly, it is best for Canada to leave China alone since Canada can exert little influence on Chinese political and economic development.

This study will cast some doubt about the adequacy of the realists' view of Sino-Canadian relations in comparison with Sino-Japanese relations. In both cases, vulnerability may exist, but the benefits of such bilateral relations have outweighed the costs of vulnerability. Looking at the motivations of Canada and Japan to resume diplomatic relations with China, Canada benefited by finding a potential future market, gaining more independence in its foreign policy away from American domination, and more international recognition by recognizing China before most of Western countries and the United Nations. Japan has benefited tremendously from investment and trade with China. For China, merely emerging from the political and economic isolation from the western world since the 1950s was a break-through.

Can
West

As the Cold War has undergone dramatic changes and nations with lesser political influence are no longer subject to total control from other world powers such as the United States and the former Soviet Union, weaker nations are not necessarily as vulnerable as they used to be since they may possess other variables that the stronger nations may need. This is not to say that vulnerability does not exist in international relations, but that it is more appropriate to adopt the pluralists' concept of "sensitivity" between nations.

Keohane and Nye sketch a pattern of interstate relationships called complex interdependence, which is a kind of "interstate friendship". Keohane and Nye identify three characteristics of complex interdependence: (1) multiple channels connect the societies which include not only

official diplomatic ties, but also informal ties among governmental and nongovernmental elites and a variety of relationships (for example, trade) among elements of the societies; (2) multiple issues, especially on socioeconomic aspects reach the mutual agenda, and security issues do not consistently dominate; (3) the parties do not use military force in settlement of disagreements.

In contrast to the realists' theory of interdependence, the pluralists' version emphasizes "reciprocal effects among countries or among actors in different countries." (6) There is sensitivity in Country B to what is going on in or emanating from Country A. The validity of this argument lies in the attestment of the fundamental principles of what pluralists believe in the role of communication by not only states but also individuals, groups and societies' interactions. This is built upon a phenomenon of transnationalism in societies throughout history where there are often stronger ties between societies than between states. Transnationalism is a condition in which multiple channels of contact among societies such as multinational corporations further blur the distinction between domestic and international politics. The availability of partners in political coalitions is not necessarily limited by national boundaries. For example, in Sino-Japanese and Sino-Canadian relations, connections have been developed beyond the formal diplomatic circle to such joint ventures as Fujian-Hitachi Television Company and Babcock and

(6) Paul R. Viotti & Mark V. Kauppi, "Pluralism: Decision Making, Transnationalism, and Interdependence", International Relations Theory, New York: MacMillan Publishing Company, 1987, p. 210.

Wilcox Beijing Co. Ltd.. The domestic attitudes and policy directions are likely affected by communications and activities between these companies and their counterparts abroad.

Using this concept to analyze bilateral relations, especially between Japan and China in the second and third chapters, this study demonstrates that the development of the Sino-Japanese relationship was really generated from the efforts of a wider grass-root initiation rather than through government-led large scale promotion. Individual groups in Japan and China, especially scholars and businessmen, had been interested in each other's social and economic issues prior to the establishment of diplomatic relations. Historical and traditional ties, as well as cultural and geographical proximity, contributed greatly to easy communications between China and Japan during the past two decades. Such relationships prospered in the realm of trade as economic benefits were really the main purpose for Japan's political recognition of China. Japan wanted to penetrate the Chinese market with its manufactured products and China also wanted to accelerate the pace of its four modernizations (industry, agriculture, science and technology and national defense) through bilateral relations with Japan. Individuals and groups played a key role and are still doing so in the Sino-Japanese relationship.

Comparing Japan to Canada, it is easy to see that Canada's relationship has to a large extent relied on government-driven and financed programs. Thus political goals such as nationalism were the key concern when Canada first initiated official relations with China.

Economic benefits did not really come to prominence until ten years after normalization.

This study traces the development of Chinese-Canadian bilateral relations and demonstrates that this political rather than economic orientation, this government-led policy instead of grass-root communication denotes the main difference between Canada and Japan in their respective relationship with China. This study proposes that with world interactions increasingly on an economic rather than political level, Canada's shift from a political-oriented foreign policy to an economic-oriented is more than necessary.

In examining the political significance of such economic interdependence, this study proposes that there are not only benefits, but also costs associated with such bilateral relationships. There are joint gains and joint losses to the parties, of which the latter are manifested in the vulnerability that countries are subject to in international relationships. Through the empirical examination of Sino-Japanese relations, this study suggests that Japan is more vulnerable economically than Canada in its relationship with China, and that the Sino-Canadian relationship is not sensitive enough for both sides to yield more political compromise. Comparing these two situations, an appropriate balance between the two seems to be a logical solution to the dichotomy of vulnerability and sensitivity in international relations, yet in reality due to the complexity of each country's domestic situations and changes in international relations, it is difficult to identify such a balance. Under

these conditions, this study thus explores only the possible alternatives for countries such as Japan and Canada in their respective relationship with China.

To the realists, vulnerability is a form of cost in itself, and analyzing vulnerability in the perspective of interdependence, costs can be considered high. In contrast to the realists, though the pluralists do not exclude consideration of interdependence as vulnerability, they nevertheless advocate that in the world of interdependence, there is a decided absence of hierarchy among issues such that socioeconomic issues may be as or more important than security issues. Moreover, when such complex interdependence exists, military force tends to have less utility in the resolution of conflicts but that an understanding of bilateral, bicultural socioeconomic situations will tend to be more helpful. As Edward L. Morse points out:

... there is a broadening of the spectrum of policy goals to include goals of wealth and welfare in addition to those of power and position associated with high policies, or these older ideal patterns are completely overshadowed by the advent of 'low policies'. What is distinctive and new about these policies is that they are primarily non-conflictual.... Others are explicitly cooperative and pertain to the production of international collective goods, which require compatible efforts on the part of official and non-official groups in diverse societies. In the case of highly modernized societies, their chief trait is that they are seen as economic goods. They arise from growth in international trade and the concomitant necessity to regulate trade imbalances, to produce additional liquidity, to finance trade, and to create all the other regulative devices that go along with trade practices.(7)

(7) Edward L. Morse, "The Transformation of Foreign Policies: Modernization, Interdependence, and Externalization", World Politics, 22, No. 3 (April 1970), Princeton University Press, 1970, p. 337.

In this study of Canada-China relations in comparison with those between Japan and China, the key testimony to this point is that trade relations between these countries as a major part of foreign policy are utilized to improve the domestic well-being and to maintain peace between nations, which is more important than the high politics of national security.

This view is raised in Chapters Two and Three in which trade relations helped China and Japan keep peace for the last four decades. Canada, known for its advocacy of human rights and world peace, sought political recognition of China as early as 1949 and gradually realized the importance of economic ties and trade with China in addition to political contacts.

In Sino-Canadian relations both sides set foreign policies based on national needs, while also recognizing the need to be integrated into the world system in order to better the livelihood of their people through bilateral economic cooperation. To such an end, it is best to be more dependent and interactive with one another rather than turning away from each one's development path. Using Japan as a comparative case, this study has three propositions that assess the linkage of Canadian national policies with bilateral interdependence and the influence of economic power:

- (1) That Canada, while continuing to make efforts to influence China politically with democratic ideologies by maintaining active

government interaction, should emphasize more its sensitivity to China's policies and changes by encouraging more grassroot level interactions;

- (2) That Canada, like Japan and other western countries, should continue to adopt a policy more independent of American influence and to expand the economic relationship through which the integration of western market mechanisms into the Chinese system can allow more democratic influences to be exerted on the autocracy of the Chinese regime;
- (3) That Canada, in order to increase its competitiveness in the world market, should maintain close relations at all government levels and at the informal (for example private business) level to increase the Canadian presence in the Chinese market.

In analyzing the socio-economic behaviour of states, this study attempts to demonstrate that linkages exist between the economic and political subsystems of the international system, and that outputs from one subsystem can affect the functioning of another subsystem. However, comparing the experiences of Canada and Japan, this study hopes to shed more light on the integration and interdependence issues for both developed and developing nations, and to show that there are still limitations to these linkages.

This examination of Sino-Canadian government relations in comparison with Sino-Japanese relations begins with a study of the origins and reasons behind the resumption of diplomatic ties with China from both the Canadian and Japanese perspectives in the 1950s and 1960s. Historical events such as the Korean War and American political influence on Canada and the military occupation of Japan will be used to delineate the Cold War environment which was an impediment to across-systems relations - in this instance that of the socialist and the capitalist systems. The "Canadian Formula", (which all western countries found it convenient to use for resuming diplomatic relations with China) marked the first significant step towards western acceptance of Communist China, an acceptance which can also be considered part of the world political integration process. Trudeauism and Canada's nationalism were the centre of this political theme.

The 1980s saw the shift from political priorities to economic gains in international relations. Changes in the configuration of world wealth such as the economic boom of Japan and the growing prosperity of the Newly Industrialized Countries (NICs) have led all countries to redefine national policies in order to be compatible with the world's latest changes. The economic reforms taking place in China also represented a major turning point in its domestic economic policy with a subsequent impact on Chinese international relations. Its "Open-door" policy opened China to the world market, but the 1989 Tiananmen Incident brought the political disparities between the western democracies and Chinese totalitarian rule to a head. The linkages between national policy and

international environment indicate that political ideologies still play an important part in assessing external relations, in spite of the fact that economic factors such as sanctions and reduction of financial aid can be used to try to influence another country's domestic policies.

The analysis of Sino-Canadian relations in comparison with Sino-Japanese relations is systematized by introducing the independent variables involved in foreign policy decision-making at the national level. These independent variables include the forms of domestic political structure and system, the function of actors such as governments or private interest groups, changes of personnel, and the role of leadership at the top level in domestic political processes and international policy choices.

The problem of shifting from the high politics of national security to the multilayered, often overlapping socio-economic issues forms the basis of this study. In the 1980s and 1990s, the high politics of national interest from the realists' view may still be valid in Sino-Canadian relations with respect to the different political ideologies between the two countries, yet socio-economic issues have taken on more significance than in the 1970s. But in comparison with Sino-Canadian relations, Sino-Japanese relations have mainly emphasized socio-economic issues in the past two decades.

At the same time this study also examines the linkages between national interests and the international environment first explored by

James N. Rosenau. Rosenau defines linkages as "any recurrent sequence of behavior that originates in one system and is reacted to in another."(8) However, international systems are open to both external influences and effective choice by actors within the systems. For analytical purposes, current international relations theory also suggests that these two distinctly different perspectives can be blended to best analyze changes in international relations. Foreign policy analysis - or, more generally, the study of the international behaviour of "national actors" - is one focus. The other focus is on the interplay of demands and responses in a series of international events - or, on the operations of the international system. A complete historical narrative utilizes both perspectives and blends "actors and system considerations in order to reveal and put in perspective what occurred in a time and place setting."(9) This is the technique that this study will use for analysis.

For this purpose, this study delineates the main actors as the national governments, i.e. China, Canada and Japan, as well as the non-governmental actors such as Japanese and Canadian corporations and non governmental organizations. The structures, i.e. the characteristic relationships among the actors, include bilateral relations such as those

(8) Jonathan Wilkenfeld, ed., "Introduction", Conflict Behaviour and Linkage Politics, New York: University of Maryland, David McKay Company, Inc., 1973, p. 1.

(9) Charles A. McClelland, "Action Structures and Communication in Two International Crises: Quemoy and Berlin", International Politics and Foreign Policy, James N. Rosenau, ed., New York: The Free Press, 1969, p. 473.

between Canada and China and between Japan and China, and as well as those of Canada and Japan with the United States respectively in relation to their ties with China. The processes, namely the modes and forms of interaction, are analyzed through the examination of the origins of the resumption of diplomatic relations, the political acceptance of China in the United Nations, trade agreements in the case of Japan and economic aid in the case of Canada, the Chinese "Open-door" policy and economic reforms, the political turmoil of the Chinese Cultural Revolution and the 1989 Tiananmen Incident, and ultimately the shift in emphasis (not in structure) from political ideologies to economic interdependence.

To further expand on the analysis of the relationship between external influences and domestic factors, the methodology of joining together the studies of international relations and comparative politics is also used to examine both the domestic and external variables defined earlier in the Sino-Canadian and Sino-Japanese relations both before and after 1970, as well as when bilateral relations went through a political challenge in 1989 when China was set back in its development towards a more open society.

Applying the foregoing framework this study proposes to analyze Canadian foreign policy towards China in comparison with that of Japan in its shift from a political-oriented policy towards a more economic-focused policy over a period of two decades: 1) the initiation of nationalism; 2) the shift from emphasis on political ideologies to economic benefits; 3) the necessity for interdependence in an increasingly competitive world;

and 4) the exertion of the influence of economic cooperation on disparities of political ideologies. If Canada exercises a more independent foreign policy drawing more experiences from those of the Japanese, it can be argued that Canada will become a more salient middle-power actor not only through mere political pressure but also through economic means on China.

In an increasingly interdependent world through the development of a world economy and advanced technologies, is Canada competitive enough to place political conformity before economic gains in Sino-Canadian relations? Or is it more essential for Canada to give up idealism to pragmatism to help its domestic economy through maintaining the status quo with China? Is Canada really sensitive to what is going on in China both politically and economically? And, does interdependence truly bring vulnerability to Sino-Canadian bilateral relations in the 1990s?

These are the questions that this thesis attempts to answer through a use of theories of interdependence and linkage to examine the development of Sino-Canadian relations in comparison with Sino-Japanese relations. These are but variations of the questions that all western countries faced when they contemplated recognizing China as the official government in the early 1970s. For over two decades, bilateral relations between China and these countries have been widened to include many more facets of both political and socioeconomic issues. To answer these questions, this study is therefore divided into four chapters:

- 1) **Origins of bilateral relations: Sino-Canadian Political Initiation Versus Sino-Japanese Economic Ties**
 - A. **The China Issue - The Middle Powers' Dilemma**
 - B. **The Trudeau Era and The Canadian Formula**
 - C. **The Sino-Japanese Relationship: Trade First, Politics Second**

- 2) **The development of bilateral trade relations between Canada and China, and between Japan and China: the shift from a political to an economic base**
 - A. **A Four Phased Development of Canada - China Trade Relations**
 - B. **China's Economic Reforms and Its Impact on Bilateral Relations**
 - C. **Japan - China Trade Relations: Vulnerability Versus Sensitivity**
 - D. **Comparison of Trade Policies between Canada and Japan with China**

- 3) **Transformation of Economic Power**
 - A. **International Economic Interdependence**
 - B. **Linkage and Economic Power - The Cases of Sino-Canadian Relations in Comparison with the Sino-Japanese Relations**

- 4) **Conclusions**

CHAPTER TWO
SINO-CANADIAN AND SINO-JAPANESE RELATIONS
A HISTORICAL REVIEW

Since the establishment of formal diplomatic relations between China and Canada in October 1970, the two countries have developed a friendly cooperative relationship, first politically and then economically. This relationship subsequently affected foreign policies towards China by all western countries, including those of the United Nations in the 1970s. The political and economic significance of this diplomatic rapprochement has since gone far beyond what was initiated by then Canadian Prime Minister Pierre Trudeau with the main purpose of asserting Canada's independence in foreign policy from American influence in the early 1970s (diplomatic relations between the United States and China were not established until 1978). As Quo and Ichikawa pointed out:

*Pol:
Econ*

Recognition of the PRC, relegated to the back burner through much of the disruptive 1960s, emerged as a priority item in 1968 with Trudeau's selection as Liberal Party chief.... The Pacific has taken on a new importance for Canada with recognition serving as a caper to Trudeau's 1970 extended Asian tour and publication of the foreign policy review later that year. While the more traditional Atlantic ties remained, Canada obviously envisaged a change in emphasis from a foreign policy within a group of powerful partners (NATO, Norad, the Commonwealth) to one over which it has greater control.... As an expression of independence, Ottawa's move must be considered a first-order statement possibly unmatched by anything in past relations between the two countries.
(1)

(1) F. Quei Quo & Akira Ichikawa, "Sino-Canadian Relations: A New Chapter", Asian Survey, Vol. XII, Number 5, Berkeley, California: University of California Press, 1971, p. 394-395.

This initial political focus has given way to a more practical economic relationship between Canada and China in the 1980s and 1990s. With the end of the Mao era in 1976 and the beginning of the Deng Xiaoping/Zhao Ziyang period in 1979, China began its economic reform and started to open its doors to the world, suiting the needs of the export-oriented Canadian economy. This need has been reinforced by the initial and continuous Canadian experience of large wheat deals and subsequent trade with China in many other resource-related as well as manufactured products.

Suit
Canada
Export
need

Japan also resumed diplomatic ties with China as early as 1972 and among western economies has developed a very successful trade relationship with China. However, long before diplomatic recognition it had always had a strong interest in the China market under the auspices of seeking peace with China after the wars of the 1930's and 1940's.

Since the establishment of official relations with China, Japan has surpassed all countries by becoming China's number one trade partner today. In 1972, Japan's total trade value with China was only US \$823 million with exports to China at US \$569 million. By 1990, the total trade value between the two countries reached over US \$18 billion, of which exports from Japan to China totalled US \$6.13 billion.(2) Even under pressure from other western countries to

Japan

(2) Source: Exports and Imports by Area and Country, Statistical Survey of Japan's Economy, Economic Affairs Bureau, Japan: Ministry of Foreign Affairs, 1991/92.

denounce China after the 1989 Tiananmen Incident, Japan only adopted a superficially critical policy against the Chinese government, but was careful not to jeopardize its competitive edge over other western countries in the China market.

Despite resuming diplomatic relations with China in 1970, almost two years ahead of Japan,⁷ and possessing superior natural resources and a vast land base, Canada has been left behind by Japan in its economic transactions with China. The total value of trade between Canada and China in 1990 was \$3 billion with exports from Canada to China valued at \$1.7 billion.(3) Though there was a significant increase over 1971 when the total trade value with China was only \$227 million, of which exports to China totalled \$204 million,(4) Canada is dwarfed by the astronomical figure between Japan and China. China is also less important as a foreign market to Canada than it is to Japan, as China trade comprised 3.5 percent of Japan's total trade value in 1990 while for Canada this figure was 1.1 percent.(5)

Why has Japan increased its trade with China so much in comparison to Canada? The reasons for Japan's success will be used to analyze why

(3) Source: Imports and Exports by Country, 1970 - 1990, International Trade Division, Statistics Canada.

(4) Ibid.

(5) These figures are calculated based on Exports and Imports by Area and Country (Customs Clearance Basis), Statistical Survey of Japan's Economy, Economic Affairs Bureau, Ministry of Foreign Affairs, Japan. 1991, and Imports and Exports by Country, 1970 - 1990, International Trade Division, Statistics Canada.

Sino-Canadian economic relations have not been as successful, and how the 1989 Tiananmen Incident affected Sino-Canadian relations. What lies in the future for Sino-Canadian relations in the face of strong competition from other western countries such as Japan? To what extent should Canada engage itself in world-wide economic activities in order to prosper in such a competitive situation? And what are the alternatives for Canada and Japan to try to balance between the degree of vulnerability and sensitivity in their relations with China?

Entering into the 1990s, Sino-Canadian relations are facing a new challenge of balancing political differences and ongoing economic relations. After the Tiananmen Incident, Canada withdrew its ambassador from Beijing, denounced the crackdown on the democratic movement and suspended all high level two-way government delegations. More than two years after this setback, government relations had just started to warm up when three Canadian Members of Parliament were expelled from China in January 1992 for engaging in human rights activities. This only had a slight impact on overall Sino-Canadian relations, yet it highlighted the fundamental differences in Canadian and Chinese political systems and ideologies involving issues such as human rights, Tibet's independence, and minority rights in China. Once again Canadian public opinion was skewed unfavourably against China.

Since political change in China is not readily possible in the immediate future, the question remains of how Canada, with its different

western democratic ideologies continues to develop its relationship with China. Why has Canada become less patient with China in the face of a relatively small setback to China's road to modernization after putting up with the Chinese autocratic rule and socialist doctrine for twenty-one years? To what extent can Canada truly influence the Chinese domestic political development through political or economic means?

As an environment for political decision makers, the contemporary world is a far different place from the world of the past decades. Technologies of rapid communication and transportation have created a far more interdependent system than was true decades or centuries ago. The brutalities of the Chinese Cultural Revolution did not really come into full light until the west restored formal diplomatic ties with China and books were published about the totalitarian rule during this period. However, in 1989 Canadians and other foreigners were able to use high-tech mechanisms such as satellite transmission to transfer first-hand on-the-spot live coverage of the Tiananmen Incident. But politically it was still difficult to acquire and give a full objective description of what went on in China under the restrained circumstances in China and its relations with the west.

Since the late 1970s, China's domestic struggle for modernization has led to a shift in foreign policy from political alliances with Third World nations to a more pragmatic economic relationship with the affluent

Western industrialized countries. As a socialist and developing nation, the difficulties that the people had to endure since 1949 made the government realize the imminent need to pull China out of the political isolation and economic mayhem which resulted from the Cultural Revolution (1966-76) and a closed economy.

After Mao Zedong, Chairman of the Communist Party of China (CPC) died in 1976, Chairman Deng Xiaoping engaged the whole country in a large scale economic reform under the slogan of "It doesn't matter if the cat is black or white, as long as it catches mice". The Chinese government then allowed socialist doctrines and capitalist market mechanisms to coexist along the socialist road but with "unique Chinese characteristics".

After twenty-odd years of development of bilateral relations with western countries, China wishes that these ties focus on the economic side since this satisfies both Chinese domestic economic development and the lesser need of opposition to hegemonic expansion. China can still afford to adhere to its own socialist doctrine without paying too much attention to western opposition to its autocratic rule as long as the west seeks only economic ties with China.

Such kind of phenomenon truly reflects the loose structure of interdependence between China and the west as China has not been highly sensitive to western countries' pressure on improvement of human rights in

China. Under such circumstances, Canada has struggled with its middle power's dilemma on this bilateral relation throughout the past four decades or so. It may be argued that even today Canada and China are still not so vulnerable to each other as to have to depend on one another for military alliances, political support and economic development to a large degree. Both can easily find a replacement for one another. However, Canada's effort of pushing for a bigger role in the Pacific region represented by the recognition of China has definitely been a rewarding one. In the following, a reconstruction of what strikes the author as important background relating to the issues of the need for interdependence and linkages is considered in three sections: (A) The China Issue - The Middle Power's Dilemma; (B) The Trudeau Era and the Canadian Formula; and (C) Sino-Japanese Relations: Trade First, Politics Second.

A. The China Issue - The Middle Powers' Dilemma

In 1970 Canada officially recognized Beijing rather than Taiwan as the government of China. The news from Ottawa was such that "Canada recognized the government of the PRC as the 'sole legal government of China' and 'took note' of China's territorial claim to Taiwan 'without either challenging or endorsing' it. The diplomatic log-jam was broken and the 'Canadian formula' became the model for most of the Western nations which subsequently established diplomatic relations with the PRC in the 1970s."(6)

After Great Britain and Holland recognized China in 1950, Canada was the first western country to resume diplomatic relation with China. The fact that Canada had traditionally been under the influence of American foreign policy but recognized China more than eight years earlier than the United States (1978) demonstrated a strong move away from American policy influence. The motives behind such a bold foreign policy were quite straight-forward. China and Asia have never been Canada's major preoccupations. But Canadians did spend a great deal of time worrying about their Cold War China policy, and especially the extent of U.S. influence on that policy.

(6) B. Michael Frolic, "The Trudeau Initiative", Paul M. Evans & Michael Frolic, editors, Reluctant Adversaries, Toronto: University of Toronto Press, 1991, p. 203.

As a middle power, Canada faced the dilemma of having to both stand in unity with its friends yet also be consistent to its own foreign policy principles. During the twenty one years (1949-1970) of struggling over the China issue, like all other western countries Canada had to sort through the key issue of recognizing either the People's Republic of China (PRC) or the Republic of China (ROC - Taiwan) as the official government, and the issue of which one of them should be China's representative in the United Nations.

This was the period in which the Canadian agenda with respect to both Communist and Nationalist China focused on high politics i.e., national interest and security issues from a government level. This is in contrast to the 1980s when much broader contacts including unofficial and private activities started.

From the 1950's to the 1970's Canada followed most of the major U.S. policies on international affairs, but differed considerably in its attitudes and policies towards China. Canadian views of Communist China then and later have not had the mercurial quality that has characterized the Sino-American connection. "If Sino-American interaction has been a roller-coaster ride, Canada and China have been on something closer to a merry-go-round." (7)

(7) Paul M. Evans, "Introduction: Solving Our Cold War China Problem", Paul M. Evans & B. Michael Frolic, editors, Reluctant Adversaries, Toronto: University of Toronto Press, 1991, p. 4.

Colombo
* The original Canadian intention was to recognize the new authorities in Beijing without undue haste and formalities. This act was considered at the Conference of Commonwealth Foreign Ministers in Colombo in January 1950, (8) and it was to have been taken, along with most Commonwealth governments, in accordance with the British tradition of recognizing governments, whether one likes them or not, which successfully exercise their authority.

* On a second level, Canadians did not have the strong personal or emotional contacts that the Americans had through their support of the Chinese Nationalist government against the Communists through the first half of the twentieth century. Canadians did not have any particular reasons to support the Kuomintang after it was driven off the mainland by the Communists and had none of the "lost China" feeling which deeply affected American thinking.

In fact, the Canadian ambassador remained in Nanjing rather than follow the Nationalists to Taiwan, and the mission was maintained there under the Communists until February 1951, and the Canadian consulate general in Shanghai until the end of 1951. No Canadian diplomatic mission had ever been set up in Taipei, although the Chinese Nationalist embassy was maintained in Ottawa until Canada's recognition of the Beijing government in 1970. (9)

(8) A.M. Halpern, ed. "Chapter 4, Canada and China, The Dilemmas of a Middle Power", Politics Toward China: Views from Six Continents, New York: published for the Council on Foreign Relations by McGraw-Hill Book Company, 1965, p.103.

(9) Ibid, p. 104.

There is little doubt that Canada's intent to recognize the Beijing government and exchange diplomatic representatives would have been fulfilled early on if the Korean War had not interrupted the process in June 1950. Canada had also been moving toward favouring Beijing representation in the United Nations as early as 1950.

Document
However, Canada's recognition of China did not materialize until twenty one years later. The delay can be attributed to caution induced by the increasingly resolute American position and by some resistance within Canada, especially from Conservative opposition to the Liberal Party during the St. Laurent administration (1949-57). Of prime importance was the wait and see attitude about the outcome of the Korean War. With the large scale participation of Chinese troops against the American supported Korean government of Sigman Rhee, Canada could not pursue recognition of the Beijing government as both the U.S. and Canada were part of the United Nations forces fighting the "police action" against China. It was the United Nations' condemnation of Communist China as the aggressor that stopped any further consideration of recognizing China.

Heaven
The Korean War ended with the 1954 Korea Conference in Geneva. Later, Canada, unlike the U.S., was favoured by the truce signatory powers, including Beijing to serve on the supervisory commissions for the states of Indochina (Laos, Cambodia and Vietnam). This was mostly due to the relatively independent position on Asian matters that Canada expressed at Geneva.(10)

(10) J.P. Jain, "Chapter Two, British Recognition and Peking's Reaction", China in World Politics, New Delhi: Radiant Publishers, 1976, p. 105.

After the 1954 Geneva negotiations, China returned the last Canadian prisoner of war and displayed a more amenable disposition. They finally agreed to an exchange of diplomats with the British, and once again Ottawa was ready to consider altering the status quo. On his return from an Asian tour in 1954, Prime Minister St. Laurent struck what became a familiar theme in Canadian pronouncements - that although it was not yet time to act, it would be unwise to make commitments which would make recognition of China impossible in due course.

In August 1955, Lester Pearson, the Secretary of State for External Affairs, went further by suggesting "that the time is coming, and soon, when we should have another and searching look at the problem." (11) Public opinion was divided but was no comparison with the bitter American attitude during this period. McCarthyism did not intimidate Canadians but rather stimulated those who wanted an independent China policy.

* However, throughout the 1950s and 1960s, bold steps in Canadian foreign policy towards China were discouraged either by Chinese attacks on the offshore islands (and later on Tibet and India) or by the imminence of an American election every four years. The official pronouncements shifted from time to time, depending upon the latest Chinese behaviour or the private views of the spokesman, between a stress on the reasons for recognition and a stress on the reasons against it, and often the U.S. sentiment against China.

(11) J.P. Jain, "Chapter Two, British Recognition and Peking's Reaction", China in World Politics, New Delhi: Radiant Publishers, 1976, p. 105.

By the time Pearson's diplomatic niceties re-surfaced in the mid-1950s, a new obstacle had existed for some time - American disapproval of the Peking regime, fostered by the surprisingly popular and virulent form of anti-communism, McCarthy's. This second hurdle to recognition, whether real or fancied, made itself felt in a number of ways. Logically, recognition did not and still does not mean approval, but public opinion was an easy target of public emotions spurred by the U.S. Senator's harangues.(12)

Due to the adamant opposition of the U.S., there was indecisiveness on the China issue under both the Liberals (1954-57) and the Conservatives (1957-63) in their alternate reigns of power throughout this period.

Liberal
Canada's China policy had also been trapped in the bogs of U.N admission, mired in inconclusive debates over "two-Chinas" or "one-China, one-Taiwan" policies. Canadian initiatives to admit China to the United Nations in 1964 and 1966 had failed. Prior to this period, months before the People's Republic of China came into being on October 1, 1949, officials at the Canadian Department of External Affairs were considering the various problems the Chinese situation could raise for the Canadian delegation to U.N. which happened to be on the Security Council that year. By the time the former Soviet Union introduced a resolution to unseat the Nationalists from U.N. in January 1950, Canada's two-year term on the Security Council had expired and its delegation was content to see that other subsequent delegations did not want to attend to the Chinese problem at the time. Then throughout the 1950s, nations were divided on the question of which Chinese government should be the representative to U.N..

(12) F. Quei Quo & Akira Ichikawa, "Sino-Canadian Relations: A New Chapter", Asian Survey, Vol. XII, Number 5, Berkeley, California: University of California Press, 1971, p. 388.

* Britain, France, India, Pakistan were supportive of the idea of replacing the Nationalist representative with the PRC representative to U.N., whereas the United States was strongly against such idea.

During the 1950s, arguments against admitting Communist China to the United Nations were loud and furious. The U.S. administration had numerous reasons to support their policy of keeping Beijing out of the world organization. One argument was the claim that PRC was not suitable as a U.N. member because the United Nations Charter limited membership to "peace-loving" states, which were willing to accept the obligations of the Charter. A prevalent feeling among both American top policy makers and the public was such that PRC had repeatedly expressed open hostility and contempt for the purposes and principles of the world organization.

In 1953, when Korean War drew to an end, both U.S. President Eisenhower and Secretary of State Dulles, backed by the U.S. Congressional resolutions and a decisive public opinion, made it clear that they did not want the Communists in the United Nations and would use their embassies to lobby against such a move. The American government attitude was such that unless China demonstrated that it was no longer a puppet of the former Soviet Union and was prepared to fulfil the obligations of the U.N. Charter, the United States would not change its attitude towards the issue of admitting PRC to U.N.. The U.S. Administration then proceeded in a number of diplomatic measures such as issuing statements to Canada and

Belgium to put pressure on these countries not to press for Chinese representation in U.N.. In spite of four rounds of Canadian initiatives in the 1950s and 1960s to solve the China problem, all efforts failed to have China admitted into U.N. due to American opposition.

Japan shared some similar experiences as Canada in terms of political influence from the U.S. during the post-war period. Under ordinary circumstances one would think that since Japan and China had close cultural ties, geographic proximity, and economic complementarity, it would be relatively easy for the two countries to establish diplomatic relations and to expand their economic and cultural relations. In particular, Japan was long influenced by traditional Chinese cultures, ranging from its written characters and ethical philosophies to its educational system and religious practices. However, during the post war period up till 1972, Japan and China experienced a mixture of diplomatic, ideological, and strategic conflicts and economic and cultural cooperation.

There were a variety of reasons for this extraordinary state of affairs between Japan and China. From early twentieth century to 1945, China suffered tremendous atrocity from Japanese military aggression and occupation, at the same time many ambitious Chinese youths - Sun Yatsen, Zhou Enlai, Chiang Kaishek, Wang Jingwei, Lu Xun, and Guo Moro, to name a

few, studied or worked in Japan.(13) At the end of World War II all relations ceased. But then Japan was thoroughly defeated and was under military control of the United States for seven years. The U.S. occupation authorities in Japan designed a form of government and promoted a conservative political elite compatible with American economic and ideological interest.

The purpose and result were to drive Japan into the anti-Communist camp in the subsequent global cold-war structure. Even after Japan regained its political independence in 1952 as a result of the San Francisco peace treaty,(14) the successive conservative governments were all too weak in the world community to adopt a more independent approach to foreign relations. This was especially true in regard to the two rivaling Chinese regimes, Beijing and Taiwan, where Japan continued to remain under the shadow of U.S. policy, which attempted to contain China politically and militarily and to isolate it diplomatically and economically.

However, entering into the 1960s and early 1970s, with a rapid economic development, and with Japan's political leaders gaining more independence in making their own decisions on both domestic and foreign policies, the importance of Sino-Japanese relations was mainly based on

(13) Chae-Jin Lee, Japan Faces China, Political and Economic Relations in the Postwar Era, The Johns Hopkins University Press, 1976, p. 1.

(14) Ibid, p. 2.

the Japanese domestic political scene. Japanese political forces, especially the governing Liberal-Democratic Party (LDP) and the opposition Japan Socialist Party (JSP), held different opinions and policies towards the China issue. The LDP and its predecessors, which had almost single-handedly decided and executed Japan's foreign policies since 1952, continued to honor the Japan-Nationalist China peace treaty and to expand diplomatic and economic relations with Chiang Kaishek's Taiwan until 1972. Some LDP and its parliamentary members were active in seeking trade relations with China, while the LDP government officially insisted on the principle of separating politics from economic matters. Therefore, the LDP never achieved a complete agreement among its divergent leaders, but exhibited a growing interfactional cleavage in the early 1970s.

Opposite to the LDP's conservative foreign relations, the JSP advocated a broad policy line of peaceful coexistence, positive neutralism, and total disarmament. It also proposed that Japan should normalize its diplomatic and economic relations with China and conclude both peace treaties and nonaggression pacts with China and the Soviet Union.⁽¹⁵⁾ Within the JSP, though there was a general internal consensus on foreign policies, its leaders and supporters disagreed on their relative priorities and their specific methods of implementation. The complexity of such differences was aggravated by their internal socialist factional rivalries, the polycentric tendencies of international Communist

(15) Chae-Jin Lee, Japan Faces China, Political and Economic Relations in the Postwar Era, The Johns Hopkins University Press, 1976, p. 2.

movements, the gradual disintegration of the American alliance system, and the LDP's changing external tactics which left the JSP with little influence on the decision-making of Japanese foreign policies.

In spite of these domestic attitudes to the issue of foreign policies towards China, Japan was still very hesitant to recognize China without a proper formula that it could utilize to benefit its economic need to move into the China market without jeopardizing its relationship with the United States. Such an opportunity did not materialize until Canada was able to produce the diplomatic panacea that provided all western countries the means to reach these goals.

Even though for both Canada and Japan, recognizing China was still not a question of the necessity of interdependence by the late 1960s, however, the need for exploring new international linkages was brought to reality with the final break-through of the Canadian formula on the China issue.

B. The Trudeau Era and The Canadian Formula

Canada's hesitant policy on the China issue in the late 1960s took a new turn with the landslide win of Trudeau's Liberals in 1968. Armed with views of Canadian external relations that were defined as "activist" and "realist", Trudeau implemented his domestic nationalist's plan in conjunction with his determination to build an independent Canadian foreign policy. Trudeau took the bold step that had been long in waiting - giving full recognition to China in October 1970 despite strong American opposition.

Canadian foreign policy has traditionally been closely identified with that of the Americans. As the new leader of the Liberal party and then as Canada's prime minister, Trudeau cultivated an image of positive change signalling a departure from policies of the past, with foreign relations being one of his main targets. Canada's relationship with China was one of the focal points for a symbolic emancipation from American influence.

In May 1968, Trudeau tested the waters by suggesting that recognition was feasible, although "The PRC would probably say no unless we agreed to break relations with Taiwan. We wouldn't do that." A few days later, on May 10, he again stated that "The present situation in

which a government which represents a quarter of the world's population is diplomatically isolated even from countries with which it is actively trading is obviously unsatisfactory. I would be in favour of any measures including recognition on suitable terms which can intensify the contacts between our two countries and thus normalize our relations and contribute to international order and stability." Continuing on this line, Trudeau made a major policy statement on May 29, stating that:

We shall be looking at our policy in relation to China in the context of a new interest in Pacific affairs generally. Because of past preoccupations with Atlantic and European affairs we have tended to overlook the reality that Canada is a Pacific country too. Canada has long advocated a positive approach to mainland China and its inclusion in the world community. We have an economic interest in trade with China - no doubt shared by others - and a political interest in preventing tension between China and its neighbours, but especially between China and the United States. Our aim will be to recognize the People's Republic of China government as soon as possible and to enable that government to occupy the seat of China in the U.N., taking into account that there is a separate government in Taiwan.(16)

Trudeau's initiative in recognizing Beijing as the rightful government of China faced the fundamental issue of the status of Taiwan. After a few rounds of difficult discussions with the Chinese government representatives, a special formula was proposed to take into consideration both the Chinese concern of "Taiwan being an inalienable part of Chinese territory" and the Canadian policy of also recognizing Taiwan as a "separate government". Finally, in a joint Sino-Canadian

(16) B. Michael Frolic, "Chapter Eight, The Trudeau Initiative", Paul M. Evans & B. Michael Frolic, editors, Reluctant Adversaries, Toronto: University of Toronto, 1991, p. 191-192.

communiqué of October 13, 1970, the two countries announced the establishment of diplomatic relations. Canada recognized the government of the PRC as the "sole legal government of China" and "took note" of China's territorial claim to Taiwan "without either challenging or endorsing it". The diplomatic log-jam was broken and the "Canadian formula" became the model for most of the western nations which subsequently established diplomatic relations with China in the 1970s.

This formula of recognition was welcomed by China as it tried to break the political isolation when both the western countries led by the U.S. and the eastern European block led by the former Soviet Union were on unfriendly terms with China. China had to select a direction from which it could help protect its national interest. And without the recognition of its identity in U.N., it was difficult to realize the goal of protection of national interest. There was a certain degree of urgency on relying on the western forces in China's efforts to counterbalance the threat coming from the former Soviet Union.

Therefore, this recognition by Canada and the reaction from China was politically motivated and had little significance in economic terms at the outset. Though prior to this recognition, Canada did have a few wheat deals with China, it was insignificant in the initial resumption of diplomatic relations. Throughout the 1970s, Canadians did not see the necessity to gain a share of the China market, and relations were kept to political ties.

This can be reflected in the realists' view on international relations in which the emphasis is on power in the international system. The belief that states are the principal actors and national security tops the list of priorities for states is applicable to the situations of both China and Canada in the Cold War era. China was the lonely power trying to break out of its isolation in world politics, and Canada tried to break away from American influence and identify its own national priorities. Military concerns and political issues dominated each side's policy agenda and therefore the high politics of these national interests were the key focus. Low politics such as trade, finance, and monetary exchange were relatively insignificant in bilateral relations.

China, very eager to be officially recognized by the west, experienced a certain degree of political vulnerability, especially when trying to replace Taiwan as the official Chinese government in international community. As the United State was still adamant about its support for the Taiwan government, China was concerned that Canada might still succumb to U.S. pressure and would find it difficult to recognize the Beijing government.

During the 1980's and 1990's, as Canada shifted its political emphasis of the 1970s to an economic one, trade started to play an important role in the development of Sino-Canadian relations. To lay the foundation for an analysis of the economic relationship development between Canada and China in the 1980's and 1990's, it is important to look at the scheme that has helped Japan become China's number one trade partner in the past twenty years on a comparative basis.

C. The Sino-Japanese Relationship: Trade First, Politics Second

Even if the political goal of reaching peace with China was prevalent throughout the post-war period, the Sino-Japanese relationship, unlike that between Canada and China was initiated and developed along trade-oriented rather than politically-oriented lines. Japan had been eyeing the China market long before the Canadian initiative of 1970, and after the "Canadian Formula" was introduced to western countries, Japan soon resumed diplomatic relations with China on September 29, 1972.

After the Second World War, both Canada and Japan shared the same political problem of having to follow to the U.S. political lead as both were members of the "Capitalist Camp", recruited by the U.S. for the task of eradicating communism. As a defeated war participant, Japan could do no more than follow the orders of the United States in the 1950's and 1960's. It was not until Nixon, the U.S. President, visited China in February 1972, that the Japanese Prime Minister Tanaka went to Beijing.

However, as Japan started to develop economically throughout the 1950's and 1960's, Japanese found themselves itching for the giant neighbour market. Domestically, the governing Liberal-Democratic Party (LDP) after going through a few ups and downs with the opposition Japan Socialist Party (JSP), responded to the Chinese question with varying policies and commitments. JSP proposed that Japan should abolish the

peace treaty with Taiwan, and establish diplomatic relations with China, and support the latter's exclusive representation in the United Nations.

During the course of seeking normalization of diplomatic relations with China, the question of balancing between China (P.R.C.) and Taiwan (R.O.C.) always posed the greatest difficulties for Japan for both political and economic reasons, as Taiwan was a major trading partner of Japan from after World War II to 1972. The United States had always tried to exclude China by making sure that its allies set up formal diplomatic relations with Taiwan only. Still under U.S. pressure, Japan had to weigh carefully the consequences of abandoning Taiwan for China.

The Japanese businessmen were increasingly impatient with their own government's inability to reach a reconciliation with China, as the impetus for diversification of their export markets was stronger than ever before. They feared that the United States would in the long run establish a preeminent foreign economic base in the China market, but believed that if they moved quickly Japan would be able to gain much economic benefit from China.

In spite of the absence of diplomatic relations between Tokyo and Beijing, a broad range of Japanese individuals and groups - in addition to the political parties and business circles - conducted various types

of "people's diplomacy" with their Chinese counterparts. The activities ranged from cultural exchanges and mutual visits to joint declarations and political rallies. In the process, they served, intentionally or not, as important instruments for forging China's desired links with the Japanese government ties. As Herbert Passin suggests, "the Chinese attached a particular political importance to playing on the susceptibilities and dispositions of responsive individuals and strata in Japan. They appealed to the Japanese people's prevailing desire to be independent of foreign political influence, to become good neighbours of Asian nations, and to enjoy a peaceful and prosperous life."(17)

The growth of Sino-Japanese economic development through these informal ties, however, again gave rise to a complicated quadrangular political relationship among Beijing, Tokyo, Taipei, and Washington. Since Japan had both commercial and political reasons to avoid an open breach with Taipei, the LDP headed by the Sato government had no intention of giving up the profitable trade relationship with Taiwan. During 1967, Japan bought US \$126 million worth of Nationalist Chinese goods (nearly half of which were bananas), but sold US \$314 million worth. Exports to Japan constituted 19.5% of Taiwan's total foreign sales, and the imports made up 37.2% of its purchases from abroad.(18)

(17) Herbert Passin, "China's Cultural Diplomacy", quoted in Chae-Jin Lee, "The Processes of Political Estrangement", Japan Faces China, The Johns Hopkins University Press, 1976, p. 71-72.

(18) Chae-Jin Lee, "The Politics of Economic Cooperation", Japan Faces China, The Johns Hopkins University Press, 1976, p. 134.

In 1969 the total volume of Japanese-Taiwanese trade was US \$780 million, US \$160 million more than Japan's trade with China.(19) Thus, even though the quasi-government L-T trade (20) between China and Japan was agreed to be extended in 1966 beyond its original five-year limit, the prospect of its actual extension was clouded during 1967 by the intensifying political friction between Beijing and Tokyo over and by the effects of the Cultural Revolution in China.

The intertwined relationship between Japan, China, Taiwan and the U.S. were characterized by these numerous twists and turns in the years between 1949 and 1972. China used its potentially lucrative market as bait in its bargaining with Japan for political ends while Taiwan exerted as much pressure as possible in maintaining its status quo with Japan during this period. Japan's ultimate recognition of China by sacrificing its share in Taiwan, demonstrated clearly its primary concern in profit seeking.

As Japan grew to be more independent both politically and economically, the lucrative side of the China market was no longer beyond reaching so long as formal diplomatic relations were set up and the same question of "One China, One Taiwan" could be solved.

(19) Chae-Jin Lee, "The Politics of Economic Cooperation", Japan Faces China, The Johns Hopkins University Press, 1976, p. 134.

(20) The L-T trade (L for Liao Chengzhi, the senior advisor on Sino-Japanese relationship within the Chinese Foreign Affairs Ministry; T for LDP Dietman Takasaki Tatsunosuke), is formed with the signing in November 1962 a memorandum on "over-all trade" for the period 1963-67.

The high politics of national interests and security were in fact less important than economic profits to Japanese businesses. Even if they politically recognized Taiwan, Japan's relationship was built upon doing business simultaneously with both mainland China and Taiwan. Both Japan and China were sensitive to each other's needs and domestic situations, and thus more ready to adopt reciprocal policies.

Even before the establishment of the present Chinese government in 1949, both China and Japan carefully laid foundations for resuming the normal trade relations that had been disrupted in the immediate postwar period. At the Second Session of the Seventh Central Committee of the Chinese Communist Party in March 1949, Mao Zedong expressed his intention to take a pragmatic and positive policy toward foreign trade by transcending ideological and diplomatic constraints. He declared that "Wherever there is business to do, we shall do it.... So far as possible, we must first of all trade with the socialist and people's democratic countries; at the same time we will also trade with capitalist countries."(21)

Meanwhile, a number of Japanese political and business leaders, despite the United States government's displeasure, launched a movement for renewed contacts with mainland China. They felt that trade with China was essential for their economic recovery because Japan had traditionally relied heavily upon the China market, with which it had

(21) Chae-Jin Lee, "The Politics of Economic Cooperation", Japan Faces China, The Johns Hopkins University Press, 1976, p. 134.

traded 21.6% of its total volume of exports and 12.4% of its imports in the 1930s.(22) Already in May 1949 some members of the Japanese National Diet, Conservative and Progressive, set up a nonpartisan Dietmen's League for China-Japan Trade Promotion. The league helped organize a civilian China-Japan trade Promotion Council in August 1949. The council was instrumental in reopening trade with China, but the volume of initial transactions during 1949 involved only US \$3.1 million in Japanese exports and US \$21.8 million in imports.(23)

In the first half of 1950, the political climate for trade expansion improved as the U.S. State Department officially permitted Japan to establish economic relations with China in March, and this decision helped the Japanese House of Councillors to pass a resolution in April that asked the Japanese government to facilitate trade expansion with "New China". Subsequently, in 1950 the volume of Japanese exports, which included electric motors, mining tools, pumps, steel, x-ray equipment increased more than six times over the previous year; and the imports of soybeans, rice, salt, coal, iron ore, and other Chinese goods nearly doubled. Japan also imported from Hong Kong US \$26 million worth of items produced in China, which accounted for 62% of Japan's total imports from Hong Kong.(24)

(22) Yashiki Hiroshi, Nichu Boeki Annai (A Guide to Japan - China Trade) (Tokyo: Nihonkeizai shimbunsha, 1964), p. 151.

(23) Nichu Kankei Shiryoshu, 1945-1971 (Collected documents on Japan - China relations, 1945-1971), pp. 155-57.

(24) Chae-Jin Lee, "The Politics of Economic Cooperation", Japan Faces China, The Johns Hopkins University Press, 1976, pp. 135-136.

As in Canada, the optimism for revitalized Sino-Japanese trade was short-lived as the Korean War thwarted the opportunities of detente in East Asia. As a result of China's direct military engagement in the war, the United States adopted in December 1950 a policy of total trade embargo against China, and a similar economic measure was recommended by the United Nations General Assembly the following May. The U.S. occupation authorities imposed strict restrictions on Japanese exports to China. In 1952, Japan was compelled to join the Coordinating Committee (COCOM) for export control and its China Committee (CHINCOM), which were set up to control and regulate exports of strategic goods to the Communist bloc.(25)

China, too, tried to punish Japan economically, because it was serving as a military base for the U.S. war effort in Korea and was accepting the San Francisco system without China's participation. Under these political conditions, Sino-Japanese trade inevitably suffered a drastic decline in 1951 and 1952.

Although Japan regained the status of political and diplomatic independence from the United States in April 1952 when the San Francisco Peace Treaty came into effect, its China policy, especially

(25) The United States and Western European countries organized in November 1949 at Paris a consultative group for trade policy toward the Communist bloc, and set up a Coordinating Committee (COCOM) as its executive arm. After the United Nations adopted a recommendation for embargo against China, the COCOM established a special China Committee (CHINCOM) in 1952; it was abolished in 1957. See George P. Jan, "Japan's Trade with Communist China," Asian Survey, December 1969, p. 903.

in regard to trade relations with China, was stringently bound by the COCOM and CHINCOM regulations and by a bilateral peace treaty concluded with Taiwan. While the Japanese government committed itself to an unmistakable pro-Taiwan policy in diplomatic and economic areas, there emerged a new effort in 1952 among some Japanese politicians and businessmen to expand trade with China.

It was on the private business level that relations with China through trade kept the door open between the two countries. Throughout the 1950's and 1960's, the foremost trade pattern was done on the basis of friendship trade in which private sectors played an important role. Four private trade accords were concluded with China from 1952 to 1968, during which the Chinese gradually introduced a series of political demands and successfully obtained concessions and promises from the Japanese negotiators, who were in most cases influential members of the reorganized Dietman's League for Japan-China Trade Promotion.

Even though the Japanese government and the LDP stubbornly upheld a policy of separating trade from political and diplomatic issues concerning China, the method of unofficial trade agreements contributed to a modest increase in Sino-Japanese trade. Only a negligible proportion of the first agreement, which set the amount of two-way transactions at 30 million pounds sterling on a barter basis, was implemented by the end of 1953 - 4% of Japan's projected exports to China and 6% of expected imports - but the achievements of the second

agreement improved to 28% and 41% respectively, of Japan's planned exports and imports with China, by May 1955. The trade reached a postwar peak in 1956, when the targets set in the third accord were well met - 37% of exports and 91% of imports by April 1956; and 118% of exports and 181% of imports by March 1957.(26) (also see Table 1.)

However, in 1957 the Japanese negotiators had an extremely difficult time preparing the fourth trade agreement at Beijing, because their Chinese counterparts adamantly demanded a change in their relationship with Taiwan, which the Japanese government was unwilling to accommodate. Although LDP Dietman Ikeda Masanosuke, head of the Japanese negotiating team and chairman of the LDP's Special Committee for Japan-China Trade Promotion, reluctantly accepted these Chinese conditions only for the sake of continuing trade, the LDP leadership officially decided to oppose his efforts. The Kishi government stated in April 1958 that, while favoring the expansion of Sino-Japanese trade and respecting the "spirit" of the fourth agreement, it would not allow any special privileges to Chinese trade personnel, including the "right" to fly their national flags in Japan.(27) Emphasizing the principle of inseparability between economic and political matters, Chinese Foreign Minister Chen Yi cancelled all economic and cultural relations with Japan. The ongoing trade negotiations in Tokyo were suspended.(28)

(26) Chae-Jin Lee, "The Politics of Economic Cooperation", Japan Faces China, The Johns Hopkins University Press, 1976, p. 134.

(27) See the statements made by Prime Minister Sato and Chief Cabinet Secretary Aichi Kiichi, in shiryoshu, p. 209.

(28) According to Ikeda, it was Zhou Enlai himself who initiated in 1953 the notion of separation of economic and political matters. See Ikeda, Nichu Boeki Kosho Hiroku, p. 9.

Entering into the 1960s, the drastic decline in Sino-Soviet economic relations, coupled with the failure of "the Great Leap Forward" in China forced Premier Zhou Enlai to redirect China's foreign trade and to initiate a new form of trade with Japan in 1960. The crisis over the U.S.-Japan Security Treaty and the replacement of Kishi by a new Prime Minister, Ikeda Hayato, who took a low-posture policy at home and abroad and attached a top priority to economic growth, made it easier for Zhou to forego his hitherto rigid demands about flying the Chinese flag at the Nagasaki Airport and related issues, and to take a pragmatic posture toward urgent economic matters.

Zhou consulted with LDP Dietman Matsumura Kenzo in September 1962, and they agreed to open memorandum trade as a gradual and cumulative method for normalization of economic and diplomatic relations between Japan and China. According to the Zhou-Matsumura accord, LDP Dietman Takasaki Tatsunosuke and Liao Chengzhi, the senior advisor on Sino-Japanese relationship within the Chinese Foreign Affairs Ministry, signed in November 1962 a memorandum on "over-all trade" for the period 1963-67. They agreed to conduct an average two-way trade at about \$100 million U.S. per year, to exchange trade liaison personnel between Tokyo and Beijing, and to apply the method of deferred payment and medium-term credit to China's purchases of Japanese industrial plants. This L-T trade (named after the initials of Liao and Takasaki) was characterized by a long-term, large-scale, overall, barter-based transaction.

TABLE 1
TRENDS IN SINO-JAPANESE TRADE
(1950 - 1969)

	US\$,000		
<u>YEAR</u>	<u>JAPANESE EXPORTS</u>	<u>JAPANESE IMPORTS</u>	<u>TOTAL VALUE</u>
1950	1,960	3,930	5,890
1951	580	2,160	2,740
1952	60	1,490	1,550
1953	4,529	29,700	34,229
1954	19,106	40,770	59,876
1955	28,547	80,777	109,324
1956	67,339	83,647	150,986
1957	60,485	80,482	140,967
1958	50,600	54,427	105,027
1959	3,646	18,917	22,563
1960	2,700	20,700	23,400
1961	16,600	30,900	47,500
1962	38,500	46,000	84,500
1963	62,417	74,599	137,016
1964	152,739	157,750	310,489
1965	245,036	224,705	469,741
1966	315,150	306,237	621,387
1967	288,470	269,439	557,909
1968	325,438	224,185	549,623
1969	390,803	234,540	625,343

Source: Statistical Survey of Japan's Economy, 1953 - 1969, Economic Affairs Bureau, Ministry of Foreign Affairs, Japan.

As Table 1 shows, Sino-Japanese trade during the period 1963-69 increased sharply both in terms of total turnover and in comparative significance. In 1965, for example, Japan's share of US \$470 million trebled the earlier postwar peak attained during 1956. This figure jumped by 32% in 1966. It then accounted for 14% of China's estimated total foreign trade and made China Japan's fourth largest trading partner after the United States, Australia, and Canada. Even when trade dropped to US \$558 million in 1967, Japan still remained China's number one trading country, and by 1969 this figure returned to the level of 1966 to US \$625 million.(29)

The practice of balanced trade, especially in the L-T arrangements, helped ease China's problem of foreign exchange reserves and made Japan more attractive than Canada and Australia, which did not offer comparable markets for Chinese exports of raw materials. The main Chinese exports to Japan were agricultural products (soybean, rice, fruits, vegetables), minerals (coal, pig iron, iron ores), and other raw materials; in return, China imported from Japan fertilizers, steel, machinery, textiles, chemicals, and other manufactured goods. These commercial transactions were accompanied by the exchanges of economic delegations, technical experts, and industrial and scientific exhibits between China and Japan.(30)

(29) Chae-Jin Lee, "The Politics of Economic Cooperation", Japan Faces China, The Johns Hopkins University Press, 1976, p. 135.

(30) Ibid.

In early 1970s, a number of new events took place in Japan's domestic political scene and in China's external relations, which together favorably influenced the pace of Sino-Japanese trade. These events included the inauguration of the Japanese Dietmen's League for Promoting Restoration of Japan-China Diplomatic Relations and China's diplomatic offensive toward the NATO member-states.

As determined by the analysis of policy interdependence, indirect policy interdependence means that seeing other governments' policies as one source of their troubles, leaders of states are likely to attempt to influence those policies by adopting similar measures to counterbalance the outcomes of such policies. The fact that Canada and Italy established diplomatic relations with China in October and November further stimulated the restless mood among Japan's political and economic leaders, who were afraid of being left out in diplomatic approaches toward China. The Canada-China diplomatic rapprochement had a considerable effect on Japanese decision-makers.

In 1972, the announcement of President Nixon's planned visit to China prompted genuine fear and panic among Japanese business leaders that the United States had not only bypassed Japan in its rapprochement with China, but also intended to penetrate into the China market. All these events coupled with their emotional desire to settle the China dilemma, prompted the Japanese business leaders' most positive approach

toward China, which they initiated a step ahead of the Sato government. If they had been apprehensive that the United States might take retaliatory measures in the event of their extensive economic cooperation with China, Nixon's own reconciliation reassured them.

The economic ties were the real impetus for Japan to establish diplomatic relations with China. Compared with Canada which had little trade at the time of setting up diplomatic ties, this official relationship provided Japanese businesses with the last key to the China gate and trade flourished based on the existing friendship and memorandum trade.

This difference in the Canadian initiatives based on a political agenda and the Japanese action based on trade relations was the key reason for the enormous gap between Canada and Japan in terms of trade transactions with China. The similarities of social and cultural backgrounds between Japan and China were also contributing factors. Canada has much less understanding of Chinese culture than Japan as it does not share the same cultural heritage and has a much shorter history of contacts with China. Unlike Japan's two thousand year ties with China, Canada's experience with China started with Chinese workers who came over to build the railroad in 1881, less than two decades after Canadian Confederation. ✓

The next two decades thus saw a tremendous disparity between Japan and Canada in each of their trade transactions with China. The establishment of diplomatic relations contributed greatly to the development of trade between Japan and China. In the past two decades or so, Japan has accrued great profit out of the China market, especially since the liberalization of the Chinese economy in the late 1970s. For a further comparison between the Japanese economic gains from the China market with the Canadian emphasis on political relationship with China, it is important to examine the degree of interdependence and level of linkages between China and these two industrialized countries in the 1980s and the 1990s.

CHAPTER THREE
SINO-CANADIAN
AND SINO-JAPANESE TRADE RELATIONS

The foundation for bilateral relations between Canada and China is very different from that between Japan and China, with Canada's relation being politically based and Japan's being economically based. In this chapter, the political implications of an economic relationship will be examined from the viewpoint of linkage politics. National development is tied to international relations and interdependence is fundamental to both developed and developing, capitalist and socialist countries, bearing in mind that interdependence incorporates multilateral relations.

This analysis of comparative relations will focus on the economic policies of Canada and Japan towards China under the condition that bilateral relations are part of the manifestation of multilateral relations. Trade policies account for the most significant portion of a government's relations with other countries nowadays. A government uses trade policies to steer its external development, and restraints to supplement its domestic economic and political policies. Canada's trade relations with China at the expense of Taiwan have brought it a big market for wheat sales and other resource products such as timber

and minerals. As predicted by Quo and Ichikawa as early as 1971, "whatever Canada may lose in Taiwan, she can gain tenfold in the new China market."(1) From total wheat sales of only \$362 million between 1961 and 1963 and minimal two-way trade of \$261 million in 1970, Canada and China have together developed an overall trade value (import and export) worth \$3.7 billion in 1991. China has become Canada's sixth-largest export market.(2)

Canadian economic policies constitute a major force in its foreign relations with the world. Traditionally it has very strong trade ties with the United States and European countries, yet increasingly in the 1980's and even more so in the 1990's, its trade relations with Asian Pacific nations have steadily increased. China has gradually been treated as a potentially significant trade partner in its global relations.

From the outset of the Sino-Japanese relationship, economic benefits have been emphasized. Amid various political controversies between Beijing and Tokyo, the Far Eastern Economic Review dubbed Sino-Japanese economic relations "the ties that bind".(3) For more than a decade Japan has consistently held first place in China's foreign trade, averaging roughly one-fourth of the total, while China ranks fourth for Japan with

(1) F. Quei Quo & Akira Ichikawa, "Sino-Canadian Relations: A New Chapter", Asian Survey, Vol. XII, Number 5, Berkeley, California: University of California Press, 1971, p. 397.

(2) Jan Wong, "China Trip Suite Deal for Wilson", The Globe and Mail, April 21, 1992.

(3) Far Eastern Economic Review, April 24, 1986, 73.

only 4.7 percent of its total trade.(4) Both Canada and Japan have deemed China an important link in their overall external policies, especially since the normalization of diplomatic relations with China in the early 1970's. Both countries have managed to open up another outlet for their products by developing relations with China, with Japan placing priority on economic gains and Canada attaching more importance to trade development with China on the basis of political relationship.

To understand the full significance of the trade relationship between Canada and China in comparison to that between Japan and China, one needs to take a look at overall Canadian foreign policies and their significance on the national economic development. This is to answer the questions raised earlier in Chapter 1 whether in a world that has become increasingly interdependent through the development of a world economy and advanced technologies Canada is competitive enough to place political conformity before economic gains in Sino-Canadian relations. In comparison with the Sino-Japanese relations, what is the implication of interdependence to the Sino-Canadian relations in the 1990s?

Canada has the seventh largest economy in the western world and has a very diversified range of industries. While Canada is renowned as the world's greatest producer of resource products, manufacturing accounts for over one third of Canada's output and over forty per cent of its exports.

(5)

(4) Allen S. Whiting, "Sino-Japanese Economic Relations", China Eyes Japan, University of California Press, 1989, p. 93.

(5) Canada Trade and Economy, Canadian International Development Agency Report, 1990, p. 1.

In 1990, Canadian exports reached \$141 billion, and imports were \$135 billion;(6) Canada's exports thus constitute an important stimulus for its economy.

Canada is one of the world's leading trading nations, ranking only behind West Germany on an exports per capita basis. Nearly one third of Canada's total workforce depends on international trade for its livelihood, so the development of Canada's trade strategy has been vital to the continued growth of its economy.(7)

Canada's great raw resource wealth - in petroleum, hydroelectricity, minerals, forests, fisheries and in agricultural production - is well known and is in vast contrast with the backbone of the Japanese economy - value added finished products. These natural resource products provide an on-going base for the national economy in all regions and a major source of comparative advantage for resource-based and energy intensive industries.

Canada has developed a National Trade Strategy which has three major goals: to secure and enhance access to world markets; to improve Canada's trade competitiveness; and to strengthen Canadian international marketing capabilities. The present Canadian mandate is to take full advantage of business opportunities emerging from important developments such as the

(6) Summary of International Trade, International Trade Division, Statistics Canada, 1990, p.41 & 45.

(7) Canada Trade and Economy, Canadian International Development Agency Report, 1990, p.3.

Free Trade Agreement with the United States, the current round of Multilateral Trade Negotiations, the establishment of a single European market in 1992 and the dynamic growth of economic and trade activity in the Asia Pacific region.

Canada has concentrated its trade promotion efforts on the United States due to its huge market and its geographic and cultural proximity. Seventy-five percent of Canada's exports went to the United States in 1990, with total trade (exports and imports) reaching \$200 billion. The countries of Western Europe - most notably the United Kingdom, West Germany and France - have historically been the largest market for Canadian exports after the United States, with total trade of \$34 billion.(8)

During the past decade, the Far East has overtaken Western Europe as a Canadian export market. While Canada's exports to Western Europe grew from \$10.4 billion in 1981 to \$14.4 billion in 1990, those to Pacific Rim countries leaped from less than \$8 billion to more than \$16 billion during the same period. The rise in Canadian imports from the Pacific Rim is even more dramatic - from \$7.1 billion in 1981 to \$19.5 billion in 1990, with total trade reaching \$36 billion in 1990.(9) Japan is Canada's second-largest trading partner, providing a larger market for Canadian goods than the country's four largest European trading partners.(10)

(8) "Let's Make a Deal: Why Canada Needs International Trade", Royal Bank Reporter, Royal Bank of Canada, Fall 1991, p. 7.

(9) Ibid, p. 6.

(10) Canada Trade and Economy, Canadian International Development Agency Report, 1990, p. 3.

A. Canada - China Trade Relations: A Four Phased Development

Under such a broad picture of Canada's trade strategy, it is not difficult to see that Canada places China on the list of her continued effort to improve relations with Asia Pacific countries. Such a move in Canada's foreign relations can be interpreted from the pluralists' point of view of complex interdependence under which the power resources in trade and business transactions is important to strengthen its political status in world affairs. However, volumes of transactions may not necessarily indicate the extent to which countries are affected in interdependence, but more important that "the sensitivity of economic transactions between two or more nations to economic developments within those nations."(11)

Canada has had a long trading relationship with China. In the decade prior to the resumption of diplomatic relations in October 1970, the Canadian Wheat Board made a number of major grain sales. Since that time, trade has expanded and new patterns have developed. In 1988, two-way trade amounted to \$3.6 billion, a record level. Subsequently, this total fell to \$2.3 billion in 1989, due in large part to reduced wheat sales and the effects of China's austerity drive on imports. "However, in 1990, this figure picked up again by reaching a total of \$3.0

(11) Robert O. Keohane and Joseph S. Nye, "International Interdependence and Integration", Paul R. Viotti, Mark V. Kauppi, International Relations Theory, New York: MacMillan Publishing Company, 1987, p. 366.

billion, which still ranks China as the eighth largest market for Canadian exports. Chinese sales to Canada, primarily in textiles and clothing, have gradually increased to the extent that in 1989, China enjoyed its first trade surplus with Canada."(12)

Canada shares with China the challenge of transport and communications over vast distances; the difficulties of extracting, refining and transporting abundant but not always accessible raw materials over sometimes inhospitable terrain during inclement weather; the need for more efficient energy development and use; and the desire to develop new technologies through research and development.

The Chinese market offers good potential for Canadian business, especially considering the fact that the country's priorities match Canadian capabilities. China's main import sectors include raw materials; industrial infrastructure such as petrochemical plants; hydro and thermal power; pulp and paper; communications systems; and basic agricultural commodities. All these sectors have had important Canadian participation, and there is a certain degree of sensitivity between Canada and China as to the transactions in these fields. Canada does need more share in the China market and China is also aware of the high quality and capacity that Canadian industries can provide for China's economic development.

(12) Imports and Domestic Exports by Country, International Trade Division, Statistics Canada, 1988, 1989, 1990; and "Canada Trade and Economy", Canadian Interantional Development Agency Report, 1990, p. 3.

Such trade ties have come about from a four phase development. The first phase of the Canada-China trade relationship was started in 1906 when Canada set up a trade office in Shanghai and engaged mostly in the prewar period maritime transportation and the Shanghai-Vancouver Canadian Pacific Railway liner. Between 1906 and 1952 when the office was closed down, the trade office mainly facilitated trade between China and Canada and North America (13).

Modern trade was rekindled in 1961 when Canada signed the first wheat sales agreement with China to help China weather through the difficult time of famine. Though lacking formal diplomatic relations with China at the time, the signing of this agreement was the first official government interaction between the two countries since 1952.

Canada-China relations entered into its second phase when diplomatic relations were resumed in October 1970. Apart from Canadian wheat sales and Chinese textile exports, trade relations between the two did not account for much in either country's external economic relations. In fact, the normalization of diplomatic relations was mostly for political reasons, i.e. for Canada, then Prime Minister Pierre Trudeau saw its decision to resume diplomatic relations with China as a means of breaking away from the shadow of traditional American influence and to demonstrate Canadian national independence by way of external policies. China was more than happy to emerge from political isolation from the western world and to be formally recognized by Canada as the government of China, rather than Taiwan.

(13) Earl Drake, Canada-China Trade Relations, a talk given to the Chinese interpreters studying at Simon Fraser University, Vancouver, 1990, p. 2.

Such mutual political benefits remained much the same until the late 1970's when China undertook an "open-door" policy towards the outside, especially towards the western world. By 1979, political benefits were expanded to more economic gains for both sides due to changes in the political climate in China under the economic reforms of Deng Xiaoping and Zhao Ziyang. This is the third phase of great enthusiasm and sweet dreams.

With the granting of Most Favoured Nation status by Canada in 1973 with an automatic extension every three years, two-way trade has jumped both in size and in scope from the beginning of the 1970's to the late 1970's. In 1971, total export value by Canada to China was \$204 million and total import value from China was \$23 million, with a total two-way trade of \$227 million. But by 1979, these figures had reached a respective \$592 million, \$167 million and a total of \$759 million.(14)

Wheat sales still dominated the export component to China, but other commodities such as fertilizer (especially potash), metals, forest products, industrial products such as chemical plants, telecommunication equipment, power equipment, aircraft, computer, mining, oil and gas equipment all joined the China market. For China, exports to Canada, though always relying on textiles, also ventured into other light industrial products such as toys, sportware, leather, electronic products, footwear and food products.

Canada

exp.

China

exp.

(14) See Table 2, Canada-China Imports and Exports (1970 - 1991).

Entering into the 1980's with two-way trade figures steadily increasing year by year (see Table 2), the bilateral relationship became more institutionalized as China opened its doors wider. The first Canadian International Development Agency (CIDA) program was initiated in 1981 followed by the continued flow of funds to China for various projects in human resources development, natural resources and energy projects, agriculture and forestry projects and other technical exchange projects. At the height of developing bilateral relations, Prime Minister Brian Mulroney paid an official visit to China in 1986, followed by the signing of a great number of government agreements in the fields of technology exchanges, investment, financing, taxation, plant and animal quarantine, agriculture, forestry, telecommunication, metals and other relevant fields. High level government and business visits shuttled both ways, spinning off many trade seminars and fairs and the continuing commitment to the support of bilateral trade by both the Canadian and Chinese governments.

Canada has also provided an increasing amount of aid to China since the first half of the 1980s, including government technical/economic assistance, food aid, educational programs and other human resource development programs. Since the beginning of 1988, Canadian Export Corporation (EDC), a federal crown corporation also started to provide loans to China for importing Canadian technologies.

TABLE 2

CANADA-CHINA IMPORTS AND EXPORTS
(1970 - 1991)

C\$,000

<u>YEAR</u>	<u>CANADIAN EXPORTS TO CHINA</u>	<u>CANADIAN IMPORTS FROM CHINA</u>	<u>TOTAL TRADE VALUE</u>
1970	141,999	19,028	161,027
1971	204,053	23,302	227,355
1972	260,682	48,377	309,059
1973	273,293	52,904	326,197
1974	434,148	60,895	495,043
1975	377,262	56,328	433,590
1976	196,525	88,368	284,893
1977	369,270	82,154	451,424
1978	503,427	94,599	598,026
1979	591,907	167,451	759,358
1980	869,545	154,911	1,024,456
1981	1,004,821	220,013	1,224,834
1982	1,227,857	203,654	1,431,511
1983	1,607,242	245,767	1,853,009
1984	1,272,140	333,502	1,605,642
1985	1,259,310	403,487	1,662,797
1986	732,479	566,083	1,298,562
1987	1,032,347	770,901	1,803,248
1988	2,599,708	955,357	3,555,065
1989	1,121,319	1,182,146	2,303,465
1990	1,647,303	1,391,526	3,038,829
1991	1,844,093	1,852,114	3,696,207

2,152

2,447

Source: Imports and Exports by Country, 1970 - 1991, International Trade Division, Statistics Canada.

As approved by Parliament, the Official Development Assistance (ODA) Program is one of the main instruments with which Canada advances the goal of international social justice. The assistance program seeks to support the efforts of developing countries such as China in fostering economic and social programs. These objectives are pursued through official bilateral (government-to-government) channels, multilateral development institutions and support of the development activities of non-governmental organizations and the private sector.

The Canadian International Development Agency (CIDA) is responsible for administering about 75 percent of the ODA budget, with the remainder being administered by other government departments and agencies. Canada's ODA program began in the early 1950s, and 60 percent of the bilateral assistance has gone to Asia. CIDA's aid program to China, which began in 1981, is concentrated on agriculture, forestry, energy (electric power and petroleum development), transportation, telecommunication and human resource development. From a total aid of \$4 million in 1981-82, Canada has increased its assistance more than ten times to \$50 million in 1988-89. (See Table 3.)

In the first half of the 1980s, CIDA program was concentrated in the northern province of Heilongjiang, whereas in the latter half of the 1980s the program shifted to respond to the Chinese government requests for assistance in the development of other key areas of China such as the Special Economic Zone along the coastal areas, Inner Mongolia, Gansu Province and Sichuan Province.

TABLE 3

CANADIAN AID TO CHINA
(1981 - 1989)

C\$ million

<u>YEAR</u>	<u>AID DISBURSEMENTS</u>		
	<u>Government-</u> <u>to-Government</u>	<u>ICDS*</u> <u>CIDA</u>	<u>Total*</u>
1981/82	4.00	-	4.00
1982/83	0.02	1.89	3.02
1983/84	0.09	5.08	7.27
1984/85	8.37	0.77	13.51
1985/86	15.46	0.69	21.80
1986/87	27.04	2.63	36.35
1987/88	35.10	1.61	42.76
1988/89	38.71	1.32	50.31

Source:

Canadian International Development Agency (CIDA) Annual Report, (1981-1989), the Communications Branch, CIDA.

Aid disbursements from Canada to China also include a variety of other sources that make up the total annual contribution in addition to the Government-to-Government and CIDA programs. Government-to-Government program is mainly consisted of either technical assistance or food aid or both. From 1988, loan is also included. The other aid programs are: Provincial Government contributions to institutions and organizations; Non-Governmental Organizations (NGO) Program under CIDA; NGO under Provincial Governments; International Non-Governmental Organizations under CIDA; Industrial Cooperation under CIDA; Humanitarian Assistance under CIDA; International Development Research Centre; Petro-Canada International Assistance Corporation.

* Institutional Cooperation and Development Services Program.

* The total figure also includes aid programs from other sources mentioned in the source. For the purpose of this study, only the Government-to-Government and the ICDS/CIDA programs are shown in this table as they consist the majority of the total contribution and serve as the key indicators of Canadian government foreign policy towards China. Other sources are relative insignificant in Canadian ODA to China and thus are not specified in this table.

More recently, the objective of the CIDA bilateral program in China is to transfer technology by assisting China to develop its human resources to alleviate some of the critical development constraints in key development areas. The emphasis is on building human and institutional linkages between Chinese and Canadians, strengthening institutions and maximizing potential multiplier effects in areas where Canada has strong capabilities. Equipment and material assistance have been provided only where it is essential to support human resource development activities such as the supply of computers.

However, in the wake of the Chinese government crack-down on the student demonstrations in June 1989, Canada suspended its high level relations with China and many business relations soured with China due to reduced Canadian government support and a generally poor business climate in China owing to a worldwide condemnation of Beijing for its suppression of the student movement. Yet this fourth phase of bilateral relations was only a very short difficult period for both sides and bilateral trade started recovering at the end of 1990. As far as long term relations are concerned, Canada is still interested in the continuation of trade with China.

The cooling down period indicates that between Canada and China, though each side has a long-term interest in economic relations, but the degree of sensitivity is not high enough for each side to give in to the other side's political wishes. The domestic political situation in China

is such that the conservative hardliners still possess a stronghold for adherence to a more autocratic rule, and that they are still unwilling to give up their power and prestige. They would rather resist the trade-off of the loss of their power for more economic prosperity for China by accepting more western political influence. As Keohane and Nye pointed out:

Economic objectives have political implications, and economic linkage by the strong is limited by domestic, transnational, and transgovernmental actors who resist having their interests traded off. (15)

The difficulty in compromising political ideologies following the Tiananmen Incident between China and Canada also shows that both countries can resort to some alternatives. China though in great need of foreign capital and technology in 1989, tightened its control over the flow of foreign currency. One of the methods that the Chinese government employed between 1989 and 1991 was to redeem only half of the amount of foreign currency changed into Chinese dollars by all foreign visitors coming into China. During this period, the central government also retrieved the right to grant permission to provincial government organizations to conduct major purchasing of equipment from overseas for domestic projects, such as construction of hotels and building of highways. In this way, China did not have to bend its back for continuous foreign investment and assistance.

(15) Robert O. Keohane and Joseph S. Nye, "Realism and Complex Interdependence", Paul R. Viotti, Mark V. Kauppi, International Relations Theory, New York: MacMillan Publishing Company, 1987, p. 390.

Canada could also afford to turn a cold shoulder towards China during this period of time as there were only a limited number of companies and banks interested in China market. The share of goods exported to China from Canada constituted only less than 1% of the total Canadian exports to the world in 1991.(16) And the exported products are not crucial to the well-being of Canadian domestic economy.

However, this does not suggest that Canada and China do not wish to seek opportunity to influence one another with the power of economic relations. Though employing these alternatives, both Canada and China have to face the fact that the world is becoming increasingly integrated. Canada is facing much more economic competition from not only the United States, Japan and western European countries, but also from the newly industrialized countries such as Singapore, Taiwan and South Korea and other developing nations. Since China has become an important market for all of these countries to compete in, Canada will not bypass this land of opportunity.

The most recent visit to Beijing and Shanghai by Canadian Trade Minister Michael Wilson included the signing of contracts and letters of intent worth US \$90 million.(17) Mr. Wilson's five-day trip from April 19 to 23, 1992 was the second visit by a Canadian minister to China since the Tiananmen Square Incident in June 1989. The first was by Canadian

(16) Statistics Canada, December 1991.

(17) Jan Wong, "China Trip Suite Deal for Wilson", The Globe and Mail, April 21, 1992.

Minister of Agriculture William McKnight in October 1991 on a mission to increase grain sales, the mainstay of Canada's \$1.6 billion in exports to China in 1990.(18) But Wilson's visit was the first since Chinese authorities expelled three Canadian Members of Parliament from China in January 1992 for activities "incompatible with their status."(19)

By expelling the MPs, the Chinese government dramatically illustrated its intolerance of outside interference in its domestic affairs. But it also brought focus to an event that the Chinese government is anxious to bury: the Tiananmen Square Incident of June 4, 1989. China tries to avert this western focus by emphasizing more on domestic economic development. And the reformists in the top Chinese leadership are well aware of the economic gains with the support of western investment and assistance.

The expulsion of the MPs provided maximum publicity for pro-democratic groups in Canada to promote their advocacy of the improvement of human rights in China. But the incident itself caused nothing more than a diplomatic rebuke. Canada's External Affairs was reluctant to assess any long-term damage to relations between Canada and China, saying that "We will continue to be cautious, but don't expect that this will change much."(20) Wilson's visit to China affirmed this point

(18) E. Kaye Fulton, "Forbidden Excursions", Maclean's, January 20, 1992.

(19) Ibid.

(20) Ibid.

and truly symbolized the warming-up of Sino-Canadian relations after almost three years' frigidity; "the main purpose of this visit is to support the marketing efforts of Canadian businesses and to expand existing trade ties".(21)

Despite a cool-down period in political relations, two-way trade between Canada and China is growing and nearing the \$3.74-billion record set in 1988 before the Tiananmen Incident. The biggest change since 1989 is that Canada now has a trade deficit with China, the result of falling wheat prices, a slowdown in exports of iron and steel, aircraft and oils, and an increase in imports such as clothing, shoes, toys and electrical equipment.

In 1991, Canada's trade deficit with China was \$8 million, compared with a surplus of \$255.7 million in 1990. The Tiananmen Incident and the slowdown of the Chinese economy in 1989 weakened China's buying power. China's exports to Canada in 1991 were \$1.852 billion, double the size of 1988. But exports to China were \$1.844 billion, compared with \$2.1 billion in the first nine months of 1988 alone. (See Table 2.)

China's economy has been dynamic compared with Canada's. China's gross national product grew by 7 percent in 1991,(22) in spite of the poor performance of the state sector. There are a great deal of opportunities

(21) Jan Wong, "China Trip Suite Deal for Wilson", The Globe and Mail, April 21, 1992.

(22) Jan Wong, "Canada, China Near Trade Record", The Globe and Mail, May 11, 1992, B3.

for Canadian businesses to provide expertise in many fields that the Chinese call for due to such fast growth rate. The Canadian government has tried to help Canadian businesses invest in China. Under the trade agreement signed in 1973 and extended every three years since, Canada and China have granted each other most-favoured-nation trading status. In April 1992, the Export Development Corporation, which finances Canadian exports to China, made available another line of credit of \$175 million over the next two years. (23)

But Canadian businesses in China have not been very competitive compared with other competitors such as the American and Japanese ones. In some industries such as telecommunication where Canadians have gained world class technology, they have not managed to dominate the market. Northern Telecom Ltd., the third largest telecommunication company in the world, though has set up its branch office in China in the past five years, could only help sell part of the US \$72 million worth of telecommunication equipment to China in 1991. In that year, China imported US \$1.1 billion worth of telecommunication equipment, by which Canada accounted for only 6.5 percent. (24)

Note
NT

Northern Telecom, after 20 years of efforts, now sells more than 50 percent of its equipment to the United States. During the mid 1980s, the company started negotiating with China and finally succeeded in setting up a joint venture in Shenzhen, Guangdong Province in 1988. It has won a few contracts to improve telecommunication service in Chinese provinces.

(23) Jan Wong, "Canada, China Near Trade Record", The Globe and Mail, May 11, 1992, B3.

(24) Ibid.

The slow pace of getting into the China market is coupled with the recent slow down of wheat sales, the traditional Canadian export to China. "Officials estimate wheat exports to China will be \$800 million in 1992, half of the 1988 record of \$1.6 billion."⁽²⁵⁾ Sales of lumber have also fallen in recent years because the Chinese government required that logs be processed in Chinese mills.

slow
wheat
lumber

TABLE 4
TREND OF CANADA'S TRADE WITH CHINA

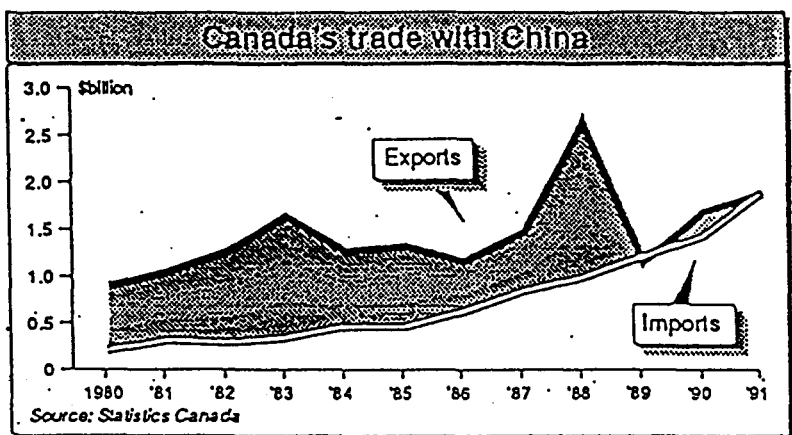


Table 4 shows that there has been a recovery in bilateral trade relations since 1989. However, even with such recovery, Canada still links the political issue of human rights to economic ties with China. Even Wilson himself indicated to Chinese officials that Canada-China relations were not back to normal just because he was officially visiting China, and Canada "still has disagreements in the area of human rights and we're still looking for some actions in the areas in which we have expressed our concerns."⁽²⁶⁾

⁽²⁵⁾ Jan Wong, "China Trip Suite Deal for Wilson", The Globe and Mail, April 21, 1992.
⁽²⁶⁾ Ibid.

This demonstrated that although Canada realized and also benefited from the economic gains from the China market, it could still afford to place political ideologies over economic linkages. In this respect, although one can argue that world interdependence has brought Canada and China together for mutual political and economic benefits, it is justified to say that such interdependence is still at its infant stage. From Table 5, one can see that the interdependency coefficient between Canada and China is the lowest in comparison with other important bilateral relations.

TABLE 5

INTERDEPENDENCE COEFFICIENT

	<u>1989</u>	<u>1990</u>
Canada - China	0.25%	0.26%
Japan - China	0.63%	0.53%
U.S.A. - Canada	2.96%	2.96%
U.S.A. - Japan	1.73%	1.68%

Source: F. Quei Quo, U.S.-Japan Friction: A New Perspective, paper presented at the 1992 Conference, U.S. - Japan Joint Research On U.S.-Japan Friction, Tokyo, June 2-5, 1992. P. 26. An interdependency coefficient is calculated by adding bilateral trade figures and dividing the result with the sum of the GNP of the two respective countries, though interdependence consists of relations more than trade, e.g. investment, aids and other economic transactions. According to Quo, any interdependency coefficient above 2% may be high enough that a system integration is deemed inevitable. Source of statistics are from Organization for Economic Co-operation and Development (OECD) reports, 1976, 1986, 1989, 1990, 1991.

Canada in its relationship with the United States has a high interdependence coefficient of 2.96%, whereas with China the coefficient was only 0.26% in 1990. Even Japan is not that strongly tied to China in comparison with its relationship with the United States, looking at the respective coefficients of 0.53% with China and 1.68% with the United States in the same year. Therefore in economic and trade terms, both Canada and China are still not vulnerable enough to one another that Canada has no leverage to impose its views on political conditions in China.

Nor does China care much about the Canadian delay of eight foreign aid projects, suspension of military equipment sales, a freeze on cultural and political exchanges and the granting of blanket permanent resident status to all Chinese nationals who arrived in Canada before October 17, 1990. Only trade between the two countries, which totalled \$3 billion in 1990, (See Table 2) was not affected. Wheat sales are still important to Canada to maintain economic ties with China as they are still a significant relief for the prairie farmers from world-wide falling wheat prices. Wheat sales to China reached 4,551,000 metric tons at \$212.99 per ton during 1989-90, compared to 2,797,000 metric tons at \$247.27 per ton during 1988-89.(27)

Aside from concern for the prairie wheat farmers, the Canadian government has been concerned more with what the public thinks of relations with China, i.e. what is politically right in the readjustments of its foreign policies towards China. Since June 1989 the public sentiment

(27) Source: Export Clearances of Canadian Wheat by Countries of Final Destination, Grain Trade of Canada, Statistics Canada - Board of Grain Commissioners for Canada, Agriculture Division, The Queen's Printer and Controller of Stationary.

against any political and economic linkages with China has been strong. Societies in Support of the Chinese Democratic Movement have been set up across Canada and have been responsible for a series of anti-Chinese government demonstrations, rallies and fund-raising activities in support of Chinese political dissidents and families of political prisoners in China. The self-led trip to China by three Canadian MPs in January 1992 to examine China's human rights record was sponsored by the Vancouver branch of such a society.

In spite of a few sporadic comments in the People's Daily about "leaving China's politics to its own" over the expulsion of the three MPs, such anti-China activities in Canada brought little reaction from the Chinese embassy and consulates and from within China. One major reason is that Canada is too far away and too obscure a player in China's external relations for the Chinese to be concerned. China is not as vulnerable to delays or cancellation of Canadian aid as it is to countries such as Japan, the United States, Australia and other western European countries. In 1990 China's total trade with Canada only comprised 3.50 percent of its total trade, and for Canada this figure was only 1.16 percent. (28) With trade with each other comprising such a small portion of their total trade, it is likely that Canada can continue to place political conformity before economic gains in Sino-Canadian relations even though it is focusing on trade development with China. Similarly China can ignore any political pressure Canada tries to bring upon China. Compared with Japan which relies more on the China market, Canada can still afford to advocate idealism such as the human rights issue over economics.

(28) Sources: Imports and Exports by Country, International Trade Division, Statistics Canada; and Total Value of Imports and Exports, Almanac of China's Foreign Economic Relations and Trade, The Editorial Board of the Almanac of China's Foreign Economic Relations and Trade. 1990.

B. CHINA'S ECONOMIC REFORMS AND ITS IMPACT ON BILATERAL RELATIONS

What lies ahead for bilateral relations between the two countries?

To a large degree this depends on the direction of Chinese domestic political changes and the pace of economic reforms. The factors in the Chinese polity dictate the direction of bilateral relations such as those between Canada and China as well as between Japan and China. China still has a non-democratic one-party rule with the ultimate authority over general policies and with state planning still the dominant production force. China's adherence to socialist principles will continue to disallow more liberal thoughts to flourish.

China's current economic development and problems have been tied up with the central planning system through which the economy is run. Under this system, more than two-thirds of industrial output is still produced by state-owned industrial enterprises. A small number of key plants are directly controlled by the central government, while the rest are run by provincial industrial departments.(29) But all are subject to tight restrictions by government planning agencies, which set the enterprises' annual production plans, control the size of their labor force, directly allocate key inputs, appropriate and distribute their output, and determine their prices.

} state owned output

The foreign trade sector is run in the same fashion. Enterprises or

(29) Bruce Reynolds, "China in the International Economy", Harry Harding, editor, China's Foreign Relations in the 1980s, Yale University Press, 1984, p. 80.

other units which wish to import foreign goods must work through administrative channels, receiving permission from the foreign trade bureaucracy in Beijing. Exporters are still quite limited in interacting directly with foreign markets; they are insulated from their customers by the state trading corporations through which the majority of foreign buyers must work. And the same factors which generate protectionism by Chinese provinces and counties work for the nation as a whole.

The internal power struggle at the top level of government between the reformists led by Deng Xiaoping and the conservatives represented by such people as Chen Yun is a key factor in the Chinese domestic political and economic direction for the near future. In January 1992, Deng Xiaoping visited the southern province of Guangdong and the city of Shanghai, promising the continuation of the "open-door" policy. Reformist luminaries like Vice Premier Zhu Rongji and politburo standing committee member Li Ruihuan have been featured prominently in front page photographs of government organs such as the People's Daily. Conservatives have been scrambling to board the Dengist bandwagon; endorsements of accelerated economic development poured in from such sources as Song Ping, head of the standing committee's organisation department.

As conservatives and reformists wrestle for control of China's economic future, a diverse range of reforms percolating through the system could decisively shift the economy to a more market-oriented path. But whether the changes will stick depends on the outcome of an intense power

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struggle under way in Beijing. The immediate flashpoint has been an argument over the economy's optimal rate of growth. Conservative premier Li Peng reasserted at the National People's Congress (NPC) in late March 1992 that the growth target for this year is 6 percent, but reformists are urging that the economy be allowed to expand by at least 10 percent.(30)

Li's caution appears intended to check this recent reformist resurgence master-minded by Deng Xiaoping, who believes the time is opportune for the pace of reforms to be accelerated. A 1989-91 retrenchment programme has been largely successful in slowing down the economy of some of the worst consequences of fast expansion. This new round of reforms picks up where the previous programme under the leadership of now-disgraced party General Secretary Zhao Ziyang left off. It emphasizes the importance of market forces and allows local authorities greater autonomy.

This direction has been confirmed at the plenary session of the Political Bureau of the Central Committee of the Communist Party of China (CPC), held on March 9 and 10, 1992 in which Jiang Zemin, the Party Secretary of CPC, stressed that it is "imperative to firmly carry out the Party's basic line of making economic construction the central task and adhering to the policies of reform and opening to the outside world, and to march forward along the road of socialism with Chinese characteristics."
(31) By defining this "socialism with Chinese characteristics", the

(30) Tai Ming Cheung, "Pushing the Pendulum", Far Eastern Economic Review, April 9, 1992.

(31) "Politburo Meeting Vows to Accelerate Opening, Reforms", China Daily, March 13, 1992.

Chinese Politburo is really stressing the same point that Deng Xiaoping made on economic reforms in 1979 during the Third Plenary Session of the CPC, in which he said "It does not matter whether it is a black cat or a white one, so long as it catches mice". At present, the Chinese government is continuing to emphasize that a move will be judged as socialism with Chinese characteristics so long as it benefits the development of the productive forces under socialism, the enhancement of the comprehensive national strength and the promotion of the living standard of the people. In such a case, it does not matter whether the move is "socialist" or "capitalist".

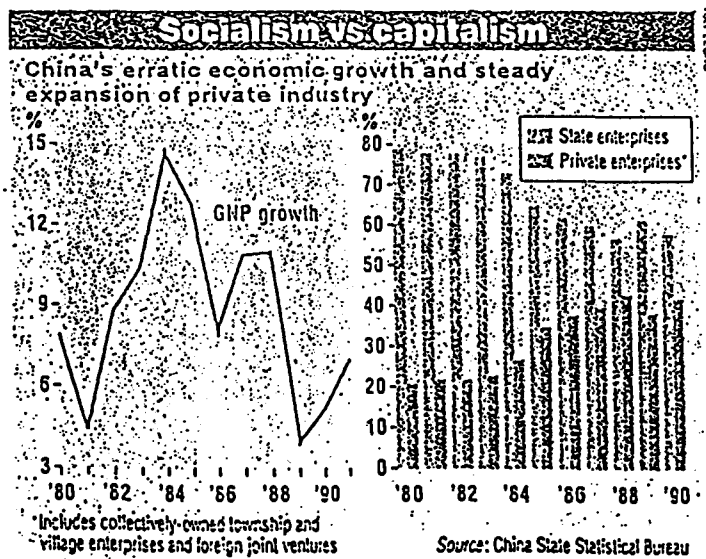
But with the influence of conservatives in economic policy-making probably stronger today than during the 1980s, this next stage may be less ambitious than during the Zhao era. Reformists appear to have no overall coordinated plan of action, with ministries, provinces, other organisations and individuals promoting different agendas. Consequently, a disparate range of reform measures has been announced or floated in recent months, though many are just a continuation or extension of policies already being pursued. Some of the most important include the setting up of new stock markets in both the southern and northern provinces; granting more autonomy to local governments; lifting of price controls on agricultural commodities; self-responsibility of state enterprises over profit and losses; and the adjustment of the Chinese currency in line with unofficial exchange rates.(32)

(32) Tai Ming Cheung, "Pushing the Pendulum", Far Eastern Economic Review, April 9, 1992

However, can these factors help China avoid the cold shoulder they have received in the past three years from western countries such as Canada? The answer is yes since the Canadian government still feels that the long term goal is to maintain ties with China and that the present round of reforms in China shall only be encouraged by the hope that China will become more democratic.

The Chinese government has successfully completed the short term goals of readjusting, restructuring, consolidating and improving its

TABLE 6



FAR EASTERN ECONOMIC REVIEW

Source: Tai Ming Cheung, "Pushing the Pendulum", Far Eastern Economic Review, April 9, 1992.

economic reforms during the Sixth Five-Year Plan period (1981-5). The Seventh Five-Year Plan (1986-90) was a fresh and real take-off stage for technological advance, rational reform of enterprise, energy development and transportation expansion. It is expected under the new strategy that "the 1990s will witness an all around upsurge in China's economy which will definitely grow at a much faster rate than in the 1980s."(33)

It now appears that China is able to put inflation under control, (as of 1992, the inflation rate is controlled at 2.9 percent)(34), and stabilize economic growth. China is also trying to expand into banking institutions, finance and credit balances, and to prevent trade imbalances. During the 1980s, concentration was on: (1) key urgent development projects; (2) a greater effort to improve the people's living standards; (3) upholding the dominant position of the state owned portion of the economy while diversifying economic forms of production; (4) proper supervision over the leading role of the planned sector of the economy while encouraging the supplementary role of market regulation; and (5) preservation of the basic policy of economic self-reliance while encouraging foreign investment and borrowing or purchasing foreign technology.(35)

(33) David Web-Wei Chang, "New Political Orientation and Economic Development", China Under Deng Xiaoping, MacMillan Press, 1988, p. 90.

(34) Far Easter Economic Review, April 15, 1992.

(35) David Web-Wei Chang, "New Political Orientation and Economic Development", China Under Deng Xiaoping, MacMillan Press, 1988, p. 90.

The 1990s see much of preserving of these goals, with a projected larger degree of relaxation on private ownership and market mechanisms. Both Japan and Canada shall find it much easier to develop trade and economic relations with China during this period.

China has already tasted the fruits of the open-door policy. Even for those hard-liners, this taste is too sweet to be denied and they are under too strong an opposition from the liberals for more economic reforms. As far as the ordinary folks are concerned, they have become more realistic, realizing that it will be quite impossible and impractical in the short run to demand a total westernized democratic system. Both the Chinese leaders and the majority of the people find the economic reform to be the primary source for changing society for the better.

The most recent vows to gear up reforms by the Chinese government provide more favourable conditions for foreign investment as long term tax exemption / reduction for foreign investment, full foreign currency redemption for joint ventures and more legal protection for foreign businesses have been adopted to supplement the open door policy. The Chinese government, moving closer towards recognizing the presence of foreign law professionals in China, is expected to approve soon the establishment of foreign lawyers' offices in a number of cities, which

will allow international trade laws to be practised.(36) If the reformists manage to stay on with a better controlled economic reform, there will likely be a return of more foreign business interest in China in the years to come.

With this latest development in the Chinese domestic front, Canada faces a choice to either keep a longer distance from China due to political differences or to opt for more economic benefits in spite of such differences. China's commitment to an open-door policy and the emphasis on the development of basic industries, agriculture, infrastructures such as energy, power, telecommunications, transportation, education, science and technology are complementary to the Canadian economy. (1) Canada is capable of providing advanced technologies as well as natural resource based technology. Both Canada and China will benefit from a continued cooperation as Canada will be able to exert more political influence on China if it participates more in the Chinese economic activity. China can gain tremendously both from Canada's political influence and economic exchanges.

(2) The new trend will also see Canada shifting its major focus on aid to China to a more pragmatic attitude of using the China market as an incentive to export finished domestic products. The Canadian government encourages businesses to utilize more low-interest loans

(36) "Foreign Lawyers to be Allowed in China", China Daily, April 2, 1992.

such as those provided by the Export Development Corporation and emphasizes the export of value-added products and high technologies so as to provide more employment opportunities for Canadians. Though according to a Canadian embassy official in Beijing that there are 40 Canadian companies represented in China, and that Canadians have set up 64 joint ventures throughout China, (37) compared to the United States and other major western European countries such as Britain, France and Germany, and especially Japan, the Canadian presence in China is still minute.

To support this point of view, the following section focuses on the Sino-Japanese trade relationship as a comparative base for potential Canadian development in the China market.

(37) Document provided by Canadian Embassy in Beijing: file cdn-cos, updated October 22, 1991.

C. JAPAN - CHINA TRADE RELATIONS: VULNERABILITY VERSUS SENSITIVITY

Political analysts of many ideological persuasions have looked upon international trade as an integrating force. In the decades prior to World War I it was fashionable to argue that,

while competition for international markets might exacerbate international conflict in the short run, over the long run trade ties would make war unthinkable. At the more limited level of the region or alliance, some theorists have suggested that the effects of economic cooperation would spill over into other issue areas, and at least one of them assigns the highest spill-over potential to economic cooperation because its effects are felt by all sectors of society.(38)

Similarly, Nikita Khrushchev predicted in 1959 that,

... the further development of the socialist countries will in all probability proceed along the lines of consolidation of the single-world socialist economic system. The economic barriers which divided our countries under capitalism will fall one after another. The common economic basis of world socialism will grow stronger, eventually making the questions of borders a pointless one.(39)

These predictions have overstated the political significance of economic factors, yet trade data between China and Japan has provided one important quantitative index of non-alliance relations. The normalization of diplomatic relations between China and Japan in 1972 and the Chinese domestic reforms throughout the 1980s have helped the two countries to develop substantially their two-way trade. In 1970, two-way trade was

(38) Ole R. Holsti & John D. Sullivan, "National-International Linkages: France and China As Nonconforming Alliance Members". James N. Rosenau, Linkage Politics, New York: The Free Press, 1969, p. 178.

(39) Ibid, p. 402.

pegged at US \$823 million, but by 1990, this figure had jumped to US \$18 billion. (See Table 7) Compared with trade relations between Canada and China, there is clear evidence of linkage between Chinese efforts in modernization and economic reforms with significant consequences in Sino-Japanese trade relations.

Weathering through decades of antagonism and political differences between Japan and China, Japan has managed to be the number one trade partner with China in the past decade among fierce competition. The domestic, political or foreign and strategic variables are all favourable conditions that make for complementarity between the two economies. China's resources serve Japan; Japan's markets serve China. Proximity also facilitates trade.

Sino-Japanese trade overcame serious political obstacles prior to 1972. Despite the absence of such relations and the U.S. embargo against China trade involving American licensed materials, China was Japan's leading trade partner in Northeast Asia in 1956. In 1967 even after the Cultural Revolution erupted, Japan's China trade still exceeded its trade with Taiwan and South Korea. (40)

During the prerecognition period, Japanese nongovernmental organizations played a key role in facilitating trade. Given the fact

(40) Allen S. Whiting, "Sino-Japanese Economic Relations", China Eyes Japan, University of California Press, 1989, p.95.

that by 1975 China's share of total Japanese foreign trade was only 3.34 percent, their importance was more symbolic than substantive.(41) The symbolism, however, helped to maintain commercial contact despite political separation. It also established personal relationships that were to serve the subsequent expansion of trade.

Japan has also offered more loans, both governmental and private, than any other country, totalling more than US \$7 billion for China's Seventh Five-Year plan.(42) Also, Japan's aid program to China, although not large, outranks that of all the other countries, especially during the beginning of normalization of diplomatic relations. (See Table 9.) Japanese economic representatives and businessmen likewise have stayed the longest and in the largest numbers in China. Just as Canada and the United States have strong economic ties due to their geographic and cultural closeness, so does Japan's proximity to China and cultural affinity provide it with an advantage for maintaining closer ties with China. The trade relationship between Japan and China will continue to grow if China maintains its political stability and further implements its reforms, not just economically but also politically.

(41) Allen S. Whiting, "Sino-Japanese Economic Relations", China Eyes Japan, University of California Press, 1989, p.95.

(42) Chie Shi Chu, "Japanese-Chinese Relations", Japan and China, University of California Press, 1979, p. 125.

Early 1970's

Upon the establishment of diplomatic relations, China initially expected to utilize such diplomatic recognition to gain back its world status in its competition with Taiwan. But it turned out that Sino-Japanese trade was more important to China than to Japan, even though the function of foreign trade in the total national economy was less vital for China than for Japan. Japan's industrial products, advanced technology, and long-term credits turned out to be the key components of the Sino-Japanese relationship, especially for the Chinese programs of economic modernization in the 1970's. Japan was hopeful for a bigger share in the reinvigorated China market and in joint development of Chinese natural resources, especially oil and coal. The sheer size of China and its more than 1 billion people were tremendously attractive to Japanese businessmen.

While Japan depended on foreign trade for 18-20 percent of its Gross National Product (GNP), Chinese dependency was only about 4-5 percent in the early 1970s. However, since 1972, the volume of trade between Japan and China has increased tremendously compared with the trends in Sino-Japanese trade between 1950-69 (See Table 1 in Chapter Two). From Table 7 we can see that by 1979, Japan's exports to China were worth US \$3,699 million, a jump from US \$609 million in 1972, and imports from China increased from US \$491 million to US \$2,955 million during the same

TABLE 7

TRADE BETWEEN JAPAN AND CHINA
(1970 - 1990)

US\$,000

<u>YEAR</u>	<u>JAPANESE EXPORTS</u>	<u>JAPANESE IMPORTS</u>	<u>TOTAL VALUE</u>
1970	568,873	253,818	822,691
1971	578,188	323,172	901,360
1972	608,921	491,116	1,100,037
1973	1,039,494	1,304,768	3,289,243
1974	1,984,475	1,304,768	3,289,243
1975	2,258,577	1,531,076	3,789,653
1976			
1977	1,939,000	1,547,000	3,486,000
1978	3,048,742	2,030,292	5,079,034
1979	3,698,670	2,954,781	6,653,451
1980	5,078,335	4,323,374	9,401,709
1981	5,095,452	5,291,809	10,387,261
1982	3,511,000	5,352,000	8,863,000
1983	4,912,000	5,087,000	9,999,000
1984	7,217,000	5,958,000	13,175,000
1985	12,477,000	6,483,000	18,960,000
1986	9,856,000	5,652,000	15,508,000
1987	8,250,000	7,401,000	15,651,000
1988	9,476,000	9,859,000	19,335,000
1989	8,516,000	11,146,000	19,662,000
1990	6,130,000	12,054,000	18,184,000

Source: Statistical Survey of Japan's Economy, Economic Affairs Bureau, Ministry of Foreign Affairs, Japan, 1991.

period. And from 1972 to 1990, Japan's exports to China jumped from US \$609 million to US \$6,130 million U.S. and imports from China also increased from \$491 million to US \$12,054 million.

The phenomenal growth of trade between the two countries was the product of the normalization of diplomatic relations as well as increased political stability in China and its subsequent economic reforms implemented under the new government of Deng Xiaoping in the 1980s.

Upon the gradual passing of the Cultural Revolution in the late 1970's, the Chinese began to reduce the political component of foreign trade policy. The combination of China's political stabilization, diplomatic fence mending, and economic priorities were reflected in a renewed optimism among Japanese businessmen engaged in trade with China, while the west in general was still skeptical about the China situation. Japanese trading firms, steelmakers, and fertilizer-producers were eager to improve their profits in the China market and responded actively to China's renewed friendship since many of them relied on China as their major market. Some of them even sacrificed their self-esteem for a market share in China by conducting self criticisms during their stay in China during the Cultural Revolution. An interesting account of Japanese businessmen reciting Chairman Mao's quotations can be found in a book written by Chae-Jin Lee.(43)

(43) Chae-Jin Lee, Japan Faces China, The Johns Hopkins University Press, 1976, p. 125.

Mao's death in September 1976 and the fall of the "Gang of Four"(44) soon allowed the returned leader Deng Xiaoping to resume Zhou Enlai's policy with full force. A flood of contract commitments emerged from the newly liberated Chinese bureaucracy. In the case of Japan, the Long-Term Trade Agreement, based on the principle of balanced exchange, was signed on February 16, 1978. It targeted a total trade of US \$20 billion over five years. Chinese exports of crude oil were to grow from 7,000 to 15,000 tons per year by 1982, coking coal exports were to go up from 300 to 2,000 tons each year, and steam coal from 200 to 1,700 tons annually. In return, Japan was to sell US \$7-8 billion in plants and industrial technology plus US \$2-3 billion in construction machinery and materials on the basis of low-interest, deferred payment.(45)

With such a target in mind, government level exchanges and visits were shuffling between Beijing and Tokyo, with China seeking mostly Japanese government loans, grants and aid. Tens of thousands of Japanese businessmen penetrated into every possible field of the China market, dwarfing its world competitors. Some of them were able to initiate seemingly impossible and insignificant projects in very remote areas in China that other countries' businessmen would or could not ever imagine.

(44) "The Gang of Four" refers to Jiang Qing, Zhang Chunqiao, Yao Wenyuan, Wang Hongwen who grouped together to take over power in China upon death of Mao Zedong, but were put under arrest by Mao's successor, Hua Guofeng in 1976.

(45) Allen S. Whiting, "Sino-Japanese Economic Relations", China Eyes Japan, University of California Press, 1989, p. 96.

Not only did the quantity of trade reach the US \$26 billion goal between 1979 and 1983 (See Table 7), but the commodity composites also were developed to include a very diversified scope, ranging from the early Japanese export of synthetic fiber, ethylene and ammonia to the setting-up of a gigantic steel plant at Baoshan, near Shanghai with an annual capacity of six million tons. Nearly four dozen contracts were concluded in this bullish atmosphere of 1979. They added up to more than US \$3.8 billion in plant equipment.(46) Several billion dollars more of ongoing contract negotiations whetted the appetite of Japanese entrepreneurs, who were described at the time as succumbing to "China Fever".

But things did not develop as smoothly as both sides anticipated. China faced a series of problems in that oil output did not increase, but domestic demand did; foreign exchange earnings fell far short of expectations, and cancellations of contracts for Japanese plant equipment totalled US \$2.5 billion by 1979. The Japanese also lost US \$1.3 billion in the Baoshan mill contract.(47) This seesaw pattern of trade and contracts in the 1970s and into the early 1980s occasioned wild swings of euphoria and resentment in Japan. The perceived vast potential of the China market contrasted with the seemingly unpredictable nature of Chinese economic policy.

(46) Allen S. Whiting, "Sino-Japanese Economic Relations", China Eyes Japan, University of California Press, 1989, p. 97. For a succinct summary of this period, see Kim and Nanto, Emerging Patterns, p. 29-47.

(47) Ibid.

The 1980s

However, the Japanese gains in the 1980s should not be underestimated. The Japan-China Economic Association estimated that China concluded US \$11.7 billion in contracts for "whole plants and technology" from 1978 to 1984, of which Japan won 52.4 percent for more than US \$6 billion.(48) Of the ninety-seven contracts signed for whole plants, fifty-four had been completed or nearly so by 1983, with Japan taking a leading role among all foreign countries in steel, petrochemicals, chemical fertilizers, and synthetic textiles. Sino-Japanese trade meanwhile recovered most of its pre-1982 level, just exceeding the US \$10 billion total in 1983, and remained in rough balance.(See Table 7.)

Japanese exports to China increased 73 percent in 1985 over 1984, but declined by 21 percent in 1986. Three factors accounted for the sudden increase in 1985. First, the overheated economy raised demand for producer goods as capital construction and private investment expanded in 1984-85.(49) As a result, Japanese shipments of steel products, constituting 25.6 percent of total exports to China, rose sixfold for pig iron and doubled for steel bars.(50)

(48) Allen S. Whiting, "Sino-Japanese Economic Relations", China Eyes Japan, University of California Press, 1989, p. 97.

(49) "Up-And-Coming Chinese Products", China Newsletter, No. 62 (May-June 1986): 15. This is written by the China Section, JETRO.

(50) Allen S. Whiting, "Sino-Japanese Economic Relations", China Eyes Japan, University of California Press, 1989, p. 98.

Second, Chinese consumer orders skyrocketed as a result of increased purchasing power from rising incomes. This triggered inflation and prompted Beijing to approve massive imports of consumer durables. Japanese television orders rose fivefold in 1984 and tripled in 1985, with only somewhat lesser increases in orders for refrigerators, washing machines, and other electrical appliances. Electrical equipment (including consumer goods) and industrial machinery together accounted for 36.2 percent of Japanese exports to China in 1985.(51)

Third, two of Deng Xiaoping's major economic reforms included granting local enterprises and governments greater import authority and decentralized foreign exchange control. These two reforms led to widespread profiteering as scarce luxury goods were imported and resold. As a result, Japanese automobile shipments - mainly for officials and taxis - quadrupled in 1984 and trebled in 1985. In 1985, transportation equipment constituted 17.6 percent of overall Japanese exports to China.(52)

In combination, these developments caused China's foreign exchange reserves to plummet from US \$17 billion in July 1984 to US \$10 billion in March 1986. The crisis worsened as oil, which constituted nearly 34 percent of China's 1985 exports to Japan, dropped sharply in price while the Japanese Yen steadily rose in value.(53)

(51) Allen S. Whiting, "Sino-Japanese Economic Relations", China Eyes Japan, University of California Press, 1989, p. 98.

(52) Ibid, p. 99.

(53) Ibid.

Beijing reacted by limiting import channels and foreign exchange access, banning the import of finished products in transportation and consumer goods, and promoting domestic production for import substitution.

Despite all the disturbing developments, Japan was still China's most important trade partner in 1986, with more than one-fourth of China's total foreign trade, while China ranked fourth for Japan with only 4.7 percent of its total trade.(54) Thus Sino-Japanese trade is grossly disproportionate in favour of Japan. Chinese sensitivity to this asymmetry prompted Deng Xiaoping's April 1985 remark to former British Prime Minister Edward Heath that Japan's share (in China) was too high and trade with Europe must be increased accordingly.(55)

In addition to the quantitative difference, qualitative factors also favour Japan over China. Although particular Japanese industries such as electrical appliances and steel, rely on China as their main market, overall Japanese economic health depends far more on the United States and Western Europe than it does on China. Conversely, Japanese

(54) Satoshi Imai, "Japan-China Trade in 1986, How the Japanese Market Views Chinese Goods", China Newsletter, No. 62 (May-June 1986): 12-14. Trade figures differ considerably, both between Japanese and Chinese data as well as between the PRC Ministry of Foreign Economic Relations and Trade (MOFERT) and the PRC State Statistical Bureau (SSB). These differences stem mainly from different accounting procedures, mainly concerning customs statistics. SSB data are disseminated annually in comprehensive compilations covering the entire economy and therefore are utilized by most Chinese writers. When figures are concerned with Japan or Canada, Japanese and Canadian statistics are used for this study.

(55) Shigeru Ishikawa, "Sino-Japanese Economic Cooperation", The China Quarterly, No. 109 (March 1987): 3,n.7.

purchases of Chinese oil and coal are essential to China's foreign exchange earnings. Nearly half of China's crude oil goes to Japan, for whom the supply is only 6.5 percent of total oil imports. Chinese coal also faces competition in price and reliability of delivery from Australia and Canada.(56)

Towards the end of the 1980s, Japan-China trade would have continued to increase had it not been the disruption of the Tiananmen Incident in 1989. From Table 7, one can see that there is a drop of Japanese exports and the total value of two-way trade.

TABLE 8
JAPANESE INVESTMENT TO CHINA
(number of cases)

<i>Form of Investment</i>	1979-85	1985	1986
Joint ventures ^a	2,343	1,412	870
Cooperative ventures ^b	3,823	1,611	560
Wholly foreign-owned ventures ^c	120	46	18
Total	6,286	3,069	1,448

TABLE 9
JAPANESE AID TO CHINA

		US \$ Million			
<u>YEAR</u>	<u>AMOUNT</u>	<u>YEAR</u>	<u>AMOUNT</u>	<u>YEAR</u>	<u>AMOUNT</u>
1979	2.60	1983	350.20	1987	553.10
1980	4.30	1984	389.40	1988	673.70
1981	27.70	1985	387.90	1989	832.20
1982	368.80	1986	497.00		

Source: Ministry of Foreign Affairs, Japan's Official Development Assistance, 1979-1991: Annual Report. Also, Ministry of Foreign Affairs, Wagakuni no Seifu Kaihatsu Enjo, 1989, V.1.

(56) Devendra Prakash, "On Special Economic Zones In China", China Report, (July-September 1986): 349-71.

As with trade, the pace of foreign investment in China fluctuated widely up to 1987 as shown in Table 8. Three reservations attend these figures. First, they include contracts signed but not yet implemented. Thus, the Ministry of Foreign Economic Relations and Trade (MOFERT) acknowledged that more than half of the contracts concluded between 1979 and 1986 were not in operation by 1987. Similarly, during 1979-85, direct investment totaled US \$16.2 billion in contracts, but only US \$4.6 billion in actual terms. Of the record US \$5.85 billion committed in 1985, only US \$1.57 billion arrived that year. In 1986, contract commitments fell to US \$3.3 billion and although US \$2.1 billion was utilized, most of this was from previous commitments.

Japan's interest in extending aid to China combines many factors not the least of which are historical ties, cultural affinities, and geographic proximity. Beyond these basic influences are commercial and strategic motives. A close relationship between China and the West is in the Japanese interests as it helps to counter the former Soviet threat in the region and lends credibility to the economic reformist policies of Deng Xiaoping. Providing large amounts of economic assistance promotes these policies. From 1982 to 1989, China was Japan's largest recipient of economic assistance. As of 1989, ODA disbursements amounted to US \$832.20 million. Of China's fifteen major donors, Japan was easily the largest.(57)

(57) Robert M. Orr, Jr., "Translating the Policies: Regional and Multi-lateral Bank Emphasis", The Emergence of Japan's Foreign Aid Power, New York: Columbia University Press, 1990, p. 73.

In the area of technology transfer, the Japan-China Association on Economy and Trade (JCAET), in consultation with the China State Economic Commission (SEC) had extended cooperation in surveys of Chinese plants needing technology upgrading, which was mostly conducted by the Japan International Cooperation Agency (JICA). Despite carefully developed procedures of surveys, problems that are viewed differently on each side inevitably arise. Japanese firms complain that Chinese information is often inadequate for determining the sources of problems. They also claim that the Chinese want the most sophisticated technology regardless of applicability and that they underestimate personnel needs. Reciprocally, the Chinese claim that the Japanese often do not want to supply technologies, sometimes withholding blueprints or certain data and sometimes keeping secret patented information. In addition the Chinese say that they have been compelled to purchase unnecessary machines and that some products have serious quality problems.(58)

This asymmetry is in large part structural given the different stages of economic development in the two countries and the standard inequality of exchange between primary products and manufactured goods. However, the strongest evidence of Japanese cooperation in China's economic modernization is the record of loans extended between 1979 and 1986. The seven-year total of US \$3.4 billion in long-term

(58) Allen S. Whiting, "Sino-Japanese Economic Relations", China Eyes Japan, University of California Press, 1989, p. 114.

government credits, together with their relatively liberal terms of repayment, proved responsive to successive Chinese demands as fiscal crises repeatedly threatened key projects. In addition, a succession of short-term Export-Import Bank and commercial credits pushed the total amount of credit available to China to nearly US \$20 billion.(59) (Also see Table 9.)

Japan also occupies first place in grants to China, totaling US \$800 million between 1980-84 with a commitment to double overall foreign aid by 1992. Funds from the Office of Development Assistance flow through the Overseas Economic Cooperation Fund, some to the JICA for plant surveys and the rest to specific projects. For example, in 1986 Japan granted more than 2.0 billion Yen to establish a rehabilitation center in Beijing for the physically handicapped and another 1.4 billion Yen for water purification facilities in Changchun, both completed in 1988.(60)

(59) China Daily, August 19, 1986, In FBIS, August 19, 1986, A1.

(60) Xinhua in English, August 18, 1986, in FBIS, August 19, 1986, D1.

The 1990s

The surge of the Chinese economic reform saw some significant revisions away from Mao Zedong's socialist doctrines to a more pragmatic thrust into real economic gains, with the so-called "socialism with Chinese characteristics". Linkage between such Chinese domestic economic reforms and Sino-Japanese relations became more prominent for both sides in the 1990s. On balance, the economic relations between the two countries are fundamentally strong because of mutual interests and a greater degree of interdependence compared to all other western countries. In the long run, Japan can hardly fail to be by far the most important supplier of technology, capital goods, and management knowledge to China, while China seems bound to go on looking to Japan as the major market for its minerals and farm products - to say nothing of manufactured products.

In the face of the Tiananmen Incident and the subsequent pressure from other western countries to condemn China for suppressing democratic movement, Japan has only superficially wished that China could improve its human rights record, careful not to draw any strong sentiment from the Chinese side. The intertwined economic relations cultivated in the past two decades are not easily jeopardized by incident like the Tiananmen.

The content of such economic relations prove to be the source of a higher degree of sensitivity and vulnerability between Japan and China compared to other western countries. Japan's stake in China is much higher. China depends on Japan for its economic development much more than any other western country and is susceptible to the outcome of Japanese foreign policies which are also subject to influences of multilateral relations. As Richard N. Cooper points out:

the sensitivity of economic transactions between two or more nations to economic developments within those nations means that two countries with much mutual trade would still experience a low degree of interdependence if the value of the trade were not sensitive to price and income developments in the two countries; on the other hand, two countries would be highly interdependent if their transactions were greatly sensitive to economic developments, even if their mutual trade were initially at a lower level.(61)

With the resurgence of more economic reforms in China, the degree of sensitivity between the two countries is reflected in the consensus by both Chinese and Japanese analysts that China must continue to improve on marketing, quality control, and delivery reliability, and modify the Chinese exports mix to meet changing Japanese demand.

Chinese experts call attention to structural changes in the Japanese economy toward less energy-intensive industries. Thus, not only are low prices likely to prevail in raw materials and fuel resources, but their market share in Japan will also shrink. However, on the positive side, Chinese analysts point to the abundance of

(61) Richard N. Cooper, "Economic Interdependence and Foreign Policies in the Seventies", World Politics, Vol. 24 (1972), pp. 159-81.

"relatively untapped labour... which will give China considerable competitive edge in the field of processed and semiprocessed exports."

(62) China's share of manufactured products in Japanese imports (and in fact in the Canadian market) rose in the span of over 10 years. This is in part due to China's "open-door" policy, but largely due to the shift in Japan and Canada toward technology-intensive and knowledge-intensive industries and away from labour-intensive and capital-intensive industries.

To see clearly such a complementary pattern of world trade relations in relationship with national development, it is important to compare Canada and Japan in their endeavours to develop bilateral relations with such non-alliance partners as China.

(62) Ma Chengsan, "Toward Stable Growth in Sino-Japanese Trade: Shifting the Content of Chinese Exports to Japan", China Newsletter, No.62 (May-June, 1986): 16-17.

D. Comparison of Trade Policies between Canada and Japan with China

Trade policies, although important, are normally only part of the tools which a government uses to steer its overall economic policies. Having described the trade relationship between Canada and China and that between Japan and China, it is not difficult to see the differences between Canada and Japan with their relations with China.

Compared with Canada, Japan built its post-war wealth with much more difficulties due to political constraints from the west, in particular the U.S. military occupation from 1945 to 1952 and due to the lack of natural resources. It had to rely heavily on opening up overseas markets anywhere in the world for its manufactured products. Canada on the other hand benefited much from its economic ties with the U.S., and always had an economy based on rich natural resources (e.g. forestry and agriculture). Canada therefore had always enjoyed a comfortable way of relying on the export of these natural resources and related products.

Even though the diplomatic relationships between Canada and China, and between Japan and China were set up within two years of each other, the priorities of each country's foreign policy were different. The fact that Canada's earlier rapprochement with China than that of Japan did not prepare Canada to prosper in the China market as much as Japan leads one to ask for the reasons, which this section attempts to provide.

Canada's Government Economic Policies Versus Japan's Private Sectors'

Zeal

Canada's trade policies are under the framework of its overall external economic policies. In its endeavour to keep the domestic economy developing at a constantly growing pace, Canada's main efforts have been mostly focused on control over macro economic level issues such as taxation, employment, interest rates and inflation. Trade policies constitute a supplementary role in supporting these policies used to stimulate the domestic economy. Major trade partners such as the United States, Japan and western European countries can have a strong impact on the economic situation within Canada. But China's relationship with Canada is based more on politics than economics, and the trade relationship with China specifically is more an initiative of the government rather than individual businessman.

In contrast to Canada's trade policies, Japan's trade relationship with China was developed more by individual businessman, despite the fact that Japan's initial relationship with China in the 1960's was also more for domestic political reasons than economic. Notwithstanding China's efforts to maintain external political contact with Japan so as to change Japan's then non-recognition attitude, Sino-Japanese relationships mushroomed with great enthusiasm from the private, rather than government sector.

There are several reasons for such enthusiasm among Japanese private businessmen. First, among Japanese business circles, especially those at the leading edge of industries, the older generation is familiar with China due to its experience in China in the 1930's and 1940's. They helped promote trade relations with a people and a place that they have been familiar with. Second, the Japanese industry has been very well structured with many layers, in that newer and higher technologies quickly replace the older and lower level ones. Such characteristics are complementary with the much slower economic development in China, enabling Japan to sell "older model" products to China and at the same time protect their leading technology. The transfer of a black and white television making factory from Japan to China in the late 1970's is a good example of selling older technology which is suitable for the stage of Chinese development then.

Flexible as it is, the free style non-governmental initiatives by Japanese businessmen do not totally meet the wishes of the Chinese business-cadres who are more interested in official government delegations from foreign countries. From the traditions and practice of the Chinese, they are always more receptive to trade relations initiated by government officials rather than free style negotiations by informal non-government independent businessmen.

Under such circumstances, it is interesting to observe that the Chinese government always hopes that it can receive more economic aid from both the Japanese and Canadian governments. The Japanese government provided economic aid to China during the early days of restoration of diplomatic relations as one of the ways to pave the way for the normalization of relations with China. But as trade flourished between private Japanese companies and their Chinese counterparts, the Japanese government gradually withdrew its initial support, leaving private business to assume the major trade role.

The Canadian government, on the other hand, not only initiated formal diplomatic relations with China, but has always been the key player in the Canada-China relationship. Starting from the wheat sales administered by the Canada Wheat Board to the millions of dollars that Canada has funnelled to China via projects administered by CIDA, Canada-China economic relations have developed largely due to government, rather than private sector efforts. China, seeing the benefits of Canada's generosity, has welcomed a continuing friendly relationship with Canada though it has not taken Canada as seriously as it deserves.

Canada's Short Range Strategy Versus Japan's Long Term Business Planning

In Canada, because trade policies are generated from the top to the bottom, the direction of trade relations is decided by the three-tiered governments. As external policies are tools employed by government, they are more likely to be short term subject to changes in government. Therefore, government strategies are used to solve problems within the term of the governing period rather than over the long term, which does not contribute to developing long-term trade policies with China.

The same can be said of the "rush-rush" world of the west, where consumer products are all "instant" and fast profits are expected. There is also not the loyalty to the company in the west, as there is no life-time guaranteed job. Therefore, the western business outlook is necessarily short-term, due to the short terms of government (about 4 years), and the uncertainties of long-term employment with a single employer. This is where western and Chinese business practices clash, and where western businesses can lose out due to the long time investment required to even be hopeful of making a profit in China.

In Japan, the private sector plays the key role of promoting business with China, and corporate strategy normally is interested in long range business planning. This again differs from the western concept of "job-hopping", whereas in Japan it is very common that one works for a

single corporation for their entire career. Thus their trade relationship with China can last, as private businessmen know that they will be working for the same company until they retire, and that their efforts are not as vulnerable to changes in politics. Many of these businesses are multinational corporations who can afford major capital investment and afford to wait for a lengthy time before they can finally make profit. They are also more fine-tuned towards China's political environment due to geographic proximity and cultural similarity.

The Japanese business attitude towards China is such that they will try to make money in the long run rather than to gain an immediate cash return. This has enabled them to engage in a significant number of joint ventures with Chinese companies and to provide full fledged Japanese packages to the Chinese market. For example, in the service industry, Japan Airline penetrated into the Chinese market as early as 1982. (Whereas Canadian Airline International did not start to fly into China until 1986 and suspended its routes to China in June 1989.) They not only attracted their customers to fly JAL, but also managed to bring their guests to joint venture Japanese-Chinese hotels. Though many Japanese companies may still not be able to make a significant profit from the China market, they are sure that they have found a niche there for many of their products and services.

Canada's Natural Resources Versus Japan's Manufactured Products

Because of Canada's abundance of natural resources, its relationship with China has relied heavily on commodities such as wheat, agricultural and forest products, pulp and paper, minerals and ferrous and non-ferrous metals. Though Canada wants to export to China value-added products, especially in the field of advanced technology, it has lost a great deal of opportunities in providing some of its state-of-the-art high technology products, aside from such technologies as hydroelectricity and forestry. In 1991, high technology accounted for 2.5% of the total export to China.(63) Canada has managed a favourable balance of trade with China since 1970 with the only exception being 1989. And it has tried to increase the export of manufactured products to China. In contrast to the 1960s and 1970s, though in 1991 wheat sales to China still constituted 50 percent of total exports to China, there has been a general tendency of decreasing of Canadian wheat sales. Since 1961 when the first wheat sales agreement was signed to the 1980s, wheat sales accounted for approximately 80 to 95 percent in the 1960s, 70 to 85 percent in the 1970s and 35 to 60 percent in the 1980s, (also see Table 10.) while manufactured products was on a slow but gradual increase. This is reflected in the fact that Canada's share of export of manufactured products in its overall trade with the world has been gradually increasing in the past twenty years.

(63) Earl Drake, Former Canadian Ambassador to the People's Republic of China, lecture given to the Chinese interpreters from the Advanced Interpreter Education Program, February 1990. Also figures calculated from Imports and Exports by Country, Statistics Canada, 1970 - 1990.

In comparison with Canada, Japan has gained a leading edge over other western countries in its trade relations with China through the sales of their products, joint ventures and investment. Like elsewhere in the world, Japanese cars are a very common means of transportation for government officials and managers of state-run companies; ordinary households boast about their high quality SONY colored television sets and VCRs; and Chinese tourists take sharp pictures with their Nikon cameras. Nonetheless, amid such achievements by the second Japanese "invasion", the Chinese side has been not particularly impressed with the fact that Japan will not transfer its high technology to China. This is in contrast with Canada, which is more than happy to transfer its high technology such as telecommunications and power generation to China. The key is that Canada has to convince China of its overall technological level, and market this "high-tech" image to China.

TABLE 10

CANADIAN WHEAT SALES TO CHINA
(1970-1991)

C\$,000

<u>YEARS</u>	<u>TOTAL CANDADIAN EXPORTS TO CHINA</u>	<u>WHEAT SALES VALUE</u>	<u>% OF WHEAT SALES IN TOTAL EXPORTS</u>
1970	141,999	119,497	84.15%
1971	204,053	173,102	84.83%
1972	260,682	201,462	77.28%
1973	273,293	186,791	68.35%
1974	434,148	333,803	76.89%
1975	377,262	307,118	81.41%
1976	196,525	142,985	72.76%
1977	369,270	309,574	83.83%
1978	503,427	347,413	69.00%
1979	591,907	411,498	69.52%
1980	869,545	527,363	60.65%
1981	1,004,821	685,558	68.23%
1982	1,227,857	736,562	59.99%
1983	1,607,242	916,937	57.05%
1984	1,272,140	602,245	47.34%
1985	1,259,310	445,633	35.39%
1986	732,479	353,472	48.26%
1987	1,032,347	675,354	65.42%
1988	2,599,708	1,678,976	64.58%
1989	1,121,319	397,033	35.41%
1990	1,647,303	831,617	50.48%
1991	1,844,093	921,941	49.99%

Sources: Imports and Exports by Country, 1980 - 1990, International Trade Division, Statistics Canada, and Export Clearances of Canadian Wheat by Countries of Final Destination, Grain Trade of Canada, Statistics Canada - Board of Grain Commissioners for Canada, Agriculture Division, The Queen's Printer and Controller of Stationary.

CHAPTER FOUR
TRANSFORMATION OF ECONOMIC POWER

The Sino-Japanese and Sino-Canadian relations developed in the past two decades have demonstrated that economic power rather than military force has become a major feature in international relations. The changes in such variables as domestic politics, economic situations, strategic planning and world environment since the end of World War II have altered traditional relationships in the international system. Consequently, political scientists are required to re-examine the conceptual framework utilized in the analysis of international politics in order to reflect upon the changes which have taken place. The Sino-Canadian and Sino-Japanese relationships have clearly illustrated that nations of the world are now compelled to re-evaluate their perceptions of the international political system and the environment within which the system functions. While economic factors have historically been acknowledged as playing a role in international politics, the changes in the structure and functioning of the international political system have elevated economic factors to the level of major actors and core concepts.

The traditional state-centric framework of analysis utilized by students of international politics implies that states are the only

significant actors in the international system. However, this view is outdated. Canada implements many of its aid programs through non-profit organizations such as the World University Service of Canada. Even though Canadian bilateral relations with China are mostly government initiated, these government initiated programs are carried out by private companies which bid for the government contracts, such as the Integrated Forestry Management project in Heilongjiang Province and the Three Gorges Project on the Yangtze which are both supervised by CIDA but carried out by non-government agencies.

Moreover, increased interaction in the world such as that between socialistic countries and the capitalist middle powers, especially in the case of Japan, has also shown that the old framework no longer reflects the reality of international relations. Actors in the international political system now include not only government public officials and politicians but also interest groups, national and international non-political organizations, and individuals; as they represent factors which lie outside the domain of what is traditionally defined as "politics". Particularly in the case of Japan, bilateral relations were initiated and promoted through prominent individuals such as Liao Chengzhi, Takasaki Tatsunosuke, and non-governmental organizations such as the Japan International Cooperation Agency. Companies such as Hitachi and Toyota have been instrumental in bringing the political relations to a higher level of interdependence and

represent a greater variety and wider scope of structural changes in the international system. Even some Canadian firms have started to pursue investment and business interests in China without government assistance, most notably small and medium manufacturers of mining equipment in the provinces of British Columbia and Alberta.

However, in their respective relations with China, Japan and Canada are subject to different degrees of sensitivity and vulnerability. Sensitivity involves degrees of responsiveness within a policy framework - how quickly do changes in one country bring costly changes to another, and how great are the effects? Japan and Canada were affected to varying degrees by the Chinese government suppression of the democratic movement in 1989. The political situation in China directly affected its economic policies, and foreign relations, namely the sensitivity of Japan and Canada, were a function of the greater costs of business loss and the opportunity cost. Canada was less sensitive than Japan to such loss of time and business opportunities, as its business investment and trade with China was much smaller. As proven, Canada was not short of alternatives facing the setbacks of bilateral relations due to Chinese domestic political situations. But as China is one of the key markets and has increasingly become more so, Canada will be more sensitive to such changes as it relies on China not only as one of its major grain customers and more so an important market for its manufactured products, high-tech equipment and financial expertise.

Japan on the other hand has been careful not to jeopardize its trade relations with China, even though in principle it protested the Chinese government's brutality during the Tiananmen Incident by temporarily pulling diplomats and all Japanese personnel out of China. But Japan did not suspend any exchanges of high-level delegations. Canadian Trade Minister Michael Wilson's visit was only the second high-level government visit to China since the Tiananmen Incident, but Japan has conducted business as usual since then. The most symbolic of such normal relations was the visit by Chinese Communist Party General Secretary Jiang Zemin to Japan between April 6 and 10, 1992. "The purpose of his visit was to celebrate the 20th anniversary of the normalization of Sino-Japanese diplomatic relations and to deepen a traditional friendship between the two countries."(1) During the trip he was welcomed by both the Japanese Prime Minister Kiichi Miyazawa and Japanese Emperor Akihito who was invited to make a reciprocal visit to China in the near future.

Although they can be traced historically, the reasons for Japan's closer ties with China truly emerge from the concept of vulnerability in interdependence. In this dimension, if more alternatives were available, and new and very different policies were possible, the costs of adjusting to the outside change would also change.(2)

(1) Zhang Ping, "Sino-Japanese Leaders Promise Smooth Relations", China Daily, April 7, 1992.

(2) Robert O. Keohane & Joseph S. Nye, "Interdependence in World Politics", Power and Interdependence, Scott, Foresman and Company, 1989, p. 13.

In the aftermath of the Tiananmen Incident, what mattered was not only the time and business opportunities lost between China, Canada and Japan, but also the forgone opportunities that these three trading partners gave up with other countries by having already established long-term trading dependencies on each other, which could not be diverted to alternate markets in the short-term. Both Japan and Canada faced the same dilemma: if either could shift to alternative sources at moderate cost, and the other had no such alternative or at a greater cost, the second state would be more vulnerable than the first. In this case, Canada is the former and Japan is the latter. Japan is well-established in the China market to such an extent that it is very difficult to sever trade ties on the sole basis of political differences. Based on the analysis of Japan's trade relations with China in Chapters Two and Three, it is clear that Japan invested billions of dollars in the China market during the 1980s and 1990s for the long term, and the alternatives of locating a similar market for Japanese products and as a supplier of cheap raw materials and labour are limited and costly.

Canada is less vulnerable than Japan because it has very minor private investment with only 60 or so Canadian firms across China, which are often one-man representative offices such as the Bank of Nova Scotia and the Canadian Imperial Bank of Commerce.(3) Their function

(3) Jan Wong, "Time to Tango with China's Partners", The Globe and Mail, March 21, 1992.

is more of a liaison office than an active investment player, thus with very low stake. Trade value with China only accounts for 1.1 percent of Canada's total trade value in 1990;(4) aside from grain sales to China, Canada has little to worry. Canada's ties with China are mostly government sponsored, with large aid programs and Export Development Corporation (EDC) financed transactions. Therefore, if the Canadian government decides to cancel or delay aid to China, it is not the private businesses that are losing investment funds. The government can reallocate unused funds to different projects and give private companies another opportunity to bid on them.

(4) See trade figures on p. 24, Chapter Two, and Table 2, Canada-China Imports and Exports on p. 68, Chapter Three.

A. INTERNATIONAL ECONOMIC INTERDEPENDENCE

The economic interdependence of the past four decades has shown that subsystems of the international system do not function independently of one another. Changes in political attitudes towards social systems and rapid development in technology have made economic self-sufficiency more impractical for nations. The increased politicization of international economics has brought about changes in the relative utility of military force. C. Fred Bergsten notes that, as the perceived margin of safety for states widens, non-military goals, such as economic welfare, political autonomy, and status, become relatively more important than military force as a component of national power.(5) Bergsten argues that:

economic issues have become far more salient in international affairs than at any point since the beginning of World War II, both because of their increased importance in their own right and because of the decline in concerns about survival and the traditional forms of security.(6)

As Japan and China no longer feel threatened by each other, force is irrelevant or unimportant as an instrument of power. This is not to discount the plausible use of military force, but simply to re-evaluate its importance. Yet such states are often very interested in influencing each other's policies, and if force is not a useful tool of policy, other instruments such as economic ones are sought.(7)

(5) C. Fred Bergsten, Robert O. Keohane, and Joseph S. Nye, "International Economics and International Politics: A Framework for Analysis", in C. Fred Bergsten and Lawrence B. Krause, eds., World Politics and International Economics, Washington, The Brookings Institution, 1975, p.7..

(6) Ibid.

(7) James R. Rosenau, ed., Lingage Politics, New York: Free Press, 1969.

Canada is a traditional well-known peace-keeping nation, and the use of military force has never been on the main national agenda. Detente was welcomed and supported by Canada. The defeat of Saddam Hussein and the recent collapse of the Soviet and Eastern European communist bloc have brought even more calls for reductions to the military in Canada. Strategic policies such as trade policies and aid programs are a major part of the tools which Canada uses to influence China.

Three other factors account for the mass awareness of interdependence at present time. First, highly efficient communications and transportation have obviously facilitated it. Second, border-crossing activities such as tourist traffic, students studying abroad, export of workers and international investment have facilitated interdependence. Third, government policy has promoted such interdependence even if not overtly, by permitting the acquisition of foreign goods demanded by consumers. In fact, economic interdependence has spilled over onto the social and cultural aspects of societies. At the domestic level international interdependence means that the form of domestic relationship is affected by and must adapt to external stimuli and indeed learn continuously to cope with and utilize the ever-changing impulses emanating from the outside world.(8) This is where linkages

(8) See Haas, Web of Interdependence, pp. 11-14; James N. Rosenau, The Adaptation of National Societies: A Theory of Political System Behaviour and Transformation (New York: McCaleb-Seiler, 1970), Cited in Klaus Knorr, The Power of Nations, The Political Economy of International Relations, New York: Basic Books, Inc., 1975, p. 214.

between domestic policies and international phenomenon come into existence, such as those between China, Japan and Canada.

Even though trade volume between Canada and China is not big, yet knowledge of the components of the trade is crucial to understanding whether the traded materials are strategically important or not. Half of Canada's exports to China is still wheat even in the 1990s. When China did not have a famine, wheat was not a strategically important material. When Canada reduced wheat exports in 1989, China was able to import more from Australia and Brazil.

In contrast to Canada, Japan enjoys a large trade volume with China and many of its exported goods to China such as high technologies, investment in manufacturing factories are considered strategically important by both sides. From this viewpoint, Japan has more leverage than Canada in its overall influence on China. However, Japan has not much interest in translating economic issues into politics, and therefore is reluctant to exercise political pressure on China for more democratic government. In fact, it was Japan which advocated the lifting of economic sanctions on China by the West in the Houston Summit in 1991. This was a very different attitude from most of the other Western countries.

B. LINKAGE AND ECONOMIC POWER

The term "linkage politics" was first used by James N. Rosenau to describe a relatively new approach within the discipline of political science.(9) Rosenau developed the concept to apply to the linkage between any two political systems as "any recurrent sequence of behavior that originates in one system and is reacted to in another."(10)

In the 1960s and early 1970s the government of China stated its intention to link its domestic modernization to setting up diplomatic relations with the west; and to use such links to pressure the United States to recognize China rather than Taiwan. Throughout the 1970s, China was successful in turning around its relationship with the United States by utilizing "shuttle diplomacy" after successfully gaining diplomatic recognition from Canada, Japan and most of the western countries. In recent years the west, including the United States, Canada and Japan have also been using linkage politics to pressure China into agreeing to a more democratic government and more open economy, especially since 1989. The Senate of the United States Congress passed a bill on February 25, 1992 to attach human rights conditions for renewal of China's most favoured nation (MFN) trading status with the United States from 1992-1993.(11) The United States has not only implemented

(9) James R. Rosenau, ed., Linkage Politics (New York: Free Press, 1969), P. 44.

(10) Ibid.

(11) "Regret Over Senate Bill on MFN", staff reporter, China Daily, February 27, 1992, p. 1.

economic sanctions against China's political autocracy, but also from time to time has given more vocal support to democracy activists and separatists in places like Tibet, Taiwan or Hong Kong. Washington could also stall China's entry into GATT (General Agreement of Trade and Tarriffs) and choke off multilateral credits and investments when it chooses.

Power is necessary to the values that nation-states seek to preserve and promote, e.g. security, prestige, and pride. It is also recognized as being a coercive influence in contrast to persuasive influence. In Van Dyke's terms,

It is common to think of power as a particular kind of influence, and to define influence as an ability to affect the actions, thoughts, or feelings of others. If something about A (for example, A's presence or activity) takes a difference in the actions, thoughts or feelings of B, A has influence over B. The more fully A's influence rests on an ability to coerce B (and here the concern is with B's actions, not with B's thoughts or feelings), the more the relationship is one of power. In other words, it is the use or the threat (latent or active) of sanctions that distinguishes power from influence.(12)

The increasing diversity of actors in the international system; the broadened agenda of foreign policy as a result of the penetration into areas which formerly were confined to purely domestic; and the increasing linkages between various issues have brought economic forces into the forefront as having the potential as an effective political power.

(12) Vernon Van Dyke, International Politics, New York: Appleton-Century-Crofts, 1972, p. 20.

It is in the interest of Canada to exert political influence over China using some means of economic power, especially in the trade sector and to use the cancellation of aid to China as a political weapon to force China to change its political autocracy. Japan's major strength is the ability to penetrate the Chinese market and force China to rely on Japan's financing, export market and supply of Japanese equipment and consumer commodities. The source of Japanese economic power, in the case of its relationship with China, has also been the ability to continuously invest in China, thus giving itself more bargaining power in influencing China's domestic and foreign policies.

Such influence from western countries such as Canada and Japan utilizing economic power may still take some time to prove to be effective in changing China's attitude towards its political reforms, but at least it has prompted the Chinese leaders to try to make some gestures to cover up China's domestic political problems. In spite of the fact that China to a large extent still pays only lip service to the improvement of human rights, under pressure from western countries to change its autocratic rule and in the face of changes in the former Soviet Union and other Eastern European countries, China has done some diplomatic manoeuvres such as the red-carpet treatment of Canadian Trade Minister Wilson's visit to China and the visit to Japan by Chinese Party General Secretary Jiang Zemin to celebrate the 20th anniversary of the setting up of Sino-Japanese diplomatic relations in April 1992.

China's prime minister, Li Peng arrived in New York in late January 1992 for the special meeting of the "big five" members of the United Nations Security Council. This symbolized the completion of China's international rehabilitation. From global arms talks to Asian trade talks, China now has its feet in all major international conferences. The string of high-level visitors to Beijing since the latter half of 1991 was highlighted by the visits of Japan's Prime Minister Toshiki Kaifu, Britain's John Major, and America's Secretary of State, James Baker.

The end of the cold war, the reduction of America's presence overseas and the Soviet collapse have all lent new weight to regional powers. In Asia that encourages Japan, India, and even South Korea to match their political weight against China's. In North America, apart from the apparent influence on China from President Bush's "new world order", Canada's political weight on China has also had some impact, especially through reducing political interaction and government aid and loans to China.

Under such influence and pressure, economic reforms have been resumed in China to bring back its pre-Tiananmen Incident status in the world. The basic guidelines for China's economic activities during 1992 are "to continue to carry out the basic line of the Party (the Communist Party of China) - the central task on economic activity and

adhering to two basic points", i.e. the policies of economic reform and opening to the outside world.(13)

The evidence is quite clear that China is changing its domestic policies to reassure the outside world that it is still opening up and engaging in economic reforms. This does not happen purely as an "enlightened Chinese emperor" sees the ultimate destination of China, but because of the increasingly interdependent world in political, economic and social interrelationships. What makes the joint efforts of the west to influence China's domestic policies effective to a larger degree than the 1970s is the 1989 economic sanctions, the withdrawal of diplomats from China, and the effectiveness of the electronic media to relay timely news about China to the outside world, and also to bring in news to China from the west.

The political effects of rising economic interdependence, as exemplified by bilateral relations and multi-layered relations, have made the traditional distinctions between domestic and international systems invalid. Institutions in both systems have become directly involved in international policy questions. As a consequence of the June 4th 1989 crisis in China, China's human rights issue is no longer a top-government secret but an issue between the Chinese government and

(13) Xinhua News, "Li Outlines 1992 Economic Activities in China", China Daily, December 11, 1991, p. 1.

the rest of the world. Such an issue has become a condition of the west to bargain with China on economic and other political issues. Though China has been avoiding such issues as the actual number of political prisoners and the number released from the Tiananmen Incident, at least the Chinese government has been trying to compensate for this political sore with their push for economic and trade relations. The most recent round of economic reforms led by the liberals in the Chinese government has brought both the liberals and conservatives together to voice a unified line for a more "open-door" policy. The cases of Sino-Canadian and Sino-Japanese relationships coupled with the efforts of other western countries such as the United States and Great Britain under a broader picture of multilateral relations have particularly shown that economic power can be directly transformed into effective political power.

CHAPTER V
CONCLUSIONS

While the mood of China's top leaders moved dramatically in the first half of 1992 towards endorsing more aggressive economic reforms, including adopting elements of capitalism, there are few signs that they intend to permit political reforms. The west, including both Canada and Japan may wish that international economic interdependence will bring China more in line with western democracy. But the facts remain that such interdependence is not strong enough to be translated into political influence.

Comparing bilateral relations between Canada and China and between Japan and China, one can clearly see that Japan has developed much deeper trade ties with China, superior not only in its product penetration of the Chinese market (and being finished, value-added products), but also in its understanding of the Chinese structure, its system and its business psychology. But because of such deeper Japanese involvement, it is more difficult for the Japanese compared with other western countries such as Canada and the United States to put meaningful pressure on China for political changes if that pressure will impinge upon Japanese economic benefits from the China market. China is also careful to keep its relations with Japan intact by emphasizing domestic political stability and a positive business

environment through economic reforms. This can be interpreted from the theoretical point of view of interdependence that both China and Japan are vulnerable to each other to such a degree that both sides are cautious enough in their policies to keep the mutual benefits intact.

Although engaged in trade development with China, Canada is still at the level of aid and primary products trade. Though Canada very much wishes to expand trade with China through the sales of not only natural resource and agricultural products, but also more high - technology products such as telecommunication equipment and computers, it will be very much limited due to the gap in geographical, political and social terms. In reality, Canadian suspension of high-level delegation visits, cancellation of aid, and blanket granting of permanent resident status to Chinese nationals have not had much impact on domestic Chinese politics and human rights issues. From a theoretical point of view, this indicates that there is little vulnerability in Sino-Canadian relations and that Canada is less sensitive to the Chinese domestic changes such as the hardliners' power struggle with the liberals than Japan.

Therefore a hypothetical solution to the weaknesses of each of these bilateral relations still lies in the question of the balancing of sensitivity and vulnerability that the pluralists defined in interdependence. The emphasis on reciprocal effects under not only

bilateral relations but also the level of multilateral relations can be effective in evaluating a country's foreign policies. With its wisdom in world markets, its understanding of Chinese culture and its geographic proximity, Japan will continue to benefit tremendously from China. But as Japan's economy also experiences a process of globalization, Japan will also associate the benefits and costs of interdependence with not only China but also with the rest of the world. Thus, Japan can be politically effective in its influence over China only and especially with pressures from the multilateral level. While Canada has realized that in spite of its joint effort with the others at the multilateral level to politically influence China, its bilateral ties with China is not strong enough to yield much results. Canada recovering from the pull-out of government functions and business ties from China since June 1989, is reevaluating its bilateral relations with China by taking into more consideration of its competitiveness in an integrated world.

As far as China's business environment is concerned, the new direction in the Chinese government's current policies towards further economic reforms and opening up may result in a quicker return of foreign business interests. The evidence had long been mounting in favour of such a resurgence of positive policies. The 1991 convening of the annual session of the National People's Congress (NPC), produced a 32,000-word blueprint for the country's development over the next decade.(1) This

(1) "China: Short On Solutions", Far Eastern Economic Review, April 4, 1991, p.8.

plan emphasised the need for continuing reforms and opening up to the outside world. Subsequently the Chinese government has been putting effort to tackling a host of economic problems such as the lack of foreign exchange reserves, the national deficit, the disparity of prosperity and poverty, excessive consumption in production, inferior quality, enormous waste in construction, slow capital turnover and low labour productivity and serious enterprise losses.

Also during this session of the NPC, the presentation of the Eighth Five-Year Plan and 10-year development strategy was intended to chart China's path of development to the year 2000. Various general targets were set, including quadrupling the country's 1980 GNP by the end of the decade through an average annual growth rate of 6 percent (keeping in mind that the reformists would like to see a 10 percent growth rate), and ensuring a "relatively comfortable" standard of living. The overall tone of the plan is conservative, yet by no means hardline, with acknowledgement of the need for piecemeal reforms, including continuing experimentation with the selling of shares in state enterprises, better management of state-run corporations and introduction of new technology.(2) This tone of change for more positive domestic development was reinforced during the latest session of the NPC in March 1992, in which Deng Xiaoping emphasized the expanding of economic reforms and further opening up to the world.

(2) "China: Short On Solutions", Far Eastern Economic Review, April 4, 1991, p.8.

The timing of such reassurance of China's reforms is no surprise. Facing the continuous pressure from the west since the Tiananmen incident in June 1989 and the drastic changes to the communist system in the Soviet Union and Eastern Europe, Chinese communists received the shock of their lives. The paradox of the present Chinese policy is that the Chinese seem to have come to the conclusion that the Soviet failure proves their own correctness. The Dengist school of communist reform has always operated on the principle that the economy should gradually be opened to market freedom, while the party's political grip should remain unchallenged. The fall of Mikhail Gorbachev, who had roughly reversed this proposition, has allowed China's reformers to press the argument that to maintain political control there must be further economic reform.

These emphases indicate a delicate balance of policies between the economic reforms and the political restraints. The economy itself could put another rush of reform to good use. For all their success in the economic debate, the reformists have yet to prevail politically. Such a balance will possibly provide a still stablized political climate for foreign involvment in the Chinese market. Even with China's economic problems, the new Five-Year Plan at least guarantees that China will not regress back to a "pure socialistic doctrine" dominated period of stagnation. Trade with other countries such as Japan and Canada will still be priorities in China's external relations.

For Japan, since trade has not been affected much by the 1989 Tiananmen Incident, one will expect a steady development of trade and business ties with China. For Canada, as the Canadian government is no longer as critical about the Chinese government as in 1989, Canadians start to put more effort into developing trade of value-added products, with more emphasis on high technology such as telecommunications and transportation that Canada is world-wide renowned for. Since this is one of the areas of concentration in China's new Five-Year Plan, Canadians need to exert more effort in opening up more trade channels in China along this line.

The "linking" with China as many Canadians have long realized is no longer just a political statement of "national independence policy", but a testimony of the ability to participate in world-wide interactions. Canada has many advantages over other western countries including Japan in that it has a very rich natural resource base and Canadians are generally perceived as friendly business partners. Therefore, further development is much in need so long as both sides recognize the other's potential and capability, this relationship will be mutually beneficial.

From the analysis it has become apparent that there exists a phenomenon of world interdependence with a strong relationship between domestic policies and international political systems. On a continuum with independence at one end and pure dependence at the other, interdependence is perceived as being somewhere between. Power which is

conceived as forming the basis of all politics has become increasingly dependent on the degree of interdependence between countries. The impact of interdependence has been found to take one of two dimensions, either a society is sensitive to environmental change or it is vulnerable as in the cases of Sino-Japanese relations.

Henry Kissinger once stated that "the traditional agenda of international affairs - the balance among major powers, the security of nations - no longer defines our perils or our possibilities... Now we are entering a new era. Old international patterns are crumbling; old slogans are uninformative; old solutions are unavailing. The world has become interdependent in economics, in communications, in human aspirations."(3)

The application of across-systems analysis of Sino-Canadian relations in comparison with Sino-Japanese relations, in particular reference to linkage politics to this study has indicated that this approach has greater explanatory power than single level analysis. In spite of criticisms of linkage theory,(4) this is to say that not only bilateral relations such as those between Canada and China as well as between Japan and China are good examples of understanding the impact of domestic changes and policies on international relations, but that the comparison of such bilateral relations provides more insights for across national-international levels.

(3) Robert O. Keohane & Joseph S. Nye, "Interdependence in World Politics", Power and Interdependence, Scott, Foresman and Company, 1989, p. 1.

(4) For example, see Ralph Pettman, Human Behaviour and World Politics, A Transdisciplinary Introduction, London: The Macmillan Press, 1975. p. 44.

APPENDIX 1

Minutes on Talks Between Dietman Matsumura Kenzo and Zhou En-lai

September 19, 1962

Premier Zhou En-lai and Vice-Premier Chen Yi held friendly and frank discussions with Matsumura Kenzo, adviser to the Liberal-Democratic Party, for three days on September 16, 17, and 19, 1962. The Chinese side reiterated its determination to uphold the three political principles, the three principles for trade, and the principle of inseparability of political and economic matters, and declared that these principles would continue to be effective.

Both sides expressed their desire to further promote and expand trade between Japan and China. Both sides also agreed that by adopting a gradual and cumulative method, they should attempt to normalize political and economic relations between the two countries.

Source: Lee, Chae-Jin, Japan Faces China, Political and Economic Relations in the Postwar Era, The Johns Hopkins University Press, Baltimore and London, 1976.

APPENDIX 2

Joint Statement of the Government of Japan and the Government of the People's Republic of China

September 29, 1972

At the invitation of Premier Zhou En-lai of the State Council of the People's Republic of China, Prime Minister Tanaka Kakuei of Japan visited the People's Republic of China from September 25 to 30, 1972. Accompanying Prime Minister Tanaka Kakuei were Foreign Minister Ohira Masayoshi, Chief Cabinet Secretary Nikaido Susumu and other government officials.

Chairman Mao Ze-dong met Prime Minister Tanaka Kakuei on September 27. The two sides had an earnest and friendly conversation.

Premier Zhou En-lai and Foreign Minister Ji Peng-fei had an earnest and frank exchange of views with Prime Minister Tanaka Kakuei and Foreign Minister Ohira Masayoshi, all along in a friendly atmosphere, on various matters between the two countries and other matters of interest to both sides, with the normalization of relations between China and Japan as the focal point, and the two sides agreed to issue the following joint statement of the two Governments:

China and Japan are neighboring countries separated only by a strip of water, and there was a long history of traditional friendship between them. The two peoples ardently wish to end the abnormal state of affairs that has hitherto existed between the two countries. The termination of the state of war and the normalization relations between China and Japan - the realization of such wishes of the two peoples will open a new page in the annals of relations between the two countries.

The Japanese side is keenly aware of Japan's responsibility for causing enormous damages in the past to the Chinese people through war and deeply reproaches itself. The Japanese side reaffirms its position that in seeking to realize the normalization of relations between Japan and China, it proceeds from the stand of fully understanding the three principles for the restoration of diplomatic relations put forward by the Government of the People's Republic of China. The Chinese side expresses its welcome for this.

Although the social systems of China and Japan are different, the two countries should and can establish peaceful and friendly relations. The normalization of relations and the development of good neighborly and friendly relations between the two countries are in the interests of the two peoples, and will also contribute to the relaxation of tension in Asia and the safeguard of world peace.

(1) The abnormal state of affairs which has hitherto existed between the People's Republic of China and Japan is declared terminated on the date of publication of this statement.

(2) The Government of Japan recognizes the Government of the People's Republic of China as the sole legal government of China.

(3) The Government of the People's Republic of China reaffirms that Taiwan is an inalienable part of the territory of the People's Republic of China. The Government of Japan fully understands and respects this stand of the Government of China and adheres to its stand of complying with Article 8 of the Potsdam Proclamation.

(4) The Government of the People's Republic of China and the Government of Japan have decided upon the establishment of diplomatic relations as from September 29, 1972. The two Governments have decided to adopt all necessary measures for the establishment and the performance of functions of embassies in each other's capitals in accordance with international law and practice and exchange ambassadors as speedily as possible.

(5) The Government of the People's Republic of China declares that in the interest of the friendship between the peoples of China and Japan, it renounces its demand for war indemnities from Japan.

(6) The Government of the People's Republic of China and the Government of Japan agree to establish durable relations of peace and friendship between the two countries on the basis of the principles of mutual respect for sovereignty and territorial integrity, mutual nonaggression, noninterference in each other's internal affairs, equality and mutual benefit and peaceful coexistence.

In keeping with the foregoing principles and the principles of the United Nations Charter, the Governments of the two countries affirm that in their mutual relations, all disputes shall be settled by peaceful means without resorting to the use or threat of force.

The normalization of relations between China and Japan is not directed against third countries. Neither of the two countries should seek hegemony in the Asia-Pacific region and each country is opposed to efforts by any country or group of countries to establish such hegemony.

(8) To consolidate and develop the peaceful and friendly relations between the two countries, the Government of the People's Republic of China and the Government of Japan agree to hold negotiations aimed at the conclusion of a treaty of peace and friendship.

(9) In order to further develop the relations between the two countries and broaden the exchange of visits, the Government of the People's Republic of China and the Government of Japan agree to hold negotiations aimed at the conclusion of agreements on trade, navigation, aviation, fishery, etc., in accordance with the needs and taking into consideration the existing nongovernmental agreements.

(Signed) Zhou En-lai
Premier of the State Council of
the People's Republic of China

(Signed) Tanaka Kakuei
Prime Minister of Japan

(Signed) Ji Peng-fei
Minister of Foreign Affairs of the
People's Republic of China

(Signed) Ohira Masayoshi
Minister for Foreign Affairs of
Japan

Source: Lee, Chae-Jin, Japan Faces China, Political and Economic Relations in the Postwar Era, The Johns Hopkins University Press, Baltimore and London, 1976.

APPENDIX 3

Canada Establishes Diplomatic Relations with the Chinese People's Republic

Statement made to the House of Commons on October 13, 1970, by the Secretary of State for External Affairs, the Honourable Mitchell Sharp.

I am pleased to announce the successful conclusion of our discussions in Stockholm with representatives of the People's Republic of China, reflected in today's joint communique, which records our agreement on mutual recognition and the establishment of diplomatic relations. The joint communique of the Government of Canada and the Government of the People's Republic of China concerning the establishment of diplomatic relations between Canada and China is as follows:

1. The Government of Canada and the Government of the People's Republic of China, in accordance with the principles of mutual respect for sovereignty and territorial integrity, non-interference in each other's internal affairs and equality and mutual benefit have decided upon mutual recognition and the establishment of diplomatic relations, effective October 13, 1970.

2. The Chinese Government reaffirms that Taiwan is an inalienable part of the territory of the People's Republic of China. The Canadian Government takes note of this position of the Chinese Government.

3. The Canadian Government recognizes the Government of the People's Republic of China as the sole legal government of China.

4. The Canadian and Chinese Governments have agreed to exchange ambassadors within six months, and to provide all necessary assistance for the establishment and the performance of the functions of diplomatic missions in their respective capitals, on the basis of equality and mutual benefit and in accordance with international practice.

Officials from my Department and from Industry, Trade and Commerce will be leaving for Peking very shortly to begin administrative preparations for the opening of a Canadian embassy in Peking. We hope to have the embassy in operation within two or three months.

The establishment of diplomatic relations between Canada and China is an important step in the development of relations between our two countries, but it is not the first step, nor is it an end in itself. We have opened a new and important channel of communication, through which I hope we will be able to expand and develop our relations in every sphere. We have already indicated to the Chinese, in our Stockholm discussions, our interest in setting up cultural and educational exchanges, in expanding trade between our two countries, in reaching an understanding on consular matters, and in settling a small number of problems left over from an earlier period. The Chinese have expressed the view that our relations in other fields such as these can only benefit from the establishment of diplomatic relations between our two countries. They have also agreed in principle to discuss through normal diplomatic channels, as soon as our respective embassies are operating, some of the specific issues we have raised with them.

Position on Taiwan

As everyone knows, the agreement published today has been under discussion for a long time. I don't think it is any secret that a great deal of this discussion has revolved around the question of Taiwan. From the very beginning of our discussions the Chinese side made clear to us their position that Taiwan was an inalienable part of Chinese territory and that this was a principle to which the Chinese Government attached the utmost importance. Our position, which I have stated publicly and which we made clear to the Chinese from the start of our negotiations, is that the Canadian Government does not consider it appropriate either to endorse or to challenge the Chinese Government's position on the status of Taiwan. This has been our position and it continues to be our position. As the communique says, we have taken note of the Chinese Government's statement about Taiwan. We are aware that this is the Chinese view and we realize the importance they attach to it, but we have no comment to make one way or the other.

Source: Department of External Affairs Documents, Canada, November 1970.

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