



## In This Issue:

- In A Fortnight: Chinese Rocket Launches Point to Robust, Expanding Capabilities** 1
- Xi Jinping Burnishes Foreign Policy Credentials Despite Lack of Achievement At U.S. Summit** 3  
By Willy Lam
- China's Search for a "Strategic Air Force"** 7  
By Michael S. Chase and Cristina Garafola
- China and Russia Multiply Efforts in Global Agenda-Setting** 10  
By Vitaly Kozyrev
- The End of China's Play in the Canadian Oil Sandbox?** 13  
By Wenran Jiang



A Long March 6 rocket preps for launch at the Taiyuan Satellite Launch Center (Source: Chinese internet)

## In a Fortnight

### Chinese Rocket Launches Point to Robust, Expanding Capabilities

By Peter Wood

In late September, China conducted the first launch of two new types of rocket, the Long March 6, and the Long March 11 ([China Military Online](#), September 20; [People's Daily Overseas Edition](#), September 26). While much of the media attention in September focused on the intercontinental and intermediate range missiles on display during the September 9 parade, the almost mundane regularity of space launches from Chinese satellite launch centers such as Taiyuan, Jiuquan and Xichang, herald China's true emergence as a space power. The ability to launch a wide variety of satellites and spacecraft is important to China's continued economic growth and national defense.

Chinese military analysts recognize space as an "information center of gravity" ([China Brief](#), April 16). Strategically, it is a capability that they

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simply cannot live without and where they cannot afford to rely on another for launch capability. The United States, by contrast, remains reliant on Russian rockets for manned missions and many of the resupply missions to the International Space Station, including a launch on October 1 ([NASA](#), August 25; [ROSCOSMOS](#), October 1). Satellite technology is a vital component in the Chinese military's ability to "win informatized local wars." China will continue to focus on improving the ability of its military forces to communicate with each other over long distances and to detect threats and provide targeting data to missile systems.

While China's manned space and lunar exploration national prestige programs have received official support, the priority for launches is clearly commercial and military-use satellites. These launches are steadily building not only China's civilian communications infrastructure, but also the number of military surveillance satellites vital to Chinese intelligence, surveillance and reconnaissance (ISR) capabilities. China has a growing number of remote sensing satellites, with launches in July, August and September of this year ([Xinhua](#), August 27; [Ministry of Science and Technology](#), July 27). These satellites, part of the Yaogan (remote sensing, 遥感) series, are commonly described in official reports as being for agricultural or disaster relief use only, though they are widely understood as having additional roles as an important part in China's space ISR capabilities ([Reference News](#), September 9; [China Brief](#), February 10, 2011).

China clearly sees the economic benefits of satellite technology. China's most recent white paper on the subject, *China's Space Activities in 2011*, highlighted the commercial and scientific benefits of space assets, though it failed to mention Chinese military tests, such as the anti-satellite tests conducted in 2007 and 2010 ([State Council Information Office](#), December 29, 2011; [China Brief](#), January 3, 2012). China's desire to have a more accurate and reliable commercial alternative to the U.S.-controlled Global Positioning Satellite system (GPS) has made launching additional, upgraded satellites a priority. In July, China launched two next-generation Beidou (北斗) satellites, marking "a substantial step toward a system with global coverage" ([People's Daily Overseas Edition](#), July 27). This newer generation marks a significant

improvement over the first Beidou system, whose geostationary satellites limited coverage to an area mostly near China's borders. The new system, with satellites in a lower orbit, now cover a significantly larger space stretching from the Western Indian Ocean to the middle of the Pacific—appropriately accompanying China's increasingly active "far seas" maritime operations. However, the system remains limited in its coverage and is far from a truly *global* positioning system. Continued Chinese commitment to finishing the system and an aggressive launch schedule could see that soon change.

Chinese improvements do not just extend to rockets and the satellites they carry. China has made a number of investments in infrastructure to support its expanding satellite network, including an agreement with the Argentine government to share a satellite monitoring base located outside of Neuquén, Argentina ([Penghai News Online](#), March 9). This base will give China better satellite tracking and communications ability in the Southern Hemisphere and is part of China's longer-term space ambitions, including plans to land astronauts on the moon by 2020 ([China Brief](#), January 24, 2014).

This latter ambition also took a step forward in September as the first Long March 5 left the factory in Tianjin, where it was produced, and was loaded on a ship to be sent to a launch site for further testing, likely the Wenchang Launch Center in Hainan Province ([China Military Online](#), September 23). The Long March 5, a heavy lift rocket, is scheduled to carry an unmanned mission to return lunar samples to earth in 2017. National prestige projects may have been largely left behind by the developed world, but for China they remain an important image of its "national revival." China is advancing both in terms of its ability to carry out complex space missions and build a reliable communication and navigation networks.

While much of the attention has received recently focuses on Chinese land-reclamation works in the South China Sea or cyber-attacks, China's advances in rocketry and satellite technology—which underpin so much of the Chinese military's planned networked capabilities, should not go unnoticed.

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## Xi Jinping Burnishes Foreign Policy Credentials Despite Lack of Achievement At U.S. Summit

By Willy Lam

Despite a lack of concrete achievements in his summit with his U.S. counterpart Barack Obama, Chinese President Xi Jinping has accomplished a more important goal for his domestic audience—burnishing his image as a statesman. At a time when ordinary Chinese are bracing for a possible slide in the country's GDP growth rate—and questioning the Xi team's economic management skills—the Fifth-Generation leader seems ready to divert the attention of the disenchanted public toward the foreign policy arena. And while American media has cast doubt on the results of the Obama-Xi summit, Communist Party mouthpieces as well as government-affiliated experts in China have given an effusive appraisal of Xi's first official trip to the United States.

The build-up of Xi's image as a charismatic, globetrotting statesman began even before he left Beijing. A special cartoon strip run by Xinhua exulted in the trip, using a popular diminutive bestowed by Chinese netizens: “Xi Dada is mighty and powerful,” it said. “[You are] the pride and hope of Chinese people. Go, Xi Dada!” ([South China Morning Post](#), September 26; [Xinhua](#), September 22). After the September 25 summit, Xinhua and CCTV reported that the Chinese and U.S. presidents had attained “a trove of important results.” A Xinhua commentary declared that “Xi's U.S. tour ushers in new era of win-win cooperation.” Quoting Chinese foreign ministry officials, Xinhua said both leaders “agreed to continue the endeavor to build a new model of major-country relationship between China and the United States.” Statements issued by the U.S. government, however, made no reference to the phrase of “a new major-country relationship.” In another Xinhua article entitled “Asia-Pacific not China-U.S. wrestling ring,” commentators Sun Ruijun and Wang Haiqing argued that Xi and Obama's “latest agreement to deepen dialogue on Asia-Pacific affairs is encouraging.” The deputy president of

the Beijing-based Foreign Policy Institute, Wang Fan, sounded optimistic on the broader issue of “hegemonic transition”—a reference to the competition between the world's sole superpower and the fast-rising semi-superpower. He pointed out that in light of Xi's statement that China will not challenge the existing international order, “the *xinjie* (心结, psychological knot) between China and the U.S. has been dissolved.” Wang added that both sides had “reached a relatively high level of commonality” regarding mutual interests and responsibility on the world stage ([CNTV.cn](#), September 26; [Xinhua](#), September 26; [Shanghaidaily.com](#), September 26; [Ming Pao](#) [Hong Kong], September 26).

Upon closer examination, however, both China and the U.S. have hardly achieved a meeting of the minds on flashpoints such as cyber-espionage and tension in the South China Sea. Xinhua quoted President Xi as saying both countries had “reached important consensus on the joint fight against cybercrimes.” Xi indicated at his joint press conference with Obama that both administrations “have agreed to step up investigation assistance and information sharing on cybercrime cases.” Yet, according to the Joint Statement issued by the two heads of state, the so-called consensus is limited to cyber-espionage against corporations. The document stated both states “agree that neither country's government will conduct or knowingly support cyber-enabled theft of intellectual property, including trade secrets or other confidential business information, with the intent of providing competitive advantages to companies or commercial sectors.” There was no reference, however, to the much more serious issue of hacking perpetrated by governmental or military agencies ([Xinhua](#), September 25; [Whitehouse.gov](#), September 25).

In his press conference with Xi, Obama indirectly expressed misgivings as to whether the Chinese government would be willing or able to stop cyber-enabled theft of American commercial and technological secrets. President Obama said: “The question now is, are words followed by actions” adding that the U.S. government was ready to slap sanctions on Chinese individuals and companies that perpetrated such internet-related crimes. While Xi announced during the September 3 military parade in Beijing that the Chinese Military would demobilize 300,000 soldiers, there are reports that

its cyberwarfare division would witness growth in both resources and numerical strength ([Hong Kong Economic Journal](#), September 11; [The Diplomat](#), April 3).

Both sides appeared to agree to disagree regarding Beijing's power projection in the South China Sea, particularly reclamation work on several disputed islets in the Spratly Island Chain. After the summit, Obama said that the United States would "continue to sail, fly and operate anywhere international law allows." This was a reference to U.S. surveillance aircraft and naval vessels operating close to the reclaimed islets. "I conveyed to President Xi our significant concerns over land reclamation, construction and the militarization of disputed areas, which makes it harder for countries in the region to resolve disagreements peacefully," he added. Xi answered Obama's complaint by reasserting China's "right to uphold our own territorial sovereignty." Using the Chinese name Nansha to refer to the Spratlys, the Chinese leader declared that "relevant construction activities that China is undertaking in the Nansha Islands do not target or impact any country, and China does not intend to pursue militarization" ([CNR.cn](#), September 26; [Phoenix TV](#), September 26).

The Chinese position on the South China Sea seems to have hardened. In a meeting with representatives of the Association of South East Asian Nations (ASEAN), in Kuala Lumpur last August, Foreign Minister Wang Yi noted that the Chinese had halted reclamation activities in the Spratlys to facilitate negotiations for a Code of Conduct with other claimants to the disputed islets. However, satellite pictures of the area indicated that Chinese authorities had continued reclamation work, likely with the goal of building at least three runways that could accommodate most types of Chinese jetfighters ([Jakarta Post](#), September 16; [Reuters](#), August 5).

Apart from substantial differences on geopolitical issues, the U.S. and China failed to cement a bilateral investment treaty. Nonetheless, Xi's visit to Washington, in addition to his Seattle conference with the executives of top American companies, has provided a platform to the Chinese president to reassure the Western world that the Chinese economy was in a reasonably good shape.

"We are stepping up efforts to shift our growth model, make structural adjustment and place greater emphasis on

developing an innovation and consumption-driven economy," Xi told business leaders in Seattle ([Xinhua](#), September 24). Beijing resorted to a host of executive fiat to defuse the stock market crisis in July and August, leading to speculation that market-oriented liberalization had been put on the back-burner (See [China Brief](#), July 17). Xi insisted, however, that economic reform was on track. "China's stock market has reached the phase of self-recovery and self-adjustment," Xi said. He added that the Chinese government completed "80 major reform items" last year and that his administration "rolled out over 70 key reform programs" in the first half of this year, though Xi, who heads the Chinese Communist Party's (CCP) Central Leading Group on Finance and Economics—the nation's highest economic decision-making body—did not specify what the reform measures were. ([CNTV.cn](#), September 27; [Xinhua](#), September 24).

The Chinese president also demonstrated China's role as a responsible stakeholder in the global community by multiple acts of generosity. On the climate change issue, the Xi team indicated that China would, in 2017, start a "cap and trade" system to curtail the Chinese industry's carbon footprint. Beijing also announced a donation of \$3 billion to poor countries to help them develop technologies to cut fossil fuel emissions and to tackle climate change-related problems. Peking University Professor Zhang Haibin said Xi's act of magnanimity would help boost China's global status. Zhang argued that "offering such a big amount for climate change] is an eye-catching move on an issue that the entire world is watching and will benefit from" ([People's Daily Online](#), September 27; [South China Morning Post](#), September 26). Speaking at the United Nations after his U.S. tour, Xi pledged \$2 billion for "South-South cooperation," mainly helping developing countries in areas including agriculture, social welfare and sustainable development. The Chinese leader also donated \$10 million to UN projects in the areas of education, job training and health care for women ([CCTV News](#), September 27; [VOA](#), September 26).

If there are any major disappointment for Xi during his American tour, the shortfall has hardly been mentioned by the Western, let alone the Chinese, media. The Xi delegation failed to persuade U.S. authorities to return a host of fugitives to China, particularly Ling Wancheng, China's most wanted man. Ling is the younger brother of Ling Jihua, who was formally arrested last July for alleged



crimes including corruption and abuse of power. A former director of the General Office of the Chinese Communist Party's (CCP) Central Committee, Ling had been former president Hu Jintao's right-hand man. The younger Ling is believed to have in his position a volume of classified documents that, if exposed, could embarrass President Xi and other CCP leaders ([People's Daily Online](#), August 5; [News.youth.cn](#), August 5; [Ming Pao](#), July 23). While Xi and Obama's joint statement cited enhanced cooperation in the area of law enforcement and anti-graft operations, it is evident that Washington has been less than forthcoming with politically sensitive cases. This is despite the fact that, as an apparent gesture of good will, in mid-September Washington approved the repatriation of banker-embezzler Kuang Wanfang and corrupt businessman Yang Jinjun, both of whom had been in hiding in the U.S. since 2001 ([China News Service](#), September 25; [Central Commission for Disciplinary Inspection Website](#), September 19).

While waxing eloquent on his administration's campaign to take out "both flies and tigers" among corrupt officials, Xi told his American audience that the anti-graft operations had nothing to do with power struggle within the CCP. "There is no House of Cards [in China]," the President contended. Xi's vendetta against Ling, however, has a lot to do with the latter's connection with the ousted former Politburo Standing Committee member Zhou Yongkang, who was one of Xi's most bitter foes. Equally significant is Ling's role as a fixer for the Communist Youth League Faction (CYLF) headed by ex-president Hu, which is still one of the biggest cliques in the party. Xi's incrimination of Ling is seen as a means to intimidate other senior CYLF members ([Radio Free Asia](#), September 1; [Wen Wei Po](#) [Hong Kong], July 31) The fact that the Xi leadership is pulling out all the stops to arrest Ling Wancheng—and to neutralize the bundles of "state secrets" in his possession—has thrown into sharp relief the deep contradictions in Chinese politics. And despite Xi's apparent success in temporarily diverting the attention of his disgruntled countrymen to his perceived acts of statesmanship in the U.S. and the UN, the reputation of the Chinese president as well as of the China model could remain as tenuous.

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## China's Search for a "Strategic Air Force"

By Michael S. Chase and Cristina Garafola

*Note: This piece is based on a longer article published in The Journal of Strategic Studies that is available for download [here](#) and will appear in the print version of the journal in early 2016.*

On September 10, People's Liberation Army Air Force (PLAAF) spokesman Shen Jinke stated that some PLAAF systems displayed to the public during the "9-3" military parade, including the H-6K bomber, the KJ-500 airborne early warning and control plane, and the H-9 surface-to-air missile (SAM) system testified to the quickening pace of China's drive to transform the PLAAF into a "strategic service" (战略性军种) ([Liberation Daily](#), September 10). Once dismissed by many outside observers, the Chinese People's Liberation Army Air Force (PLAAF) has undergone an impressive transformation over the past two decades, emerging as one of the world's premier air forces. As it continues to modernize, it is focused on becoming a "strategic air force" (战略空军). PLAAF strategists suggest this means the air force should play a decisive role in protecting Chinese national interests, field modern capabilities commensurate with China's standing as a major power and enjoy the institutional status befitting its role as a "strategic service," an important consideration given the historical dominance of ground forces in China's military.

### Becoming a "Strategic Air Force"

Through the 1990s, the PLAAF faced daunting obstacles on its path to becoming a more modern and operationally

capable air force, including a relatively narrow set of missions and capabilities that lagged behind other regional air forces. By the late 1990s, however, tremendous changes were underway across the Chinese military. The reform of China's defense industry and dramatic increases in defense spending enabled China to begin developing and deploying the hardware that PLA leaders viewed as essential to building a more modern and operationally capable military, including a more technologically advanced and powerful air force. The PLAAF's doctrine and force employment concepts also evolved in line with a broader transformation of doctrine across the PLA that followed the issuance of new campaign guidance documents (战略方针) in 1999. Additionally, according to the *China Air Force Encyclopedia*, Chinese President Jiang Zemin, in a 1999 speech to commemorate the PLAAF's 50th anniversary, called for the PLAAF to "prepare struggle to build a powerful, modernized air force that is simultaneously prepared for offensive and defensive operations" (攻防兼备). [2] In 2004, this idea was incorporated into the PLAAF's first ever service-specific strategic concept, which called on it to "integrate air and space and be simultaneously prepared for offensive and defensive operations."

Both this phrase and the concept of the PLAAF as a "strategic air force" have been endorsed in official state media as well as by Chinese senior leadership. During a visit to PLAAF Headquarters in April 2014, Chinese leader Xi Jinping emphasized the need to "accelerate the construction of a powerful people's air force that integrates air and space and is simultaneously prepared for offensive and defensive operations, provides staunch support for the realization of the China dream and the dream of a strong military." Xi also described the PLAAF as a "strategic service," one that must be capable of playing a decisive role "in the overall situation of national security and military strategy" (*Xinhua*, April 14, 2014). Widely publicized in official Chinese media, Xi's remarks underscored the growing importance that China attaches to the transformation of the PLAAF along "strategic" lines. Although the term "strategic air force" is not defined in authoritative Chinese military publications, a review of publications by a number of PLAAF officers and other Chinese analysts sheds light on what it means for the Chinese air force to realize this goal.

[1] Based on these writings, a "strategic air force" has a clearly defined strategy and an accompanying set of missions that enable it to directly achieve important national security objectives.

### Strategy and Rising Status

Chinese sources indicate that the PLAAF began informal work on its strategy in the mid-1990s, presumably after recognizing that the lack of a service-specific strategy and its limited offensive capabilities were preventing it from moving beyond its traditionally subordinate role. The air force's strategy is intended to guide force modernization and employment. It also emphasizes that the PLAAF is a strategic service—one with a role that goes beyond territorial air defense and supporting the Army—by giving it a leading role in accomplishing national objectives. [2] This marked an important turning point in terms of the PLAAF's institutional standing within the Chinese military. Yet in the 1990s, a combination of the ground force-centric organization of the Chinese military and Army opposition to giving the PLAAF its own strategic role hamstrung the air force's efforts to achieve these goals. Consequently, PLAAF officers view the approval of their service's strategy in 2004 as a crucial milestone. According to the late Ji Yan, a former professor at the PLAAF Command College and the deputy director of the strategy research office in its military theory research institute, the new service-specific strategy approved for the PLAAF in 2004 marked an important turning point in that it "affirmed the strategic position of [China's] air force." [3]

Accompanying the development of a service-specific strategy, the PLAAF's status within the PLA has risen as well. In 2004, the PLAAF commander (along with the commanders of the navy and the strategic missile force) was elevated to membership in the Central Military Commission (CMC) in 2004. In 2012, former PLAAF Commander General Xu Qiliang was promoted to Vice Chairman of the CMC, making him the first career air force officer to serve as China's second-highest ranking military officer. Only senior CMC Vice Chairman General Fan Changlong, a ground force officer, ranks higher.

### Evolving Missions and Roles

For PLAAF strategists, a key attribute of a "strategic air force" is the ability to directly support national policy

objectives and achieve a wide range of strategic goals. Indeed, according to one Chinese observer writing in the PLAAF's official newspaper, "the basic criterion for judging whether it is a strategic air force is whether the employment of the air force can directly reflect the will of the state, directly serve national policy objectives, and directly achieve national strategic goals" (*Air Force News*, January 15, 2009).

As Ji Yan of the PLAAF Command College put it, along with its new strategy and a broader set of missions, the PLAAF is in the midst of transforming itself from a "defensive-type air combat force" that was responsible largely for conducting operations over its own territory into "an important strategic force that has comprehensive roles and functions, is responsible for a wide range of missions and tasks, and will become one of the powerful strategic tools supporting [China's] national strategy and military strategy." [4] Her assessment aligns closely with former PLAAF Commander and current CMC Vice Chairman Xu Qiliang's statement that the air force is rapidly evolving from a "supporting, subordinate force into a decisive strategic force." [5]

In a series of articles in the PLAAF's official newspaper, Dong Wenxian expounded on this theme by explaining that China's air force should strive to become "an informatized strategic air and space force, or a strategic air force for short," one that can directly achieve national goals through combat operations or deterrence. [6] Moreover, the "strategic air force" concept represents a rejection of the thinking that the air force "is an auxiliary and tactical force." In addition, some Chinese military officers have suggested that one important reason for the elaboration of the "strategic air force" concept was to ensure that the modernization of the PLAAF would be accompanied by a transformation in terms of "strategic thought," one that would promote the understanding of and support for the PLAAF's transition from a territorial air defense force to one with more modern capabilities and a broader range of responsibilities (*Global Times*, November 11, 2009).

Additionally, Chinese strategists stress the PLAAF's important role in warfighting, as they assess that air and space power will play a decisive role in future wars. As Ruan Kexiang writes, modern air power "can launch a fierce and sudden attack on the enemy from thousands of

kilometers away...quickly destroying the enemy's operational system, thus reducing the enemy's war capability and paving the way for accomplishing the objectives of the war or directly achieving the aims of the war." [7] As this assessment suggests, offensive capability is a key attribute of a modern strategic air force. Indeed, according to Ruan, "it is impossible for an air force of the 'territorial defense type' with limited attack capability to become a modernized strategic air force."

Importantly, the Chinese Air Force's new strategy, its growing bureaucratic status, and the "strategic air force" concept all reflect an expansion of the PLAAF's missions. First and foremost, Chinese leaders called on the PLAAF to move beyond its focus on air defense of Chinese territory by placing greater emphasis on conventional deterrence missions and offensive operations. [8] Another analyst, Li Chuanxun, writes that the speed, mobility, and firepower of modern air platforms "dictate that offensive power is the essence of the air force." The implications for the PLAAF are clear: in emphasizing both offense and defense, the focus is on offense. As Li puts it, the PLAAF "should as quickly as possible bid farewell to the old army building concept which places greater stress on the aspect of 'defense.'" [9]

### **Air and Space Power Commensurate with China's Status and Capable of Protecting its Interests**

Finally, Chinese analysts argue that the PLAAF's capabilities should be commensurate with China's status as a rising great power. China's economic development and increasing international influence constitute "a profound change in the position of the country," and these developments should be accompanied by the building of a "modernized strategic air force." [10] Chinese military thinkers also emphasize that the high-tech nature of a "strategic air force" is closely linked to a great power's status. According to Dong Wenxian, air forces are inherently high-tech services, and their armaments "embody the latest scientific and technological achievements in the aviation and aerospace domains." [11] He also notes that major military powers and strong countries all pursue "first-rate air forces" with superior weapons and equipment, personnel, and combat capacity.

As a rising power with increasingly global interests, China also needs an air force that is capable of protecting

increasingly complex interests that extend well beyond its borders. According to the 2013 edition of *The Science of Military Strategy*, an authoritative volume produced by the Military Strategy Research Department of the PLA's Academy of Military Science (AMS), changes in China's security environment, the expansion of its national interests in the air and space domains, and an intensifying struggle to protect those interests all increase the strategic requirements and importance of the PLAAF and its missions. [12] The PLAAF must be capable of protecting Chinese interests not only in the air, but also in space and the electromagnetic spectrum. [13] Chinese analysts state that these goals may be accomplished through deterrence, combat operations, or military operations other than war (MOOTW).

### The PLAAF's Evolving Capabilities

The PLAAF's strategy has important implications for the modernization of China's air and space capabilities. Indeed, it requires improvements in the PLAAF's weapons and equipment, as well as upgraded command and control, early warning, and logistics and support capabilities. In future wars, the PLAAF will need to seize air, space, and information superiority, as well as to successfully defend against a powerful enemy's air and space threats. [14] PLAAF authors write that a "strategic air force" thus requires advanced weapons and equipment that enable it to perform a range of strategic functions. According to the 2013 edition of the *Science of Military Strategy*, these include strategic reconnaissance and warning; air and space deterrence; air and missile defense; air and space attack; strategic air transport; and air and space security cooperation. [15]

To carry out these missions, the PLAAF has made tremendous progress in modernizing and upgrading its aircraft and ground-based air defense systems over the past two decades, but Chinese military analysts acknowledge that it needs to further improve in certain key areas to become a modern "strategic air force." [16] Chinese writers typically highlight the following:

- Strategic transport aircraft
- Early warning and control capabilities
- Advanced fighters, including stealth aircraft
- Modern bombers

- Unmanned Aerial Vehicles (UAVs) and Unmanned Combat Aerial Vehicles (UCAVs)
- Information and electronic warfare
- Space and counter-space capabilities
- Integrated air and missiles defense systems

For example, PLAAF analyst Du Wenlong cautions that "an air force without large transport planes is a short-legged air force that cannot meet the requirements of being a strategic air force." [17] PLAAF strategists and other Chinese military writers characterize the Y-20 as major turning point in this regard. Specifically, according to Wang Weishan, the Guangzhou MRAF Deputy Commander at the time of the publishing of *Strategic Air Force* in 2009, an edited volume including articles by PLAAF researchers and published by the PLAAF's official publisher, when China begins deploying domestically produced large transport planes, "this will provide a new historic opportunity for the development of the [PLAAF's] strategic power projection capacity." [18] Similarly, Ruan Kexiang cautions that if a country pays attention to building up its kinetic strike capabilities, but not its computer network attack and electronic warfare capabilities, it will be unable to build a modern strategic air force. [19]

### Conclusion

The PLAAF was once widely dismissed as antiquated and irrelevant, but today is modernizing at a steady pace and making major strides in terms of its ability to fulfill its strategy of integrating air and space and being prepared to conduct offensive and defensive operations. As Chinese analysts point out, the PLAAF still faces numerous challenges, including shortcomings in airborne command and control capability, long-range early warning and reconnaissance capability, long-range strike capability, and strategic airlift capability, but it is well on the way to becoming a "strategic air force." [20] This theme is echoed in the 2013 edition of *The Science of Military Strategy*, which states that the PLAAF is accelerating its modernization and transformation "from an aviation force into an integrated air and space force, from a mechanized air force into an informatized air force, and from a supporting air force into a strategic leading force." [21] The September 3 announcement of a 300,000 troop



reduction and anticipated implementation of organizational reforms aimed at enhancing the PLA's "jointness" could enhance the PLAAF's status and support its quest to become a "strategic service" (*Xinhua*, September 3).

Though some major questions remain unanswered, such as whether a "strategic air force" requires nuclear weapons and what the PLAAF's future role in space and counter-space operations will look like, the PLAAF is becoming a "strategic air force," and as such it is rapidly emerging as a much more formidable challenge for the United States and its allies and partners. Indeed, as the PLAAF continues to modernize, it will become an increasingly important consideration for the United States, Japan, and other countries to take into account when making decisions about issues such as defense policy, plans, basing, and force modernization.

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## Notes

- For example, the term "strategic air force" does not appear in the following texts: People's Liberation Army (PLA), *People's Liberation Army Military Terminology* (Beijing: Academy of Military Science Press, 2011); People's Liberation Army Air Force (PLAAF), *China Air Force Encyclopedia* (Beijing, China: Aviation Industry Press, 2005); People's Liberation Army, *Chinese Military Encyclopedia* (Beijing: Academy of Military Science Press, 1997).
- Although territorial air defense and supporting ground or naval forces could be strategic activities, PLAAF writers indicate that becoming a "strategic air force" requires broader missions and capabilities.
- Ji Yan, "The Strategic Positioning and Overall Transformation of China's Air Force," in Zhu Hui, ed., *Strategic Air Force* (Beijing: Blue Sky Press, 2009), p. 73.
- Ji Yan, "The Strategic Positioning and Overall Transformation of China's Air Force," p. 74.
- "Flying with Force and Vigor in the Sky of the New Century: Interview with CMC Member and PLAAF Commander Xu Qiliang," *PLA Daily*, November 1, 2009.
- Dong Wenxian, "The Expansion of National Strategic Space Calls for a Strategic Air Force," *Air Force News*, February 2, 2008, p. 2.
- Ruan Kexiang, "Several Theoretical Issues Concerning the Strategic Air Force," in Zhu Hui, *Strategic Air Force*, pp. 68–9.
- Murray Scot Tanner, "The Missions of the People's Liberation Army Air Force," in Hallion, Cliff, and Saunders, ed., *The Chinese Air Force: Evolving Concepts, Roles, and Capabilities* (Washington, DC: National Defense University, 2012), pp. 133–148.
- Li Chuanxun, "Reflections on Air Force Transformation and Building Strategy," in Zhu Hui, ed., *Strategic Air Force*, p. 96.
- Wang Mingliang, Yang Yujie, Wang Xudong, and Guo Jinsuo, "A Few Propositions Concerning the Strategic Air Force," in Zhu Hui, ed., *Strategic Air Force*, p. 57.
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## China and Russia Multiply Efforts in Global Agenda-Setting

By Vitaly Kozyrev

At the 70th Session of the UN General Assembly in late September, the leaders of China and Russia condemned western unilateralism ([Chinese Ministry of Foreign Affairs](#), September 28; [UN.org](#), September 28). Chinese President Xi Jinping launched his week-long U.S. visit in Seattle, calling for “an outlook of common, comprehensive, cooperative and sustainable security,” and reminding that China and other developing countries wanted to reform and improve the existing international system, which should “serve the common interests of all countries and mankind as a whole” ([Xinhua](#), September 24). To adequately evaluate China’s negotiating position and the outcomes of this summit, one should consider the fact that Xi’s strategic bargaining power is enhanced by the growing political proximity between Beijing and Moscow. China’s ability to coordinate its global agenda with Russia and capitalize on its strategic dialogue with Moscow secures higher pay-offs in Beijing’s complex political game with the U.S. ([Xinhua](#), September 25).

Despite the recent slowdown in trade and economic cooperation between China and Russia (including its

energy component), which made their earlier declared goal of \$100 billion in bilateral trade in 2015 impossible, there are a number of important indications of a special relationship between Beijing and Moscow ([Global Times](#), August 27). A new phase of bilateral cooperation was formally launched in the midst of the crisis in Ukraine in May 2014 during the two countries’ leadership summit in Beijing ([Kremlin.ru](#), May 20, 2014). U.S. sanctions against Russia and Western political pressure have only encouraged the formation of a new tandem between Beijing and Moscow, demonstrated by the firmness of the two countries’ upgraded partnership. In his article “History Lessons and New Frontiers,” published prior to Vladimir Putin’s visit to Beijing earlier in September, Russia’s Foreign Minister Sergey Lavrov characterized the current Russian-Chinese partnership as “the best [historical]” example of the new type of state-to-state cooperation in the 21st century ([RT](#), August 24).

### Robust Strategic Partnership

This Sino-Russian strategic congruence should not be viewed merely as a result of the crisis in Ukraine. Should the crisis have unfolded simply around a Russian-Ukrainian territorial dispute over the Crimea, China’s “positive neutrality” posture toward Kremlin’s actions could have been much more restrained. Alexander Lukin, a leading Russian governmental expert on China, rightfully asserts that the foundation for Russo-Chinese strategic partnership has deeper roots, and the causes of the recent progress are much more fundamental than most observers acknowledge (The [ASAN Forum](#), August 18). Those fundamental roots lie in the shared Chinese-Russian vision of the nature of major globalization-driven shifts within the international system toward the excessive use of military power, the erosion of sovereignty and institutional impotence. The thorny transition to a polycentric world, China and Russia believe, creates much turbulence, due to Western attempts to preserve supremacy, reassert the existing liberal normative consensus and regulate the process of global power realignment. The newest iteration of America’s “visionary leadership”—based on the “bloc mentality,” the intrusive use of economic statecraft, untamed financial globalization, and the new

diplomatic tools of 21st century statecraft—has prompted China and Russia to undertake an intensive recalibration of the theory and practice of their foreign policies now driven by the defensive imperative against the unified West ([U.S. State Department](#), February 16). Moreover, this new ideological alliance between China and Russia is gaining momentum.

### A New Ideological Alliance

The role of the ideological foundation in the development of a Chinese-Russian tandem is vividly seen in this years' festivities in Moscow (in May) and Beijing (in September) commemorating the 70th anniversary of the end of the Second World War. One key objective of this ideological alliance is to prevent the erosion of the post-World War II world order by jointly presenting the historical truth about war. China and Russia's reference to history is considered instrumental to prevent "vital errors in the future" and help the international community to jointly confront some existing western political practices of "imposing one's will over sovereign states, including by force, introducing unilateral sanctions and practicing policy of double standards as such" ([Rossiyskaya Gazeta](#), August 23).

Consequently, China and Russia position themselves as the leading guarantors of global peace—through strengthening themselves, enhancing their partnership, and mobilizing the whole international community. The Chinese-Russian joint mission of maintaining the international order and promoting global peace and development, was placed at the center of Xi Jinping's seminal article "Remember History, Open Up the Future" published in a Russian government-affiliated newspaper *Rossiyskaya Gazeta* in May this year ([Chinese Foreign Ministry](#), May 4; [Rossiyskaya Gazeta](#), May 6). Xi called for the formation of a new global community in which "policy of peace is diametrically opposed to the militant and hegemonic power politics; the way to development rejects the zero-sum game and principle of "winner takes all." In his address to the seventh BRICS summit in Ufa (Russia) in July

Chinese President strongly urged the other BRICS member-states to safeguard peace in the world by strengthening their partnership ([Xinhua News \[Russian\]](#), July 10). Interestingly, while China emphasizes the role of collective effort of all countries—including the U.S.—to address global challenges, President Putin draws attention to the realist principle of strategic stability and Russia's role in it. Explaining the logic of Russia's military buildup to Swiss media in July, the Russian president categorically stated that Russia was doing it for itself to ensure his country's security, and it also doing it "for the rest of the world, because this strategic stability ensures the balance of power" ([Kremlin.ru](#), July 27).

This ideological similarity informs the upgrade of the Sino-Russian strategic partnership. The two countries are ready to consider one another's national interests, to avert conflict and build "a new type of great power relations," (新型国际关系) which is believed to be an important parameter of a new security and economic order ([China Brief](#), May 7, 2014). That explains why, as Yang Cheng, a professor at East China University has argued, "the possible decrease in Chinese-Russian economic cooperation in scale does not present a challenge to the countries' coordination and cooperation at the strategic level" ([Valdai Club](#), September 21). Thus, political and ideological closeness of the two Eurasian powers alters the character of their partnership and might have serious implications for the changing global order.

### Russia Accommodates China's Leaders

These essential changes in the strategic partnership between Beijing and Moscow lay the foundation for two important shifts in their practical policies. Two new developments should be stressed—Russia's new stance toward the rising China and the formation of a new Chinese-Russian condominium in Eurasia.

In recent years, Russia has abandoned its previous role as a neutral onlooker of China's rise and embarked on the strategy of accommodation of the

Chinese leadership. In an interview in October 2011, Russian President Vladimir Putin refused to take sides in the battle for global leadership between China and the U.S. stating that it was not Russia but the West that competed with China for global leadership, and Russia did not plan to interfere ([Newsru.com](#), October 18, 2011). This is not to say that Russia and China are formal allies—both countries have persistently denied the possibility of a new binding alliance in principle. Instead, as Russian former foreign minister Igor Ivanov explains, China and Russia “enjoy flexibility in their decision making, avoid balancing against one another, promote their interaction in the form of new international regimes, favorable for both parties, develop multi-layered partnership, addressing simultaneously security and development issues” ([Lenta.ru](#), May 29). But clearly the two countries’ bilateral relationship has grown from the energy-based to a geopolitical one—driving China and Russia toward economic complementarity and potentially mutual security commitments. As one leading Russian expert noted, “the U.S. and the West underestimate rapprochement between Russia and China, hoping that China will be driven by its economic pragmatism” ([China Daily](#), September 12, 2014; [Xinhua Online](#), May 12).

### **Military Cooperation: New Stage**

The deepened military cooperation between China and Russia and new Russian arms deals with China may serve as an important indicator of the importance both countries place on the partnership. In 2008, Russia and China resumed their annual sessions of the Russian-Chinese Intergovernmental Commission on Military-Technical Cooperation after a three-year break due to distrust over technological transfer and copying. Although these issues remain important, in an article published in *People’s Daily* in 2012 Russian President Putin clearly reaffirmed Moscow’s willingness to form “a real technological alliance” between Russia and China, to jointly “outreach to third countries’ markets” ([People’s Daily](#), June 5, 2012). In November of that year, the Chinese expressed

interest in the 117S new generation turbofan engine used on Su-35S fighters, Il-476 transports (a Russian-produced upgrade of the venerable Il-76), and S-400 surface to air missile (SAM) systems. In addition to Russian supplies of advanced anti-missile systems and its “fourth plus” generation SU-35S fighter jets, deeper cooperation in research and development, including microelectronics supplies from China, joint development of conventional submarines, heavy helicopters, UAVs, marine engines, and a variety of space exploration equipment are on the agenda. As Russian Defense Minister Sergey Shoygu stated in Beijing in November 2014, China and Russia had entered a new stage of bilateral relations in the military sphere, for the sake of regional and global peace ([Vzglyad Online](#), November 19, 2014). Numerous joint maneuvers—such as “Joint Sea-2015”—and combat games (including a “tank biathlon” in July) largely contribute to integration and unit coordination of the Chinese and Russian military forces ([MOD Online](#), August 28; [RT](#), July 26).

### **One Belt One Road and the Eurasian Economic Union**

Unprecedented changes are underway in the sphere of economic cooperation between China and Russia. Chinese-Russian joint efforts in the sphere of global economic and financial regulation are aimed at the formation of a new global economic order. Russia supports Chinese concepts of world trade liberalization. Moscow in turn backs China’s position on the issue of the Free Trade Area of the Asia-Pacific (FTAAP), and, along with China, criticizes U.S. policies of creating exclusive trading blocs in Europe and the Asia-Pacific ([Kremlin.ru](#), September 28). Russia has evolved from its role as one of the largest natural resource suppliers to China into a potential partner of China’s proposed economic “road” across Eurasia ([Vzglyad Online](#), June 23; [Vzglyad Online](#), February 27). This change is heralded by an increase in investment cooperation and the beginning of an important transition from trade in commodities to a more comprehensive model based on large



investment projects ([Russian Information Agency Online](#), July 31; [Global Times Online](#), August 27).

Eurasia is increasingly becoming an “experimental field” for reshaping the international order along values that have been actively promoted by China and supported by Russia and their partners within the Shanghai Cooperation Organization (SCO), and elsewhere within the developing world. To avoid competition between parallel integration projects—the Moscow-backed Eurasian Economic Union and the Beijing-sponsored the Silk Road Economic Belt, the two countries agreed to combine these initiatives in a way that would complement each other, ultimately creating a common economic space across the entire Eurasian continent ([Kremlin.ru](#), May 20, 2014). Russian Prime Minister Dmitry Medvedev reiterated in August that the China-proposed Silk Road Economic Belt initiative was not a competitor, but a partner project for Russia ([Xinhua](#), August 22). Russia in turn, was invited to be a founding stakeholder in the China-sponsored Asian Infrastructure Investment Bank (AIIB) ([Vzglyad Online](#), June 29).

This strategic consensus helps the two countries to develop joint projects in financial markets, agriculture and large-scale infrastructure programs ([RT](#), July 23; [People’s Daily Online](#), June 10). Along with a number of major natural gas deals, in May of this year Chinese commercial banks opened credit lines to Russia’s Sberbank (\$966 million), VTB Bank (\$483 million), and Vnesheconombank (\$628 million) ([China Brief](#), January 23). Chinese-Russian negotiations are also under way on the construction of the 770-km-long high-speed rail line linking Moscow and Kazan, an investment worth \$5.9 billion. China also agreed to purchase 100 Sukhoi SuperJet-100 passenger aircraft for \$3.6 billion ([Russia-direct](#), May 13). Even more noteworthy is that Russia has committed to make significant adjustments in its legal system, governmental institutions, foreign investment and trade regimes to facilitate China’s economic engagement in Russia and other post-Soviet states ([ITAR-TASS News](#), June 9).

## Conclusion

In the formation of a political and ideological alternative to the West, neither China nor Russia intends to dismantle the existing international system, rather trying to modify it through the collective effort of all who disagree with Western rules. Beijing and Moscow clearly understand that their emerging ideological and political construct may not challenge the fundamental principles of democracy and freedom cherished by the West. Chinese and Russian strategists have only two instruments in their possession to challenge the role of the West in the existing liberal consensus. One is their attempt to assume the role as defenders of traditional universal values, dismissing Western “democratic malaise,” hedonism and moral relativism. Another way is to demonstrate good governance during economic and social hard times, proving the potential of the non-Western world to create new practices of governance and development. It is not a coincidence that Xi Jinping’s speech in Seattle strongly emphasized China’s efforts to improve governance. The transformative appeal of China’s “One Belt One Road” initiative is also related to good governance and institution-building in the turbulent states of Eurasia. Successful implementation of these programs, along with Russia’s ability to reform its system of governance and political control would make these two actors significant agenda-setters in a new global order.

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## The End of China's Play in the Canadian Oil Sandbox?

By Wenran Jiang

Only three years ago, China National Offshore Oil Corporation (CNOOC), China's third-largest national oil company (NOC), launched the largest-ever Chinese overseas takeover bid, offering \$15.1 billion to buy Nexen Inc., Canada's ninth-largest oil company. Together with China National Petroleum Corporation and Sinopec Group, China's two largest NOCs, and other state-owned financial institutions, Chinese firms invested around \$35 billion in Canada's energy sector between 2009 and 2013, making Canada the destination of one-third of Chinese overseas energy investment in this period ([China Economic Weekly](#), May 13). But the "Great Leap Forward" of Chinese investment in Canada has proven controversial, as evidenced by the intense debate over CNOOC's acquisition of Nexen in the fall of 2012, and the recent criticism of the company's oil leaks in Alberta ([BNN](#), September 2).

With the rapid decline of oil prices in the past year and the heavily discounted energy stocks, Chinese equity holdings in the Canadian energy sector have also come under scrutiny in both countries, especially regarding the value and sustainability of some of the large projects. While Canadians continue to argue about the merits of Chinese capital inflow, Chinese companies are reflecting on the costs of investing in a stable market.

### The Dragon's Return to Canada's Oil Sandbox

The significant injection of Chinese funds into Canada's energy sector occurred during a short-lived honeymoon between the two countries. When Canadian Prime Minister Stephen Harper's Conservatives took office in 2006, they were not friendly to China due to their lack of foreign policy experience and political positions. Beijing responded by slowing its investment momentum in Canada's energy sector, which had begun with a number of

projects in 2005, leading to a prolonged low point in bilateral relations. [1]

The 2008 worldwide economic crisis put Canada, a country heavily dependent on foreign investment in its energy and resource sectors, in a difficult financial position. Additionally, U.S. President Barack Obama's initial decision to delay the approval of the Keystone XL pipeline from Canada's Edmonton to the U.S. Gulf Coast the following year angered Harper, who campaigned for the pipeline and expected a speedy agreement with the United States.

Turning to China for leverage, Harper made his first visit to Beijing in late 2009, and appealed to the Chinese leadership and top NOC executives for continued investment in Canada. At the same time he promised to speed up the conclusion of a bilateral investment protection treaty which had been on the negotiation table for many years. The Chinese premier at the time, Wen Jiabao, chided Harper for the delayed visit, but enthusiastically responded to Harper's call for closer cooperation in the area of energy and resource development ([China News Network](#), December 3, 2009).

Beijing had good reason to embrace Canada with open arms: China was in a period of rapid economic expansion; the increasing need for energy and resources that began in the early 2000s—the "commodities super-cycle" driven by Chinese demand—pushed up global prices for energy and key minerals. High prices forced Beijing to spend much of its hard-earned foreign currency on importing these resources, with oil imports being the largest annual foreign reserve expense. Canada became a prime destination for energy investment. A stable and advanced industrial country, Canada has the third-largest global oil reserves—only Saudi Arabia and Venezuela have more. Moreover, most of the world's oil reserves are controlled by national oil companies. In contrast, Canada's oil is not state monopolized (there are no national oil companies in Canada), and the accounts for over 70 percent of the world's oil and gas resources that are open to foreign investment. For China, a country anxious to secure its oil supply in

the coming years and decades, Canada seemed like an ideal partner.

President Hu Jintao immediately paid a return visit to Canada in the summer of 2010, leading a delegation of senior government officials and business leaders. In the following years, all the “Big Three” Chinese national oil companies as well as China Investment Corporation (CIC), Bank of China and other large financial institutions poured money into Canada’s energy sector in the form of equity investment, joint ventures, mergers and acquisitions. The following table shows a summary of the largest energy deals between China and Canada in this period.

## Major Chinese Investment in Canada’s Energy Sector 2009-13

INVESTMENT	CANADIAN DOLLARS	FROM
Teck Resources	\$1.5 bil.	China Investment Corp.
Athabasca Oil Sands Corp.	\$1.9 bil.+ \$1.9 bil.	PetroChina/CNPC
Syncrude	\$4.6 bil	Sinopec
Penn West Energy	\$1.2 bil	China Investment Corp.
Encana	\$5.4 bil	PetroChina/CNPC (failed)
Opti/Nexen	\$2.1 bil.	CNOOC International
Daylight (100%)	\$2.2 bil.	Sinopec Group
Shell Canada	\$1.1 bil.	PetroChina/CNPC
Talisman (North Sea)	\$1.5 bil.	Sinopec Group
Nexen (100%)	\$15 bil.	CNOOC International
EnCana	\$2.2 bil.	PetroChina/CNPC

*Source:* Canada-China Energy & Environment Forum

In addition to repaired relations between the Harper government and the Chinese leaders, and the potential of large returns, Beijing’s investment in Canada’s energy sector was also due to the vulnerable nature of its investment in natural resource sectors in Africa, the Middle East and other third world countries in the past two decades. In this sense, investments in Canada represented a hedge against losses in less reliable markets—which proved wise. The Sudanese civil war and subsequent split into two countries (where Chinese NOCs are heavily involved), the Libyan crisis and civil war and the volatile situation in other African and Middle Eastern countries have cost Chinese investors dearly.

For the Chinese state-owned enterprises (SOEs) and national oil companies, more than a decade of the “go-out” strategy, much of which was targeted at investing in resource assets in the third world countries, has led to mixed results. They came to realize that political stability and the rule of law are as important, if not more so, as the fast and high profit margins some of the developing countries offer. Canada (often grouped with Australia) is seen as a safe bet in this regard, even though the cost of doing business is high, and the regulatory procedures on project approval and environment assessment are complex and slow. This stability partially explains why the top three Chinese NOCs, although having only limited exposure to Canada’s energy market, all decided to make bold investments in Canada between 2009 and 2013, as the above table demonstrates.

While all Chinese investors cultivated good relations with Canadian federal and provincial government (the three Western provinces of Alberta, British Columbia and Saskatchewan in particular), and trusted Canada and U.S.-based investment bankers, law firms and due diligence agencies, different NOCs and financial houses practiced different investment strategies. The following patterns can be identified in the \$35 billion invested thus far.

First, Chinese financial institutions mostly preferred equity investment. In such a format, large sums were injected into selected Canadian firms while trusting the Canadian company executives to manage the investment and get a good return. For example, China's leading sovereign wealth fund, the China Investment Corporation (CIC), invested in two firms: Tech Resources in 2009, then in Penn West Energy the following year. Later, CIC, together with a few other Chinese institutional investors bought large numbers of shares of Sunshine Oilsands Ltd. when that company had its initial public offering on the Hong Kong Stock Exchange in 2012.

Second, PetroChina (China National Petroleum Corporation's international arm) pursued large-scale joint venture projects in oil sands extraction and gas production. Although PetroChina entered Canada with a small oil field operation as early as the mid-1990s, the Chinese energy giant's investments were relatively low key until it entered into a \$5 billion joint venture with a relatively new Canadian oil sands company, Athabasca Oil Sands Corp (AOSC), in 2010 ([Canada Newswire](#), February 10, 2010). PetroChina set up its Canadian subsidiary (Phoenix Energy, and later Brion Energy) to partner with AOSC in two separate Joint Venture (JV) projects: MacKay River and Dover, with PetroChina taking a 60 percent stake in each.

Third, Sinopec Group has deliberately chosen to invest in localized operations, depending on Canadian consortiums and Canadian managers. After its initial investment in Canada's oil sands sector in 2005, Sinopec upped its investment, paying \$4.65 billion for ConocoPhillips's entire stake in the

Syncrude Group, the largest Canadian oil sands producing consortium, in 2010. Sinopec went on to acquire 100 percent of Daylight Energy for \$2.2 billion. For its operations, Sinopec Canada depends heavily on local Canadian managers. Currently, the CEO, COO and CFO of Sinopec Canada are all Canadians. Despite having well over \$10 billion total investment in Canada's energy sector, Sinopec Canada has only received around 15 working visas from the Canadian government. [2]

### **Reality Check on Chinese Investment in Canada**

The speed of deployment of Chinese capital into Canada's energy heartland was somehow unexpected by the Canadian government and the general public. The concerns of Chinese control of vital Canadian resources were so strong that Prime Minister Harper put out specific measures to limit foreign SOE investment at the same press conference where he was announcing the approval of the CNOOC's takeover of Nexen in late 2012. Beijing considered such steps to be targeting China, and bilateral relations have since cooled.

Ironically, Chinese energy operations in Canada, like all Canadian and foreign companies, have been affected by a myriad of troubles in recent years: rising costs, delayed project completions, cumbersome regulatory processes, infrastructure bottlenecks and in the past year, rapidly declining oil prices and related uncertainties for the entire energy industry. Contrary to Sinopec's original expectations, the Northern Light oil sands project will probably never be developed given the current market conditions. A major investigative report claimed that most Chinese investment in Canada's energy sector has been heavily discounted due to various reasons, as the majority of CIC's Canadian assets have lost more than 80 percent of their original value ([Financial Post](#), May 29). These factors are likely behind the reduced inflow of Chinese capital over the past 20 months.

And yet, there are additional challenges facing Chinese investors, who are relatively new to Canadian market realities. After all, they must come



to terms with a profoundly different linguistic, cultural and operational business environment, not to mention with regulatory restrictions that are imposed specifically on state-owned enterprises. Chinese investors are working hard to follow the rules of the game set by the Canadian government and to establish their bona-fides as committed local corporate citizens, so they undoubtedly intend to stay for the long haul.

### Conclusion

The Canadian debates on the nature of Chinese investment in Canada, as shown during the CNOOC-Nexen debate in 2012, have also gone through an interesting twist. While critics continue to doubt the net benefit of Chinese capital inflow to Canada, few people today articulate the kind of scary scenario, as they did a few years ago, that Chinese investors, backed by the Chinese government, are coming to take over Canada's resource sectors. In the United States, domestic oil and gas production has increased, removing energy security as a key domestic and foreign policy priority in U.S. politics. This has also led to a more relaxed attitude regarding the Chinese presence in Canada's energy sector. Ultimately, it will be the Chinese investors who have to continue to sustain their operations in Canada, and hope for better payoffs in Canada's vast oil sandbox.

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### Notes

1. For earlier accounts of Chinese investment in Canada, see the author's two previous publications: *Fueling the Dragon: China's Quest for Energy Security & Canada's Opportunities* (2005), and *The Dragon Returns: Canada in China's Quest for Energy Security* (2010).
2. Author's discussion with Sinopec senior executives in Beijing, Oct. 29, 2014.