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By *StarGazer*

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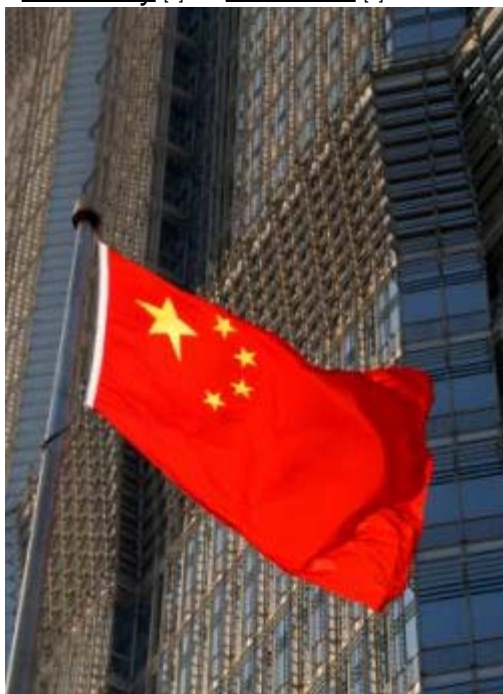
Written by [StarGazer](#) [1]4,427

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The National Post, FP Section, September 7, 2012

CALGARY • Bribery, corruption and state interest trumping business logic remain common in China, and Canada must remain keenly aware of those trends as it mulls closer economic ties with the Asian superpower, says a report published Thursday.

The University of Calgary paper, titled *Dancing With The Dragon*, was released the same day two other reports urged Canada to take steps toward fostering more business relationships between the two countries.

As the federal government reviews China's \$15-billion bid for Canada's Nexen Inc. — the largest foreign takeover attempt to date by the Communist country — the three publications together serve as a warning for Ottawa not to trade long-term prosperity for short-term gains.

"Those short-term gains very often create long-term pain in such a terrible way that I [have seen] the suffering of those people [who] were raking in new opportunities and then all of a sudden they dry out," Josephine Smart, economic anthropology professor at the University of Calgary and author of the report, said in an interview.

"[An example would be] the depletion of local resources to the point where you are left with nothing. In my lifetime I don't see Canada suffering in that way, but it is going to come eventually."

Fear of sacrificing the future benefits of Canada's natural resources is likely a factor in Ottawa's ambiguous "net benefit" test of CNOOC Ltd.'s proposed buyout of Calgary-based Nexen. Prof. Smart's paper also raises CNOOC's status as a state-owned enterprise as a potential cause for concern.

"State influence in [Chinese] SOEs remains, and should be recognized as a significant factor in their business operations and corporate structure in a way that may not match a potential investor's idea of free enterprise," she wrote.

"There is an implied understanding in China that the state's mandate must trump business logic in the final analysis." What the Chinese call *guanxi*, which her paper says pertains to "gift-giving, or, in some cases, bribery" in exchange for influence, often causes legal problems in the West. Within two weeks of CNOOC bidding for Nexen, for example, financial regulators in the United States twice froze millions of dollars over allegations of insider trading related to the Calgary company's shares. Such developments raise questions about how a Chinese state-owned Nexen would operate given China's "peculiar capitalism with socialist characteristics."

"The inherent contradictions between socialist ideologies and western, capitalist market logic are difficult to resolve," Prof. Smart wrote.

While her paper also notes corruption "remains pervasive across China," she stresses none of this is to suggest Canada should avoid doing more business with China.

She is simply advancing a point first made by her colleague Alan Smart in a 1993 paper in which he said "the line between a bribe and a gift is a fine one that requires a high level of cultural competency to handle without setting off negative outcomes and misinterpretations."

In fact, many of the suggestions offered in her paper are similar to the 17 recommendations the Asia Pacific Foundation of Canada offered in its own report Thursday on how to strengthen Canadian-Asian relations.

"The rules of engagement in Asia are different," wrote Don Campbell, senior strategy advisor to Davis LLP and one of the APF report's three authors.

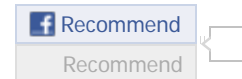
To learn those rules, the report calls for greater Canadian involvement in such groups as the Association of Southeast Asian Nations. "This is ultimately vital to Canada's longterm prosperity," Mr. Campbell wrote.

John Manley, CEO of the Canadian Council of Chief Executives, made a similar case Thursday in the September issue of *Policy Options* magazine. In a lengthy Q&A, the former deputy prime minister said that "increasingly you'll see a Canadian business presence in China and Asia," later adding "China is a difficult place to do business ... You have to find the right partners who understand ... the culture and business

environment.”

Canada-China trade will continue to expand, agreed Prof. Smart, “but that should not negate our need to critically discuss and think about this business of long-term benefits versus short-term gains,” she said.

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