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China Challenge and U.S.-Canadian Innovation Collaboration

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Introduction

Whether Canada likes it or not, increased competition between China and the United States will have significant implications for Canada's domestic and global interests. As the United States seeks to compete and counter China through a collective approach with allies and partners, Washington will be increasingly looking towards Ottawa for support. Within the [U.S. Innovation and Competition Act](#), the legislation has a provision to create a strategy that would enhance cooperation with Canada in managing relations with China. As a result, there is increasing recognition in Washington that Canada can have a pivotal role in the U.S. competition with China.

In a deeply divided America, challenging China's rise as the world's technology superpower has become a bipartisan issue between the Democrats and Republicans. In his first speech to Congress, President Joe Biden declared China as a "serious competitor" to the United States, calling upon legislators to boost governmental investment into scientific and technological research and development. His rally to the American people: 'We are in a competition with China to win the 21st century.'

Locked in a fierce battle for technological primacy, the rivalry between China and the United States is still in its early stage. Both countries are fearful of losing any ground to the other in emerging fields that will define the 21st century, such as quantum computing and artificial intelligence. With its skilled and low-cost labor workforce, China has made tremendous progress on 5G networks, smartphones, drones and electric vehicles. However, for now, the United States continues to maintain its advantage in semi-conductors, an essential part of many innovative digital consumer products.

Within both Houses of Congress, the House of Representatives and the Senate put forward legislations to boost U.S. scientific competitiveness by allocating billions in new funding for scientific research and technology to counter China's growing economic and geopolitical influence. In response to Biden's rally, the House of Representative's passed two bipartisan bills in June 2021, [National Science Foundation for the Future Act](#) and [the Department of Energy Science for the Future Act](#), investing \$128 billion to federally-funded science and technology research. Similarly, the Senate's [U.S. Innovation and Competition Act](#) would invest \$250 billion. As the legislative packages navigate their respective ways into the House and Senate, the final package, to be negotiated between the two chambers, has the potential to be one of the few major bipartisan achievements of the current Congress.

Since the election, the Biden administration has been actively rebuilding bilateral and multilateral ties with a robust emphasis on the need to collectively address China's economic, diplomatic, military, and technological rise. Most recently, the United States entered a trilateral security pact, AUKUS, with the UK and Australia to bolster its naval presence in the Indo-Pacific. In the communiqués from both the [Carbis Bay G7 Meeting](#) and the [NATO Brussels Summit](#), China was explicitly mentioned, signaling that despite policy differences between Europe and the United States, common ground existed on issues such as the rules-based international order, human rights, security, political and trade issues. A fundamental difference between Trump and Biden in their approaches to China is Biden's recognition that a collective response will be more effective than unilateral action.

Middle power countries like Canada closely monitor the combative dynamics between Beijing and Washington for fears of entering an era of renewed great power competition as a new Cold War. Heightened

by the COVID-19 pandemic as China and the United States compete to vaccinate their population and accelerate a post-pandemic economic recovery, both countries continue to be locked in prolonged conflict with very little progress made on de-escalating tensions.

As the competition intensifies, there are concerns that both countries will fall into the “Thucydides’ Trap,” which maintains that war is inevitable when a rising power, China, challenges a dominant state, the United States. To avoid calamities between the two superpowers, Canada and other middle power countries will have to be prepared to navigate this rivalry that places their own interests and values at the forefront. Strategically, Canada has reinforced the need for the international community to strengthen a rules-based international order rather than a power-based one, managing competition between states with divergent values and interests.

Many middle power countries are seeking to strike the right balance in their engagements with China and the United States – failure to do so could have consequential costs. Unfortunately, this is a reality Canada is all too familiar with. The consequence of being caught in the crossfire between China and the United States have not only contributed to the rapid deterioration of Canada China relations but have also been substantial for Canada in terms of human lives, trade, diplomacy, and politics.

Crafting a U.S. Strategy to Enhance Cooperation with Canada on China

The end of the three-way diplomatic ordeal between Canada, China and the United States that resulted in the return of Huawei CFO Meng Wanzhou to China and Canadians Michael Kovrig and Michael Spavor to Canada ended the stalemate in Canada’s bilateral relations with China, and also improved relations with the United States. However, it’s unlikely that Canada-China relations will improve anytime soon given recent announcements by Ottawa to join the [diplomatic boycott of the 2022 Beijing Winter Olympics](#), and the pending decision on whether to ban Huawei 5G. In contrast, there is momentum for Canada and the United States to work together on China.

This recognition was echoed by newly confirmed U.S. Ambassador David Cohen, who in an [interview](#) to the Globe and Mail, emphasized one of his duties is to work with Ottawa on ways to challenge China on a range of issues. Moreover, he characterized “China as our greatest threat” and the need for Canada and the United States to align their China policy. As the U.S. envoy stationed in Ottawa serving at the pleasure of the president, China will be a high-priority item on his agenda as the Biden administration continues to build coalition as part of their strategy in confronting, competing and countering China.

Uniquely within the U.S. Innovation and Competition Act, there is an explicit reference to Canada and the Canada-U.S. relationship. The reference illustrates a recognition by congressional leadership that as competition intensifies between Beijing and Washington, Canada can have a consequential role in the United States’ strategy in response to China’s rise as a global power.

If passed, the legislation would require the President to submit a strategy within 90-days to Congress that describes how the United States will enhance cooperation with Canada in managing relations with China. The strategy is expected to cover key policy points of convergence and divergence in areas such as the Arctic, defense, democracy and human rights, technology, and trade. Moreover, at least twice a year for five years, the Secretary of State will report to Congress on the development and implementation of the strategy.

The strategy would build upon the [Roadmap for a Renewed U.S.-Canada Partnership](#) announced during the virtual meeting in February 2021, and the bilateral visit by Prime Minister Trudeau in November 2020 to Washington D.C. For the strategy to succeed and contribute to the renewal of the Canada-U.S. partnership, an investment of time, resources and personnel would be required by both countries.

Deciphering Canada's China Strategy

The challenge for Washington will be to decipher Ottawa's China strategy. Re-elected with a new mandate in September, a new foreign affairs minister leading Canada's diplomatic efforts, and the Two Michaels safely back in Canada, there is a need to recalibrate the bilateral relationship Trudeau government to be clear and explicit on its China policy.

Under several foreign affairs ministers, there have been pressure on the Trudeau government to articulate its position through a parliamentary Special Committee on Canada-China Relations in the 43rd Parliament, and most visibly in the policy platforms of the political parties during the latest federal election in September 2021.

Initiated by former foreign affairs minister François-Phillipe Champagne, the first 'China Framework' sought to establish new rules of engagement with China that reflected Canadian values, interests, and principles, including human rights. Unfortunately, despite the consultations conducted to develop the framework by Global Affairs Canada, the governmental department responsible for Canada's diplomatic and consular relations, one has yet to be released.

Testifying before the Special Committee on Canada-China Relations, former foreign affairs minister Marc Garneau emphasized that Canada's approach to China was constantly evolving. Given the complexity of the relationship, Canada will co-exist, cooperate, compete and challenge China – also known as the four “Cs” approach. He states that “China is rapidly becoming a global influence with which all countries must learn to co-exist. That means that we must recognize situations in which it is necessary to cooperate with China ... it also means we are competing with China when it comes to trade and to promoting our values. It also implies challenging China when human rights are violated, or Canadian citizens and interests are jeopardized.”

As Canada's newest foreign minister, Mélanie Joly has maintained her predecessor's four “Cs” approach. However, despite calls for a full reset in the Canada-China bilateral relationship after the release of the two Michaels, Joly's [mandate letter](#) from the prime minister made no explicit reference to China. However, the undertones to China were present in the mandate letter's commitment to the development of a comprehensive Indo-Pacific strategy and to work with allies and likeminded partners to collectively respond to arbitrary detention, economic coercion, cyber threats, foreign interference in democratic processes, and human rights violations.

Similarly, the United States has adopted a similar framework for its engagement with China. Secretary of State Anthony Blinken states, “Our relationship with China will be competitive when it should be, collaborative when it can be, and adversarial when it must be.” Moreover, Blinken emphasizes engaging with China from a position of strength will require working with allies and partners. However, the differing factor between both countries is the United States' characterization of China as a “strategic” competitor,” which has largely guided the U.S. whole-of-government response in comparison to Canada's four “Cs” approach and explicit inclusion of the term: “co-existence.”

In November 2021, Ottawa announced its intentions to draw up an Indo-Pacific strategy that would deepen diplomatic, economic and defense partnerships and international assistance in the region. The strategy would not only include the Asia-Pacific, but also countries bordering the Indian Ocean, such as India, Pakistan, and Sri Lanka. The decision to proceed with a more comprehensive strategy than country-specific hints at Ottawa's attempt to align itself with other countries and regions like the United States and European Union, who are framing their interest in the region using the same terminology. In November, the EU released the EU Strategy for Cooperation in the Indo-Pacific that outlined how Brussel would expand its

influence in the region. Similarly, at the East Asia Summit in late October, the Biden administration sought to reaffirm the United States' commitment to the Indo-Pacific region through developing an Indo-Pacific economic framework.

For Canada, the absence of a clearly defined China 'policy' or 'framework' has created uncertainty and unpredictability for federal departments and agencies, provincial and municipal governments, the business community, academic institutions, and civil society organizations. As a result, as Ottawa reassess and re-evaluates its policy priorities with Beijing – so too must these other stakeholders. Although the Indo-Pacific Strategy is a positive sign, there will be high expectations for Ottawa to deliver.

A forward-looking principle-based China policy will be essential in allowing Canada to navigate the complex and interconnected relationship it has with the United States and reassess and realign its ties with China. A one-dimensional approach to China will not serve Canada's long-term economic, diplomatic, political, and security interests. It's challenging to forecast how the balance of power will continue to shift between China and the United States. However, what is indisputable is that China will remain a central force shaping the world that will require Canada and other middle power countries to respond.

Competing from a Position of Strength by Cooperating on Research & Development (R&D)

The U.S. Innovation and Competition Act aligns with Biden's emphasis to rebuild partnerships with key partners and allies to counter China's technological rise. The legislation seeks to strengthen the Transatlantic Alliance, and enhance cooperation with countries in the Western Hemisphere, South and Central Asia, Africa, the Arctic Region, and Oceania, to effectively compete and counter China. Ambitious from the outset, the legislation underscores the importance of rebuilding and strengthening partnerships and alliances worldwide. However, for a meaningful partnership to emerge, it will also require U.S. allies and partners contribute time, energy, and resources. For the time being, the expectation within the partnership is yet to be determined as to what extent countries are willing to commit.

Competing from a position of strength will require the United States to partner with its allies and partners – many of which are homes to cutting-edge research institutions in artificial intelligence, robotics, and biotechnology. Like the United States, Canada is a world leader in science, technology and innovation. According to the Conference Board of Canada's [2021 Innovation Report Card](#), Canada ranks 10th, among 16 peer countries, up from 12th in 2018. With extensive research ties between Canadian and American academic and research institutions, Canada and the United States are natural partners in advancing scientific and technological research and development. Recently, the U.S. National Science Foundation and the Natural Sciences and Engineering Research Council of Canada announced their first formal [partnership](#) in June 2021, which would support research in areas of mutual interests, such as artificial intelligence and quantum.

Unlike in the United States, Canadian research institutions are often cash strapped, as illustrated by the large discrepancy between American and Canadian endowments. To contextualize this, Harvard University's endowment value is USD \$41.9 billion in 2020, which is larger than the top 10 endowments of Canadian universities combined. Many Canadian research institutions rely on generous governmental grants and awards. As the U.S. Congress considers massive investments into research and development (R&D) to compete with China, ensuring Canadian universities and research institutions have access to joint funding programs will be an enabling factor to the success of Canada-U.S. research efforts.

Many of these Canadian universities and research institutions form part of [Canada's Innovation Superclusters Initiative](#). Announced in 2018, the Canadian federal government committed to investing approximately \$1 billion over five years to advance research in digital technologies, plant proteins, advanced manufacturing, enhancing the use of artificial intelligence in supply chains, and oceans. Although there is emphasis in

the strategic use of intellectual property (IP) to help the sectors grow, there is an opportunity to link these Canadian superclusters to R&D in the United States. The challenge will be for Canadian and American policymakers and decisionmakers to ensure that the collaborations are mutually beneficial for both countries. However, increased protectionism on intellectual property by both countries could pose a major barrier to collaborative efforts.

Washington recognizes that many of its allies and partners have complex relationships with China, including partnerships with Chinese academic and research institutions that foster joint research and academic exchange of researchers, professionals, and students. Moreover, increasingly within recent years, many Canadian and American universities and research institutions have faced new challenges and risks associated with any partnership with connections to China following heightened media attention and security from the public, politicians, faculty, and alumni.

To assess the risks towards Canada's national security, Ottawa released its [National Security Guidelines for Research Partnerships](#) to assist institutions in safeguarding research and intellectual property against foreign interference, espionage and theft. Likewise, the White House's National Science and Technology Council released [the implementation guidance for National Security Presidential Memorandum-33](#) in January 2022, with the same objectives to establish rules for ensuring research security and researcher responsibilities, noting that some foreign governments, such as China, are actively trying to illicitly acquire U.S. research and technologies. As Canada and the United States navigate this terrain, there is an opportunity for both countries to align their guidelines to maintain an open environment that fosters international research collaboration while protecting research security and competitiveness.

Since 2020, there has been increased sensitivity and vigilance by governments and research institutions in Canada on international espionage and foreign interference targeting research, data, and technologies from research partnerships. In May 2021, the [Albertan government ordered its four major universities to suspend the pursuit of partnerships](#) with individuals or organizations with links to the Chinese government. Like many countries with research collaborations linked to China, Canadian research institutions are in the midst of re-adjusting and re-orientating their partnerships with China in sensitive areas connected to national security within the fields of science, technology, engineering and mathematics (STEM).

For Canada, it is unlikely that large-scale economic decoupling will occur with China with recognition that there are benefits in collaborating with Chinese researchers and institutions. Rather moving forward, research collaborations with China will likely be of minimal to low risk in nature in areas such as health and the environment, posing no significant implications for Canadian national security. Although Ottawa released its national security guidelines, greater clarity is needed for Canadian universities and research institutions on how they can best navigate international research partnerships that have become intertwined with national security and economic competitiveness concerns. The administrative burden has to be shared by government and the research community.

As Canadian research institutions begin to reduce their partnerships with China in sensitive fields with potential military usage, there is an opportunity for Canada and the United States to deepen cross-border cooperation in those fields given shared national security and defense commitments. However, the research partnership guidelines released by Ottawa and Washington also recognize that there are merits its research collaborations with international partners including China. As such, Canadian and American research institutions and researchers could coordinate with each other in partnering Chinese researchers and institutions to advance transnational research and development in fields of common interest, and uphold values based on transparency, integrity and reciprocity.

Working Together – A Way Forward

Reinforced by shared geography, history, values, and interests, Canada and the United States are natural allies and partners to advance scientific and technological research and development. By working together, there is an opportunity for both countries to be global leaders in cutting-edge technologies that will define the 21st century and improve the well-being of citizens on both sides of the border.

Despite considerable common ground, there is a fundamental difference between Canada and the United States on deepening cross border collaboration. Part of the increasing geopolitical rivalry between China and the United States is driven by techno-nationalistic ambitions by both countries. Both countries are locked in a battle for technological primacy.

Domestically, the United States has doubled down on its efforts to provide more government support for research and development (R&D), bolster strategic sectors such as semi-conductors, and encourage its allies and partners to opt-out of a China-led technologically-driven world. In contrast, Canada views it slightly differently, factoring in economic competitiveness with attention to national security implications. Thus, cooperating with the United States in tech R&D will be driven mainly by economic and national security versus geopolitical interests that seek to maintain the U.S.' position as the hegemon. This is evident in Ottawa's reluctance to use the "Cold War-esque" language in Washington.

Whether the U.S. Innovation and Competition Act passes both houses of Congress and receives presidential approval or not, Canada must be prepared to effectively engage and clearly articulate its interests with China to the United States, even if it differs from U.S. interests. The inability to do so will result in Washington dismissing Ottawa's interests down the road. Even worse, Washington could be indifferent and non-consultative on issues that could affect Canada. Through meaningful engagement, both countries can map out areas of cooperation and conflict in effectively managing their interests vis-à-vis China.

For Washington, undertaking such an exercise in developing a 'Canada Strategy' will be highly beneficial for American policymakers and decision-makers in understanding Canada's position on China, which will allow for better coordination and alignment with Canada. Moreover, it will serve as an opportunity to strengthen Canada-U.S. relations and signal a real effort by Washington to improve relations.

For Ottawa, Washington's willingness to better coordinate, consult, and engage is a positive sign after years of deterioration in the Canada-U.S. relationship. The recognition by congressional leadership in a need for a 'Canada Strategy' exemplifies that. As the geopolitical rivalry ensues, Canada will need to ensure it does not become collateral damage, placing its short-term and long-term interests and values at the forefront. This means Ottawa will need to be highly attuned to Washington's motivations as the dynamics between Beijing and Washington continue to evolve, and vice versa with Beijing. As Washington considers a Canada Strategy, Ottawa should take a similar approach in developing a strategy on how it will navigate an increasingly competitive world between China and the United States, finding the right approach to China and the United States that enhances and protects Canadian interests and prosperity.







About the Author

Darren Touch is a Schwarzman Fellow at the Kissinger Institute on China and the United States and the Canada Institute. With a background in public policy, Darren has extensive knowledge and experience in governance and evidence-based, people-focused public policy development in the public, private and non-governmental sectors. His research focuses on the triangular relationship between Canada, China and the U.S., examining how Canada and the U.S. can manage its relationship with China while maintaining and strengthening the Canada-U.S. relationship.

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