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Chair: Mr. Ken Hardie

Special Committee on the Canada–People’s Republic of China Relationship

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• (1835)

[English]

The Chair (Mr. Ken Hardie (Fleetwood—Port Kells, Lib.)): I call this meeting to order.

Welcome to meeting number 18 of the House of Commons Special Committee on the Canada–People’s Republic of China Relationship. Pursuant to the order of reference of May 16, 2022, the committee is meeting for its study of Canada–People’s Republic of China relations, with a focus on investment funds.

I would like to make a few comments for the benefit of the witnesses and members.

Today’s meeting is taking place in a hybrid format, pursuant to the House order of June 23, 2022. Members are attending in person in the room and remotely using the Zoom application.

Please wait until I recognize you by name before speaking. For those participating by video conference, click on the microphone icon to activate your mike, and please mute yourself when you are not speaking.

For interpretation for those on Zoom, you have the choice at the bottom of your screen—a little planet earth—of floor, English or French. For those in the room, of course, you can use the earpiece and select the desired channel.

I remind you that all comments should be addressed through the chair.

For members in the room, if you wish to speak, please raise your hand. For members on Zoom, please use the “raise hand” function. The clerk and I will manage the speaking order as best we can, and we appreciate your patience and understanding in this regard.

In accordance with the committee’s routine motion concerning connection tests for witnesses, I am informing the committee that all witnesses completed the required connection tests in advance of the meeting. We’ll do our best to make sure the technical quality remains high, but it’s something we are certainly watchful for out of deference to our interpreters, who can sometimes have a very difficult time dealing with things when the audio quality goes bad on us.

We have some visitors. MP John McKay is substituting for MP Serge Cormier. MP Emmanuel Dubourg is a participant on the screen, so he is appearing as Emmanuel Dubourg. MP Sonia Sidhu will be substituting for MP Serge Cormier a bit later. We are expecting MP Ed Fast a bit later in place of Mr. Seeback. I’d also like

to welcome Mr. Dowdall to the committee tonight. It’s good to have you all here.

Now it’s time to begin hearing from our witnesses. We have Dr. Mathieu Arès, full professor at the Université de Sherbrooke.

Go ahead, Mr. Trudel.

[Translation]

Mr. Denis Trudel (Longueuil—Saint-Hubert, BQ): Mr. Chair, shouldn’t we be seeing people’s faces in the meeting through Zoom? I see that Mr. Dubourg is present but we can’t see this face. Isn’t that in the committee rules?

[English]

The Chair: I’m sorry. I’m going to have to plug in my earpiece to pick that up.

Say that once again. I’m sorry, Mr. Trudel.

[Translation]

Mr. Denis Trudel: Am I wrong to say that we should see people’s faces at the meeting through Zoom? For example, I can see that Mr. Dubourg is present, but we can’t see his face. Is that not an issue?

[English]

The Chair: I think it would be proper for Mr. Dubourg to turn his camera on so we know it’s really him.

Mr. Dubourg, if you’re listening in, if you can at least click your camera on so that we can see you, that would be good.

Ms. Raquel Dancho (Kildonan—St. Paul, CPC): That’s not a rule.

The Chair: It’s not a rule, no, but still...

Ms. Jean Yip (Scarborough—Agincourt, Lib.): Sometimes we can’t see it on our screens, but they can see it on their screens over there.

The Chair: On the screen I’m looking at right now, Mr. Dubourg’s camera is still off.

Ms. Jean Yip: Okay. We don’t even see Mr. Dubourg’s screen on our side.

The Chair: Yes, you wouldn’t because he’s—

Ms. Jean Yip: It’s because it’s always that way.

The Chair: Yes, that’s right.

Please contact him.

That was a good catch, Mr. Trudel. Thank you for that.

We will continue, and hopefully Mr. Dubourg will catch up with us. The clerk will try to get in touch with him to make sure he's on-line.

Again, we'd like to welcome to the Canada-China committee Dr. Mathieu Arès, full professor at the Université de Sherbrooke. From the Cercius Group Limited, we have Dr. Alex Payette, chief executive officer.

We'll start with Dr. Arès. You have five minutes to deliver some opening remarks.

[*Translation*]

Dr. Mathieu Arès (Full Professor, Université de Sherbrooke, As an Individual): I would first like to thank the committee for having me.

I'm part of a group of four faculty members who have undertaken research on disengagement with China. We're essentially studying the political reaction, but also how businesses are reacting to the discourse that we're increasingly hearing about disengagement with China. The countries chosen for the study are obviously representative: the United States, Japan, Korea, Taiwan, Australia, Canada and Germany. However, the study also includes countries that might receive investments that would come out of China or no longer go to China: Mexico, India and Vietnam.

Why did we start looking into this? President Obama launching the pivot to Asia policy led the U.S. to rethink things. Mr. Trump preferred direct confrontation and started a trade war, which has soured relations between the two giants. President Biden has revived some initiatives, including the Quad, as well as a much-talked-about Indo-Pacific policy. Recently, Canada announced its own openness to reviving this policy.

It's important to understand that China currently produces 27.8% of the world's manufacturing output, while the U.S. is at 17% and Japan is at 7.5%. It's no news to anyone that China has become the world's workshop. However, it's important to note that China is a sort of hub that receives parts from all over Asia, does the final assembly and sends the products to global markets.

We're faced with a situation that politicians call complex interdependence. In simpler terms, on the one hand, we have extensive, intense and beneficial economic and trade relationships with each of the countries in our study, but on the other, we also have significant political tensions with them.

First of all, only the United States and Japan currently have assertive aid policies to encourage their businesses to leave China. The other countries have adopted a wait-and-see policy that aims to pool their diplomacy in managing this very complex relationship. Canada has been rather naive when it comes to China. We shouldn't hold that against Canada; I believe all Western nations have been a bit naive.

Since a much more assertive policy has been introduced, particularly with the current president Xi Jinping, we see China trying to be kind by using—to put it mildly—strong-arm diplomacy, ranging from shows of force to widespread neo-mercantilist policies.

In our view, Canada needs to stop being naive and start being very vigilant about cooperation on technical matters in particular, whether with academics or industry.

The Comprehensive and Progressive Agreement for Trans-Pacific Partnership, or CPTPP, was also ratified. This policy continued after the Trudeau government took office. It's an initiative that links Canada with some key countries in the region. I think it's a good policy and we need to continue to be part of the CPTPP. Canada needs more initiatives like this.

In general, we shouldn't be afraid to assert our values vis-à-vis China. Those in power right now in China only understand relationships based on force. So if we show any weakness, China will simply take advantage of it, and that will go against our interests and our values as a country.

I only had five minutes to open the discussion. I could go more into detail if you have any questions.

• (1840)

[*English*]

The Chair: Thank you very much. We appreciate that Dr. Arès.

Now we'll turn to Dr. Payette. You have five minutes or less, sir.

[*Translation*]

Dr. Alex Payette (Chief Executive Officer, Cercius Group Ltd.): Thank you.

I will speak in French, if I may.

I'd like to thank the committee for inviting me to appear at this meeting on the exposure of Canadian pension funds or investment funds to human rights violations—

[*English*]

The Chair: Excuse me, Dr. Payette. Where is your microphone? Is the microphone on your headset up?

• (1845)

Dr. Alex Payette: No, I have the other one. It was on the approved list.

The Chair: Maybe move a bit closer to it because it's a little muffled and our interpreters might be—

Dr. Alex Payette: How about that?

The Chair: That might be a lot better.

I'm going to stop this and give you another start here.

Go ahead. You have your five minutes. Thank you.

[*Translation*]

Dr. Alex Payette: Okay, thank you.

Today, I'd like to underscore certain things that guided our reflection.

First, investing in a non-Western, non-democratic country, whether China or any other, always comes with its share of unforeseen challenges in terms of adherence to the standards and values of democratic Western countries like Canada. This must always be taken into account.

Then you have to talk about the opacity of the Chinese regime. My colleague perhaps has a more external view, whereas we work much more internally. We're interested in the structure of the party-state, how people think, how the structure reacts, what happens inside the party. It's a slightly different view.

The way we see it, it's always going to be fundamentally impossible to control all the risks associated with the values aspect or to fully guard against the risks associated with the central issue of today's topic, which is human rights.

That leaves us with two broad avenues. We can avoid investing, which shields us from the entire risk—

[*English*]

Mr. Peter Fragiskatos (London North Centre, Lib.): I have a point of order.

The Chair: Yes, Mr. Fragiskatos.

Mr. Peter Fragiskatos: The interpreter is unable to translate.

The Chair: Dr. Payette, we're having a very difficult time hearing you properly. Can you hold up the microphone? Let us have a look at it.

[*Translation*]

Dr. Alex Payette: Here it is.

[*English*]

The Chair: Oh. Good Lord. Okay. Let's see if you can move it a bit. The sound is very muffled, although it worked fine during the test.

Microphone technique is really critical with those ones, so keep yourself as close to it as possible and maybe slow down just a smidgen so the interpreters can keep up with you.

Dr. Alex Payette: Is the current position better?

The Chair: Yes, I think so.

Dr. Alex Payette: Well, I'll try not to move.

Ms. Raquel Dancho: Is it maybe the interpreter's equipment? It sounds very clear.

The Chair: In my ear it doesn't. It sounds very muffled.

Hon. Robert Oliphant (Don Valley West, Lib.): Chair, he's actually louder and clearer to me than you are to me.

The Chair: Oh Lord. Okay.

Hon. Robert Oliphant: I can hear every word very crisply and clearly, but when you speak, it's quite muffled. I'm just wondering where the problem really is.

The Chair: Dr. Payette, we'll let you continue, but speak slowly. I'll give you extra time if you need it, and work the microphone as close as you can.

Dr. Alex Payette: Sure. I'm not moving.

The Chair: Excellent, sir. Go ahead. Continue.

[*Translation*]

Dr. Alex Payette: As I said earlier, the first avenue is avoidance, where we would establish that it's not possible to invest in China, and that would completely shield us from the risk. The second avenue would be to put in place much more restrictive risk moderation or mitigation strategies.

In the first case, since it's not possible to completely eliminate risk, many people will say that we should stop investing in China. In our view, this first scenario is unrealistic, because not interacting with the world's second-largest economy isn't a long-term solution for Canada.

On the other hand, in the second scenario, we must keep one thing in mind, especially with respect to funds of a public nature, which is what we are more concerned with here, definitely. Before investing in the People's Republic of China, it's very important to understand the partners you are going to do business with and the supply chains, but also the close ties that some businesses may have with state power or the People's Army structure. These things are sometimes much harder to find, unless of course you conduct much more thorough due diligence studies than just looking at the annual reports of certain businesses. In our view, sooner or later, much more specialized businesses that are not affiliated with Chinese companies or institutions are going to have to be mobilized to guard against this type of risk, before investing on Chinese soil.

Of course, we understand the federal government's concern over the human rights issues raised, especially since the relatively recent publicizing of the Xinjiang and Hong Kong cases. That said, it's very important to know that there are other types of risks related to investing in China.

As my colleague pointed out, there are intellectual-property risks in the supply chain, but there are also risks of technology capture by the military. In that sense, you need to look at the first aspect, which is the human rights issue, but you also have to look at the issue of proximity to public or non-public organizations—there's a slight distinction between the two, it doesn't mean everything—and party leadership. It's also a matter of looking at the ties that some companies are going to have with the Chinese military-industrial sector.

We see so much more than the human rights issue. This is not about ranking, but many more things must be considered when talking about investing on Chinese soil. The private sector, of which we are a part, sometimes accompanies Canadian, European and American companies. We're used to that kind of questioning, especially with respect to partners, but also supply chains and all that.

I'll stop here. I can take questions from committee members later on.

• (1850)

[*English*]

The Chair: Thank you very much, Dr. Payette.

We will now go to our first round of questions.

We have Mr. Chong for six minutes.

Hon. Michael Chong (Wellington—Halton Hills, CPC): Thank you, Mr. Chair.

I assume that the Alberta Investment Management Corporation is not coming today. Is that right?

The Chair: You are correct.

Hon. Michael Chong: Was that a last-minute cancellation?

The Chair: Yes, more or less.

Hon. Michael Chong: Why is that?

The Chair: I would defer to the clerk to comment on that.

The Clerk of the Committee (Ms. Christine Holke): Basically, as soon as we published the notice of meeting, I received a call from them telling me that they weren't available to appear today.

Hon. Michael Chong: When did they confirm their appearance?

The Clerk: It was at the beginning of last week, I believe. Then they called me to say that it was a scheduling issue and that they couldn't make it.

Hon. Michael Chong: I would like the chair to voice our displeasure with that, because I've been here for 19 years, and in the last two or three years, the number of committee witnesses who have cancelled their appearances just ahead of meetings is ridiculous. There are 12 of us here. We show up prepared to ask questions and then they don't show up. It's not the first time this has happened.

The Chair: Yes, the chair will have multiple parties receiving his displeasure.

Hon. Michael Chong: Thank you.

The Chair: All right. We'll allow you to start from the top.

Hon. Michael Chong: Thanks, Mr. Chair.

I want to ask if any of the witnesses are familiar with the bans on U.S. investors investing in PRC companies that were implemented by the Trump and Biden administrations.

• (1855)

The Chair: Do you want to direct your question, Mr. Chong?

Hon. Michael Chong: No, it's to either one. It's fine if they don't know the answer. I'm just wondering if they know of the executive orders that were implemented by both President Trump and President Biden that banned U.S. investors from investing in several dozen PRC firms linked either to China's military or to its repressive policies.

The Chair: Dr. Arès, go ahead.

[*Translation*]

Dr. Mathieu Arès: I'm no expert, but generally speaking, this is something the Americans do all the time in the security field. They have a stronger view than Canada on what constitutes a sensitive location and the issue of human rights.

The problem with this type of legislation is that it's more about the rhetoric. What's really tough is the feasibility. As you know, when a Canadian business opens its doors in China, it becomes a Chinese business. It's therefore subject to Chinese law. Businesses are stuck between a rock and hard place. Of course, there may be sanctions from the United States or any other country that has this kind of policy. However, China may also reprimand these countries. It's often very hard for businesses to fully implement this kind of policy. I'm not saying they don't adhere in broad strokes, but like everywhere else, the devil's in the details.

My colleague said something that I totally agree with: It's very difficult to figure out what's public and what's private in China. Let's not forget that Jack Ma just happened to land in a detention centre for six months when he was still head of one of China's biggest companies. No one's heard from him since. Generally speaking, the private sector in China is very clearly subordinate to the Communist Party. In fact, that was one of President Xi Jinping's main thrusts when he took over the new fortunes amassed in recent years. They are reminded that in China, it's the Communist Party that calls the shots, not businesses.

There's still a very grey area. Foreign companies that set up in China are obviously subject to these demands like any other company, otherwise, all of a sudden, they have trouble getting permits and hooked up to electricity, and all sorts of things like that. Obviously, they're going to have a hard time.

Hon. Michael Chong: I have another question.

We heard the testimony of the Hong Kong Watch group. We heard that the Canada Pension Plan, the Caisse de dépôt et placement du Québec and the British Columbia Investment Management Corporation had invested in Chinese companies that had participated in genocide in Xinjiang and engaged in other human rights abuses.

[*English*]

My question is, what tools or instruments can or should the Canadian government use to ban investments in companies committing human rights abuses? Should the Government of Canada be banning Canadian investors, particularly Canadian pension funds, from making investments in those PRC-based firms? If so, what instruments could the Government of Canada use to put that into effect?

The Chair: Dr. Payette, you have your hand up. Do you wish to respond to this?

Dr. Alex Payette: Yes, I wish to respond to it.

To make it quick, on the previous question, most of the legal action taken against Chinese companies was linked to military-linked companies. There was a third type of sanction regarding the Department of Commerce, the OFAC and the Bureau of Industry, but mainly these were targeting, potentially, companies that would probably have ties with the military or PLA structure. That was one thing.

• (1900)

The second thing is the report of Hong Kong Watch. We need to understand—and I think it was kind of highlighted—that Canadian financial institutions largely invested in the PRC through equity and debt markets. We would know that most of this remains indirect exposure. I think it was highlighted in the report that sometimes they invest in funds that have investment in companies like—If memory serves me right—Dahua, iFlytek and other companies that do surveillance and drone manufacturing. There might be—

Hon. Michael Chong: It's also index funds like the MSCI index funds.

Dr. Alex Payette: Yes.

The Chair: Gentlemen, the time has expired for Mr. Chong's questioning.

We'll now go to Mr. Fragiskatos for six minutes or less.

[*Translation*]

Mr. Peter Fragiskatos: Thank you, Mr. Chair.

First, thank you for your presentation, Dr. Arès.

My question is about democratic nations who approach investment based on economic values, but also on the values of compassion and fairness, which could be an example for Canada to follow.

For example, in December 2022, our committee heard from a professor who spoke extensively about Germany's approach. Of all the democracies, Germany may have the best approach to investment.

What are your thoughts on this?

Dr. Mathieu Arès: I think it's becoming more and more of an accepted practice, especially for public pension funds. We need to have ethical practices. I'm thinking of the Caisse de dépôt et placement du Québec, the federal funds and those of the other provinces, like the Ontario Teachers' Pension Plan. People are starting to adopt ethical practices more and more, including environmentally conscious ones. I wouldn't call it a fad, because you can still make money with an ethical approach to investing.

It always gets a bit more complicated in the private sector. In Canada, we don't have a lot of legal constraints in this area, but I believe we shouldn't be shy about it and there are ways, likely through legal frameworks, to shine a light on certain practices that we consider contrary to our values and the democratic spirit. That said, we need to be careful, because they can be seen as extraterritorial laws.

We can rely on existing rules or treaties with respect to forced labour, for example. Increasingly, these issues are starting to be covered by a number of the treaties that Canada and many other countries are part of. We can use these treaties to say that we need

to be careful and that investments are not appropriate if, for example, they're involved with the Uighur labour camps. I feel we can go pretty far in cases like that and even block certain products produced in systematic violation of human rights.

I feel there's some consensus emerging from our international treaties that we could build on to have a somewhat stronger policy on human rights in trade.

I hope I've answered your question to some extent.

Mr. Peter Fragiskatos: Once again, thank you. That's clear.

However, I'm looking for a very concrete example. Is there a country whose example Canada could follow?

Perhaps Dr. Payette has an answer.

• (1905)

Dr. Alex Payette: On our end, we rely on best practices. Again, based on what we've seen, it's mostly the United States that will create lists of sanctioned entities that can no longer do business and impose much more burdensome document disclosure requirements.

Of course, in our view, Canadian authorities should play a much larger role in building this apparatus not of oversight, but rather of risk management, in a more comprehensive way. If public organizations linked to public pension funds are making investments on Chinese soil, naturally we want to make sure that we can compel those companies to produce much more comprehensive due diligence reports, monitor the local activities of certain companies, and know who their suppliers, partners and customers are.

Of course, from our perspective, Canada can't go as far as extraterritoriality but it should still force Canadian companies that want to invest to ensure that they comply with certain practices, even if it means adopting a much more restrictive model, such as that of the Americans, where lists are established. Canada should not necessarily be afraid of producing such lists. Canadian authorities could be as proactive as the Americans have been under Donald Trump. Canada could compile a list of the companies that it knows have problematic partners or supply chains. It would be like saying that those companies can no longer do business in certain places or that they could no longer make investments in certain places. It's very restrictive, but it's based on best practices, and that's pretty much where we are today.

Again, we're talking about the country just south of Canada and therefore its direct trading partner. Canada could draw a lot of inspiration from certain measures taken by the U.S. government to kind of reshape the way in which certain Canadian institutions or companies are going to be able to invest in certain countries or territories with authoritarian regimes, for example, whether it's China or other countries.

[English]

The Chair: Thank you, Mr. Fragiskatos.

We'll now go Monsieur Trudel for six minutes or less.

[Translation]

Mr. Denis Trudel: Thank you, Mr. Chair.

Thank you so much for being here, gentlemen. You don't know how good it feels to hear two witnesses speak French before this committee. I am very happy to hear from you.

My question will be for both of you.

Carl Breau appeared before this committee in December, I believe. He runs two electronics companies that do business in China. He made a somewhat surprising statement: "Overall, the business environment in China is actually very transparent". He went on to say: "Most company information is public and readily accessible, including legal records, ownership structures, labour disputes, number of employees, credit ratings, etc."

I find that a bit surprising, so I'd like to hear from both of you. In your opinion, is any of that true?

Perhaps Dr. Payette can answer first.

Dr. Alex Payette: Seek and ye shall find, sooner or later. That's true for us, given our experience, but I don't think it's fair to say the same for everybody. We do research, but that doesn't mean others have the same tools and references.

Also, in the past four to eight weeks, several corporate data compilers have been geoblocked. I have colleagues in Hong Kong who are starting to have trouble accessing reports from companies listed in China.

When you're on the scene, you can access reports. The witness you quoted is not necessarily wrong about some things. There's some transparency with respect to documents. The problem is, it's not always easy to ascertain whether you are looking at all the information. Secondly, it's not always clear that the information in the reports is useful. I don't know how I could explain it to you. For example, Chinese companies put a lot of information in the sections on environmental, social and governance factors, or so-called ESG factors, but this information is not always very useful to people who work in this field and want to understand how these companies manage ESG factors. Yes, some information is available, but is it useful? Not necessarily. Nevertheless I understand what the witness was saying, in essence. You can find useful information, but you have to know how to find it. Even for people based in China, it's not always easy.

So I would put a small caveat on the witness' comment. I've done due diligence for production lines, construction companies and factories, and I can say that it's not as easy as you might think. It's much more complicated. You have to have a very discerning eye when you're looking. If you don't know what you're looking for, you will never be able to find it. Even if you do know, if you don't know how to say it or write it properly, you won't find the information.

• (1910)

Mr. Denis Trudel: Dr. Arès, I'm going to let you complete Dr. Payette's answer by taking you away slightly.

Do investment fund managers in Canada have access to this kind of data? Do they have a research methodology that they can use to get data on the transparency of Chinese companies in which one might want to invest? Does that kind of expertise exist in Canada?

Dr. Mathieu Arès: The information is available, but the problem is that, oftentimes, intermediaries are involved. Don't think that all the decisions are made in Montreal or Toronto. In many cases, brokers on the ground conduct audits to uncover good investments. It works a bit like that.

As for transparency, it's important to know—

Mr. Denis Trudel: Forgive me for interrupting, but do you mean that public investment funds in Canada also do business with private investors?

Dr. Mathieu Arès: No, I'm saying that firms make recommendations regarding promising sectors and such. An intermediary is often involved. It is then possible to ask the right questions and obtain the information.

This ties in with your first question. It's important to understand something: right now, the financing of Chinese firms is very opaque. As you know, banks are not independent, so if a sector isn't doing well, it can be bailed out with Chinese government money. That's what we are seeing now with the massive real estate bust. It's a disaster. Right now, the financial information isn't there.

If you're looking for social data, which is more or less the point of this evening's meeting, they are available. Everyone likes chocolate cake. That said, you'll have a hard time gathering very detailed information on the practices of our factories, to determine whether they are respecting human rights and labour standards. You won't see that kind of information.

Mr. Denis Trudel: If I understand both of you correctly, it's more or less anything goes. The money is invested without anyone knowing what exactly it's being invested in, whether the companies are reliable or whether they respect human rights and so forth. There are no meaningful data to guide proper investment decisions. Is that right?

Dr. Mathieu Arès: It could be better.

For instance, today, just for fun, I was trying to find Statistics Canada data on Canadian investments. Other than general statistics on foreign investment, Statistics Canada has no information on which sectors Canadian companies invest in or how many of them are in China. That information is hard to find. We are talking about Statistics Canada.

I figure a private investor, or even an institutional one, doesn't know all that much more, except of course for information they can gather themselves from country or sector experts.

Mr. Denis Trudel: Thank you, gentlemen.

[English]

The Chair: Thank you very much, Mr. Trudel and Dr. Arès.

We'll now go to Ms. McPherson for six minutes or less.

Ms. Heather McPherson (Edmonton Strathcona, NDP): Thank you very much.

Thank you to both of the witnesses for being here. This is very interesting for me.

I have to tell you that I am not well versed in investments, so forgive me if I need you to be very clear with me.

What I heard from you, Mr. Arès, is that basically there is not enough information for Canadians who are trying to invest, for Canadian companies and for investment funds to know whether or not forced labour, slavery and all of these things are happening within supply chains. This is, of course, a bit of a challenge, but it's more important than just knowing that those things are happening. That's one piece of it, isn't it? However, having just that knowledge doesn't mean anything if there's nothing that compels investors to act upon that knowledge and if there are no enforcement mechanisms in place.

Right now in Canada we have the CORE ombudsperson, who, despite being put in place in 2018, has done zero investigations into abuses that apparently Canadian companies have done abroad. We have very little ability to do any sort of enforcement of any of these things at this point.

Perhaps I'll ask both of you this. How do we solve this problem where Canadian companies and investors can neither find out, nor actually be asked to act on, that knowledge, even if they did have it? We also have no ability to enforce it, even if we had legislation that told them.... You can see that we're a long way from a solution here.

Mr. Arès, can you provide your thoughts on that?

• (1915)

[Translation]

Dr. Mathieu Arès: You summed it up well.

I think the approach has to be collective, similar to dealing with tax avoidance by multinational corporations. There's the U.S., of course. If Canada goes it alone, there are two risks. First, Canadian investment in China doesn't represent a lot. It's a lot to us, but it's not a lot to the Chinese. In addition, generally speaking, this could encourage some Canadian companies to relocate, so they could carry on business as usual somewhere else, without having to meet certain requirements. There is a risk of tax evasion, or even a risk of the company moving out of Canada if the bulk of its operations are based outside the country. Take the mining sector, where that's very often the case. Under Canada's special regime, Canadian mining companies with almost no Canadian operations are still registered in Canada for tax and legal reasons.

There is a risk, so I think the best approach is to work collectively with our partners to promote new practices. A long time ago, the UN Global Compact was launched. It's an honour-based initiative that brought together companies pledging to respect and strengthen human rights. It has yet to produce results.

You're right, there are no easy solutions. We can condemn abuses, but it's a hard problem to manage.

[English]

Ms. Heather McPherson: Thank you very much for that. I guess one of the things we are seeing is that the regulations we have in place aren't being applied; they aren't working, and the things that could be helping, aren't.

I have another question for you. This is another big concern I have.

I just got back, with many of the people in this committee, from a trip to Taiwan. Obviously there are increased tensions in the region. At this time, how vulnerable are Canadian organizations investing in China? Considering the potential for increased tensions between Taiwan and China, the increased need for Canada to perhaps apply sanctions and the fact that the PRC, in fact, may impose sanctions on Canadian companies, how at risk do you think Canadians are with regard to investment?

Mr. Payette, I'll start with you, and then I'll go to Mr. Arès.

Dr. Alex Payette: First, we need to determine if this risk is imminent. That's still unclear considering what we know about the party and how the party operates. We should maybe tone this down a bit. We should not believe this is imminent.

In terms of risk, if you were to apply sanctions, China is basically preparing or at least laying down the foundation for something it has done before, which is some form of civilian military integration. It could tilt toward a military or a more war machine kind of economy and then, of course, seize assets. This has been done before. It could happen in the event that we do something like that. It could happen.

Never forget that in China, especially from the perspective of the party, you are there only because the party allows you to be here. This applies to the private sector in China as well. That's why money remains common to a certain degree. You have it because you're allowed to have it. If you operate there, it's because they let you operate there.

If they decide you can't, it's just the way it is for the party. There wouldn't be a second thought on whether they decide to do it or not, regardless of the consequences. The party as it stands right now is willing to go further than the previous administration in terms of risk-taking and, let's say, pushing western democracies to a certain degree. It wouldn't be beyond the scope of the current administration to do something like that.

Now, there would also be dramatic consequences for doing something like that, and the party could not really withstand such a blow, I would say, in the medium term to long term. This is not a viable thing to do for the party. If it does this, it might lead to systemic issues, if I can say it like that.

• (1920)

The Chair: Thank you, Ms. McPherson.

We'll now go to our second round.

We'll lead with Ms. Dancho for five minutes or less.

Ms. Raquel Dancho: Thank you, Mr. Chair.

Thank you to the witnesses for being with us today.

I have just a few questions. You've answered similar ones, but I'll ask a few questions a bit more directly.

Mr. Payette, would you say it's possible for Canadian pension funds to invest in any company with the PRC without indirectly supporting the PRC itself? Are there companies that don't have any ties or responsibilities to the PRC? Are there any we'd be safe to invest in that you can think of?

Dr. Alex Payette: Yes, there are companies you could invest in that are somewhat safe. However, we always need to remember that... Again, that's why we always mention it's public and non-public. We try to avoid the word "private". We say public and non-public sectors because there's always a capacity for something that's not public to become public, and that could become an issue.

It's really about the appetite for risk that you're willing to bear, to a certain degree. To say that something is 100% safe would be a stretch.

Ms. Raquel Dancho: Are you confident that Canadian pension funds could invest in Chinese companies without supporting the Communist Party itself, indirectly or directly?

Dr. Alex Payette: Some, yes.

Ms. Raquel Dancho: Okay, thank you for that.

Are there any companies you can name in the PRC that are linked to notable human rights abuses that any Canadian pension fund has invested in? Are there any examples you can provide the committee?

Dr. Alex Payette: I'm not allowed to, no.

Ms. Raquel Dancho: Okay. You have nothing you can share publicly.

Dr. Alex Payette: No, but we could probably discuss it privately.

Ms. Raquel Dancho: Okay, so it's fair to say there are public pension funds in Canada that have invested in companies in the PRC that are directly linked to human rights abuses. Is that a fair statement?

Dr. Alex Payette: The fairer statement would be to say more indirectly, not directly.

Ms. Raquel Dancho: It's indirectly. Pardon me. Well, that's still very significant.

Dr. Arès, I just saw your hand go up. Did you have something to add to that question?

[*Translation*]

Dr. Mathieu Arès: I actually wanted to answer the question before.

As was mentioned, pension funds are going to make fewer and fewer investments directly. In China, there's what I might call an independent sector. It's nothing very significant. It doesn't involve sensitive technologies or what have you, but there's still a link and there can be a risk for Chinese partners or foreign companies. It's like the sword of Damocles hanging over their heads.

Nevertheless, it's important to understand what the statistics show. Despite the talk of withdrawal, trade with China actually went up, but investment has more or less been stagnant in recent years. That's probably due to COVID-19. However, companies continue to invest in China, so they are assuming this risk.

• (1925)

[*English*]

Ms. Raquel Dancho: Thank you both very much for that feedback.

I know that Canada has had a lot of struggles with living up to its values in this regard for a number of years. I don't know if any administration has gotten it right, but I don't believe we've successfully stopped any shipment of goods from China that has been manufactured using slave labour from these Uyghur Muslim work camps, with all the horrific conditions they're having to deal with, which have been well documented. Unless someone, either of you, can correct me, I don't believe Canada has been successful in stopping even one ship from bringing in goods made by the hands of those working against their will.

I suppose my confidence level in the pension funds' ability to ensure they're not indirectly supporting any company that may be associated with this is not high. Certainly that's been underlined by the limited information you can provide, Mr. Payette, which I do appreciate.

If you have anything to add, Mr. Payette, just on this area, I'd be happy to provide you my last 15 seconds to do so.

Dr. Alex Payette: Again, from our perspective, the onus should be on Canadian companies to work with regulators to engage in really extensive due diligence. If it hasn't been conducted, there should be some form of penalty for people who invest directly or indirectly in these index funds, FOFs or anything that's traded or from Chinese issuers. There should be more work done, at least more co-operative work, including by regulators and Canadian companies.

Ms. Raquel Dancho: Thank you very much to both of you.

The Chair: Thank you.

Now we'll go to Mr. Oliphant for five minutes or less.

Hon. Robert Oliphant: Thank you, Mr. Chair. I want to thank both of the witnesses.

I want to dig a bit into the best approaches to handle an issue that I think all of us around this table agree on. We are concerned that Canadian businesses, Canadian investment companies and Canadian pension funds are investing in vehicles that could be against values that Canadians hold dear. I think we agree on that around the table.

What I'm trying to figure out is the best way of doing that. There's a spectrum, from making things criminal, through to punishable, through to disclosable, all the way to permissible. It's a spectrum that I am sorting through.

I introduced Bill C-441 in 2009, a private member's bill—the place where good ideas go to die. This bill would have required pension funds to disclose investments, divestments or business decisions that had environmental, social and governance factors. The theory was that pension fund holders were put at risk if pension funds had investments in things that were bad, such as environmental degradation or labour practices that were wrong. This is especially so with pension funds, because these are long-term investments, and a pension fund member wants to have the capacity, over a long period of time, to know that their investment in a pension fund is going to yield good fruit. A coup is bad. Environmental degradation is bad. Bad labour practices, from which lawsuits are engendered, are bad. Human rights violations are bad.

Tell me a bit about your instinct on that spectrum of everything from criminal indictments for activities all the way through to permissible and “we don't care”.

This is for you, Mr. Payette, because you advise. I generally think risk-aversion is real, and if people have the right knowledge they will do the right thing, but maybe I'm naive.

Dr. Alex Payette: Based on our experience, I can tell you that, even when you provide the information, sometimes it's out of your hands. You can say it, but then the onus of the decision is not on us. Ultimately, the information can be found. You can provide extensive due diligence to certain companies or pension funds, but, again, you can't do anything.

From our perspective, I think the U.S. system is a clear example of how things could be done, that is, working with the regulator to potentially lead to prosecution to a certain degree. Again, you go from one end to the other end of the spectrum. There should be, of course, an in-between, but it should start with extensive due diligence. What can be done and what should be delivered to people holding certain shares in a certain fund? They should be able to know. That is one thing. Now, knowing is not everything. What do you do when you have this information?

Canadian authorities should also potentially have a list similar to the U.S. one regarding companies that should not be held or companies that you should not invest in. I think that could also be a possibility.

• (1930)

Hon. Robert Oliphant: If I could interrupt, is it “should”? On that spectrum, is it “should not” be invested or “cannot” be invested in?

Dr. Alex Payette: When it's directly linked to the PLA apparatus, for example, or places we know have slave labour, forced labour or whatever qualifier you want to put in front of “labour” here, it should be more of a “cannot” invest, because there is clear proof that this is happening on the ground. That's on this end of the spectrum, if this is what you're looking for.

Hon. Robert Oliphant: I have 30 seconds.

Mr. Arès, do you have any comments?

[*Translation*]

Dr. Mathieu Arès: Keep in mind that the way it works now with many investments, especially in the manufacturing sector, is that contracts or licences are used, or a networked economy is established. For example, how many shoe manufacturing plants does a company like Nike have? None. It uses subcontractors, which are the ones not adhering to labour conditions, health and safety rules for workers, and environmental standards.

There are ways for companies to avoid investing directly in these types of countries but to do business there, and when problems are flagged, the suppliers get the blame. In Canada, think of Joe Fresh. It does exactly the same thing. Makers of cheap goods are operating that way more and more.

The government could decide to punish the companies here, but ultimately, they aren't the ones making the goods. They deal more with designing and importing the goods, so it's pretty tough to say how those companies should be punished.

I agree with my fellow witness's suggestion to prohibit investment in certain sectors. I think that could be achieved through framework legislation. An example here, in Canada, is the Caisse de dépôt et placement du Québec, which was ordered to divest from the fossil fuel sector. That's not easy, given that 30% of Canada's economy is energy-based. These are companies listed on the Toronto Stock Exchange. How do you do that? If you sell off everything, it could cause the market to crash. You are also stuck with your old investments. What do you do? Do you sell them all off?

All of those business considerations come into play. Obviously, it's important to do things on a case-by-case basis, or at least to have broad enough measures to allow for sanctions, but it will be pretty difficult to implement, beyond the talk.

[*English*]

Hon. Robert Oliphant: I'm sorry, Mr. Chair. Next time, I'll give back a minute.

The Chair: Oh, that's okay. We have lots of time. We'll get through the better part of three rounds tonight. There are lots of good questions coming up, and yes, we're giving extra time for the responses because they have been illuminating.

We'll just pause for a second to welcome Mr. Fast and Ms. Sidhu, who are now substituting for some substitutes. These are interesting times here.

Anyway, we will go now to Mr. Trudel for two and half minutes.

[*Translation*]

Mr. Denis Trudel: Thank you, Mr. Chair.

This is really a fascinating discussion.

At the end of the day, there's no way to do these kinds of checks and there's no transparency around our public or private investments in China. No matter who invests in China, there is no way to know what's really going on.

I have a question, and it may seem naive. Why do public and private funds continue to invest in China? Is it lucrative?

Dr. Mathieu Arès: It's very lucrative.

China is a market with 1.4 billion consumers and now a middle class, despite the current economic challenges. It's a fast-growing country, so it needs a lot in the way of basic materials, and Canada is a major supplier of those materials.

The Chinese market is attractive to investors. A number of observers, however, are noting a slowdown in China's growth for two reasons. First, China has a rapidly aging population. This week, we learned that India would soon surpass China as the most populous country. Second, China is caught in what's called the middle income trap. It is too expensive for low-skill sectors but isn't technologically advanced enough to compete with high-tech sectors in the west. As a result, we could see the relocation—an exodus even—of low-skill manufacturers to countries such as Vietnam and Indonesia, where really cheap labour is still plentiful. If that were to happen, China might lose some of its allure, but in the short term, its huge market still holds tremendous opportunity. That's why companies continue to do business there.

• (1935)

Mr. Denis Trudel: Mr. Payette, did you have anything to add?

Dr. Alex Payette: As Mr. Arès pointed out, everything that's been said leads to one overarching conclusion: you can't not do business with the second-largest economy in the world. I realize that values are an important consideration for the committee, and understandably so. Again, though, you can't avoid engaging with the Chinese economy.

Let's look at the ESG factors. Today, although listed Chinese companies are still way behind when it comes to ESG factors, even in the public sector, things are advancing slowly. Today, when the conversation focuses on ESG factors, such as the use of water, electricity and coal, you can't disregard China. You can't talk about ESG matters without talking about China.

The best way to go to avoid any risk is to not do business with China. That is true for most authoritarian regimes. If you don't want

to take any risks, especially from a values standpoint, you can't do business in those places. That's important to understand.

On the flip side, the market still holds a lot of profit potential, albeit artificial at times. You have to be very careful not to look at China as a gold mine. You have to be very careful about how and where you invest.

Mr. Denis Trudel: You just said something I'm not sure I understood. You said that the profit potential is sometimes artificial. What do you mean by that?

Dr. Alex Payette: You have to know how to interpret growth in China. You need access, like us, to debt reports for local governments. You have to understand that China's economy still relies on steel and cement. The country is always launching major Keynesian projects to stimulate growth. Yes, it has a manufacturing industry, but it's important to understand how China's economy is structured. If you take away steel and cement, when certain sectors slow down, everything slows down at the same time—keep in mind the real estate sector, as was mentioned earlier. The country reinvests to recreate economic growth. Eventually, that generates artificial value.

[*English*]

The Chair: We should move on now.

Thank you, Mr. Trudel. You took the extra minute that Mr. Oliphant was going to give me, but that's okay. It's all good.

Ms. McPherson, it's over to you for two and a half minutes or more.

Ms. Heather McPherson: Thank you very much, Mr. Chair. I hope I can stay in my time frame and not bankrupt your minutes further.

I think one thing I am getting from the testimony is that there needs to be a balance. We need to have a balance in how we deal with investment with regard to China. There is obviously an important role for investment with regard to research and how we exclude China from trade. How do we exclude China when we are talking about things like climate change? We all, at this table, know there is a need.

My first question, which I'll ask of you, Mr. Payette, is whether it is even possible to do business in China using ESG principles. Is that even a possibility?

Dr. Alex Payette: With certain listed Chinese companies, yes, you can. Some have very extensive disclosure. Some even have, I would say, compartmentalized disclosure regarding certain manufacturers.

Some companies in China have really top-notch disclosure. Again, I think this is partly due to being listed in the U.S., because it's really constraining now to be listed. You need to disclose much more. That should be an example we should draw on regarding what Canada could do eventually to force more disclosures. Some companies, yes, have really top-notch disclosures.

For some of them, you really need to put in the extra effort to find things. I'm going to circle back to water consumption because this is one of the key elements. We always try to find water consumption. It's really complicated sometimes. Some companies are really lagging behind, but when you know what to look for and when you know where to find it, you can find it.

Again, it's a matter of larger companies versus much smaller companies. It's really going to depend on that, ultimately.

• (1940)

Ms. Heather McPherson: Thank you.

Mr. Arès, would you like to add to that?

Please go ahead.

[Translation]

Dr. Mathieu Arès: It's important to understand where Canadian companies invest and where their strengths lie. Basically, they invest in finance and distribution. With a few exceptions, they don't really invest in manufacturing, where most of the labour and environmental issues occur.

Starting an insurance company doesn't cause a lot of pollution. Generally, an insurance company does not mistreat children. Structuring foreign investment is one of our strengths. We are very active in service and distribution sectors, where the risk of violations is lower. From that standpoint, we are somewhat protected from the issues that arise in manufacturing, where we have less of a presence.

I'm not saying there aren't any problems, but overall, if you look at our main sectors of investment, you see that we have a much larger presence in sectors where socially conscious policies and respect for labour conditions are possible. The simple reason is that those are the sectors where we excel.

[English]

The Chair: We'll now move to Mr. Chong for five minutes or less.

Hon. Michael Chong: Thank you, Mr. Chair.

I'd like to follow up with Professor Payette.

Can you tell us if the bans implemented by the Trump and Biden administrations on U.S. investors investing in some 60 PRC-based companies applies to both direct and indirect investments, such as through index funds and the like?

Dr. Alex Payette: I think it should apply. I think it does apply to both direct and indirect, yes. It's also a matter of whether you can disaggregate the fund to find it. I think that's the additional difficulty sometimes.

Hon. Michael Chong: If the Government of Canada is going to ban Canadian investors from investing in companies in the PRC

that are linked to gross human rights violations, then it seems to me those bans on investment should apply both directly and indirectly, whether it's directly through the purchase of publicly traded securities or indirectly through index funds or other funds that have purchased these publicly traded securities. Do you agree with that theoretical approach?

Dr. Alex Payette: Yes, we agree with this theoretical approach.

Hon. Michael Chong: Can you tell us if there has been any discussion around this in Canada?

We are often seen, as a country, as leaders on human rights around the world. Parliament here recognized a genocide taking place against the Uyghur Muslim minority in Xinjiang. The Government of Canada itself has spoken up in respect of human rights abuses that have been taking place in authoritarian states like the PRC.

However, then we get reports from time to time that public pension funds, such as the CPPIB, the Caisse de dépôt et placement du Québec, provincial pension funds, quasi-governmental pension funds like the Ontario Teachers' Pension Plan, and other pension funds tied to public employment, are also investing indirectly through index funds in these PRC-based companies committing human rights violations.

Is there any discussion taking place that's saying this should not be happening and we should be putting an end to it? It doesn't seem to me that there's a lot of discussion about it.

• (1945)

Dr. Alex Payette: No, there's no substantial discussion on this, and we believe that even if this were to happen, maybe not much would come out of it, because—to complete the previous point—most of the firms you're talking about are usually not listed. Generally speaking, they won't be indexed; some of them are too small. Even the Chinese index funds wouldn't pick them up because they're too obscure. Some of them are usually considered “too red” to be put in index funds, if you understand what I mean.

Hon. Michael Chong: Yes, I understand, but then we're talking about direct private equity investment, in which case the public pension funds here in Canada obviously are directly accountable. They can't explain it away by saying that these are indirect investments and that they bought a certain number of MSCI index funds but don't participate in the due diligence in the decisions as to what makes up the index or hedge funds. If they're placing private equity directly, they're directly responsible for that purchase of private equity.

It seems to me to be jarring. All I've heard from Bay Street and Wall Street over the last several years is ESG. Then I read these reports that Canadian and American investors have been snapping up private equity or publicly traded securities in firms that are associated with gross human rights violations. To me, it seems like a very discordant discussion we're having on investment in North America as it relates to human rights and environmental, social and governance issues.

The Chair: Thank you, Mr. Chong. I'm sure there will be a recommendation coming out of that in due course.

We'll now turn to Mr. McKay for five minutes or less.

Hon. John McKay (Scarborough—Guildwood, Lib.): To carry on the discordant conversation, Mr. Chair, you and a few of us on this committee just returned from Taiwan. May I first of all say that the work of this committee is very worthwhile. We witnessed and were privileged to present your report to the President of Taiwan. She was quite touched by the work of this committee.

I know sometimes you labour in obscurity on a Monday evening between 6:30 and 9:30 in the basement of an old, musty building, but it was appreciated half a world away.

One of the interesting comments she made was that Taiwan is drawing its investments down from mainland China. She had facts and figures to back it up. It's significant. Of course, Taiwan's relationship with China is far closer and far more significant than ours is, but it struck me that Taiwan had the guts to start to pull itself out of China, whereas Canada continues to dance around the maple wondering whether it should or it shouldn't, and wraps itself up in ESG concerns.

The first question I have of you is this: Given the geopolitical concerns, would either one of you put an investment into China or recommend to one of your investment entities that they put a fresh investment into China, given the geopolitical tensions there?

Go ahead, Professor Arès.

[*Translation*]

Dr. Mathieu Arès: If it were my money, I wouldn't choose China. You can find the same thing somewhere else. If you want to sell to the Chinese, however, that's another story. If it's just production, I think numerous options are available. Vietnam, India and a lot of other countries in the region come to mind. Closer to home, Mexico is a possibility. They are similar countries, but the risk of political interference is lower.

• (1950)

[*English*]

Hon. John McKay: I'll ask a question about Mexico in a second.

Professor Payette, what's your attitude towards investments in China? Would you risk it?

Dr. Alex Payette: It really depends on what you would ask me to invest in.

Hon. John McKay: It's any investment whatsoever—anything.

Dr. Alex Payette: Yes, sure.

Hon. John McKay: Would you? Would you recommend to a pension fund that it invest in China?

Dr. Alex Payette: It's really on a case-by-case basis. Just in general, if the due diligence is done and the documents are clear, yes.

Hon. John McKay: You're not fussed about the geopolitical tension. You're not fussed by the fact that the Chinese government kidnaps our citizens and runs police intimidation operations here. The rules of law have kind of an occasional application. Are you not worried about any of that when you make your investment in China?

Dr. Alex Payette: It's not about this, though I do understand your point. If you asked me if I would invest in China, it's yes, but it really depends on what the targeted investment is. It wouldn't be just random.

Hon. John McKay: Why does it depend on anything? China is well on its way to taking itself out of the realm of civilized nations. Any investment you make, no matter how benign, is a risk investment. I'm just curious. You're likely going to make an investment that makes you scads of money, but still, is your investment worthwhile if in fact President Xi decides that it's not?

Dr. Alex Payette: It really depends on your appetite for risk at this point. You need to understand that if you invest in something that could be socialized or taken away from you, this is part, to a certain degree, of the investment gain if you are willing to risk it. Then if you lose, you lose. That's just part of it.

Now, for other concerns—

Hon. John McKay: I just wonder whether we've appreciated fully the risk of expropriation directly or indirectly. Once you work your way through all of the ESG concerns and human rights concerns, perhaps we as an investing country don't appreciate the substantial risk of expropriation on the whims of one person.

Dr. Alex Payette: It's more than one person. It's more complicated than that. It's a bit more complex.

Hon. John McKay: Well, we'd like to make it more complex than that; I agree with that. I just wonder whether it is, in fact, more complex than that.

How am I doing on time? Am I done?

The Chair: You're done.

We have a little over five minutes left. What I'm going to propose is that we give Mr. Trudel half of it and Ms. McPherson the other half, and that will wrap up this panel.

Are you good with that, Mr. Trudel?

[*Translation*]

Mr. Denis Trudel: Very good.

You've written books, Mr. Payette. In one, you wrote that, if the Chinese Communist Party failed to provide its population with a steady stream of socio-economic goods, the party-state could face a regime crisis. You say that would directly impact its resilience and even survival. That could affect investments in China, whether they're from the west or somewhere else.

I'm not sure whether you know this, but how would you assess the current state of the Chinese Communist Party?

Dr. Alex Payette: Yes, that's what we monitor day in and day out.

The party is still in a very delicate position. Broadly speaking, you have Xi Jinping and the new division of power, but how things develop within the party is something to pay careful attention to. The current team isn't especially strong. New education campaigns within China suggest that things may not be going as well as we think. The fact that China re-established a farm management office, after its demise in 1960, isn't a good sign in terms of grain control issues. I won't go on about grain, but there's something really significant about that.

The party is sending all kinds of signals in the way it's communicating. Some think it's code, but that's not the case. You have to know how to interpret what the party says. The party can be quite honest at times, so it's simply a matter of changing your interpretive lens. If you know how to interpret the signals correctly, you realize that Xi Jinping's position isn't as solid as you might think. Within the party, a lot of people are still being shuffled around. The people who were chosen to oversee the economy aren't people who should have been chosen, under normal circumstances. They aren't the best people for the job. The official line is that the reforms will continue, but which reforms? That's a whole other question, and it gives rise to considerations on many levels.

Could there be an economic crisis? Potentially, yes.

• (1955)

Mr. Denis Trudel: You're saying that there is instability in China right now and that it may not be smart to invest there.

Dr. Alex Payette: Again, I would say it still depends on the investor's appetite for risk. Investors understand the risk. It's a bit more complicated for pension funds, which have to answer to future pensioners, especially when it comes to long-term planning.

Mr. Denis Trudel: Mr. Arès, do you have anything to add on the stability of the Chinese regime right now?

[English]

The Chair: Please answer briefly, Dr. Arès.

[Translation]

Dr. Mathieu Arès: By targeting Hong Kong and Taiwan, the Chinese regime is mostly showing a sign of weakness. It looks like it wants to find external enemies to justify what's going wrong internally. It closed cities during the COVID-19 pandemic, locking people up for months without any resources. This has created discontent. The middle class is losing its shirt in real estate, there have been problems in agriculture, and unemployment is coming. The Chinese haven't experienced this in a long time, but unemployment is coming back.

I am convinced that the regime is weaker than it appears. It adopts a rhetoric that it is strong and good, but, indeed, it can experience some instability. I don't think the Chinese are really going to invade Taiwan, especially not [*Technical difficulty—Editor*]. However, they will certainly indulge in displays of force.

Mr. Denis Trudel: Thank you.

[English]

The Chair: Thank you very much.

Now we will go to Ms. McPherson for the remainder of our time.

Ms. Heather McPherson: Thank you very much, Mr. Chair, and again, thank you to both of our witnesses.

I have to say that I'm not feeling terribly reassured. The testimony we have received today has certainly opened up more questions for me than answers. I recognize that you have said Canada is naive and is perhaps late to the table. Many countries are.

One thing you said, Mr. Payette, that really struck me was, “if you lose, you lose”—ho-hum. Unfortunately these are investors who are using other people's money, so there are some challenges to that as well.

Could both of you very quickly comment on that? Knowing that is the case, what federal role is there in warning investors and making sure investors understand the risks? What federal role is there in making sure that investors are being held responsible for the particular, perhaps too risky, decisions they make with regard to China?

Mr. Arès, why don't you start us off?

The Chair: I think we've just lost him. Oh, there he is again.

Mr. Arès, do you want to take the question?

[Translation]

Dr. Mathieu Arès: I just heard every other word, so I would ask that you repeat what you said.

[English]

Ms. Heather McPherson: Frankly, I'm not sure I could.

I'll let Mr. Payette answer, and then we can provide some clarity from that answer.

[Translation]

Dr. Alex Payette: I will answer in French.

It's pretty complicated to hedge your bets on this kind of thing. Investment funds sometimes go through third parties. So how can you really know what you're investing in, ultimately? That's one of the critical questions: how do you know, ultimately, if the fund has invested in another fund that has invested in a third party, and so on? There is always a game of subsidiaries that gets complicated. It's something that's very difficult to know.

If it's done directly, it's much easier. In this regard, again, Canada could learn from the Trump experience. I'm not talking about the man here, I'm talking about what he did and what he forced the U.S. to do, which was to develop a list of sectors to watch and companies, including their subsidiaries if they had them, not to invest in. A lot more measures have been put in place. It's not necessarily enough, but it's a very good start in terms of identifying what we don't want. So Canada should already start doing that groundwork to establish what it does or does not want to do.

Next, we need to remember the importance of due diligence. In our experience, many companies make investments, but only come

to us after something has happened to them. They ask us for information and we tell them yes, but it's too late because they've already done something. They need to ask for this information before they act. They could have known not to do what they did, but they should have asked first. I can't tell you the number of companies that got caught for investing in this or that.

• (2000)

[*English*]

The Chair: All right. With that, I think we'll bring the panel to a close.

We appreciate the time, Dr. Payette and Dr. Arès, that you've given us this evening. We appreciate very much your testimony. You're now released to get on with the rest of your evening while we will take a quick break and go in camera. We'll suspend.

[*Proceedings continue in camera*]

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