

CANADA

CHINA

# WHAT NOW?

## STRONG TIES

Canada & China's economic relationship



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“Canada already has a strong economic relationship with China. Even with the USMCA clause, it's poised to grow.”

The new United States-Mexico-Canada Agreement (USMCA), which is destined to replace NAFTA, has generated controversy in Canada over a clause that seems intended to pressure Canada from negotiating a trade agreement with China. While these fears are at first understandable, a closer look at the facts shows the concerns are also largely overstated.

At issue is Article 32.10, “Non-Market Country FTA,” which says that any member of the agreement can pull out if another signatory enters a free trade agreement with a “non-market country” as defined by any member of the USMCA.<sup>1</sup> This has stoked concerns that the U.S. can use this clause to pull out of the deal if Canada enters trade talks with China. But this doesn't mean that Canada can't grow its trade with China. Canada will still be able to engage with China on trade in several different ways. Indeed, other options may even be better anyway.

Trade agreements are only one of the many tools available for increasing trade; others, like diplomacy and government/business engagement, have been used successfully for decades to develop the Canada-China relationship.

As a result, Canada already has a strong economic relationship with China. Even with the USMCA clause, it's poised to grow. That's good news for the West and all of Canada – with or without a Canada-China trade agreement. Ironically, it's the U.S.'s own tariff actions vis à vis China that have spurred more Canada-China trade.

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## FACT 1

### China is already Canada's second-largest trading partner – even without a “free trade” agreement.

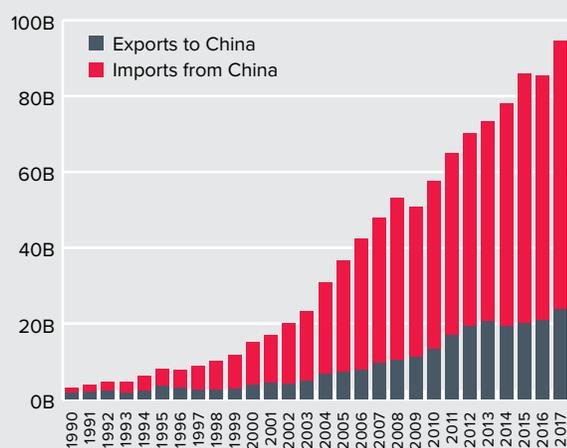
China is very important to Canada's economic prosperity. The sheer volume that Canada and China trade in goods shows why. In the last 10 years alone, our trade with China has almost doubled. In 2017, nearly \$100 billion worth of goods was traded between the two countries – compared to \$48 billion in 2007.<sup>2</sup> The amount traded between the two countries has risen significantly in the last several years, and even in the last few months.

THERE ARE EARLY SIGNS THAT CANADIAN COMPANIES ARE ALREADY HEEDING THE CALL TO FIND NEW CUSTOMERS IN CHINA. FROM APRIL TO AUGUST OF THIS YEAR, THE VALUE OF CANADIAN MERCHANDISE EXPORTS TO CHINA ROSE 23 PER CENT, A SURGE OF NEARLY \$2-BILLION OVER A PERIOD THAT COINCIDES WITH THE PERIOD OF GREATEST TARIFF ESCALATION BETWEEN THE UNITED STATES AND CHINA.

— “Canada ready to shift focus to trade talks with China Trudeau says”  
Globe and Mail, October 15

Economically, the relationship is more important for Canada than for China. But politically, it is helpful for China to have a strong trade relationship with an advanced Western economy that borders the U.S. China is Canada's second-largest export market, and second-largest source of imports (behind the United States for both). Canada is China's 20<sup>th</sup> largest export market, and 19<sup>th</sup> largest source of imports.<sup>3</sup> Part of this difference is because of China's size: China has the world's largest population (1.4 billion) and is the world's largest export market.

Canada-China Trade in Goods (\$CAD)



Trade often refers to goods – but trade in services is also important. In 2016, the total Canadian services exports to China amounted to \$3.1 billion, a more than fourfold increase from 2000. In 2016, China earned \$2.45 billion selling services to Canada, a more than fivefold increase from 2000. China is Canada's third-largest market for services, following the United States and the United Kingdom. Some (but not all) of the important parts of trade in service include:

- **Tourism:** In 2017, a record of 682,000 Chinese tourists visited Canada, up 12 per cent from 2016. China is Canada's third largest source of tourists, behind the United States and the United Kingdom.<sup>4</sup> In 2016, Chinese tourists spent about \$1.5 billion in Canada. This year was declared the Canada-China Year of Tourism to boost this lucrative industry in both countries. The federal government's goal is to double the number of Chinese tourists visiting Canada by 2021.<sup>5</sup>
- **Students:** In 2017, approximately 187,000 Chinese students were studying in Canada, 32 per cent of all foreign students in Canada. The federal government has plans to increase the numbers of Chinese foreign students, who contribute significantly to the \$11.6 billion that foreign student education brings in.<sup>6</sup>
- **Investment:** According to the University of Alberta's China Investment Tracker, China invested a whopping US\$6.5 billion (about C\$8.4 billion) in Canada in 2017 alone, investing heavily in consumer products, entertainment and real estate, and oil, among other sectors.<sup>7</sup>

## FACT 2

### Trade between the countries has grown for decades. When good political decisions are made, it grows even faster.

These political decisions can be bilateral, between Canada and China, or on a global scale.

**Late 1930s:** Canadian Norman Bethune was a doctor for the Communist Party during the Chinese Civil War. While this was not a political decision, Bethune is still highly regarded across China, and this has positively influenced the political relationship between Canada and China.

**1961:** Canada exports wheat to China – nine years before diplomatic relations were established.

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**1970:** Establishment of diplomatic relations with China. Canada was one of the few Western countries to recognize China at that time.

**2001:** China joins the World Trade Organization. This integrated the Chinese economy far more into the global market, and the result was increased global trade.

**2000s:** During the Harper years – when relations between the two countries were widely seen as cold – trade between the two countries grew an astounding 103 per cent.<sup>8</sup>

**2014:** Canada and China signed a Foreign Investment Promotion and Protection Agreement (FIPA), which helps the foreign investor receive the same treatment as the domestic investor.<sup>9</sup> This was very much at the urging of Canadian business owners. According to the China-Canada Investment Tracker, Chinese investment in Canada was up nearly \$500 million in 2015 from 2014, a 17 per cent increase.<sup>10</sup>

Each country has things that the other country needs. Because of supply and demand, trade between the two countries has almost continually risen. For example, China imports a lot of canola, mainly to use as oil and in animal feed; Canada, meanwhile, has the right conditions – and space – to grow canola. In 2017, Canada exported \$3.6 billion worth of canola to China.<sup>11</sup>

## FACT 3

**Trade has grown and can continue to grow substantially even without a free trade agreement.**

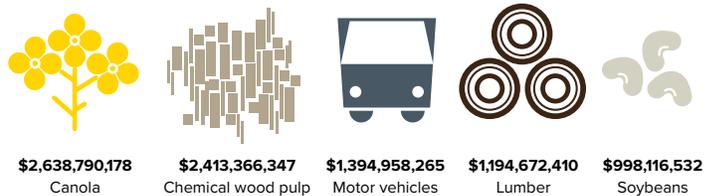
Trade agreements are a good tool to increase trade between two countries – but that does not mean that without them, trade will not grow. Comparing Canada's exports and imports to Mexico and China is a good example. In 1993 (the year before NAFTA came into force) trade between Canada-Mexico and between Canada-China was about the same. Fast-forward to the present, and Canada's trade with China is worth more than *\$50 billion* more than Canada's trade with Mexico. This is likely because China is bigger and has experienced rapid recent growth. Because the economy is so much bigger, our trade relationship has more room to grow. This demonstrates the strength of the attraction of the Chinese market. Canada signs a comprehensive trade agreement with Mexico and trade remained flat; at the same time Canada hadn't signed a trade agreement with China and trade grew – and continues to grow. The economies of China and Mexico are very different, and that's the point – free trade agreements are not the end all, be all of healthy trade relationships.

## FACT 4

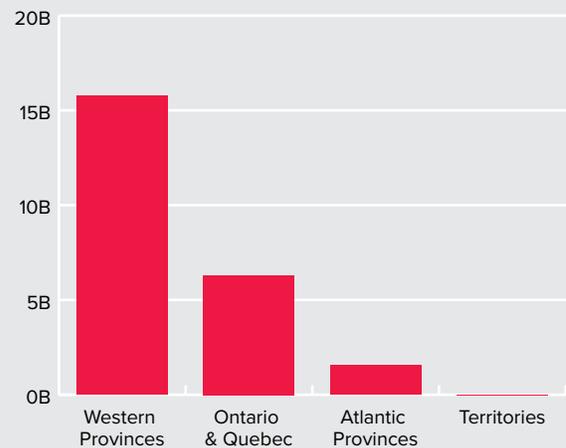
**Many trade opportunities come from Western Canada.**

In Canada, trade with China is especially important for the Western provinces. In 2017, British Columbia, Saskatchewan, and Alberta were the top three exporters to China (\$6.8 billion, \$3.9 billion, and \$3.5 billion respectively). Of the top five items in Canada exported to China, four of them are widely produced in the four Western provinces (motor vehicles are the exception).

### Top 5 Products Exported to China, 2017



### Canadian Exports to China, 2017 (\$CAD)



As long as demand from China continues to grow – as it undeniably will, given its population and the growth of millions becoming more affluent – opportunities for Western Canada will continue to grow, particularly food and natural resources. Canada has an abundance of these products, and China needs them due to fuel its staggering population. For example, China's largest food import is soybeans. Canada's soybean producers have a golden opportunity to help feed this demand. In 2016, China imported more than \$32 billion worth of soybeans.<sup>12</sup>

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In addition to these staples, Canadian businesses can also take advantage of China's diversity and modernization. For example, the Canadian Prairies are poised to take advantage of the emerging plant ingredients industry and could export significant amounts of food ingredients, like pea protein or hemp fibre, to China.<sup>13</sup>



\* The spike in 2013 can partially be explained by Chinese company, China National Offshore Oil Corporation (CNOOC) acquiring Canadian oil company Nexen for more than \$15 billion.<sup>14</sup>

Source: China-Canada Investment Tracker, China Institute, University of Alberta

## FACT 5

### The economic relationship between China and Canada is already good. It could get a lot better.

There are a few ways for the relationship to get even better that do not involve a bilateral, comprehensive trade agreement. It is possible, for example, that China joins the 11-member Pacific Rim trade pact Canada has already signed on to – the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) – before Canada signs the USMCA. It is also possible for Canada to develop sectoral agreements.<sup>15</sup> While sectoral agreements can be very useful, it is important to remember that they can only deal with non-tariff barriers; the WTO does not allow sectoral agreements on tariffs.

Many of the factors noted in this policy brief will continue to influence the economic relationship between Canada and China, with or without a free trade agreement. Several trends – increased imports and exports, increased investment, and increased Canadian government attention – all point towards continued growth of the relationship. The economic relationship between Canada and China is multifaceted and will continue to evolve, with or without a free trade agreement.

<sup>1</sup> The non-market country language is an explicit reference to China, which the U.S. considers to be a non-market economy. United States-Mexico-Canada Agreement, "Chapter 32: Exceptions and General Provisions," 32-11.

<sup>2</sup> All dollar amounts are in CAD unless otherwise noted.

<sup>3</sup> World Integrated Trade Solution, "China | Imports and Exports," <https://wits.worldbank.org/CountryProfile/en/Country/CHN/Year/LTST/TradeFlow/EXPIMP/Partner/by-country>.

<sup>4</sup> Destination Canada, "China," <https://www.destinationcanada.com/en/markets/china>.

<sup>5</sup> "About the Canada-China Year of Tourism," <https://www.ic.gc.ca/eic/site/100.nsf/eng/00001.html>.

<sup>6</sup> Nathan Vanderklippe, "Canada making push to increase number of Chinese tourists, students," The Globe and Mail, November 16, 2017, <https://www.theglobeandmail.com/news/world/canada-making-push-to-increase-number-of-chinese-tourists-students/article37012561/>.

<sup>7</sup> China Institute, "China-Canada Investment Tracker," University of Alberta, [https://chinainstitute.ualberta.ca/tracker\\_premium](https://chinainstitute.ualberta.ca/tracker_premium)

<sup>8</sup> Canadian International Merchandise Trade Database, <http://www5.statcan.gc.ca/cimt-cicm/home-accueil?lang=eng>.

<sup>9</sup> "Foreign Investment Promotion and Protection," Government of Canada, <https://canadabusiness.ca/programs/foreign-investment-promotion-and-protection-1/>.

<sup>10</sup> China Institute, "China-Canada Investment Tracker," University of Alberta, [https://chinainstitute.ualberta.ca/tracker\\_premium](https://chinainstitute.ualberta.ca/tracker_premium).

<sup>11</sup> Canola Council of Canada, "China," <https://www.canolacouncil.org/markets-stats/markets/china/>.

<sup>12</sup> OEC, "Where does China import Soybeans from? (2016)," [https://atlas.media.mit.edu/en/visualize/tree\\_map/hs92/import/chn/show/1201/2016/](https://atlas.media.mit.edu/en/visualize/tree_map/hs92/import/chn/show/1201/2016/).

<sup>13</sup> Carlo Dade, Naomi Christensen, and Sarah Pittman, Sprouted: The Plant Ingredient Opportunity Taking Root on the Prairies, Canada West Foundation, December 2017, 7.

<sup>14</sup> Bertrand Marotte, "China's CNOOC clears final hurdle for \$15.1-billion Nexen takeover," The Globe and Mail, February 21, 2013, <https://www.theglobeandmail.com/report-on-business/industry-news/energy-and-resources/chinas-cnooc-clears-final-hurdle-for-151-billion-nexen-takeover/article8481757/>.

<sup>15</sup> Chuck Chiang, "Canada should turn to sector-specific deals with China in light of USMCA, report says," Business in Vancouver, October 11, 2018, <https://biv.com/article/2018/10/canada-should-turn-sector-specific-deals-china-light-usmca-report-says>.

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Canada West Foundation  
ISBN 978-1-989323-03-8

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