

Intelligence MEMOS



From: John Curtis
To: Prime Minister Trudeau
Date: September 21, 2016
Re: **MR. LI RETURNS THE VISIT**

With a three-day working visit in Ottawa and Montreal this week, Chinese Premier Li Keqiang is returning the visit you recently made to China.

Deeper engagement between Canada and China is inevitable. China's standard of living is still rising at a much faster clip than that of Western economies, and Canada and China share an abiding interest in many important issues, whether energy and the environment, the well-being of the middle class and those who aspire to it, the future of the Arctic, and others.

From the Chinese perspective, Canada is a stable, well-governed country, a source of raw materials, with a long history of relations with China and, most importantly, which sits right next to the United States.

Canada, meanwhile, under your leadership, is once again extolling internationalism and a clear desire to re-engage with China, following a period of cautiousness and uncertainty about the nature and desired depth of the bilateral relationship.

The roots of this caution and uncertainty, it should be said, remain. Many Canadians are wary of China's government, seen as less inclined than some of its predecessors to tolerate freedom of expression and more aggressive in foreign policy terms, as it seeks to occupy what it sees as its rightful place in the world.

The large Canadian trade deficit with China is symbolic of China's tremendous competitive success, since market-oriented reforms began there some 35 years ago, but also of some of its problems in lifting domestic incomes. Many Canadians feel wary about that aspect of the relationship also.

China has recently sought to address the costs that accompanied its economic success, such as environmental degradation, corruption and unequal income distribution, and even human rights. Your offer of Canadian cooperation to help the Chinese government address these serious problems can very much help cement political trust between the two countries.

China is taking cautious, deliberate steps to internationalize itself, especially its financial instruments and its firms as it adapts to the "new normal" of lower export- and investment-driven growth. It will make mistakes. There too, encouraging an increasingly rules-based economic engagement with China will help both Chinese and Canadians.

Thus, your instinct to build bridges, and strengthen cooperation with China at a number of levels, is correct.

Exploratory work towards a bilateral trade agreement, announced by both your governments, should focus on the unbalanced trading situation and non-reciprocal foreign direct investment rules and practices, and on the sometimes uneven competitive playing field in China. These issues affect technology-intensive manufacturing and services sectors where Canadians have much to offer, but often operate at a disadvantage against domestic firms including large, state-owned enterprises that are not necessarily commercially-driven.

How the rest of the world cooperates with, and deals with, China is one of the major challenges of the first half of the 21st century. The visit of Mr. Li, a pragmatic economist, to Canada, is an opportunity for Canada and China to further build trust and to start finding fresh ways to address issues of bilateral and global importance.

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