

Intelligence MEMOS



From: Daniel Schwanen
To: François-Philippe Champagne, Minister of International Trade
Date: December 4, 2017
Re: **CHINA OPPORTUNITIES ARE WHAT CANADA WILL MAKE OF THEM**

Your visit to China with the Prime Minister, underlines that now is a particularly opportune time to launch trade negotiations with China. Chinese wages and standards of living continue to rise fast, while it continues to open up its economy to the rest of the world.

China currently has trade agreements in effect, being negotiated, or formally under study with more than 40 countries. It has implemented comprehensive agreements with Switzerland and Australia, two advanced economies comparable in sophistication to Canada's. These two examples show that a trade deal with China can be much more than about natural resources. Indeed, a Canada-China agreement should include more open access for Canadian providers of services and technologically sophisticated products.

At the same time, domestic challenges abound for the Chinese government: clean energy, an aging population, housing, modernizing the transportation infrastructure, as well as the continued fight against corruption. In this context, trade negotiations offer not only an opportunity for Canadian and Chinese businesses to access each other's domestic markets, but to work together to solve common problems, and compete together in global markets.

Canadians need to be clear regarding Canada's core interests in such negotiations. Three of these stand out.

The first is that Canada should obtain "most-favoured-nation" treatment from China for as many economic sectors or activities as possible. Canada, attractive to China notably due to its proximity to and affinity with the United States, should not accept a deal that gives its nationals less favourable treatment than that granted nationals of other sovereign countries, including the United States. It should claim a more extensive MFN coverage on services, for example, than that currently granted by China to the Swiss or Australians.

Second, Canada and China should focus on fair, transparent and predictable market access and rules of competition, including competition from state-owned enterprises and in industries where the state prevents adjustment to excess production capacity. This rubric would include a discussion of local content requirements, intellectual property protection, and transparency in regulatory and standard-setting processes. Canadian producers should be able to enjoy rules of origin applying to bilateral Canada-China trade that recognize that Canadian production typically involves inputs from the US.

Only once these questions of fair competition and balance are addressed, should Canada finally grant China market economy status, as Australia, Switzerland and others have done, which would enhance certainty for Chinese importers into the Canadian market.

Third, but certainly not least, are Canada's vital interests in security and personal liberties for Canadians. Beyond enhanced dialogue and their recent agreement addressing economic espionage, Canada and China should enhance their practical cooperation by finding models of cooperation that can support enhanced bilateral trade, investments and mobility of business travelers, while respecting Canadians' security, privacy, and other concerns.

In this regard, as well as to pave the way to easier trade, Canada should update its antiquated foreign investment review processes to focus more transparently on questions of national security and of fair competition in the Canadian market, in contrast with often ad hoc past conditions on foreign investment.

In short, stronger business links with China are bound to benefit Canadians, if Canada is able to obtain treatment for Canadian nationals in China that is no worse than that it offers nationals of other countries, transparently level the competitive playing field as precondition for greater economic openness, and improve its toolbox for practically addressing non-economic issues that will arise from time to time in the context of a more open trade and investment relationship with the world's second-largest economic power.

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