



Between the Eagle and the Dragon: Managing Canada-China Relations in a Shifting Geopolitical Reality

Expert Group on Canada-US Relations
August 2025



CANADIAN GLOBAL AFFAIRS INSTITUTE
INSTITUT CANADIEN DES AFFAIRES MONDIALES



Canada-China Relations

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This paper aims to stimulate discussion on key issues related to Canadian foreign policy. The opinions in this paper solely represent the views of the signatories. They do not necessarily reflect the views of other members of the Expert Group on Canada-US Relations or the organizations of which both the authors and other members of the Expert Group are members.

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Executive Summary

While it is not designed to cover all of the complexities of Canada's evolving relationship with China, this discussion paper examines some of the far-reaching implications for Canada of the United States' continuing trade and security issues with China. In an era in which economic relations and national security are deeply intertwined—particularly when China is involved—we take an integrated approach, analyzing not only market access and commercial outcomes but also the broader strategic, technological, and security dimensions of this evolving bilateral relationship. As the U.S.-China rivalry intensifies, Canada must define a pragmatic path that safeguards national interests while balancing economic opportunity and security through a flexible, interest-based approach to engagement with China that distinguishes between those areas where we share common interests and those where they diverge fundamentally.

Recent high-level engagements—such as the telephone call between Prime Minister Mark Carney and Premier Li Qiang, and Foreign Minister Anita Anand's meeting with her Chinese counterpart, Wang Yi—reflect this evolving stance. They represent an important start, but the process will be both complex and potentially lengthy, given the need to reconcile the objectives of both countries.

To guide the development of relations, Canada should pursue the following actions over the next six months:

- **The government requires a review and a new statement of its foreign policy and national security priorities. In the case of China, it is time for a clear articulation of a new approach anchored in the realities of a world that has fundamentally changed with the arrival of the second Trump administration.**
- **Rather than solely reflexively adopting the US tariff playbook, Canada should propose a more strategic complement, such as a trilateral monitoring and verification mechanism across all three North American markets, similar to that of the European Union to track and deter Chinese dumping, but also to monitor surreptitious transshipment diversions via Canada and Mexico to the US.**
- **In concert with other countries that remain committed to the rule of law, Canada should redouble its efforts to reinforce the rules-based trading system. It should collaborate with like-minded countries in organizing a meeting(s) to explore concrete ways to preserve the rules-based trading system and prevent the further erosion of key WTO norms and provisions.**
- **Provide greater clarity, foresight, and sectoral differentiation as part of a comprehensive economic security framework for Canada's foreign investment that includes but is not limited to China.**

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- **Canada must send an unequivocal message to Beijing that any attempt to intimidate Chinese Canadians or silence dissent through threats, harassment, or coercion will be met with the full force of Canadian law and international condemnation.**
- **Given China's growing capabilities and assertiveness, Canada's defence and cyber cooperation with the US and Europe has become even more critical, underscoring the need to further strengthen alliance partnerships, especially with key countries in the region, such as Japan, South Korea, Indonesia, the Philippines, and Australia and New Zealand who are both members of the Five Eyes.**
- **Canada must adopt a zero-tolerance approach to the theft of intellectual property and the infiltration of its research and educational institutions by Chinese state interests.**
- **Prime Minister Mark Carney should pursue a bilateral meeting with President Xi Jinping on the margins of the upcoming APEC Summit in South Korea (October 31–November 1, 2025).**
- **Convene a Strategic Economic Roundtable with EU and CPTPP Partners to coordinate trade rules, agree on measures to counter economic coercion, and reinforce fair market practices.**

Given the volatile nature of relations between the US and China—particularly under President Donald Trump's protectionist agenda—Canada must preserve its ability to make policy decisions based on its own interests and values. Automatic alignment with Washington without consideration of Canada's specific interests would erode Canadian autonomy. It would be quite costly if Canada were to simply apply the same tariff wall against China as the US without consideration of Canada's specific needs.

However, Canada's most important security and commercial relationship will continue to be with the United States; coordination with our neighbour makes sense where we have common interests. Additionally, Ottawa must define its red lines and apply a consistent, interest-based framework that protects key sectors, including energy, steel, aluminum, lumber, critical minerals, and agriculture.

Canada's relationship with China must be defined not by past illusions but by present realities. China is not liberalizing, and engagement will not change that fact. However, complete disengagement is neither possible nor desirable. Selective engagement offers a pragmatic path forward: one that defends core interests, leverages economic opportunities, and preserves Canada's sovereignty in an era of intensifying great-power rivalry.

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Report on Canada-China Relations

This discussion paper examines the consequences of the Trump administration's escalating trade and tariff measures for Canada's relationship with China, focusing on how trade conflicts are shaping Canada's economic options and vulnerabilities. Because issues of economics and security are increasingly inseparable in contemporary relations with China, the report also explores the wider security dimensions of this evolving relationship. Today, decisions about trade, investment, and supply chains often carry significant national security and strategic implications. Accordingly, while it is not intended to cover all of the complexities of the bilateral relationship, the analysis situates Canada's economic engagement with China within the broader context of shifting great-power dynamics and the complex interplay of economic and security interests.

For decades, Canadian policy toward China was guided by the belief that economic engagement would gradually foster political liberalization. This idea, rooted in the broader theory of convergence, posits that as nations trade and interact, shared prosperity and exposure to international norms will inevitably erode authoritarian systems and lead to democratic change, a view that was widely shared by American and other Western policymakers.¹

Despite these hopes, the anticipated transformation never materialized. As Canada and other Western countries expanded trade, facilitated educational exchanges, and even provided technical training to Chinese officials, the Chinese Communist Party only strengthened its grip on power, intensified state surveillance, and promoted its own model of authoritarian capitalism. The expectation that engagement would inevitably lead China to adopt liberal democratic values has been decisively disproven.

This realization has prompted a reckoning in Canadian foreign policy, underscoring the need for a new strategy that is pragmatic, anchored in Canadian interests and values, and based on the principles of *selective engagement*.

Selective Engagement

Selective engagement is a foreign policy approach that acknowledges the significant economic and strategic weight of a country like China, which makes complete disengagement neither practical nor desirable. Instead, this strategy is based on cautious and pragmatic interaction, deliberately focusing on areas where there is clear alignment of interests, such as climate change, global health, nuclear non-proliferation, or trade in specific sectors.

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At its core, selective engagement:

- **Targets cooperation** only in those areas where mutual benefits are evident and achievable.
- **Sets explicit boundaries** to the depth and scope of engagement, ensuring that collaboration does not extend into areas where fundamental values or interests sharply diverge.
- **Recognizes and manages deep-rooted conflicts**, accepting that some disagreements, such as those related to human rights, security, or governance, are persistent and require careful, ongoing management rather than the expectation of resolution.
- **Maintains flexibility and vigilance**, allowing for recalibration of engagement as circumstances evolve, as new risks and opportunities emerge.

Through selective engagement, policymakers aim to strike a balance between national interests and global stability, while minimizing exposure to unacceptable risks and protecting core values. This approach is particularly relevant in relationships with major powers like China, where interdependence is unavoidable but profound differences exist. We need to avoid a form of diplomatic myopia that assumes that our interlocutors share our priorities. We can only succeed if we understand clearly where our interests conflict, as well as where there are opportunities for mutual benefit.

The recent initiatives undertaken by Prime Minister Mark Carney and his Cabinet to pursue a more pragmatic approach to relations with China are exemplified by the bilateral meeting between Foreign Minister Anita Anand and Chinese Foreign Minister Wang Yi, held on July 11, 2025, on the margins of the 32nd ASEAN Regional Forum in Kuala Lumpur, as well as the earlier telephone conversation between Prime Minister Carney and Chinese Premier Li Qiang. These high-level engagements focused on exploring ways to recalibrate Canada–China relations through increased dialogue and cooperation.

These initiatives by the federal government are also consistent with calls by some provincial premiers at the July 2025 Council of the Federation meeting for an improved relationship with China. The following principles of selective engagement not only align closely with the current government's evolving strategy for managing and strengthening Sino-Canadian relations but also aim to build upon and enhance that approach. While the Chinese leadership should not harbour any illusions that Canada will operate outside of US and other Western foreign policy influence, the Trump era tough line on Canada will have alerted Beijing to opportunities to obtain better access to Canadian resources, and

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perhaps fewer restrictions in terms of investment and market access for their own goods. Canada is not unique in recognizing the need to diversify its commercial relationships as the United States increasingly restricts access to its markets.

Five Key Principles of Selective Engagement

1. Safeguard Strategic Autonomy in Relations with China

Canada must preserve its ability to pursue an independent and clearly defined strategy and set of policies toward China. Canada should explicitly delineate its non-negotiable interests or "red lines" while promoting trade in sectors where it enjoys a globally competitive advantage, such as agriculture and energy. These sectors must remain insulated from broader geopolitical disruptions, including negotiations with the United States, as their stability is vital for Canada's economy and international reputation as a reliable supplier. At the same time, China must recognize that Canada primarily exports bulk commodities, which are heavily traded on global markets and for which alternative buyers are potentially available. Parenthetically, this is very different from our auto exports to the US, for which no alternative market exists. If China wants to continue using trade as a weapon, Canada will have no choice but to diversify away from China, rather than towards it.

2. Maintain an Interest-Based Approach, Distinct from US Policy

Canadian alignment with US policy on China should not be assumed or taken for granted. Instead, Canada should adopt an approach rooted in its own national interests, aligning with US positions where they serve Canadian objectives but standing our ground when they do not. This stance preserves Canadian autonomy and reduces the likelihood that the country will be either drawn into or leveraged as a proxy in the broader US-China geostrategic competition. Just as the United States designs its China policy based on what serves its interests, Canada should engage independently with China to advance its own priorities and work collectively with others, including the US, when its interests are aligned.

3. Exercise Caution and Selectivity When Leveraging Canada's Relationship with China

While the actions of the Trump administration may tempt Canadian policymakers to use China as a strategic "card" in negotiations with the United States—such as by signaling a willingness to divert markets or adjust tariffs—we recommend caution, particularly on issues of national and international security that affect our relationship with the U.S. For example, while the possibility of opening Canadian markets to Chinese automotive imports could influence US behavior, any threat to do so risks significant backlash in

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Washington. Such measures should only be considered under extraordinary circumstances and as a last resort. Instead, Canada should stress that closing the US market to other nations works directly against American self-interest by forcing its trading partners to seek alternative trading relationships.

4. Promote Trilateral and Multilateral Economic Cooperation

Canada should actively champion the development and implementation of trilateral mechanisms with the United States and Mexico, aimed at monitoring and countering unfair trading practices, such as dumping, by external actors, including China. Drawing on similar EU actions, these frameworks can be adapted to North American realities. Additionally, Canada should lead efforts to strengthen economic coalitions, particularly between the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the European Union, creating a robust common front to promote fair trade rules, high regulatory standards, and effective remedies against market distortions. These collaborative measures by countries that still support the rule of law in international trade are more important than ever, given the Trump administration's resort to unilateralism and its increasing use of tariffs as a political tool.

5. Enhance Strategic Communication and Public Engagement

Canada must implement a more sophisticated, transparent, and fact-based public communications strategy regarding its relations with China and related trade decisions. This approach is necessary to counteract misconceptions and external interference, most notably from Beijing, that can disrupt policy coherence. The government should foster informed public discourse and support for Canada's policies by clearly explaining the strategic rationale behind Canada's sectoral priorities, including for emerging sectors such as critical minerals. However, given the deep damage to China's public and media image in Canada over the past decade, building mutual confidence will have to be a gradual process.

Collectively, these five principles will help position Canada as a sovereign actor capable of pragmatic engagement with China, while safeguarding vital domestic interests and reinforcing its position in an evolving global order.

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Historical Background

Canada's relationship with China has undergone significant shifts since Prime Minister Pierre Trudeau's government established diplomatic relations with the People's Republic of China in 1970, setting a precedent for an independent foreign policy and pragmatic engagement.² This early approach prioritized dialogue, economic opportunity, and quiet diplomacy, often sidestepping contentious issues like human rights in favour of building long-term ties. The Mulroney era intensified economic engagement, focusing on trade and institutional exchanges while deliberately minimizing public attention on political differences. However, the 1989 Tiananmen Square crackdown marked a turning point, as Canada joined international condemnation while continuing to seek areas for cooperation behind the scenes.

The 1990s and early 2000s saw Prime Minister Jean Chrétien championing economic engagement with China, leading high-profile trade missions and emphasizing the importance of commercial diplomacy. Chrétien's approach was marked by optimism that deepening economic ties would foster mutual benefit, even as political differences persisted. Despite these efforts, the anticipated political liberalization in China did not materialize, and the Chinese government continued to consolidate power and promote its model of state capitalism.

Relations faced new challenges in the 21st century, particularly during the first Trump administration, which saw escalating U.S.-China tensions and forced Canada to navigate complex geopolitical pressures.

Finding a pragmatically sustainable balance in approach eluded the governments of both Prime Minister Stephen Harper and Prime Minister Justin Trudeau, beyond the tightening of foreign investment criteria to protect national security. If the Harper government was initially too reluctant to engage with China because of concerns about Communism and Taiwan, the Trudeau government assumed that engagement would enable it to impose social justice requirements on a closer economic relationship. The Chinese government explicitly rejected those conditions. As a result of that rejection, of aggressive Chinese actions towards Canada and the Canadian response, relations cooled.

The arrest of Huawei executive Meng Wanzhou in Vancouver at the request of US authorities in 2018 triggered a diplomatic crisis. China jailed two Canadian citizens—Michael Kovrig and Michael Spavor—in apparent retaliation. This example of hostage diplomacy underscored the risks and limits of engagement, prompting Canada to reassess its overall policy toward China.

As of August 2025, trade between China and Canada has been subject to steep, retaliatory tariffs, as well as other non-tariff barriers, following the escalation of trade

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disputes since late 2024. Canada has imposed a 100% tariff on Chinese electric vehicles and a 25% tariff on Chinese steel and aluminum, measures that apply to all imports regardless of transit origin. In response, China imposed a 100% tariff on Canadian canola oil, oilcake, and pea imports, a 25% tariff on Canadian pork, fish, and seafood and, most recently, a 75.8% tariff on canola seed. These tariffs have disrupted bilateral trade, reducing Canadian agricultural and food exports, as well as Chinese sales of vehicles and metal products. Both governments have introduced financial support for their affected industries, and the trade environment is tense. The ongoing conflict underscores significant and ongoing volatility in one of Canada's most important trading relationships.³ It also highlights Beijing's willingness to contrive excuses for blocking Canadian products as a means of influencing our government's policies in unrelated areas.

Notwithstanding these serious tensions, the recent surge in Chinese purchases of Canadian crude oil highlights a significant economic opportunity for Canada. The expanded Trans Mountain Pipeline has made Canadian crude, known for its cost-effectiveness and suitability for advanced refineries, even more attractive to China and other East Asian markets, particularly in light of ongoing tensions in the Middle East. With Chinese imports of Canadian oil reaching a record 7.3 million barrels in March 2025 and relations with the US becoming increasingly strained, Canada has an opportunity to reassess its strategic approach to its commercial relationship with the world's second-largest economy.

Shedding Illusions

It is time to shed illusions. China is not converging with the West. It is not liberalizing. It is not evolving in response to trade, dialogue, or educational exchanges. Engagement may continue, but not as a tool of transformation. We should engage where it serves Canada's interests to do so, but we should not expect that China will change its human rights and military strategies as a result.

Even as Canada reevaluates its approach to China, one unambiguous fact remains: China is too big, too deeply integrated into global markets, and too economically significant to be ignored or simply contained. As Canada's relations with the United States enter a period of heightened friction, the importance of diversifying trade becomes not just a strategic preference but an economic necessity.

China is already Canada's third-largest trading partner, after the US and the European Union (or second-largest on a country-by-country basis), and the tenth-largest investor in terms of FDI stock.⁴ It is also the fastest-growing export market for many countries.⁵ For over 120 countries, China is the top trading partner.⁶ In Canadian export sectors,

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particularly in commodities, as well as in professional services and specific areas of manufacturing, Canada's potential is considerable, provided the engagement is carefully structured and minimizes risks, such as intellectual property theft. Accordingly, commodity exports may be less risky than high-value manufactured goods or advanced services relying on advanced technologies and R&D.

Because these commodities are globally traded, with prices determined in international markets, Canadian businesses can access Chinese buyers without relying on the framework of a free trade agreement. Although successive Canadian governments have explored free trade negotiations with China, these efforts, particularly under the Trudeau government, were hampered by Canada's insistence on incorporating social, labour, and environmental provisions. These conditions, part of Canada's progressive trade agenda, were firmly rejected by China, stalling meaningful progress on a deal and highlighting the stark divergence in values and priorities between the two countries. However, Canada can engage in substantial trade with China without a comprehensive free trade agreement, reflecting both the strengths and limitations of the current economic relationship.

Like other countries that do business with China, Canada, must also understand that as China shifts from being a trade-focused economic actor to becoming a more assertive and strategic global power, it is increasingly using state-controlled tools, including export controls, unreliable entity lists, and targeted investigations, to retaliate against countries it views as threats, especially in the context of escalating U.S.-China tensions. At the same time, Beijing is also trying to present itself as a more stable and reliable partner than the United States, particularly under President Trump.⁷ It is aggressively pushing this narrative in Canada, Europe, Asia, and other parts of the world.⁸

Economically, China continues to dominate critical global value chains, particularly in technology and clean energy, where its head start has left North America lagging.⁹ Although Canada's economic exposure to China is lower than that of Australia or Germany, the Chinese market remains significant in key strategic sectors, such as agriculture and energy.¹⁰ Nonetheless, reliance on China carries substantial risk: as the canola, pork and seafood cases demonstrate, Beijing will weaponize trade to achieve political aims.¹¹ While Chinese imports into Canada have dropped recently, the trade imbalance persists (see Figures 1 & 2), and there is growing concern about dumping and overdependence.

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Figure 1: Canada-China Trade Flows 2010-2024 in Real 2000 CAD¹²

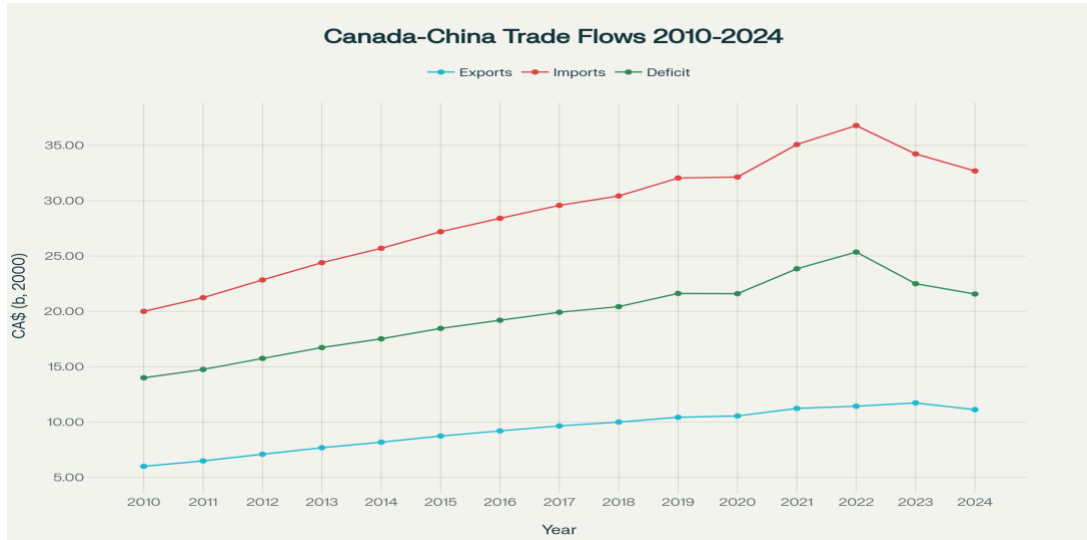
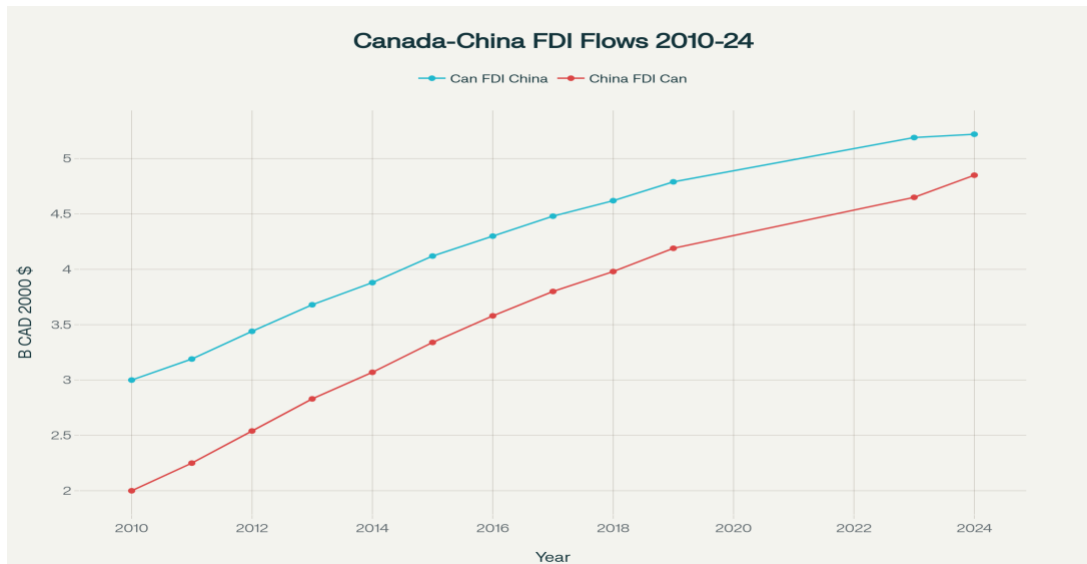


Figure 2: Canada-China FDI Flows 2010-2024 in Real 2000 CAD



China's Own Headwinds

Once the archetype of export-driven development, China is now undergoing a profound economic transition. With over 400 million people now considered middle class, making it the largest such demographic globally, China is being forced to reorient its growth model from one driven by external demand to one centered on domestic consumption.¹³ As global markets mature and foreign appetite for Chinese goods tapers, exacerbated by

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rising trade protectionism, Beijing is also coming under pressure to harness the purchasing power of its own citizens to sustain economic growth. A burgeoning middle class invariably demands better housing, healthcare, education, and leisure, pushing the state and private sector alike to focus on consumption rather than just production.

However, the transition is proving to be neither smooth nor easy. China's economic ascent has encountered strong headwinds as geopolitical tensions mount and its biggest trading partners—the United States and the European Union—impose tariffs and non-tariff barriers targeting key strategic export sectors, including green technology, semiconductors, and electric vehicles.¹⁴

These measures have curbed Chinese export growth, prompting firms to adapt by shifting parts of their supply chains to countries such as Vietnam, Indonesia, and Bangladesh, either to lower manufacturing costs or to bypass tariff regimes. Although such diversionary trade tactics may help cushion the impact, they also fracture China's integrated national production model, undermining efficiency and value capture. At the same time, structural issues at home, including a real estate crisis, high youth unemployment, and weakening business confidence, are complicating the transition to a consumption-led growth model. Sustaining high growth in this new era will require not just macroeconomic recalibration but also deeper reforms in governance, capital markets, and household income distribution.¹⁵

However, despite the complexity of these issues, it is worth noting that China is demonstrating some success in managing these economic headwinds and continues to maintain greater growth rates than the U.S. and most Western economies, including Canada.

China in the Indo-Pacific Strategy

In the previous Liberal government's Indo-Pacific Strategy, released in late 2022, China was explicitly named as an "increasingly disruptive global power."¹⁶ This marked a notable rhetorical shift from previous approaches, which had primarily framed China as a partner for trade and engagement. The strategy acknowledged Beijing's assertive behaviour in the region, including its growing military aggressiveness, economic coercion, and human rights violations. It outlined plans to deepen ties with other regional partners — notably India, Japan, and ASEAN — and pledged new funding for military, diplomatic, and trade initiatives in the region.

Despite this sharper tone, the strategy nonetheless fell short in offering specific, actionable guidance on how Canada should manage its complex relationship with China as China undergoes its own internal changes and economic transformation. While it rightly called for "pragmatic cooperation" in areas like climate change and trade, it

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offered few details on how Canada will protect sensitive sectors from foreign interference or deal with economic retaliation—issues that have dominated headlines in recent years. The strategy outlined intentions but did not explain how Canada would counter economic coercion or what the red lines would be regarding technology transfer or intellectual property theft. Nor did it address how China's influence operations in Canada can be curtailed.

Critically, the document lacks a clear framework for balancing risk and opportunity. China is described as both a threat and a partner, but without a proper articulation of where Canada draws that line. In effect, the strategy signalled a new realism in tone, but not a clear policy architecture.

What is needed now is not just a diagnosis of the challenge China presents, but a roadmap for how Canada will navigate the trade-offs and tensions of engaging with a superpower it can neither fully trust nor afford to ignore. Such a roadmap must be tailored to specific opportunities and risks that now also have an even more critical Washington dimension, resulting from Donald Trump's actions. Accordingly, the government requires a new foreign policy and national security statement. In the case of China, it is time for a clear articulation of a new approach anchored in the realities of a world that has fundamentally changed with the arrival of the second Trump administration.

China and Trump's Trade Wars: Implications for Canada

Donald Trump's tariff war, aimed not only at China but also at key US allies and trading partners, has created an opening for Beijing to reposition itself as a more stable and pragmatic economic partner. As Washington alienates traditional allies with its unilateral protectionist measures, China has sought to capitalize on the chaos by offering alternative trade and investment relationships grounded in predictability and long-term engagement. For countries like Canada, this presents both an opportunity and a dilemma. While wary of China's strategic ambitions and governance model, Ottawa may find it increasingly unavoidable to align selectively with Beijing on trade and market access in a world where US economic leadership has become transactional, punitive, and erratic.

However, this opportunity comes with serious limitations. China is currently pursuing a charm offensive, aiming to rebrand its global image as cooperative and open for business. But there is reason to be skeptical. China has not hesitated to weaponize trading relationships with Canada when it has been unhappy with Canadian policies. The same regime that is now extending an open hand has also engaged in massive IP theft, economic coercion, arbitrary detentions, and aggressive foreign policy moves ranging

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from the militarization of the South China Sea to support for Russia's invasion of Ukraine.¹⁷ Critics warn that deeper ties could make Canada vulnerable not just to any sudden change in Chinese policies should relations take an abrupt turn for the worse, but also to retaliatory actions from Washington, which would not look favorably on Canada cutting deals with China that run counter to US interests.

As Washington hardens its trade stance against Beijing, there is mounting concern and, indeed, evidence that Chinese products are being rerouted through third countries, including Canada, to circumvent tariffs.¹⁸ The United States is already pressuring allies to adopt parallel tariffs against China, and Canada may soon be asked to mirror American measures at a significant cost to our country. Although an active trade diversion strategy could redirect Canadian exports to other markets and, to some degree, limit net losses, the costs would still be substantial, given the time it would take to find new markets.

Recall that during the first Trump administration, the US insisted that Canada consult with it before negotiating any kind of trade agreement with China but then struck its own unilateral deal.

Additionally, as we also saw during Trump's first administration, his preference for "managed trade" between the US and China poses ongoing risks for Canadian exports to China, especially in seafood, cereals, and oil seeds. While we must expect that he will pressure Canada to support measures that benefit the United States, we would be foolish to expect that he will seek to protect Canadian interests in his dealings with Beijing.

Recommendations:

Recommendation 1. The government requires a review and a new statement of its foreign policy and national security priorities. In the case of China, it is time for a clear articulation of a new approach anchored in the realities of a world that has fundamentally changed with the arrival of the second Trump administration.

Recommendation 2. Rather than solely reflexively adopting the US tariff playbook, Canada should propose a more strategic complement, such as a trilateral monitoring and verification mechanism across all three North American markets, similar to that of the European Union to track and deter Chinese dumping, but also to monitor surreptitious transshipment diversions via Canada and Mexico to the US.

Current data suggests the risk of such diversions is increasing.¹⁹ This would help preserve Canada's trade flexibility while demonstrating a shared commitment to market fairness and transparency. It would also help shield Canadian firms from being collateral damage in a larger trade war.

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The Canada-US dynamic fundamentally shapes Canada's China policy. During former President Joseph Biden's term, Canada aligned easily with the US on China, but under President Trump, alignment risks becoming coercion. Trump is transactional and happy to punish allies who do not conform to his agenda. Canada's geographic and economic proximity makes us particularly vulnerable, but we also have leverage through our tightly integrated supply chains.

Ottawa must carefully manage the deep tension in its triangular relations with both countries. Conspicuous independence in Canada's China policy risks retaliation from Washington; too much alignment risks compromising Canadian sovereignty and efforts to diversify our global economic partnerships. Additionally, Canada and the United States share many common interests vis-à-vis China, and our security and commercial interactions with the United States will continue to be Canada's most important international relationships for the foreseeable future. Canada must strike a delicate balance by defining our strategic interests first—especially in agriculture, energy, and critical infrastructure—and using them to engage constructively with both powers. This requires deep scenario planning, sector-specific red lines, and, above all, preserving Canada's ability to say no when its vital national interests are at stake.

As Jeff Nankivell of the Asia-Pacific Foundation has emphasized, Canada's future China policy must be guided by clear principles: strategic caution, economic benefit, democratic resilience, and diplomatic transparency. This means doing business where it is safe and valuable but resisting illusions of transformation or dependency.²⁰

The goal is not confrontation but calibration. Canada must build a China strategy that is economically pragmatic, diplomatically coherent, and geopolitically realistic.

Even so, there is ample opportunity to strengthen economic ties on a sectoral basis with China, provided that the government and the business community clearly understand the different kinds of risks associated with other potential areas of trade and investment.

Defending the Rules-based System, particularly within the World Trade Organization (WTO)

Canada has consistently positioned itself as a promoter and defender of the rules-based international trading system, particularly through its active leadership within the World Trade Organization (WTO). In recent years, Canadian officials have not only reaffirmed the country's support for this system but have also advocated for reforms to ensure its continued effectiveness in the face of new global economic challenges. Canada has played a central role in initiatives like the Ottawa Group, a coalition of like-minded WTO members that seeks pragmatic reforms to modernize the institution, strengthen its negotiation and deliberative functions, and safeguard the dispute settlement mechanism.

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Canadian ministers have expressed a clear commitment to maintaining an open, stable, and predictable trade environment, underpinned by values such as transparency, inclusivity, and sustainability.²¹

This leadership stands in stark contrast to the persistent challenges posed by China and the United States, both of which have failed to comply fully with their WTO treaty commitments. China's lack of compliance is reflected in its transparency deficiencies, intellectual property theft, and policies that hinder equal market access for foreign firms. The United States, meanwhile, has blocked Appellate Body appointments and imposed unilateral tariffs in clear violation of WTO rules. These actions by the world's most prominent economic players have compromised the credibility and effectiveness of the WTO's dispute settlement mechanisms, causing frustration among other member states.

Recommendation 3. In concert with other countries that remain committed to the rule of law, Canada should redouble its efforts to reinforce the rules-based trading system. It should collaborate with like-minded countries in organizing a meeting(s) to explore concrete ways to preserve the rules-based trading system and prevent the further erosion of key WTO norms and provisions.

Inward- and Outward-Bound Investment Policies

A vital part of Canada's relationship to China will depend on how we manage capital flows between the two countries. We believe it is time to develop a more comprehensive, forward-looking and clear approach. While our immediate concern is Canada's relationship with China, it will be important to establish a broader framework that reconciles our need to both attract more investment capital to Canada from a wide range of countries and capitalize on investment opportunities abroad with the need to preserve and enhance our country's sovereignty and security.

Canada's policy on inward foreign investment has historically been shaped by reliance on the Investment Canada Act (ICA).²² This legislative tool grants the government broad discretion to intervene on proposed transactions on the grounds of national security or public interest. While this legal framework enables ministers to block or condition foreign transactions, it has produced a fragmented and reactive policy environment, addressing concerns as they arise rather than through a comprehensive strategy. This tendency has been particularly evident with rising scrutiny of investments from China and other geopolitically important countries, prompting ad hoc measures like blanket bans and inflexible "red line" prohibitions.

In recent years, the definition of foreign investment itself has been expanding. Reviewed transactions now routinely extend beyond traditional equity ownership, encompassing large loans that grant foreign investors board seats or governance rights, offtake

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agreements that tie Canadian producers to long-term sales commitments, and transfers of intellectual property like patent portfolios. These arrangements, even without involving direct ownership, can confer significant economic or strategic influence. The legal system has kept pace with these developments, but substantive policy guidance has often lagged.

Canada's foreign investment regime is overly reactive. Policy decisions often follow controversial transactions, leading to uncertainty for investors and inconsistent outcomes across various sectors. Restrictive tools can be important in managing urgent national security concerns, but relying on them without clear policies on their application may deter beneficial investment and limit Canada's capacity to respond flexibly to unique cases. This approach rarely reflects broader strategic interests and can lead to diplomatic friction or the undue politicization of individual deals.

Canada's foreign investment policy has largely focused on reviewing and regulating inbound capital flows. Leading countries increasingly recognize that the challenge is not simply to screen inward investment, but also to ensure that outbound investment serves the national interest, given domestic capital's role in international technology transfer, supply chain restructuring, and managing national security.

Other major economies are addressing outbound investment risks in their policy frameworks. The United States has implemented the Outbound Investment Security Program under Executive Order 14105, which prohibits or requires notification for certain outbound investments by US persons in Chinese entities involved in semiconductors, quantum information technologies, and artificial intelligence.²³ Meanwhile, the European Commission issued a recommendation in January 2025 urging member states to review outbound investments in critical technology sectors as an initial step toward a harmonized EU-wide screening regime.²⁴ These initiatives reflect a growing consensus that economic security now requires a dual-lens approach—scrutinizing both what comes into the country and what leaves it.

By adopting a comprehensive, anticipatory framework that addresses both incoming and outbound investment, Canada can better equip itself to respond to the intricacies of global investment, protect its strategic interests, and keep its policies aligned with evolving international best practices.

This framework should clarify which sectors and transaction types are most sensitive or warrant heightened scrutiny. It should also explicitly recognize that foreign influence may arise through a range of transaction structures, not just conventional equity acquisitions, and incorporate these realities into ongoing risk assessments (see Appendix 1).

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By undertaking proactive sectoral risk assessments and developing clear criteria for decision-making, Canada can ensure that foreign investment serves both national security and economic growth. Such a strategy would provide greater predictability for investors and other stakeholders, protect critical domestic capabilities, and bolster Canada's international credibility as a balanced, open, yet vigilant investment destination.

Recommendation 4. Canada's policy for foreign investment must provide greater clarity, foresight, and sectoral differentiation as part of a comprehensive economic security framework that includes but is not limited to China.

This requires developing a government-wide system that outlines Canada's strategic priorities regarding various types of foreign investment and integrates input from all relevant departments such as Innovation, Science and Economic Development Canada, Agriculture and Agri-Food Canada, Transport Canada, Public Safety Canada, Department of National Defence, Health Canada and Canadian Heritage. A new policy framework would contain tiered sectoral sensitivity guidelines with graduated "risk tiers" for different kinds of in-bound and outbound foreign investment transactions across key sectors of the Canadian economy. Such an approach would allow for more effective case-by-case decision-making and move away from one-size-fits-all prohibitions.

Strengthening Canada's Defences Against Foreign Interference and Intimidation

While we should be willing to engage with China where it is clearly in Canada's interest to do so, we should understand that, left unchecked, China will attempt to pursue its own interests in Canada and other democracies in ways that threaten our citizens and our way of life. Canada must act decisively and unapologetically to defend its democracy, sovereignty, and the rights of its citizens against the persistent and escalating threat of Chinese government interference. Evidence of Beijing's attempts to meddle in Canadian elections, infiltrate all levels of government, and manipulate political outcomes is unmistakable and deeply alarming. Such actions strike at the very core of Canadian democracy and cannot be tolerated.

Although the commentary on foreign interference in Canadian politics has mainly focused on whether it meets the threshold of determining election outcomes, the issue is not how much foreign interference is acceptable. Canadians must have the unfettered ability to live their lives and choose their elected representatives without being subjected to manipulation by any foreign government.

But we also must be realistic. Chinese intelligence organizations will never cease looking for Canadian vulnerabilities, and their clout and reach extends well beyond officials in the Ministry of Foreign Affairs who serve in Ottawa. Accordingly, we must be vigilant and

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proactive. Chinese intelligence operations are much like crab grass – you can pull it out but must expect it to regrow not long after.

Recommendation 5. Canada must send an unequivocal message to Beijing that any attempt to intimidate Chinese Canadians or silence dissent through threats, harassment, or coercion will be met with the full force of Canadian law and international condemnation.

The government should provide robust support for victims and ensure that law enforcement agencies are empowered and resourced to investigate and prosecute perpetrators without hesitation. Any evidence of domestic interference by individuals with diplomatic immunity should be publicly exposed.

The problems Canada faces here are not unique. We should seek ways to coordinate with other democracies to counter these threats that go beyond existing measures, which are primarily focused on sharing information and reporting.²⁵

Responding to Defence and Security Threats

Canada, in concert with its US and European partners, is developing a unified stance on the security and defence challenges posed by China. This alignment is reflected in joint statements and defence initiatives, most notably at the recent G7 summit, where leaders voiced deep concern over China's provocative military activities, especially with respect to China's large-scale military exercises around Taiwan. G7 foreign ministers, including Canada's, have jointly condemned China for raising cross-Strait tensions and threatening global security.²⁶ They collectively underscored their opposition to any unilateral attempt by China to alter the status quo by force or coercion and reaffirmed their shared commitment to peacefully resolving disputes and preserving stability in the Indo-Pacific region.

Beyond the immediate issue of Taiwan, China poses a broad spectrum of military and cyber threats. The US and its allies, including Canada and the EU, view China as their foremost military and cyber adversary. Beijing's activities range from aggressive maneuvers in the South and East China Seas to its new efforts to shape cyberspace and outer space domains.

China's growing presence in the Arctic also represents a multi-faceted threat to Canada, raising concerns about espionage, economic exploitation, scientific data collection, and China's increasingly close cooperation with Russia. Chinese research vessels and investments are often dual-purpose, allowing for both resource extraction and covert surveillance—including the collection of oceanographic and military-relevant data near Canadian waters. China's joint Arctic patrols and energy partnerships with Russia

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increase Beijing's Arctic access and influence, allowing it to leverage Russian routes and technology for its own strategic aims.

In the broader context of economic security policy, expanding and accelerating initiatives like the Canada-U.S. Joint Action Plan on Critical Minerals Collaboration can secure resilient, North American supply chains and reduce dependence on Chinese sources. Key actions include co-funding projects, fast-tracking regulatory reviews for defence-related minerals, strengthening trade partnerships, aligning environmental and labour standards, and sharing data and technology for supply chain traceability. Prioritizing these efforts will help counter China's market dominance while supporting continental security, shared economic prosperity, and the green energy transition.

Recommendation 6. Given China's growing capabilities and assertiveness, Canada's defence and cyber cooperation with the US and Europe has become even more critical, underscoring the need to further strengthen alliance partnerships, especially with key countries in the region, such as Japan, South Korea, Indonesia, the Philippines, and Australia and New Zealand who are both members of the Five Eyes.

Modest increases in Canada's defence contribution the region as set out in the government's Indo-Pacific Strategy also need to be enhanced as part of the government's commitment to increased defence spending by deploying greater air and naval resources to the region and conducting more training exercises with key regional partners. Canadian intelligence capabilities to monitor Chinese threats, particularly regarding espionage and foreign interference, also need to be supplemented by greater intelligence collaboration with the Republic of Korea and Japan.

Protecting Intellectual Property and Academic Integrity

Academic and research institutions are fundamental drivers of knowledge creation and innovation, serving as the engines of economic progress, technological advancement, and societal development. However, the very openness and international engagement that underpin academic excellence also create vulnerabilities. The risk that external actors like China may seek to manipulate, influence, or exploit academic institutions to gain access to sensitive research and technology is ever-present. Tactics may include targeted talent recruitment programs, covert influence operations, or sponsorship of research collaborations that facilitate illicit transfer of advanced knowledge, sometimes for military or strategic advantage. Actions already taken by the Government of Canada in placing federally funded research security officers on campuses are proving effective.

At the same time, Canada needs to be alert to opportunities to learn from and collaborate with world-class Chinese researchers and academics, especially in fields where there is

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not a direct security threat or potential IP loss. PRC students, including researchers who are no longer welcome in the US, may provide benefit both by their intellectual contributions here in Canada and by their tuition support to budget-strapped Canadian universities.

Recommendation 7. Canada must adopt a zero-tolerance approach to the theft of intellectual property and the infiltration of its research and educational institutions by Chinese state interests, consistent with its new protective measures and initiatives.²⁷ Specifically, this means:

- Imposing strict limits on Chinese funding and partnerships in sensitive research areas.
- Mandating complete transparency and public disclosure of all foreign funding sources at Canadian universities.
- Enacting legislation that prohibits the transfer of sensitive technologies and data to entities linked to the Chinese state.
- Aggressively prosecuting violations and expelling individuals or organizations found to be acting on behalf of foreign powers to undermine Canadian innovation and security.

We also welcome the positive measures that the government has taken to promote economic security as a priority “writ large” in recent years.²⁸ Accordingly, Canada's willingness to do business with China must be strictly conditional: economic engagement will only occur on terms that uphold Canadian sovereignty, national security, and the rights of our citizens. The era of naïve engagement is over. Canada will defend its democracy, protect its people, and safeguard its future.

Next Steps for Strategic Recalibration of Canada–China Relations

Over the next six months, the Prime Minister should initiate a focused and deliberate effort to recalibrate a Canadian policy of selective engagement with China. This endeavor should begin with high-level diplomatic outreach and coordinated multilateral engagement aimed at advancing Canadian strategic and economic interests. We recommend the following actions:

- **Recommendation 8. Pursue a Bilateral Meeting with President Xi Jinping:** Prime Minister Carney should seek a formal bilateral discussion with President Xi on the margins of the upcoming APEC Summit in South Korea (October 31–November 1, 2025). Such an engagement would provide a crucial first step in resetting the bilateral relationship.

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- **Recommendation 9. Convene a Strategic Economic Roundtable with EU and CPTPP Partners:** Canada should offer to host a high-level meeting with member states of the EU and the CPTPP to establish a more coordinated economic strategy toward China where, at the very least, perspectives, policies and experience can be shared.²⁹ Many of these countries encounter similar challenges in their economic engagements with Beijing, including concerns around fair trade, market access, investment protection, and economic coercion. It is both timely and necessary to develop a consistent set of norms or "rules of the road" for trade and investment. Presenting a coherent, collective front would not only enhance leverage in dealings with China but also contribute to a more predictable, rules-based international economic environment.

Taken together, these measures will signal Canada's commitment to a pragmatic, balanced, and sovereign foreign policy approach—one that seeks constructive dialogue while safeguarding national interests and aligning with like-minded partners on key economic and strategic issues.

Canada–China Trade & Investment: Opportunities & Risks

The table below identifies Canada's potential areas of export and import trade with China, as well as two-way flows of investment in specific sectors. It also outlines key risks, including intellectual property (IP) threats, trade sanctions, and other punitive actions.

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Table 1
Trade & Investment: Opportunity & Risk

Trade Flow	Key Sectors	Opportunities	Risks & Vulnerabilities
Canada → China (Exports)	<ul style="list-style-type: none"> - Agriculture (canola, pork, peas, seafood) - Energy (crude oil, LNG) - Forestry Products (pulp, lumber) 	<ul style="list-style-type: none"> - China's large consumer market for agri-food products - Growing demand for traditional and cleaner energy (e.g., hydrogen) - Potential to diversify away from US market reliance 	<ul style="list-style-type: none"> - Risk of arbitrary trade bans (e.g., canola) - Sanitary & phytosanitary restrictions - Political retaliation on diplomatic issues
China → Canada (Imports)	<ul style="list-style-type: none"> - Electronics and Consumer Goods - Industrial Machinery and Components - Renewable Tech (solar panels, EV batteries) 	<ul style="list-style-type: none"> - Cost-effective sourcing for Canadian industries - Support for Canada's green transition - Consumer market variety and innovation 	<ul style="list-style-type: none"> - Import dependence in strategic sectors - Cybersecurity vulnerabilities - Dumping and trade imbalance risks
Canadian Investment in China	<ul style="list-style-type: none"> - Financial Services - Environmental Tech - Education (schools, partnerships) - Agri-food Processing 	<ul style="list-style-type: none"> - Access to a growing middle-class market - Brand value for Canadian clean/green products - Scope for tech and education collaboration 	<ul style="list-style-type: none"> - IP theft and forced tech transfers - Regulatory unpredictability - Political exposure and weak legal protections
Chinese Investment in Canada	<ul style="list-style-type: none"> - Natural Resources (mining, energy) - Real Estate and Infrastructure - Technology and Innovation 	<ul style="list-style-type: none"> - Capital inflows for development - Potential for job creation and tech partnerships 	<ul style="list-style-type: none"> - National security reviews (e.g., telecoms, AI) - Public backlash over state-linked investment - Sovereignty and strategic asset concerns

Conclusion

China is not the country Canada had hoped it would become. Earlier hopes of convergence have given way to a much harsher reality. However, Canada is not

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powerless; it can still shape its engagement, not in the naïve view that it will change China into a liberal democracy, but to protect and advance Canadian interests.

Doing so requires maturity, clarity, and realism. It involves doing business, where appropriate, while preparing for conflict, competition, and confrontation. It means ending the age of illusion and stepping into a future defined not by wishful thinking but by pragmatic and selective engagement.

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Appendix 1

A Tiered Risk Approach to Foreign Investment (China-Focused Example)

Note: The matrix below is illustrative; risk classification should be informed by continuous sectoral assessment and strategic considerations. Criteria may evolve as the investment, security and technology landscape develops. The sector and transaction categories listed are also not mutually exclusive of each other.

Sector/Transaction Type	Generally Permissible	Permissible with Conditions	High-Scrutiny Review	Prohibited
Technology (AI, data, security)		X	X	X
Natural Resources (minerals)	X	X	X	X
Transport Infrastructure	X	X	X	X
Farmland	X	X	X	
Retail	X	X		
Data-rich Industries		X	X	X
Equity deals	X	X	X	X
Loans with governance rights	X	X	X	
Offtake/IP agreements	X	X	X	

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Expert Group on Canada-US Relations

The Expert Group on Canada-U.S. Relations is focused on developing the key elements of a comprehensive Canadian strategy for Canada-U.S. relations. Its work is supported by The Norman Paterson School of International Affairs, Carleton University, and the Canadian Global Affairs Institute.

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This statute empowers the government to review significant investments by non-Canadians, considering net benefit, national security, and—in recent years—expanded economic security factors. The Act has been subject to significant amendments, most recently through Bill C-34, which broadened the scope and powers available for foreign investment reviews, including pre-closing filings, interim measures, and new risk factors. Relevant Regulations and Guidelines include the following: *Investment Canada Regulations* (SOR/85-611)

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