

Canada's Relationship
with China:
Time for a Reset?
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2020 Global
Investment Outlook

Overview



Status of bilateral relationship with China



Trade and economic aspects



China under Xi Jinping



What does the future look like?

Status of Bilateral Relationship with China

- All Official Dialogues on hold;
no ministerial visits
- **Billions of \$ in lost trade but...**
- New Ambassadors in place
- Medal of Freedom given to
Mrs. Isabel Crook
- When will it end?



The Bilateral Economic Relationship



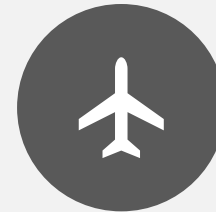
Complementary
economies



Second trading
partner of Canada



Education



Tourism

Bilateral Trade With China – 2018 and 2019

(in billions of \$)	CANADA		QUÉBEC	
	2018	2019 (Jan. to Sept.)	2018	2019 (Jan. to Sept.)
Exports to China	27.6 (+17.1%)	17.5 (-8.2%)	3.64 (+27.5%)	2.39 (+8.1%)
Imports from China	75.5 (+6.5%)	56.0 (+2.2%)	11.68	9.32 (+5.7%)
Total	103.2 (+9.1%)	73.5	15.33	11.71

China Under
Secretary
General
Xi Jinping

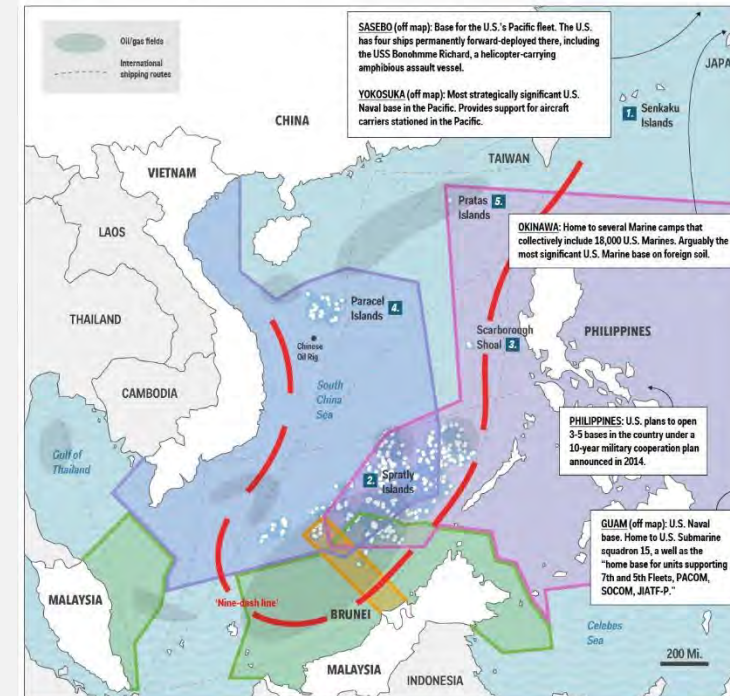
Absolute Power,
Absolute Authority



China's Foreign Policy

- Protection of national sovereignty
- Political stability at home
- Increase prosperity
- Expand its influence (Belt & Road Initiative)
- World-class military by 2035
- A more assertive, aggressive China

THE SOUTH CHINA SEA POWER STRUGGLE



1. THE SENKAKU ISLANDS

Claimed by both China and Japan, they're viewed as a bellwether of the longtime rivals' relative power. China and Japan have repeatedly dispatched vessels to the waters around the islands over the past few years. Just as provocatively, China declared the islands to be part of a new civilian aircraft identification zone over the East China Sea, bluntly insisting the islands as part of its exclusive territory.

In August and September 2012, an escalation of the Senkaku dispute triggered a wave of violent anti-Japanese protests in China, including demonstrations outside the Japanese embassy in Beijing.

2. THE SPRATLY ISLANDS

The oil- and gas-rich Spratlys are a checkerboard of competing territorial claims. China and the Philippines claim the islands, but Malaysia, Indonesia, and even tiny Brunei claim parts of the island chain and their surrounding waters as well.

3. SCARBOROUGH SHOAL

This island is in a particularly rich fishing area is much closer to the Philippines than it is to China. That didn't stop Beijing from starting a major confrontation over Scarborough in April 2012.

4. THE PARACEL ISLANDS

In May, the oil-rich waters surrounding this island chain were the sight of an unprecedented Chinese escalation, when a platform from China's state oil company deployed inside Vietnam's exclusive economic zone. A second oil rig was sent to a somewhat less controversial part of the Paracels in June. But Chinese and Vietnamese ships have been frequently ramming one another near the first rig ever since its appearance in Vietnamese waters, and China's moves represent one of the biggest crises in the two countries' relations in decades.

5. THE PRATAS ISLANDS

Taiwan and China both claim them, although China also claims sovereignty over Taiwan more generally. The islands are home to a Taiwanese military outpost and even a civilian airport.

THE ACTUAL BOUNDARIES

All of these smaller points of tension are subsets of a larger and even more fundamental dispute among the South China Sea nations.

Under the United Nations Convention on the Law of the Sea, a country's Exclusive Economic Zone "shall not extend beyond 200 nautical miles from the baselines from which the breadth of the territorial sea is measured." A country can extract natural resources, lay undersea cables, construct artificial islands.

The United States-China Relationship

- Thucydides trap
- The geo-political risks of decoupling their economies
- A trade deal at the expense of Canada?



How Is the Chinese Economy Doing?

- The trade war with the USA is having an impact
- The debt is increasing (~300% of GDP)
- Demography: will China get old before it gets rich?
- Made-in-China 2025: investing in innovation
- The growth potential is still good based on domestic consumption, investment and urbanization plans



China's Trade Policy



Champion of globalisation?



Free Trade Agreements: with Australia,
Switzerland, etc.



Regional Comprehensive Economic Partnership



APEC: free trade zone?



FTA with Canada: now impossible?

Where Do We Go From Here?



Revise

Revise our Engagement Strategy with China



Diversify

Diversify our trade by making better use of the free trade agreements in Asia and Europe



Work

Work with partners to reinforce the multilateral system: same rules for all, reciprocity as the basis; welcome China in the CPTPP as long as it abides by international rules



Develop

Develop further our competencies on China



Continue

Continue to put pressure on the USA to help us more

Conclusion



China will remain an important market but the bilateral crisis could drag on



Companies need to factor risk in their planning



Governments need to make more efforts to support companies and diversify our trade