

Canada-China Trade: 2019 Year in Review

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Background

Over the past few decades, Canada-China trade has expanded, creating a substantive economic relationship between the two countries. China became Canada's second largest trading partner (behind the United States), although accounting for just 4% of Canadian merchandise exports and 12% of Canadian merchandise imports. 20 years ago, Canadian imports from China totaled roughly \$11 billion. This number has since risen to \$75 billion in 2019.

The current Canada-China trade relationship is, however, fraught with complications arising from high-level political tensions and associated trade restrictions. Huawei CFO Meng Wanzhou's arrest and the subsequent detention of Canadians Michael Kovrig and Michael Spavor in China triggered a steep decline in the bilateral relationship. Canadian exporting industries found themselves caught in the crossfire - [canola exports](#) to China were halted in March and [pork/ beef exports](#) paused in June. Although the meat export market with China re-opened in November (canola remains in limbo), action taken by the Chinese side demonstrated a retaliatory willingness and ability to punish Canadian exporters to great effect.

While national media coverage of Canada-China trade concentrated largely on industry-specific export barriers, some provinces and industries quietly flourished. Even the value of [pork/beef exports](#), after months of uncertainty, were higher (11% and 20% respectively) in 2019 when compared with 2018.

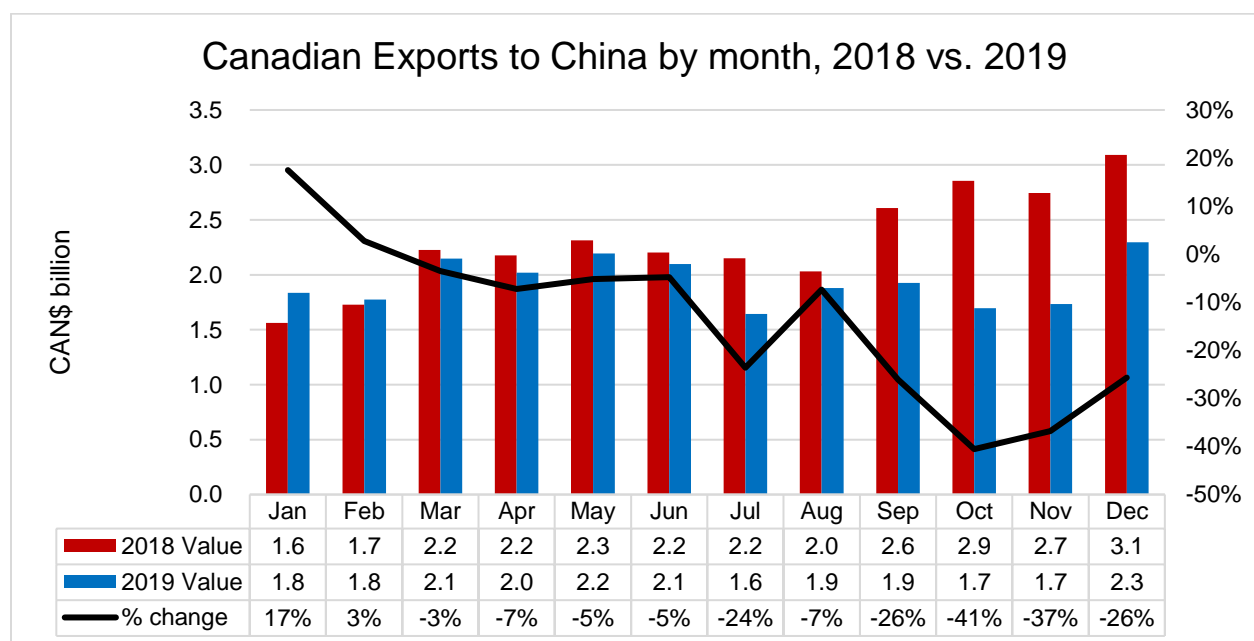
There is no nationally uniform sentiment towards China, even in the face of a yearlong diplomatic crisis. China trade optimism (and perhaps attitudes towards broader engagement with China) would likely differ between a canola farmer from Alberta and a lobster fisherman from Nova Scotia.

With a completed U.S.-China "Phase One" trade deal, ongoing extradition hearing, and coronavirus disruption, the road ahead for Canadian trade with China appears equally tumultuous. The CIUA's *Canada-China Trade: 2019 Year in Review* is designed to both illustrate and contextualize the current Canada-China trade relationship in the wake of a chaotic year. It uses data from Statistics Canada for **goods** (merchandise) trade with China, presented on an unadjusted **customs basis** in Canadian dollars.

Canada-China Trade: Exports

Source: [Trade Data Online](#) (Statistics Canada – Customs Data)

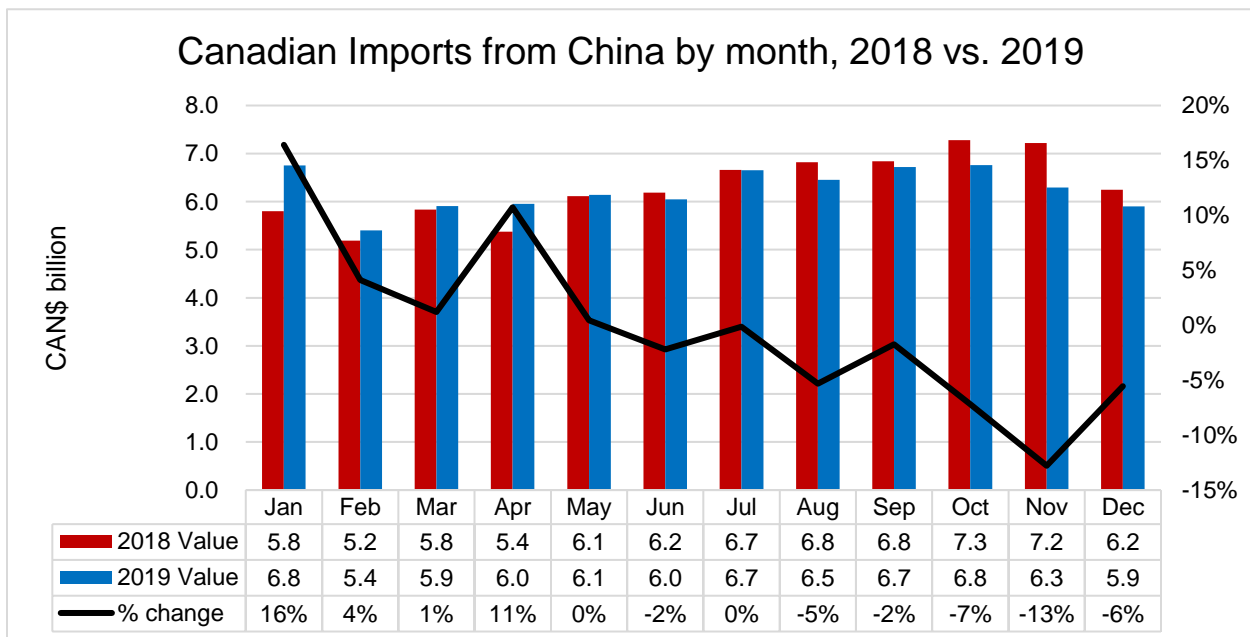
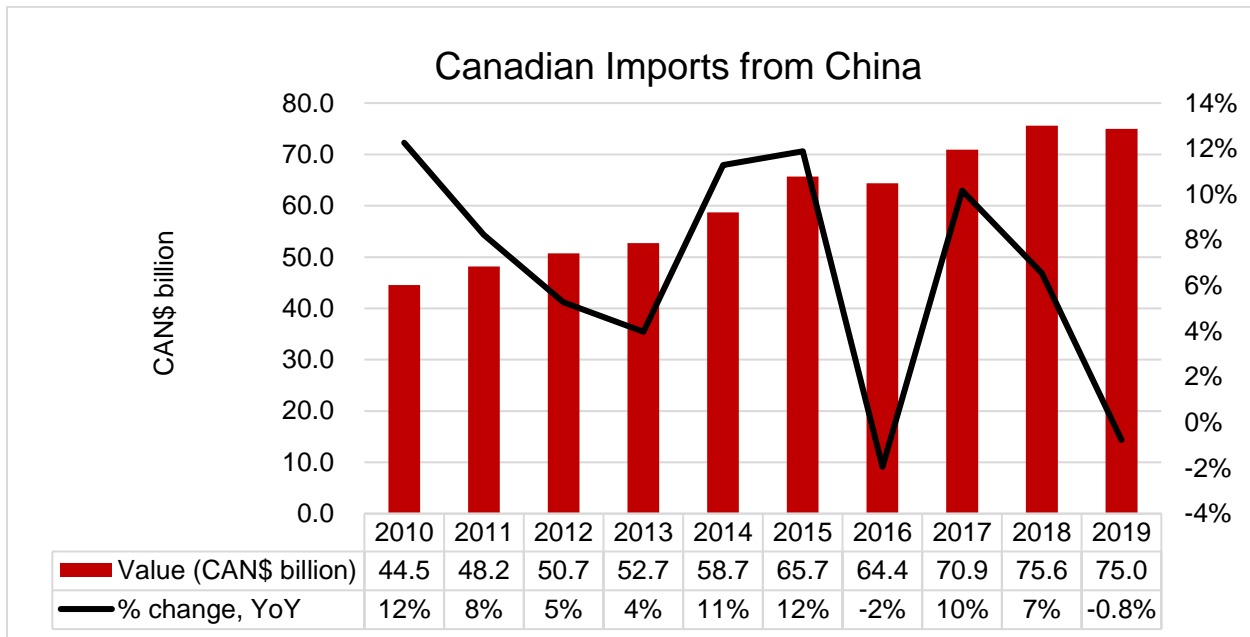
Canadian exports to China fell by 16% in 2019 after four consecutive years of growth. Agricultural exports were hit hard, with the value of soybean and canola seed exports down 98.1% and 69%, respectively. Export growth took a significant hit in the final four months of 2019, in part due to strong year-end performance in 2018.



Canada-China Trade: Imports

Source: [Trade Data Online](#) (Statistics Canada – Customs Data)

Canadian imports from China were stable in 2019, dropping by roughly 0.8% when compared with 2018. Canada's highest-valued imports were largely technology-related – including cell phones, computers, communications equipment, headphones, and toys.



Canada-China trade – by Province/Territory

Source: [Trade Data Online](#) (Statistics Canada – Customs Data)

Canadian Exports to China, by province (in CAN\$)

Province	Jan-Dec 2018	Jan-Dec 2019	% Change
British Columbia	\$6.99B	\$6.79B	-2.84
Alberta	\$5.29B	\$4.22B	-20.21
Quebec	\$3.61B	\$3.34B	-7.51
Ontario	\$4.29B	\$3.24B	-24.55
Saskatchewan	\$4.60B	\$3.14B	-31.79
Nova Scotia	\$795.5M	\$997.3M	25.36
Newfoundland & Labrador	\$725.6M	\$799.9M	10.23
Manitoba	\$1.23B	\$531.4M	-56.95
New Brunswick	\$126.0M	\$131.9M	4.66
Prince Edward Island	\$23.9M	\$38.6M	61.1
Nunavut	\$54K	\$22.7M	41,758.65
Northwest Territories	\$372K	\$331K	-10.98
Yukon Territory	N/A	\$107K	N/A
Total	\$27.69B	\$23.25B	-16

Canadian Imports from China, by province (in CAN\$)

Province	Jan-Dec 2018	Jan-Dec 2019	% Change
Ontario	\$45.48B	\$45.09B	-0.85
British Columbia	\$12.67B	\$12.10B	-4.48
Quebec	\$11.69B	\$11.88B	1.66
Alberta	\$3.42B	\$3.36B	-1.75
Manitoba	\$1.32B	\$1.31B	-0.8
Nova Scotia	\$391.7M	\$524.9M	34
Saskatchewan	\$437.7M	\$502.2M	14.73
New Brunswick	\$123.3M	\$172.9M	40.31
Newfoundland & Labrador	\$15.0M	\$40.0M	165.99
Nunavut	\$22.1M	\$4.2M	-80.99
Prince Edward Island	\$1.7M	\$1.5M	-14.18
Yukon Territory	\$973K	\$65K	-93.33
Northwest Territories	N/A	N/A	N/A
Total	\$75.57B	\$74.99B	-0.8

Trends and Topics in Canada-China Trade

U.S.-China trade deal – widespread implications for Canada

On January 15, 2020, the United States and China signed their long awaited trade deal, ending months of delays and speculation. The [deal](#) includes a commitment from the Chinese side to boost purchases of American goods/services by US\$200 billion over the next two years. This includes US\$77.7 billion of manufactured goods, US\$52.4 billion of energy products, US\$37.9 billion in services, and US\$32 billion of agricultural goods. This bilateral trade pact may hurt Canadian exporters if Chinese purchases shift to the United States in order to meet these commitments.

There are broad concerns over the deal's basic attainability and compliance with WTO standards. This has led experts including Joshua P. Meltzer and Neena Shenai, of Brookings and the American Enterprise Institute (respectively), to [call](#) the agreement “unrealistic at best” and “undermining [to] the global rules-based trading system”. Such “directed trade” poses special risk for highly export-dependent economies, particularly where they lack the political clout of Great Powers such as the United States, China, and the European Union.

Aspects of the agreement, such as the loosening of regulatory barriers and addressing long-standing concerns related to intellectual property rights and forced technology transfers, could end up benefiting Canada if the reforms are broadly adopted by China and available to all of China's trading partners – but there may well be short-term pain.

Further reading:

- **New York Times:** [What's in \(and Not in\) the U.S.-China Trade Deal](#)
- **National Post:** [Get ready for the U.S.-China sideswipe: Phase one trade truce could be devastating for Canadian exporters](#)
- **Brookings:** [Why the purchase commitments in the US-China trade deal should not be replicated, ever](#)

Coronavirus – global economic disruption and trade uncertainty

The rapid spread of coronavirus through China (and beyond to a limited extent) has had immediate economic implications – analysts are already [predicting](#) China to slip below 2019's 6% rate of expansion. Chinese stocks [fell 8%](#) on the first day of trading after the Chinese New Year holiday, and Chinese oil demand has dropped by [20% of total consumption](#) (approx. 3 million barrels a day). There are also widespread fears that the virus will [decimate](#) small-to-medium sized consumer-driven businesses and manufacturers in China. The disruption of global trade flows will immediately affect the U.S.-China “Phase One” trade deal. Larry Kudlow, the White House economic advisor

[conceded](#) on February 4th that the “export boom from that trade deal will take longer because of the Chinese virus.”

Bank of Canada senior deputy governor Carolyn Wilkins recently [stated](#) that outbreaks “can affect Canada, even if they’re not happening in Canada – or at least not to the extent today as they are in China”. This could come from a “number of channels”: lower oil/commodity prices, decreased travel/tourism spending, and supply chain disruption. Finance Minister Bill Morneau also addressed the issue, [noting](#) that the economic impact is “going to be felt across the country but perhaps even more so here [Alberta] in the oil and gas sector.” Should the Coronavirus crisis be prolonged it could also impede the arrival of international students from China, endangering a key [component](#) of Canadian service exports.

While comparisons have been drawn to the impact of SARS in 2003, there is reason to believe Coronavirus will be much worse. China’s gross domestic product (current \$US) is now [seven times](#) larger and the country plays an integral part in global financial markets. With an [already sluggish](#) domestic economic outlook, the implications of a prolonged slowdown will be problematic in China and beyond.

Further reading:

- **New York Times:** [SARS Stung the Global Economy. The Coronavirus Is a Greater Menace.](#)
- **SCMP:** [Three reasons the coronavirus outbreak may hit financial markets harder than Sars did in 2003](#)
- **Edmonton Journal:** [Coronavirus affecting oil prices may hit Alberta economy hard: RSM Canada](#)

Canadian Canola – largely status quo, some positive signs

Canadian canola seed exports to China were initially disrupted in March of 2019 after two major companies – Richardson and Viterra – had their export licences suspended due to the alleged discovery of pests by Chinese authorities. The Canadian government immediately refuted this claim, and observers linked the trade disruption to existing political tensions with China.

The Canola situation, as of February 2020, appears to be no closer to resolution. Richardson and Viterra’s licences remain suspended, with overall seed exports sitting at about [30% of normal volumes](#). However, Canola oil and meal exports, according to the Canola Council of Canada have continued amidst this disruption. Chinese canola oil imports are strong, both through direct Canadian channels and via “backdoor” routes ([such as the United Arab Emirates](#), where canola is shipped, crushed, and sold on to China). While prices have [stabilized](#) and there is some industry optimism, Canadian farmers will undoubtedly face difficulty moving forward.

Further reading:

- **Edmonton Journal:** [China talks take centre stage at FarmTech conference as canola standoff drags on](#)
- **Canola Council of Canada:** [Canola & China – What Growers Should Know](#)
- **Real Agriculture:** [Canola oil demand rising as African swine fever reduces China's soybean crush](#)

Canadian Soybeans – feeling the pain

Canada, taking advantage of the [tariffs](#) placed on American goods in July, exported over 3.57 million tonnes of soybeans to China in 2018, up from 1.96 million tonnes in 2017. While this is a relatively [small portion](#) of China's overall soybean imports, it was a welcome windfall for Canadian producers.

There are no formal, technical barriers facing soybean sellers, but a year of [poor weather](#), [weaker global demand](#) arising from China's swine fever outbreak, and trade war challenges have cut the value of exports to China by 98.1%. This number is expected to have dropped to just 50,000 tonnes in 2019 – far below normal volumes. The hardships facing Canadian soybean producers have received comparably less attention from media and government than those of canola, pork, and beef producers.

Further reading:

- **The Western Producer:** [Soybean growers feel abandoned by Ottawa](#)
- **Financial Post:** [Canola, soybeans and potatoes left in fields after weather and trade war deliver 'brutal' year for farming](#)

Atlantic Canada – Nova Scotia bets on China

While the rest of Canada saw a decline, the value of exports to China from the Maritime Provinces, plus Newfoundland & Labrador, increased by a collective 17.7%. Nova Scotia and Prince Edward Island, buoyed by U.S.-China tariff increases, ramped up trade with China. Lobster exports to China, in particular, have fueled a sort of "[boom](#)" in the Maritimes. The export value of live, fresh or chilled lobsters skyrocketed to \$456.7 million in 2019, up 77% when compared with 2018.

Nova Scotia Premier Stephen McNeil has been particularly outspoken in his [support](#) for increasing economic and cultural ties with China – even in the face of the adversarial bilateral relationship. Premier McNeil has made eight trips to China since 2013, most recently in November 2019 as part of a broader [Asia trade delegation](#). Total exports to China from the province totaled \$54 million in 2009, jumping to just under \$1 billion ten years later. Nova Scotia is also [introducing](#) direct charter flights with the Chinese city of Guangzhou, with the hopes of "hopes of increasing tourism directly to Nova Scotia and solidifying economic ties between the two regions."

However, there are already signs of disruption in the Canadian lobster industry arising from the U.S.-China trade deal. Seafood, including lobster, is included in the Chinese commitment to increase American agricultural imports by \$32 billion – a move that could be a windfall for American fishermen. Short-term Chinese demand has also [declined](#) due to the ongoing Coronavirus epidemic. Prices have dropped, and shipments have effectively been halted. According to a recent [Globe and Mail](#) report, lobster exporting business owners are having trouble finding work for their employees and “smaller seafood processors in the province have already begun issuing layoff notices.” While this may only be a short-term issue, it illustrates China’s outsized role in the province’s economic livelihood.

Further reading:

- **The Globe and Mail:** [The U.S.-China trade war is a boon for Atlantic Canada’s lobster harvesters. But what’s the catch?](#)
- **CTV News:** [N.S. premier defends trade mission to China as Canadians remain behind bars](#)
- **The Globe and Mail:** [Nova Scotia’s lobster industry fears prolonged effects of coronavirus outbreak as exports halted, prices drop](#)