

Middle Power Adjustments

Evaluating Canada's Increased Engagement with China

- Canada's renewed engagement with China is a calculated diversification strategy amid enduring U.S. dominance, though U.S. structural dependence constrains Canada's strategic autonomy.
- Canada's approach demonstrates that economic and geopolitical diversification within limits is possible — offering useful lessons for Europe.

Introduction

The global economy can best be described as asymmetrically multipolar, with economic diffusion but no systemic power parity. Trade and production are diversifying across regions, yet finance, security alliances, and high-value technological ecosystems remain heavily centered on the United States.

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At the January World Economic Forum in Davos, Canadian Prime Minister Mark Carney made international headlines when he argued that middle powers must “step up” in an era increasingly defined by the U.S.-China rivalry.¹ For Canada, this is not a rhetorical position but a necessity. Canadian policymakers have increasingly faced a strategic dilemma in recent years - how to preserve economic prosperity while remaining deeply integrated with the United States and increasingly exposed to China.

Canada is pursuing a new China policy that reflects this middle-power adjustment. Its approach is to diversify its economic and geopolitical ties, elevating China to a strategic partner, while it manages a strained bilateral relationship with the United States.

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Canada has also adopted a more hawkish approach in its negotiations with the United States. At the same time, the EU, except for its coordinated response to Trump's renewed threats to acquire Greenland, has taken a more dovish stance.

The paper demonstrates the limits of Canada's diversification strategy under enduring U.S. centrality as structural dependence constrains strategic autonomy. It also gives the EU an idea of what can be learned from Canada's stronger negotiating approach.

Conceptual framework

The discussion about Canada-China relations often conflates key strategic concepts.

Diversification is an economic risk-management strategy that reduces concentration risk across trade, investment, or supply chains. Measurable indicators include trade share ratios, foreign direct investment (FDI) flows, and sectoral exposure. By contrast, hedging is simultaneous engagement in and balancing of activities to secure economic benefits while mitigating security threats.

Strategic autonomy is the capacity to act independently, without excessive reliance on any single partner and without vulnerability to coercion. On the other hand, realignment is a systemic shift in geopolitical orientation, including institutional and security commitments or agreements.

The evidence thus far shows the limits of Canada's diversification strategy as structural dependence constrains strategic autonomy.

There is limited proof of realignment. Canada remains a member of the U.S.-Mexico-Canada Agreement (USMCA), its NATO commitments are unchanged, and its relationships with the other members of the Five Eyes (Australia, New Zealand, the United Kingdom, and the United States) are intact. Canada also has not reoriented its security alignment with the United States. There has also been no shift in structural dependency. It continues to have significant U.S. export concentration.

Canada has also not achieved strategic autonomy. It continues to depend on U.S. market access, dollar liquidity, and integrated supply chains.

Based on this framework, Canada's approach to China reflects economic diversification within a hedging strategy. Its engagement functions primarily as risk management rather than a realignment or geopolitical pivot.

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Canada's China policy

Bilateral tensions intensified in late 2018 after Canada arrested a Huawei executive, and China retaliated by arresting two Canadian citizens.² In 2022, Ottawa's Indo-Pacific Strategy labeled China an "increasingly disruptive global power."³

After taking office in March 2025, Carney warned of new threats to Canada's security and sovereignty from an "assertive China."⁴ However, relations improved after Carney met with Chinese President Xi Jinping in October 2025. Then, in January, Carney visited China, becoming the first Canadian prime minister to do so since 2017. During the visit, Carney stated that Ottawa and Beijing were forging a new strategic partnership.⁵

One of the key pillars of Canada's new China policy is expanded trade. Canada hopes to increase exports by 50% by 2030.⁶ Both sides also committed to resolving long-standing trade barriers, including reducing tariffs on Chinese electric vehicles and Canadian canola seeds.⁷

Canada has relaxed investment rules in non-sensitive sectors, such as energy, agriculture, and consumer goods.⁸ It also seeks to expand two-way investments and trade in clean and conventional energy and accelerate Chinese investment opportunities in Canada.⁹

Canada selectively expands economic ties with China while it protects its national and economic security

At the same time, Canada has established guardrails to protect its national interests. Carney ruled out deepening ties with China in artificial intelligence, critical minerals, and defense.¹⁰ This duality reflects hedging: Canada selectively expands economic ties with China while it protects its national and economic security.

Constraints and risks

Canada's China strategy, however, faces many domestic and international challenges.

Domestic Constraints

Pew Research Center surveys show that only 34% of Canadians have a favorable view of China.¹¹ Concerns include human rights, foreign interference, and past bullying tactics.

Regionally, some provinces, such as Alberta and Saskatchewan, stand to benefit from reduced tariffs on canola.¹² However, the automotive sector in Ottawa would face increased competition from Chinese imports.¹³

The Canadian Vehicle Manufacturers' Association has also warned that engaging with China on EVs would undermine local manufacturing and pose data security concerns.¹⁴

U.S. and Chinese Risks

Canada faces the risk of U.S. retaliation for its increased engagement with China. Trump has already imposed tariffs on lumber, autos, steel, and aluminum, and threatened to impose an additional 100% tariff on Canadian goods after Carney announced a "strategic partnership" if Canada agreed to a trade deal with China.¹⁵ Notwithstanding the late February Supreme Court ruling that invalidated some of Trump's tariffs, he is likely to continue threatening and imposing tariffs to influence the actions of foreign governments.

Canada's economic integration with the United States, via the USMCA, is a constraint and a source of vulnerability. Integrated automotive supply chains, energy interdependence, and regulatory alignment with the United States limit Canada's ability to quickly reorient away from the United States. Moreover, the USMCA sunset clause review in June provides the United States with leverage. Trump is reportedly considering scrapping the three-country trade agreement and pursuing bilateral deals instead.¹⁶ It could also demand that Canada curb its engagement with China in exchange for continued U.S. market access.

Canadian diversification reduces vulnerability to the U.S. but introduces exposure to Chinese coercion

China has also demonstrated a willingness to employ coercion. In 2019, Beijing increased tariffs on Canadian canola and restricted Canadian imports of seed, pork, and beef products amid diplomatic tensions.¹⁷ Thus, Canadian

diversification reduces marginal vulnerability to the United States, but its increased engagement with China also introduces exposure to Chinese economic strong-arming tactics.

China's perspective

Beijing may welcome limited Canadian diversification away from U.S. overdependence, but it is unlikely to offer concessions that meaningfully alter Canada's structural constraints. Its incentives favor symbolic engagement and selective economic access, not a structural underwriting of Canadian autonomy from the United States.

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China lacks the economic incentive to rebalance Canada away from the United States on a structural level. Canada is marginal in China's global trade portfolio. It would also be very unlikely for China to provide Canada with preferential market access, financial backstopping, or security guarantees. It does not offer such support to U.S. treaty allies.

These dynamics underscore the asymmetric dependence in the Canada-China relationship.

Implications

The United States remains central to global finance, technology ecosystems, and high-value supply chains. However, trade diversification is observable at the margins. Supply chain "friend-shoring" and "China+1" strategies reflect economic risk management rather than systemic decoupling.

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Canada's experience illustrates this dynamic: confrontation with Washington, such as tariff disputes, can coexist with robust engagement elsewhere. Diversification, therefore, reduces marginal vulnerability, but not core dependency.

Lessons for the European Union

The EU has historically taken a more accommodating stance toward the United States and China. In 2025, it was weak in its trade negotiations with the United States but showed more resolve earlier this year in response to Trump's renewed calls to acquire Greenland.

It is worth noting that the EU differs from Canada in several respects. The EU's single market rivals the United States and China in economic size. However, unlike Canada's centralized trade authority, the EU must maintain cohesion among 27 member states. The EU's export dependence on the United States is significant, but far lower proportionally than Canada's reliance on the United States.

Certain Canadian lessons are transferable to the EU. For example, Canada shows that a firmer posture is possible under certain conditions. The bloc

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would need to maintain internal cohesion, coordinate industrial and trade policy instruments, maintain credible security guarantees independent of U.S. fluctuations, and have the resolve to absorb short-term economic retaliation.

In addition, the EU could engage China in non-sensitive sectors while protecting critical technologies. It could also reduce exposure to the United States without seeking to break or replace transatlantic ties.

There are also non-transferable lessons. Canada has a narrower maneuvering space. It is more vulnerable to U.S. retaliation due to its geographic proximity and trade concentration. In this regard, the EU enjoys greater structural leverage. Although Canada is deeply reliant on the United States for regional defense, it faces no serious external threats. On the other hand, the EU relies on the U.S. security umbrella for strategic deterrence and faces real threats from Russia.

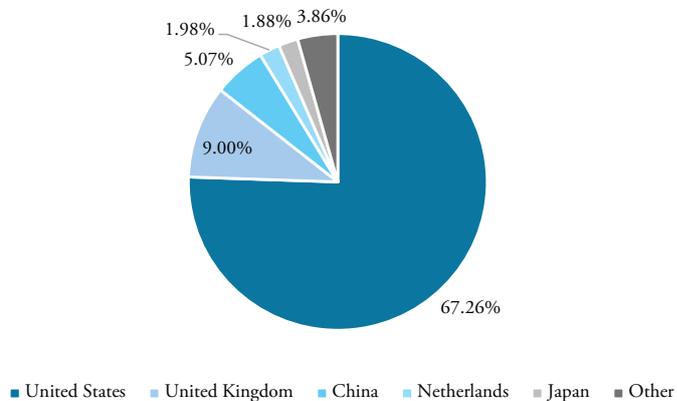
Conclusion

Canada exemplifies pragmatic hedging under asymmetric power conditions. Its engagement with China is best understood as economic risk management within a framework of enduring U.S. centrality. Diversification reduces vulnerability at the margins but does not constitute realignment.

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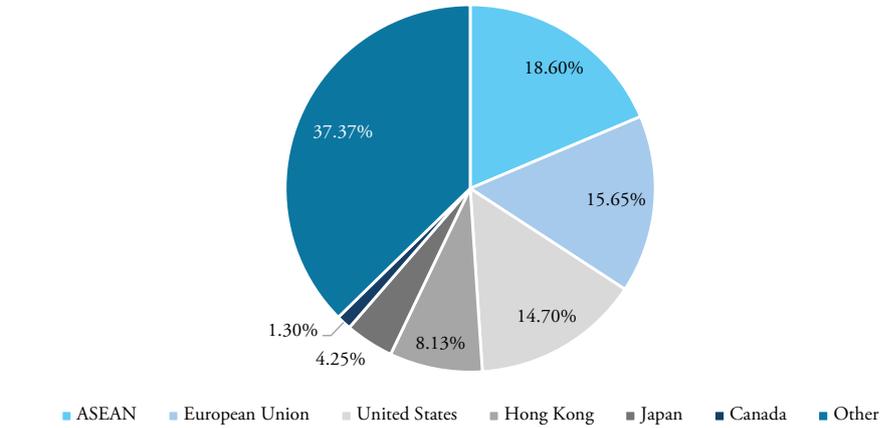
Canada’s case shows that diversification can mitigate marginal risks, but it is not a solution to structural dependence on the United States. The EU could adapt as the U.S. economic gravitational pull weakens. However, its goal of achieving strategic autonomy would require confronting U.S. pressure when necessary and managing China engagement in coordination and with discipline.

EXHIBIT 4.0 – TOP CANADIAN EXPORT MARKETS BY PERCENTAGE, OCTOBER 2025



Source: Statistics Canada.

EXHIBIT 5.0 – TOP CHINESE EXPORT MARKETS BY PERCENTAGE, 2024



Source: UN Comtrade Database.

Notes

- ¹ <https://www.weforum.org/stories/2026/01/davos-2026-special-address-by-mark-carney-prime-minister-of-canada/>
- ² <https://ici.radio-canada.ca/rci/en/news/2089688/joly-meets-wang-beijing>
- ³ <https://www.international.gc.ca/transparency-transparence/indo-pacific-indo-pacifique/index.aspx?lang=eng>
- ⁴ <https://www.pm.gc.ca/en/news/speeches/2025/06/09/prime-minister-carney-announces-governments-plan-rebuild-rearm-and>
- ⁵ <https://www.dw.com/en/canadas-carney-hails-new-strategic-partnership-with-china/a-75530036>
- ⁶ <https://www.pm.gc.ca/en/news/news-releases/2026/01/16/prime-minister-carney-forges-new-strategic-partnership-peoples>
- ⁷ *Ibid.*
- ⁸ <https://www.pm.gc.ca/en/news/statements/2026/01/16/canada-china-economic-and-trade-cooperation-roadmap>
- ⁹ <https://www.pm.gc.ca/en/news/news-releases/2026/01/16/prime-minister-carney-forges-new-strategic-partnership-peoples>
- ¹⁰ <https://www.cbc.ca/news/politics/canada-china-security-carney-9.7022515>
- ¹¹ <https://www.pewresearch.org/2025/07/15/views-of-china-and-xi-jinping-2025/>
- ¹² <https://www.bbc.com/news/articles/cm24k6kk1rko>
- ¹³ *Ibid.*
- ¹⁴ <https://www.cbc.ca/news/business/canadians-chinese-electric-vehicles-9.7087040>
- ¹⁵ <https://www.bbc.com/news/articles/cy4qww3w72lo>
- ¹⁶ <https://www.nytimes.com/2026/02/19/business/economy/trump-canada-mexico-usmca-trade.html?smid=nytcore-android-share>
- ¹⁷ <https://www.reuters.com/world/asia-pacific/chinese-importer-buys-first-canadian-canola-cargo-months-after-carney-visit-2026-01-19/#:~:text=CHINA'S%20CANADIAN%20CANOLA%20IMPORT%20COLLAPSE,dispute%20between%20the%20two%20countries.>