January 2026. Canada and China

The Canadian Prime Minister Mark Carney has finalized a trade arrangement with Beijing. This is - by far - Ottawa's boldest departure from the US, economically, in decades. In short, the deal opens Canada's EV market to Chinese manufacturers and provides Canadian agricultural exporters relief from steep tariffs.

The historical context to this new deal is the Meng Wanzhou affair. In December 2018, Canada arrested Huawei's chief financial officer. Beijing retaliated by detaining former Canadian diplomat Michael Kovrig and NGO worker Michael Spavor for 1,020 days. The net result was the total freezing of bilateral relations between the two countries. Indeed, no Canadian prime minister had visited Beijing since Trudeau's 2017 trip.

This cycle of retaliation intensified in 2024 and through 2025. Trudeau imposed 100% EV tariffs in October 2024 - essentially following US policy. Beijing retaliated in March 2025 with 100% tariffs on canola oil and meal - plus 25% duties on pork and seafood. By August 2025, China added a 75.8% anti-dumping duty on canola seed. This entailed that Canadian farmers were now locked out of their largest export market.

In fact, Carney became Canada’s prime minister in March 2025, at the very point when trade tensions were peaking. This diplomatic restart between Ottawa and Beijing began to manifest itself slowly thereafter, starting with the Canadian and Chinese trade ministers meeting in Paris in June 2025.

Carney and Chinese Premier Li Qiang met at the UN General Assembly in September. In October, Carney and Xi Jinping held a 39-minute meeting in South Korea. Change was clearly in the air. For China, Canada was no longer viewed negatively.

The recent deal was Canada’s response to economic pressure from the US government. Ottawa felt it was far too reliant on the US economically and that it must diversify away and ‘spread its bets across the roulette wheel’. For context, around 80% of Canadian manufactured goods flow south to the US and Trump imposed 25% tariffs, as well as floating the idea of Canada becoming a "51st state." Carney clearly saw that Canada was too economically vulnerable - his aim is to grow exports to China by 50% by 2030 - and double non-US exports by 2035.

Canada's shift can be seen as part of a wider global trend, with some Western economies recalibrating their approaches to China. In fact, a few days before the China-Canada deal announcement, the EU and China reached their own arrangement – which replaced EV tariffs with a minimum price mechanism. This means that Chinese automakers can avoid tariffs of up to 45.3% if they commit to minimum price floors for each vehicle model. The deal isn't perfect for Brussels and there is certainly some vocal opposition in Europe. Chinese brands had already captured over 10% of Europe's EV market in 2025, even before this new deal. It is all a pragmatic calculation: economic realpolitik.

Interestingly, by moving away from the US, China has posted a record trade surplus of nearly $1.2 trillion in 2025, despite the tariff war with the US, with Chinese exports rising 5.5% to $3.77 trillion.

Chinese exports have also flooded into Southeast Asia, Europe, Latin America, and Africa. Indeed, Chinese goods flowing into the EU surged by nearly 15% in 2025. The US tariffs, rather than isolate Beijing, have opened up new trade avenues for China – at least so far. Watch this space.

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