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Canada’s Indo-Pacific Strategy**

By Amisha Grewal & Sinit Abraha

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POLICY PERSPECTIVE

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Conference Report

Canada’s Indo-Pacific strategy is increasingly defined by a central dilemma: how to engage economically with China while responding to intensifying geopolitical competition. At a recent Canadian Global Affairs Institute (CGAI) policy discussion, *Stephen Nagy, Carlo Dade, and Ian Brodie* examined how Canada might navigate this tension while maintaining both economic stability and strategic credibility in the region. This report summarizes key themes and insights from the CGAI facilitated roundtable. Note: this summary does not attribute any views by any of the panelists or attendees, as this was conducted under Chatham House Rule.

Executive Summary

The panel explored Canada’s evolving relationship with China and its broader Indo-Pacific strategy. A central question that guided the discussion was whether renewed engagement with China represents a tactical effort to strengthen Canada’s bargaining position with the United States, or a longer-term shift in Canadian foreign policy. Panelists emphasized engagement with China is unavoidable given the country’s economic scale and its deep integration into global supply chains. At the same time, deepened engagement with China presents significant strategic challenges, including efforts to reshape aspects of the international order and reported instances of political interference abroad.

The discussion highlighted the limits of Canada’s diversification strategy. While expanding engagement across the Indo-Pacific may strengthen economic resilience, Canada’s relationship with the United States will remain the cornerstone of its trade and security partnerships. Panelists also questioned whether Canada currently possesses the diplomatic capacity or economic weight required to lead a coalition of middle powers in the region. To conclude, it became clear that Canada cannot ignore China, but it must approach the shifting relationship with caution. For Canada, the key policy challenge is how this relationship can be managed while protecting national interests and maintaining credibility with partners across the Indo-Pacific.

Canada’s Strategic Position in the Indo-Pacific

The Indo-Pacific has emerged as the central arena of global economic growth and geopolitical competition. The region encompasses Southeast Asia, Northeast Asia, and the Indian Ocean, and includes several of the world’s fastest-growing economies. For



Canada, engagement in the region presents both economic opportunities and strategic challenges.

Canadian policymakers have increasingly emphasized the importance of expanding economic and diplomatic engagement in the Indo-Pacific. However, Canada’s strategy continues to be shaped by two structural realities: the central role of China in the regional economy and Canada’s deep economic integration with the United States.

Together, these realities complicate Canada’s strategic positioning. While engagement with China may offer economic opportunities, it also raises questions about Canada’s alignment with its traditional partners and the broader geopolitical environment. In response to this dilemma, panelists suggested that engagement with China cannot be treated as a simple geopolitical lever. Instead, Canada must develop a strategy that recognizes both the necessity of engagement and the risks associated with it, including potential economic dependency and the impact on relationships with allies.

China as an Unavoidable Complex Partner

A recurring theme throughout the discussion was Canada’s inability to realistically disengage from China’s economy. With a population exceeding 1.4 billion and an economy deeply embedded in global manufacturing networks, China will remain a central actor in the international economic system for decades. China continues to play a dominant role in several strategic sectors, including electric vehicles, renewable energy technologies, and advanced manufacturing. These industries are increasingly important to global economic competition and technological development.

At the same time, panelists emphasized how China poses significant strategic challenges for Canada and other liberal democracies. Beijing has increasingly sought to reshape elements of the international system, engaging in activities such as political interference and pressure on democratic institutions abroad. These dynamics make the Canada–China relationship both necessary and complicated. The central policy challenge for Canada is therefore how to maintain economic engagement while safeguarding domestic institutions and strengthening national resilience.

Limits of Trade Diversification

Canada has more recently emphasized the need to diversify its trade relationships beyond the United States, which currently accounts for around three-quarters of Canadian exports. However, panelists stressed that there are clear structural limits to how far such diversification can realistically proceed.

The United States remains Canada’s dominant economic partner. An interdependence and deep integration of economies over past decades under evolving free trade arrangements have defined this relationship. This level of economic



integration makes it unlikely that China, or any other country, could replace the United States as Canada’s primary economic anchor.

While the Indo-Pacific presents opportunities for diversification, potential partners face their own constraints. Japan and South Korea remain important economic partners but face demographic decline that may limit long-term growth. India represents a large potential market but remains a complicated trading partner due to political tensions and trade restrictions in several sectors. Therefore, diversification should be understood as a tool of economic resilience, rather than a direct replacement for Canada’s core relationship with the United States.

Middle Powers and Regional Leadership

The panel also considered whether Canada could play a leadership role among middle powers in the Indo-Pacific. While middle-power cooperation has gained renewed attention as countries seek to navigate increasing competition between the United States and China, panelists expressed skepticism that Canada currently possesses the capacity to lead such initiatives. Instead, Japan was identified as a more credible regional leader due to its economic weight, diplomatic presence, and deep integration into Asian markets. Following the withdrawal of the United States, Japan’s leadership in sustaining the Trans-Pacific Partnership was cited as a clear example of effective middle-power diplomacy.

Participants also pointed to reductions in diplomatic personnel and institutional resources at Global Affairs Canada as limits to Canada’s middle-power leadership potential. These constrain Canada’s ability to maintain a sustained presence in the Indo-Pacific and to build the long-term relationships required for regional influence. Strengthening ties with partners such as Japan, South Korea, and Southeast Asian states may therefore be a necessary step before Canada attempts to assume a broader leadership role in the region.

Strategic Competition and Industrial Policy

The discussion also reflected broader changes in the global economic environment. Strategic competition between the United States and China is increasingly reshaping global supply chains, technology sectors, and investment flows. In response, governments around the world are adopting more active industrial policies aimed at strengthening domestic industries and securing access to critical technologies and resources.

For Canada, this shift presents both opportunities and challenges. Canada possesses significant advantages in sectors such as energy, natural resources, and critical minerals—industries that are becoming increasingly central to global industrial



strategies. However, capturing these opportunities will require coordinated policy, sustained investment, and stronger collaboration between government and industry.

Conclusion

The discussion brought home the complexity of Canada’s strategic position in the Indo-Pacific. China remains an unavoidable economic partner, but engagement must be managed carefully given the political and security risks associated with the relationship. Expanding engagement across the Indo-Pacific may improve economic resilience, but it cannot replace Canada’s foundational relationship with the United States.

If Canada hopes to remain a meaningful actor in the region, it will need to strengthen diplomatic capacity, deepen regional partnerships, and invest more heavily in policy expertise focused on the Indo-Pacific.

Key Takeaways

- *China is unavoidable.* Canada must manage economic engagement with China while addressing geopolitical and institutional risks.
- *The United States remains central.* Canada’s trade and security relationship with the U.S. will continue to anchor its Indo-Pacific strategy.
- *Diversification builds resilience.* Expanding Indo-Pacific partnerships can strengthen economic flexibility but cannot replace the U.S. relationship.
- *Canada faces capacity limits.* Limited diplomatic resources and regional expertise constrain Canada’s leadership role in the Indo-Pacific.
- *Institutional investment is needed.* Stronger diplomatic networks and policy expertise will be essential for Canada to remain influential in the region.



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The Institute was created to bridge the gap between what Canadians need to know about Canadian international activities and what they do know. Historically, Canadians have tended to look abroad out of a search for markets because Canada depends heavily on foreign trade. In the modern post-Cold War world, however, global security and stability have become the bedrocks of global commerce and the free movement of people, goods and ideas across international boundaries. Canada has striven to open the world since the 1930s and was a driving factor behind the adoption of the main structures which underpin globalization such as the International Monetary Fund, the World Bank, the World Trade Organization and emerging free trade networks connecting dozens of international economies. The Canadian Global Affairs Institute recognizes Canada’s contribution to a globalized world and aims to inform Canadians about Canada’s role in that process and the connection between globalization and security.

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