Intelligence MEMOS

From: Jeremy Kronick and Farah Omran

To: François-Philippe Champagne, Minister of International Trade

Date: January 17, 2018

Re: **China and Australia, Lessons for Canada's Financial Sector.**

China presents an enormous opportunity to the global economy, including Canada's. A recent C.D. Howe intelligence memo highlighted the importance of the China-Canada relationship – along with some of the risks - while outlining our primary considerations for a bilateral free trade agreement. While many industries would benefit from free trade with the world's second largest economy, one of our most important - the financial services sector – deserves some detailed attention.

Justin Trudeau's recent visit to China, regrettably, did not result in the launch of formal trade negotiations. But the long-term trajectory suggests exploratory talks will proceed, and then the financial services sector will come up. When it does, some attention must be paid to the 2015 free trade agreement between Australia and China, adopting some of its cornerstones and avoiding, or improving on, others.

Previous C.D. Howe work has analyzed Canada's competitive strengths in financial and related services, while simultaneously generating a detailed ranking of countries on which our trade negotiators should focus. This ranking has consistently put China at the top of the list for 'attractiveness' due to its market size, room for further openness through the privatization of state-owned enterprises, and the easing of restrictive capital flow policies. With China's high saving rate, its transition towards deregulation of its financial services, and openness to international capital markets, its government appears to be supporting the rise of increased foreign economic participation. It is paramount that Canada's financial services sector not be left behind.

With that in mind, we recommend that Canada aims, at a minimum, for the following conditions obtained by Australia, some of which were the first in any trade agreement involving China:

- A commitment from China to the liberalization of financial services, including new market access in the banking, insurance, funds management and securities sectors.
- Allowing Canadian insurance providers access to China's lucrative statutory third-party liability motor vehicle insurance market without establishment or equity restrictions.
- Allowing Canadian securities brokerage and advisory firms to provide cross-border securities trading accounts, custody, advice and portfolio management services to Chinese Qualified Domestic Institutional Investors.
- The ability of Canadian financial service providers to establish joint-venture futures companies with up to 49 percent Canadian ownership.
- Expanding the ability of Canadian firms to participate in China's domestic underwriting business.
- China agreeing to review bilateral taxation arrangements as part of the forward work program to improve trade and investments conditions following the implementation of the FTA.

We should also strive for more. Canada must pay close attention to the influence of Chinese state-owned enterprises and their impact on the benefits of foreign direct investment into this country. Canada should also offer regulatory and infrastructure support for a smooth flow of information and trade. We should seek to minimize excessive formalities and paperwork, nurture investments and partnership opportunities with local institutions, and ease the movement of skilled labour and foreign content.

As economic nationalism becomes more popular, Canada continues to rightly champion the merits of free trade and globalism. In free trade negotiations, details matter. They matter even more when negotiating with an economy as big as China's.

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