

Post-COVID-19 Possibilities: The Beginning of a New Relationship with Asia?

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Issue

The COVID-19 pandemic has challenged the robustness of Canada's international supply chains. Despite the current struggles, the pandemic provides Canada with an opportunity to renew and strengthen its partnerships with Asia, to diversify its trade portfolio and to build more stable, robust international supply chains.

Background

Canada and China have maintained a bilateral relationship since the 1970s. However, the arrest of Huawei CFO Meng Wanzhou in Vancouver in late 2018, put a strain on this relationship. This arrest has contributed to political tensions that have impacted trade, investment and diplomacy. These issues have also challenged Canada's relationship with the United States. Overall, Canada continues to improve and expand its bilateral relations with China, but some crucial challenges remain. These include but are not limited to:

- Canada is unable to negotiate a free trade agreement with China due to differing views on issues such as human rights and market access.
- Wanzhou's detainment and potential extradition request from the United States have led to a diplomatic feud that has exacerbated Canada and China's bilateral relationship (Labrecque 2019).

- China has arrested and detained two Canadian citizens, former Canadian diplomat Michael Kovrig and businessman Michael Spavor, and in 2019 China's courts announced the conviction and death sentence of Canadian citizen Robert Schellenberg (Abedi 2019).
- China is blocking the imports of Canadian meat products and agricultural goods such as canola products, soybeans and peas, stating concerns with pesticides and bacteria (ibid.).
- Currently, canola seed shipments from Richardson International and Viterra Inc remain blocked from export to China (Johnson and Gu 2020). Canola seed shipments from other Canadian companies have continued despite the expiration of their quota agreement on March 31, 2020 (Johnson and Gu 2020). These restrictions are unlikely to be resolved due to China's long-term agricultural policy goal to reduce its dependency on specific country suppliers (Wang and Leblond 2019).

These diplomatic events have presented minimal options for resolving the conflict. They are unlikely to improve until the end of Wanzhou's extradition proceedings and the release of the Canadian detainees. However, the current COVID-19 pandemic presents opportunities to repair and strengthen Canada's relations with China.

COVID-19 and the Breakdown of International Supply Chains

The disruption of international supply chains is among the most evident economic outcomes of the current pandemic. COVID-19 has shown that cooperation is essential in order to protect the global community, yet countries are turning inward and causing disruptions in supply chains to procure essential supplies for themselves (Schwanen and Hodgson 2020). These disruptions are severely impacting economies and trade relations between nations.

Several countries are implementing export restrictions, which limits the distribution of essential supplies outside of their borders (International Trade Centre [ITC] 2020).

These export restrictions have highlighted the vast inequalities between countries, where wealthier nations compete with each other to obtain supplies, and the small to medium economies are unable to pay the inflated prices (Cochrane and Harris 2020).

Canada has been hit particularly hard by the pandemic, as their perceived allies are placing trade restrictions that limit supplies it can import (Valdez Bettcher 2020). In response to these new regulations, Canada is looking for new avenues to build up their supply chains.

More Robust International Supply Chains

The supply chain disruptions comprise shortages in medical supplies such as personal protective equipment (PPE), gloves, facemasks, hand sanitizer and pharmaceutical products (ITC 2020). These shortages are pandemic contingent and will recover over time. However, this crisis highlights the need for countries to find a balance between emergency preparedness and business as usual.

For Canada, the pandemic demonstrates that it should not only build up its domestic infrastructure, but also build up supply chains with Asia. Internationally, many Asian countries are slowly starting to recover from the pandemic and now present an opportunity for Canada to establish renewed ties. South Korea, Taiwan and China have sent millions of masks and thousands of test kits to Canada (Valdez Bettcher 2020). China and Canada have also established a network to import PPE. Canada is buying from multiple Chinese factories to limit being

dependent on a single supplier (Cochrane and Harris 2020). Previously, Asian countries played a smaller role in supplying medical equipment (see Figure 2), but as of 2020, they have become central to providing Canadians with protective supplies (Valdez Bettcher 2020). Canada leaning toward Asia for support during this difficult time could represent the beginning of this re-balance toward diversified, modern and inclusive trade.

Figure 2: Asian Countries as a Source of Medical Supplies to Canada, 2019

Medical Supply	% share of Canada's Imports, 2019
Thermometers and Pyrometers	China - 21%
Gloves of Vulcanized Rubber	China - 15%
Specific Hand Sanitizers and Components	China - 13%
Spectacles and Goggles	China - 9%
Ultrasonic Scanning Apparatus	China - 8%, South Korea - 8% and Japan - 8%
Medical Electro-Diagnostic and Patient Monitoring Apparatus	China - 5% and Japan 14%

Source: Valdez Bettcher 2020.

Canada's Supply Chain and Patent Ownership

There is a growing gap between intangible assets created in Canada and those owned by Canadians (Gallini and Hollis 2019). This gap manifests in the disproportionate assignment of intellectual property rights to foreign firms for technology invented and commercialized in Canada. For instance, in terms of pharmaceutical innovation, Canada holds sixth place in the global ranking, but when it comes to ownership, it falls to eighth place (ibid.).

This limits potential economic benefits that accrue to the Canadian economy from scaling up and commercializing technology owned by foreign firms. Considering Canada's current initiative of emphasizing the Patent Act as part of its emergency response to the pandemic, foreign firms' ownership and control of access to patents may pose particular challenges to finding a quicker, cheaper and

universally accessible solution to the ongoing supply chain problem (Clavette and de Beer 2020).

In Canada, generic pharmaceutical products are commonplace due to their lower price points. Recently the United States has expressed concerns with Canada's plan to overhaul its drug pricing system (McCarten 2020). This plan threatens IP rights, as Canada will stop using the United States' and Switzerland's pricing mechanism to determine prices for Canadian consumers (ibid.). These tensions remain pronounced as pharmaceutical firms and governments race to ascertain future ownership rights over a potential COVID-19 vaccine or treatment.

The high degree of integration among the economies of the United States and Canada, with all its benefits, still presents risks and uncertainties to Canada's PPE supply chain during the current pandemic. It also poses challenges to Canada's promotion of generic pharmaceutical products as the United States continues to push for stronger IP protection. This could potentially delay the entry of generic products into the market and increase costs within the healthcare system. These issues suggest the need for Canada to diversify its trade engagement with Asia; more than 90 percent of China's 4,300 pharmaceutical manufacturers produce generic products (Palmer and Bermingham 2020).

Recommendations

These recommendations are in alignment with Global Affairs Canada's priorities of strengthening Canada's place in North America, pursuing diversified, modern and inclusive trade and revitalizing the rules-based international order.

- 1. Canada should continue to build up its domestic supply chains while keeping its options open to international collaboration.** Canada demonstrates we can innovate and adapt in times of crisis, and this presents an opportunity for our country to build up domestic output to compete and expand influence in the global market.
- 2. Canada should strengthen regional connectivity and build resilient supply chains through information sharing on policy measures within the Asia-Pacific Economic Cooperation (APEC) countries, beyond the current COVID-19 arrangement.** The commitment by APEC member countries to

collaborate and trade to limit global supply chain disruptions (Government of Canada 2020) provides Canada with an opportunity to establish more robust and diverse trade relations.

- 3. Canada should seize the opportunity to de-escalate tensions and begin repairing its relationship with China.** Currently, Canada has established new supply chains with China, mainly focusing on importing medical equipment. Canada can build on this COVID-19 partnership to expand trade in other areas and potentially promote Canadian values.
- 4. Canada should collaborate with China to combat the global pandemic, to conduct scientific research and disseminate information on global health issues.** As a result, the two countries could amalgamate financial and technological resources in supporting their scientists to develop a COVID-19 vaccine.
- 5. Canada needs to capitalize on its innovative capacity by expanding a significant portion of its trade engagement with Asia.** By establishing strong relations, especially with China, it may help mitigate economic consequences caused by disruptions in critical supply chains and trade in general.

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