



# Canada and the Changing World Order

Navigating Trade Policy in Turbulent Times

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Edited by

Sean Speer and Taylor Jackson

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# Introduction

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As the United States retreats from being a unipolar power, the prevailing global order is at a crossroads.<sup>1</sup> For Canada, it's time to start thinking about what comes next and what it means for Canadian policy. The shifting balance of power—marked by the rise of China, renewed assertiveness from Russia, the growing influence of regional actors, and a more belligerent United States—requires Canada to reassess its alliances, trade relationships, and defence commitments. This transitional moment presents both risks and opportunities, demanding a more proactive, strategic foreign policy. Canada must consider how to uphold its values, protect its interests, and maintain relevance in a multipolar world where old assumptions may no longer apply.

The Centre for Civic Engagement is publishing a new essay series to grapple with these seismic changes and offer a new clear-headed direction for Canadian foreign policy. This edited volume considers the future of Canadian trade policy.

<sup>1</sup> Sean Speer and Taylor Jackson, "With America actively choosing decline, it's time for Canada to adapt to a changing world order," *The Hub* (2025, February 15), <https://thehub.ca/2025/02/15/sean-speer-and-taylor-jackson-with-america-actively-choosing-decline-its-time-for-canada-to-adapt-to-a-changing-world-order/>.

# Time, Inflation, and Markets are on Canada's Side in Trump's Tariff Wars

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FEN OSLER HAMPSON AND TIM SARGENT

*Fen Osler Hampson is the Chancellor's Professor & Professor of International Affairs at Carleton University.*

*Tim Sargent is a Senior Fellow and the Director of the Domestic Policy Program at the Macdonald-Laurier Institute, and Distinguished Fellow at the Centre for International Governance Innovation.*

The Ides of March will soon be upon us and it's not looking good. President Donald Trump's 25 percent tariffs will fall like an axe on March 4th unless by some miracle we get a stay of execution.<sup>2</sup> The pleas of Canada's premiers and federal officials who recently pounded the streets of Washington in a blizzard were met with polite indifference by the generally low-level White House officials and the Congressional B-team with whom they met. We should prepare for and expect the worst.

As with any bully, the real question you have to ask is, "Can he really do anything to hurt us beyond bombast and insults?" The answer is "yes, he can hurt us"—but not fatally, and Trump's ability to inflict pain and threaten us further will soon diminish.

## Tariffs won't turn us into the 51st state

Twenty-five percent tariffs (50 percent in the case of steel and aluminum because of stacking) would be extremely painful and drive Canada's economy into a severe recession, perhaps shrinking GDP by 4 percent or more.<sup>3</sup> Still, they will not destroy the Canadian economy, which has faced such threats before, or lead to a stampede to become the 51st state, which Canadians have repeatedly said that they do not want (Americans are also lukewarm to the idea).<sup>4</sup>

Canada's economy experienced what would be similar levels of economic pain during the COVID lockdown, but we successfully soldiered on.<sup>5</sup> If Ottawa is successful in getting the provinces to remove key interprovincial barriers to trade and, at the same time, beef up spending to fix Canada's creaky critical infrastructure—roads, rail, pipelines, ports and airports, electricity grids, etc.—these measures could offset some of the damage Trump is about to inflict upon on.

<sup>2</sup> John Paul Tasker, "Trump says he'll hit Canadian goods with 25% tariff next week after month-long pause," *CBC News* (2025, February 24), <https://www.cbc.ca/news/politics/trump-tariffs-next-week-1.7467202>.

<sup>3</sup> Pamela Heaven, "Posthaste: Worst 'trade shock in nearly 100 years' could wipe out growth in Canada," *Financial Post* (2025, February 3), <https://financialpost.com/news/donald-trump-tariffs-could-throw-canada-into-recession>.

<sup>4</sup> Douglas A. Irwin, "The Nixon Shock after Forty Years: The Import Surcharge Revisited," *NBER Working Paper 17749* (2012), <https://www.nber.org/papers/w17749>; David Montgomery, "Binational poll: Most Canadians and many Americans oppose Canada joining the U.S.," *YouGov* (2025, January 31), <https://todayyougov.com/politics/articles/51505-most-canadians-many-americans-oppose-canada-joining-us>.

<sup>5</sup> Livio Di Matteo, "The Economic Impact of COVID-19 on Canada and the Provinces," *The Fraser Institute* (2022), <https://www.fraserinstitute.org/sites/default/files/storm-without-end-economic-impact-of-covid-19-on-canada-and-provinces.pdf>.

## Trump has limited economic leverage

Trump assumes that it is foreign producers who pay all the cost of tariffs. Not true—for products like aluminum, where the U.S. has limited domestic capacity and supply is inelastic, it is U.S. consumers who will pay the freight.

To bring us to our knees, Trump would have to go from tariffs to primary sanctions or outright trade restrictions on Canadian exports. However, such action would be counterproductive and drive the price of commodities and capital and intermediary goods through the roof while costing U.S. consumers heavily, much more so than his proposed tariffs.

Trump could also resort to financial sanctions, such as limiting the provision of financial services and Canadian access to U.S. financial markets. He might try to prevent Canadian companies from doing business in the U.S. or with the U.S. government.

However, the consequences of financial sanctions for Wall Street and the knock-on effect on global financial and equity markets would be devastating. Canadian banks and our pension and mutual funds are some of the biggest players in the world, not to mention major equity holders in the U.S. Many Canadian companies and investment dealers are registered to trade U.S. securities. Other foreign companies fearing the same treatment would pull out of the U.S. The capital flight from the U.S. would be instantaneous and massive.

Trump may be impulsive and reckless, but he is not suicidal. Short of an outright military invasion, which his advisors have ruled out, Trump's economic leverage on Canada and his capacity to threaten our sovereignty are ultimately limited.<sup>6</sup>

## Americans have to feel the pain before Trump negotiates

Americans will have to feel the pain (along with us) before Trump decides to sit down at the negotiating table. That may come sooner than later because inflation is coming to the rescue.

The latest figures show that inflation in the U.S. has risen to 3 percent, and the Federal Reserve will not lower interest rates until it sees inflation coming down.<sup>7</sup> As Trump and Congress move to cut business and personal income taxes, one of his key election promises, the U.S. federal deficit will increase.<sup>8</sup> That, too, will stoke inflation. The much-ballyhooed DOGE cuts won't make a serious dent in the U.S. deficit unless Trump cuts social security and other entitlement programs—which are political dynamite (even for Republicans).

Trump will eventually have to backtrack on tariffs for the simple reason he won the election on the promise that he would lower prices and create jobs. His self-contradictory tariffs will drive the U.S. economy in the opposite direction. As every bona fide economist is now pointing out, tariffs will fuel inflation and throw tens of thousands of Americans out of work, including in key manufacturing sectors like autos, as the CEO of Ford recently warned.<sup>9</sup>

<sup>6</sup> Alexandra Marquez, "Trump's national security adviser: 'I don't think there's any plans to invade Canada,'" NBC News (2025, February 9), <https://www.nbcnews.com/politics/donald-trump/trump-national-security-adviser-no-plans-invade-canada-waltz-rcna191374>.

<sup>7</sup> Lucia Mutikani, "US consumer inflation increases at fastest pace in nearly 1-1/2 years in January," Reuters (2025, February 12), <https://www.reuters.com/markets/us/us-consumer-prices-increase-more-than-expected-january-2025-02-12/>.

<sup>8</sup> Tami Luhby, "Trump made a lot of tax promises. Can he keep them?," CNN (2024, November 16), <https://www.cnn.com/2024/11/16/politics/taxes-tips-trump-campaign-promises/index.html>

<sup>9</sup> David Shepardson, "Ford CEO holds meetings with lawmakers after raising concerns about tariffs," Reuters (2025, February 12), <https://www.reuters.com/business/autos-transportation/ford-ceo-holds-meetings-with-lawmakers-after-raising-concerns-about-tariffs-2025-02-13/>.

## How should Canada respond?

The key point here is that while we should anticipate tariffs, we probably shouldn't assume that they'll be in place for the long term. When Trump and his fellow Republicans decide to stop pummeling us with tariffs because they finally realize that their knock-on impact on inflation and unemployment will hurt them at the polls in mid-term elections, Canada has to be ready to sit down at the negotiating table.

Our starting position should be directed at eliminating all tariffs on Canadian commodities or capital and intermediate goods exported to the U.S. We must frame the narrative so that Trump understands that Canada is critical to lowering inflation—his bête noir and the Republicans' Achilles heel—and job creation.

Our commodities and intermediate and capital goods, including key sectors like autos, are also critical to Trump's MAGA goal to rebuild America's manufacturing capacity.

We need to hammer home repeatedly that America gets our commodities and goods at a much better price than anywhere else in the world because of our proximity and lower production costs. In an increasingly dangerous world, where security of supply is paramount, there is also no more secure and reliable supplier than America's northern neighbour.

## Show Trump we are on board with his principle of reciprocity

As part of our new border management initiatives, we also need to provide Trump with tangible evidence that not only are we in control of our borders when it comes to illegal migration and fentanyl but that we are also not a conduit for countries like China, who may use Canada to dump steel and other goods onto the U.S. market.

When it comes to non-tariff barriers like, for example, Canada's supply management policies in agriculture, we should also invoke Trump's principle of reciprocity. We would move to reduce such subsidies to agriculture if Americans who also subsidize their agriculture agree to do the same.

At the same time, we should agree with Trump that allowing finished goods from other countries, including China, which are often heavily subsidized, is not beneficial for either of our economies when they damage our industrial base. We should agree to follow his example by imposing our own reciprocal tariffs—as we have on Chinese electric vehicles—especially on countries that don't play by the rules and undercut Canadian producers and manufacturers, thus strengthening North America's economic security perimeter.<sup>10</sup>

Though some Canadian politicians are playing "Chicken Little" to frighten Canadian voters in an election season for partisan gain, the sky will not fall if we play our cards right, focus on what Trump can actually do to us, and not be distracted by his bluster and bombast. As with any game of poker, there are times when you have to be prepared to call the other side's bluff. We should also recognize that with each passing day, time and the reaction of markets are on our side and so too eventually will Americans as they feel Trump's inflationary pain.

<sup>10</sup> Martin Massé and Erin Brown, "A sign of things to come? Canada matches US trade measures against EVs, aluminium and steel from China," *Norton Rose Fulbright* (2024, November 26), <https://www.nortonrosefulbright.com/en/knowledge/publications/b0f89b0d/canada-matches-us-trade-measures-against-evs-aluminium-and-steel-from-china>.

# With the Return of Mercantilism, It's Going to Take More Than Diplomacy and Defence Spending to Secure Canada's Sovereignty

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PETER TERTZAKIAN

*Peter Tertzakian is an energy economist, author, artist, podcaster, and dynamic public speaker. He is the founder of Studio.Energy, a unique platform where corporate leaders, finance professionals, and policymakers come together to develop creative and analytic insights on the business of energy.*

## Canada must find its place in the world.

For many Canadians, it feels like we are lost at sea, trying to figure out who our friends and enemies are; who we're supposed to trade with; and most importantly where we can exert enough influence to feel relevant in increasingly turbulent, insecure times.

Longstanding assumptions we once considered unquestionable are now unraveling. From free trade with the U.S. to post-Second World War alliances and the influence of the United Nations, little can be taken for granted anymore.<sup>11</sup>

Geopolitical pacts are shifting faster than in a game of Risk and the global economic paradigm is far from stable. Our assumptions about international commerce—rooted for 200 years in the free-market principles championed by Adam Smith and David Ricardo—are now giving way to an era of heightened state intervention, industrial policy, and protectionism. In many ways, we are returning to an age of 17th-century mercantilism.<sup>12</sup>

Consider the strategies employed by the leading nations of the mercantile era. Between the 16th and 18th centuries, European powers such as England, France, Spain, and the Netherlands treated corporate competition as an essential instrument of national policy. Governments actively supported and directed their major trading companies—most notably the British East India Company and the Dutch East India Company—granting them monopolies, military protection, and political backing to secure trade routes, control vital resources, and expand overseas influence.<sup>13</sup>

<sup>11</sup> "Canada-U.S. Free Trade Agreement," *The Government of Canada* (2021), [https://www.international.gc.ca/trade-commerce/trade-agreements-accords-commerciaux/agr-acc/united\\_states-etats\\_unis/fta-ale/background-contexte.aspx?lang=eng](https://www.international.gc.ca/trade-commerce/trade-agreements-accords-commerciaux/agr-acc/united_states-etats_unis/fta-ale/background-contexte.aspx?lang=eng); Andrew McIntosh and C.P. Stacey, "Canadian Foreign Relations," *The Canadian Encyclopedia* (2006, February 7), <https://www.thecanadianencyclopedia.ca/en/article/external-relations>; John W. Holmes and Don Page, "United Nations," *The Canadian Encyclopedia* (2006, February 7), <https://www.thecanadianencyclopedia.ca/en/article/united-nations>.

<sup>12</sup> Taylor C. Noakes, "Mercantilism," *The Canadian Encyclopedia* (2006, February 7), <https://www.thecanadianencyclopedia.ca/en/article/mercantilism>

<sup>13</sup> Walter Donway, "The British East India Company: Hero of Free Trade?," *Adam Smith Works* (2022, December 7), <https://www.adamsmithworks.org/documents/donway-british-east-india-company-free-trade>

In the late 19th and early 20th centuries, American oil companies (like the Standard Oil Co.) and European multinationals (like the Anglo-Persian Oil Company which is now BP) acted on behalf of their states to secure global oil reserves, in what was called “the Great Scramble.” Whatever the era, these corporations were not merely profit-driven enterprises, they functioned as tools of statecraft, ensuring wealth accumulation and economic dominance over rival nations.

## Where do we see this behaviour repeating itself today?

China’s rapid economic expansion, driven by state-led investments and strategic global initiatives like the Belt and Road Initiative (BRI), has positioned the country as a dominant force in building geopolitical influence through trade, technology, and infrastructure building.<sup>14</sup> Since joining the WTO in 2001, China has aggressively pursued growth by securing a foothold in developing nations through multibillion-dollar projects, while advancing their self-sufficiency in critical industries such as solar panels, batteries, EVs, semiconductors, and artificial intelligence to name a few.<sup>15</sup> Companies like Huawei (telecommunications), BYD (electric vehicles), SMIC (semiconductors), CATL (batteries), and LONGi Green Energy (solar panels) serve as key instruments of China’s economic and geopolitical strategy, receiving state support to expand globally while securing critical supply chains and technological leadership in emerging industries. Their economic expansion over the past decade has been staggeringly fast: China has secured memorandums of understanding (MOUs) and loan agreements with over 149 countries worldwide, investing more than \$1 trillion in BRI projects.<sup>16</sup>

No wonder the Trump administration is touting MAGA. They recognized the Chinese neo-mercantilist behaviour during their first administration.<sup>17</sup> Now, with a stronger mandate and greater organization, the Americans are reacting to an even more powerful global influence that is militarily aligned with the likes of Russia.

After a month of rapid-fire shock statements from the White House, we have woken up to the fact that talk about taking over the Panama Canal, Greenland, and Canada is more than mere dinnertime mutterings, taunts, or jokes. Indeed, the mercantilists’ playbook can be summarized in a checklist. See how many of these major traits you recognize in recent headlines whether it’s from China or our neighbours to the south.

<sup>14</sup> Yuqing Yang, “Lessons and challenges of China’s state-led and party-dominated governance model,” *Global Policy* 14, no. S4 (2023): 58–66, <https://onlinelibrary.wiley.com/doi/10.1111/1758-5899.13274>; James McBride, Noah Berman and Andrew Chatzky, “China’s Massive Belt and Road Initiative,” *Council on Foreign Relations* (2023, February 1), <https://www.cfr.org/backgrounder/chinas-massive-belt-and-road-initiative>.

<sup>15</sup> Varun Sivaram, Noah Gordon, and Daniel Helmeci, “Winning the Battery Race: How the United States Can Leapfrog China to Dominate Next-Generation Battery Technologies,” *Carnegie Endowment for International Peace*, 2024, <https://carnegieendowment.org/research/2024/10/winning-the-battery-race-how-the-united-states-can-leapfrog-china-to-dominate-next-generation-battery-technologies?lang=en>; Laura Paddison and Ella Nilsen, “China made a bet decades ago because it couldn’t compete with the US on cars. That bet is paying off big,” *CNN* (2025, January 23), <https://www.cnn.com/2025/01/23/climate/china-evs-growth-oil-market/index.html>; Stephen Ezell, “How Innovative Is China in Semiconductors?” *Information Technology & Innovation Foundation* (2024), <https://itif.org/publications/2024/08/19/how-innovative-is-china-in-semiconductors/>; Renata Thiébaut, “DeepSeek: China’s AI challenges the West,” *Policy Options* (2025, February 24), <https://policyoptions.irpp.org/magazines/february-2025/deepseek-china/>.

<sup>16</sup> McBride, Berman and Chatzky, “China’s Massive Belt and Road Initiative.”

<sup>17</sup> Salman Ahmed and Alexander Bick, “Trump’s National Security Strategy: A New Brand of Mercantilism?,” *Carnegie Endowment for International Peace* (2017), <https://carnegieendowment.org/research/2017/08/trumps-national-security-strategy-a-new-brand-of-mercantilism?lang=en>.

- Acquisition or control of overseas wealth, largely in the form of valuable natural resources like critical minerals and hydrocarbons;<sup>18</sup>
- Control of trade routes into and out of strategic regions;
- Heavy government investment in strategic, domestic industries (think AI, cybersecurity, quantum computing, EVs, nuclear fusion);<sup>19</sup>
- High tariffs and trade restrictions under a deficit circumstance;<sup>20</sup>

The use of large, state-endorsed (not necessarily state-owned) companies to exert geopolitical influence—examples span everything from social media companies (think TikTok and X); to telecommunications (StarLink); to energy (from Western multinationals expanding LNG at the expense of Russia's Gazprom).<sup>21</sup>

The re-emergence of a mercantilist if not imperialist mindset has profound implications for Canada's search for identity and relevance.<sup>22</sup> Economically, the competition for global wealth is being shaped by nations leveraging their largest corporations as instruments of geo-economic influence, rather than being solely driven by multinational companies competing for profit. In other words, business rivalry is now more a contest between nations than a purely corporate struggle for international market share.

Whether it's mercantilism, imperialism, or other "isms," the nature of today's global economic paradigm can be debated over a glass of wine and a few good books on history. But one thing is clear: the world's major powers are actively staking claims. They aren't just doing it through projecting military might but through strategic investments, economic muscle, and the threat of outright economic warfare.

Canada's strongest industries are its most crucial strategic assets in protecting sovereignty in a world where planting flags—economically and militarily—is back in vogue. This requires a deliberate effort to cultivate and empower Canadian corporate champions—firms capable of exporting widely and competing on the global stage. Countries that remain relevant in the future will be those that leverage their industries as instruments of statecraft, especially those that are highly prized today like energy and critical minerals.<sup>23</sup>

In short, if Canada is serious about securing its sovereignty in the new world order, its corporate sector cannot be separated from its national strategy. Just as other nations have intentionally nurtured industrial giants to project influence, so too must Canada. We must change the way this country views its strategic industries.

Over the past 20 years, vital industries representing oil, natural gas, minerals, and their associated infrastructure like pipelines have often been maligned, if not outright reviled in domestic policy debates. Yet these companies should be considered necessary, strategic actors in a global theatre of economic conflict. Whether we like it or not, that's how relevance is established in our new mercantile world.

<sup>18</sup> Sylvie Corbet, Matthew Lee, and Aamer Madhani, "Trump says U.S. getting 'close' on Ukraine critical minerals deal," *Global News* (2025, February 24), <https://globalnews.ca/news/11032572/trump-us-ukraine-critical-minerals-deal-progress/>; Douglas Busvine, "Russia and US eye joint Arctic energy projects after Saudi talks, *Politico* (2025, February 18), <https://www.politico.eu/article/russia-us-saudi-arctic-energy-rdif-ukraine-russia-capital/>.

<sup>19</sup> Roger W. Ferguson Jr., "The Intellectual Origins of Trump's Economic Policies," *Council on Foreign Relations* (2025, February 24), <https://www.cfr.org/article/intellectual-origins-trumps-economic-policies>.

<sup>20</sup> Michael Pettis, "How Trump's Tariffs Really Affected the U.S. Job Market," *China Financial Markets* (2021, January 28), <https://carnegieendowment.org/china-financial-markets/2021/01/how-trumps-tariffs-really-affected-the-us-job-market?lang=en>.

<sup>21</sup> William Piekos, "Investigating China's economic coercion: The reach and role of Chinese corporate entities," *The Atlantic Council* (2023, November 6), <https://www.atlanticcouncil.org/in-depth-research-reports/report/investigating-chinas-economic-coercion/>.

<sup>22</sup> Ilan Kapoor, "Trump's tariff and land grab threats signal U.S. expansionist ambitions," *The Conversation* (2025, February 23), <https://theconversation.com/trumps-tariff-and-land-grab-threats-signal-u-s-expansionist-ambitions-249924>.

<sup>23</sup> Peter Tertzakian, "There's a fortune to be made in Canada—if only we'd seize the opportunity," *The Hub* (2025, February 14), <https://thehub.ca/2025/02/14/peter-tertzakian-theres-a-fortune-to-be-made-in-canada-if-only-wed-seize-the-opportunity/>.

# Canada Cannot Afford to Let This Crisis Go to Waste

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CHARLES MCMILLAN

*Charles McMillan, is a professor of strategy at Schulich Business, is the author of 12 books on trade and competitiveness, and a former senior policy advisor to PM Brian Mulroney.*

Canada's punditry class is in overdrive analyzing President Trump's tariff threats and other provocations toward the country. The prime minister's gathering of corporate and union executives together with his advisory council is a welcome initiative, and so are his consultations with political leaders in Europe and Asia worried about the implications of U.S. tariffs on the global trade system.<sup>24</sup> Ideally, Canada's response will be with a unified voice, but lessons from other eras—Nixon's devaluation of the U.S. dollar, the extreme protectionism of Congress in the 1980s, and Trump's first term—will inform the timing and nature of countermeasures.<sup>25</sup>

Many leaders are surprised by Trump's disruptive moves and often outlandish proposals, like taking over Greenland, the Panama Canal, or ownership of the land of the Palestinians in Gaza. In fact, Trump is following the playbook set out in *The Art of the Deal*. His rhetoric spans a wide range of topics, but his primary concerns remain the southern border, illegal immigration, defence and security, and America's rivalry with China.<sup>26</sup>

His approach to negotiations begins with a zero-sum outlook, and in dealing with adversaries, friend or foe, he leverages American strength to frame issues into a binary narrative. It matters that his perspective often polarizes opinion, distorts the truth, and oversimplifies complex policy issues.

For those key decision-makers outside the MAGA world of Trump, it is difficult to know in advance what the U.S. president is signalling. This, though, is the point. Forgoing any coherent policy rationale in favour of empty slogans is part of Trump's destabilizing negotiating strategy. It is a feature, not a bug, that his arguments—on trade balances, border security, fentanyl smuggling, or national sovereignty—rarely accord with facts.<sup>27</sup>

That this is counterproductive in the long run is obvious. On issues vital to American interests—the role of the U.S. dollar as a reserve currency, U.S. soft power via foreign aid, democratic allies reinforcing U.S. defence and security, trade policy that assures vital inputs are available for the American economy

<sup>24</sup> Prime Minister of Canada, "Canada–European Union Leaders' Meeting," *Government of Canada* (2025, February 12), <https://www.pm.gc.ca/en/news/readouts/2025/02/12/canada-european-union-leaders-meeting>.

<sup>25</sup> Office of the Historian, "Nixon and the End of the Bretton Woods System, 1971–1973," *Department of State*, <https://history.state.gov/milestones/1969-1976/nixon-shock>; Clyde H. Farnsworth, "Tide of Protectionism in Congress," *The New York Times* (1985, July 4), <https://www.nytimes.com/1985/07/04/business/tide-of-protectionism-in-congress.html>.

<sup>26</sup> Tyler Dawson, "How Donald Trump negotiates, in his own words: 'Sometimes it pays to get a little wild,'" *The National Post* (2025, February 13), <https://nationalpost.com/news/world/donald-trump-negotiation-the-art-of-the-deal>.

<sup>27</sup> Stewart Patrick, "Trump's Distorted View of Sovereignty and American Exceptionalism," *Carnegie Endowment for International Peace* (2025, January 30), <https://carnegieendowment.org/emissary/2025/01/trump-sovereignty-american-exceptionalism?lang=en>.

(including critical minerals and energy supplies)—Trump’s bluster actually weakens America’s standing with close friends and allies and it provides reassurance to countries like Russia, China, and North Korea.

While Canada is well-positioned to communicate its trade position to the White House and policymakers beyond the Washington Beltway, the immediate environment will still provide a shock to Canada’s fragile economy.

Three imminent dangers loom in response to Trump’s tariffs. The first is a direct tit-for-tat, across-the-board approach to retaliate so that American consumers feel an immediate cost, such as high prices or product shortages. While tempting, this broad-brush strategy is counterproductive.

The second danger involves straying too far from the designs of past trade deals like the Canada-U.S. Free Trade Agreement and NAFTA that aimed to facilitate freer market access across the continent. The emphasis in any negotiations, both now and in the planned 2026 CUSMA renegotiations, should be on global trade expansion.<sup>28</sup>

A proactive approach is essential. Canada must understand the U.S. position, but also how other countries perceive Canada’s protectionist policies in sectors like banking, telecommunications, supply management, transportation bottlenecks, airport and ocean port ownership, and interprovincial trade barriers.<sup>29</sup> Canada’s leaders must be willing to both make hard choices in abandoning these policies and then make the case for the public for why doing so was necessary.

The third danger arises from how public policy on one issue impacts others. For a generation, Canada’s low levels of defence spending—among the lowest of all NATO countries, and one of the smallest among G7 countries—is a reminder that Canada’s global standing is partly due to this privileged status in this august forum—which meets again in June, and by coincidence in Canada.<sup>30</sup> It is even more alarming that underinvestment in defence exacerbates threats to Canada’s sovereignty, especially in the Arctic. Canada must get serious about honouring its international commitments; not doing so has isolated it on the world stage and weakened its leverage in its negotiations with the Trump administration.

Overall, Canada is widely seen as a risk-averse country, a contrast to the more disruptive, revolutionary, thrusts of American society. This risk aversion permeates Canada’s public policy approach and its economy, which features an over-reliance on Crown corporations instead of allowing the full participation of private firms in certain key sectors.

Canada’s tolerance of interprovincial trade barriers, whether in professional credentials, or other areas like procurement, results in 10 little markets rather than a unified national economy.<sup>31</sup> More troubling, is the federal government’s reluctance to challenge provinces defying the Constitution, choosing instead to avoid confrontation. How Canadian!

<sup>28</sup> Stephanie Ha, “Internal trade minister says Canada ‘open’ to early renegotiation of trade agreement with U.S.,” *CTV News* (2025, February 13), <https://www.ctvnews.ca/politics/internal-trade-minister-says-canada-open-to-early-renegotiation-of-trade-agreement-with-us/>.

<sup>29</sup> Konrad Yakabuski, “Next up on Trump’s list: Breaking Canada’s bank oligopoly,” *The Globe and Mail* (2025, February 14), <https://www.theglobeandmail.com/opinion/article-next-up-on-trumps-list-breaking-canadas-bank-oligopoly/>; Lawrence L. Herman, “Supply management’s days may be numbered. Good!,” *The Financial Post* (2024, November 26), <https://financialpost.com/opinion/supply-management-days-numbered-good>; Susannah Pierce and Murad Al-Katib, “Canada’s transportation supply chains are near breaking point,” *The Financial Post* (2023, January 30), <https://financialpost.com/news/economy/canadas-transportation-supply-chains-are-near-breaking-point>; Christl Dabu, “Here are the interprovincial trade barriers that are costing Canadian consumers more money,” *CTV News* (2025, February 12), <https://www.ctvnews.ca/business/article/how-interprovincial-trade-barriers-in-canada-affect-everyday-canadians/>.

<sup>30</sup> “Defence Expenditure of NATO Countries (2014-2024),” *NATO* (2024), [https://www.nato.int/nato\\_static\\_f12014/assets/pdf/2024/6/pdf/240617-def-exp-2024-en.pdf](https://www.nato.int/nato_static_f12014/assets/pdf/2024/6/pdf/240617-def-exp-2024-en.pdf).

<sup>31</sup> Uday Rana, “Canada can do ‘substantial’ work fast on internal trade, minister says,” *Global News* (2025, February 5), <https://globalnews.ca/news/11004721/canada-internal-trade-barriers-anita-anand/>

Since the end of the Second World War, Ottawa and the provinces have been content to welcome foreign investment as a substitute for Canadian entrepreneurship, which made some sense in capital-intensive sectors like energy, auto production and assembly, and some sectors like mining. Restrictive policies on foreign ownership—like the Foreign Investment Review Act and Canada’s National Energy program—were seen as effective tools to limit foreign ownership, which in practice meant U.S. ownership.<sup>32</sup> Fortunately, both policies were abandoned.

For fifty years, various governments promoted a third option: diversifying away from the U.S. and seeking market access to the European Union or Asian countries. This initiative had only limited success, in part due to the simple fact of proximity; it only takes an overnight truck drive to reach an immediate customer base of 25–30 million customers.

The successful free trade agreement between Canada and the U.S. signed in 1988 was a game changer for Canadian firms, including because it allowed foreign firms to establish factories and assembly plants in Canada and export to the U.S. market.<sup>33</sup> Canada cannot simply substitute free trade with America with free trade with the world. While diversifying Canada’s trading relationships is a worthy goal, repairing our relationship with the U.S. must be the number one priority.

For decades, Canada’s political system has failed to make long-term policy choices, opting instead for solutions that benefit select regions or elite groups. Other countries have accepted significant policy disruption from past practices and adjusted accordingly.

In the 1970s, Ireland made a strategic pivot and chose to join the EU rather than continue its traditional economic ties with Britain. This shift required a fundamental change in decades-old policy stance, including significant investment in higher education to attract foreign companies and redirect the economy to conform to Europe’s trade and economic policies. Similarly, the Emerald Isle’s low corporate tax rate became a key lure for multinational companies needing access to knowledge workers. Today, its prosperous economy is the envy of low-growth countries like Canada.<sup>34</sup>

Japan provides another instructive approach through the concept of gaiatsu, a Japanese term describing the use of foreign pressure to overcome domestic reluctance to implement bold policy reforms.<sup>35</sup> The 1985 famous Plaza Accord, which saw the rapid appreciation for the Japanese yen to other currencies is a famous example of how external pressure can compel significant political change.<sup>36</sup>

For two decades, Canada has lacked the mechanisms to shift the policy framework of high taxes, a bias towards consumption, and exploitation of natural resources, while immigration levels have determined the country’s economic growth. There is no doubt that Canada is facing a disruptive moment. But turbulent times can initiate long-term benefit, whatever the short-term pain. Perhaps, in the end, Trump’s tariff threats could serve as a gaiatsu moment for Canada, forcing much-needed reforms to be put on the national agenda.

<sup>32</sup> Taylor C. Noakes, “National Energy Program,” *The Canadian Encyclopedia* (2006, February 7), <https://www.thecanadianencyclopedia.ca/en/article/national-energy-program>.

<sup>33</sup> “Canada–U.S. Free Trade Agreement,” *The Government of Canada* (2021), [https://www.international.gc.ca/trade-commerce/trade-agreements-accords-commerciaux/agr-acc/united\\_states-etats\\_unis/fta-ale/background-contexte.aspx?lang=eng](https://www.international.gc.ca/trade-commerce/trade-agreements-accords-commerciaux/agr-acc/united_states-etats_unis/fta-ale/background-contexte.aspx?lang=eng)

<sup>34</sup> Trevor Tombe, “What Canada can learn from Irish prosperity,” *The Hub* (2024, October 31), <https://thehub.ca/2024/10/31/trevor-tombe-what-canada-can-learn-from-irish-prosperity/>

<sup>35</sup> Paul Nadeau, “The End of Gaiatsu?,” *Center for Strategic and International Studies* (2018, October 29), <https://www.csis.org/analysis/end-gaiatsu>.

<sup>36</sup> Brian Twomey, “The Plaza Accord’s Effects on Currency Markets,” *Investopedia* (2023, October 6), <https://www.investopedia.com/articles/forex/09/plaza-accord.asp>.

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**Sean Speer** is the editor-at-large at The Hub. He previously served as a senior adviser to former Canadian Prime Minister Stephen Harper.

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**Taylor Jackson** is the research manager at The Hub. He is also a Ph.D. student in Political Science at the University of Toronto. He has worked with several think tanks in Canada and the U.S. and previously served as a senior advisor to the Ontario Minister of Finance.