

Canada's Trump Card in Navigating Trade Tensions

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On November 25, President-elect Donald Trump shocked the political establishment by threatening to impose a 25% tariff on imported goods from Canada and Mexico, the United States' two trading partners under the USMCA free trade agreement. It is worth noting that Canadian annual goods exports to the U.S. currently total approximately \$600 billion (20% of Canada's GDP), a significant increase from \$400 billion in 2016. Imposing such a steep tariff on this volume of trade would place immense strain on our already fragile economy.

The good news is that with some flexibility by both sides, it seems unlikely President Trump will impose a 25% tariff on Canadian imports. For one, such a move would likely provoke significant political backlash from Republican- and Democratic-led states, businesses, and members of both parties in Congress. It would also almost certainly lead to a protracted legal battle over whether the president has the authority to impose tariffs unilaterally on all imports without congressional approval. Further, imposing such sweeping tariffs would risk damaging U.S. economic activity via financial markets disruption and higher inflation. In fact, using the threat of mass tariffs as leverage is a more effective strategy for advancing Mr. Trump's geopolitical goals without jeopardizing the economy (although targeted actions against specific sectors are expected to remain part of his approach).

The bad news is that if the threat of mass tariffs lingers over the long term, it could undermine Canada's reliability as a destination for companies seeking guaranteed access to the U.S. market. Additionally, Canada's close economic and political ties to the U.S. mean we cannot afford to diverge too far from its regulatory, tariff, defence, or fiscal policies.

Defence: The key to preventing defeat

It is also crucial for Canadians to recognize that Mr. Trump's tariff threats are part of a broader economic security agenda. This agenda encompasses stricter border controls, energy security, protectionist trade measures, and reindustrialization driven by tariffs and subsidies. Adapting to this reality will require careful navigation of Canada's economic priorities and policies.

The upside is that the sooner Canada recognizes its role within what many analysts describe as a "Fortress North America" economy—amid a world increasingly divided into spheres of influence—the sooner it can implement the economic reforms necessary to secure long-term benefits. These reforms include better aligning some of our economic policies with those of the United States and increasing defence spending, with a particular focus on border security. This is a relatively small price to pay to protect and preserve our critical access to the U.S. economy.

Energy: Et tu, Canada?

One of Mr. Trump's critical strategies to reindustrialize without triggering inflationary pressures is ensuring producers have access to reliable and affordable energy. Since 2019, for the first time in over 70 years, the U.S. has become a net exporter of natural gas, crude oil, and petroleum products. This achievement reduces the U.S. economy's vulnerability to disruptions caused by tensions in the Middle East. It is crucial for the President-elect to build on this strategic advantage.

This is where Canada plays a vital role as the most trusted energy supplier to the U.S. The importance of this partnership grows when considering the electricity constraints hindering the deployment of the new economy. For example, it is estimated that around 40% of planned data centers in the U.S. are unlikely to be built due to electricity constraints, a challenge expected to intensify by 2027–2028. The American private sector sees Canada's potential as a reliable and valuable electricity supplier.

Our country has the capacity to step up, but this potential is jeopardized by Ottawa's current plan to decarbonize the electricity grid—a grid that is already 50% cleaner than the OECD average and twice as clean as the U.S. grid in terms of CO₂ emissions. We must urgently rethink this policy and strategically leverage our energy sector to strengthen Canada's role within the North American supply chain.

Bottom-line

Notwithstanding Mr. Trump's rhetoric, we believe Washington is firmly committed to building an economic "Fortress America"—a vision centered on reindustrialization and reducing reliance on stretched supply chains vulnerable to geopolitical events. Canada should strategically position itself within this framework to maximize its economic and social benefits.

This alignment does not mean abandoning our values but reflects a pragmatic need to ensure that Canadian businesses maintain predictable, unrestricted access to the world's richest economy. By aligning ourselves with this vision, we can leverage reliable and abundant energy/commodity resources to attract the investments needed to lay the groundwork for a stronger society.

Such a strategy is essential to addressing Canada's productivity challenges and reigniting per capita GDP growth—a crucial driver for achieving better wealth distribution and overall prosperity.



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