Canada-First:

Assessing Canada's Structural Vulnerability to U.S. Trade

Dependence and Prospective Pathways Toward Diversification

Original Research Paper

Lisa Marie Bitout

ECON 219: Current Economic Topics

Dr. Hervé Robert Horner

April 11th, 2025

Table of Content

Abstract	2
Introduction	3
Literature Review	6
Methods	9
Findings	10
Qualitative (Interviews)	10
Quantitative	12
Discussion	18
Uncertainty Amidst	18
Double Standards: The Canada-U.S. Trade Relation	18
The EU Crisis	19
New Path Towards the Future of Trade: Asia	21
Assessing the Case	22
Challenges Ahead	23
Conclusion	25
References	26
Appendix	29

Abstract

With rising uncertainty in international trade due to the tariff war, Canada's reliance on the United States, its largest trading partner, has become a decisive vulnerability. With this unprecedented situation, it must reassess its current trade agreements with the U.S. and shift its views to a new diversification strategy. Drawing on economic indicators, quantitative and qualitative analyses from scholars, and interviews with experts in the field, the report examines the vulnerabilities Canada faces in current global trade politics and explores various strategic avenues to pursue in order to strengthen economic sovereignty, resilience, and reshape its position in global trade.

Introduction

Canadian trade with the U.S. – its largest trade partner since the end of the Civil War – has always been on shaky ground, with the Canadian population frequently second-guessing the alliance with its southern neighbor and awaiting the final political shift or trade dispute that would send its economy into turmoil. The Canadian government was struggling to find a route of independence from the U.S. while maintaining the harmonious nature of the relationship. Finally, it came up with two main options: maintaining the status quo and adopting a deliberate policy of "closer integration with the United States." Many economists and academics have been investigating this situation for several years, notably the Canadian Secretary of State for External Affairs, Mitchell Sharp, conflicted by the two options, proposed a new way of thought in 1972, "The Third Option," calling for a reduction in Canada's dependence on the U.S. by diversifying trade and its cultural relations (The Canadian Encyclopedia, 2015). This idea was initially well-received by many, but its implementation led to issues and debates throughout the country. While there were slight advancements, none were notably successful enough to shift Canada's structural reliance on its southern neighbor. Later on, the "Third Option" was dropped by Conservatives, who pushed for even stronger dependence and ties to the U.S. (*The Canadian* Encyclopedia, 2015), sending Canada deeper down the one-way street it fought to exit for so long.

In 2024, the United States was the destination for 75.9% of Canada's exports (*Statistics Canada*, 2025), compared to 18% of American exports to Canada (*ScotiaBank*, 2025), underscoring its importance in the current Canadian economic landscape. However, with the Trump Administration's implementation of tariffs on several Canadian industries, endangering the trade agreements between the two countries, a breaking point has arrived. Canada now, more than ever, understands it is no longer an option to rely solely on its agreements with the United States and must search for ways to fortify its trade to maintain its economic resilience. This

report aims to delve deeper into the issue of Canada's trade dependence on the U.S. and explore possible diversification strategies to mitigate the challenge affecting millions of Canadian residents.

Canada currently has 15 trade agreements with 51 countries making up around 61% of the world's GDP and trades with a total of 224 countries (*Government of Canada*, 2025 & Roberto Rocha). Currently, non-U.S. trade accounts for 23% of its overall trade, contributing a mere 5% to its GDP (*ScotiaBank*, 2025). Its main trade agreements are the CETA with the EU and the CPTPP with 11 Pacific countries, yet it still heavily depends on the U.S. (*Figure 15*). This begs the question: Why is Canada's trade so heavily dependent on the U.S. despite its access to a wide range of international markets, and which avenue would be the most strategically successful?

In a global matter that not only impacts all of North America but also creates a ripple effect on other regions of the world, every person – no matter their ties to trade – is impacted; thus, the population discussed in this study will consist of individuals with an interest and/or involvement in international economic, trade, and foreign policy. This would include: 1)

University students studying international business, economics, or political science (ages 18–30) or with an overall interest in current Canadian and American politics, 2) General Canadian residents (ages 18 and up) who follow international economic news and trade policies, and 3)

Industry professionals working in fields related to international trade, business development, or foreign policy. To understand the magnitude of this Canadian challenge, an interview will be conducted with a person with years of experience in the field of international affairs. To gain a consensus reflecting the thoughts of Canadian residents, a survey of 30 people was conducted anonymously to reflect the true thoughts of the population without bias.

This report's objective is to challenge two main hypotheses regarding the topic of Canadian trade dependence on the U.S. and its future diversification. The hypotheses are as follows:

- 1. Canada's dependence on the U.S. creates an environment of economic instability, amplifying its exposure to trade disruptions, GDP fluctuations, labor market instability, and other economic issues. These risks must be mitigated by entering into further agreements with more stable partners, such as the European Union and Asia.
- 2. Tracing how different academics have echoed the importance of diversification over time, from the Third Option to the current trade disruptions posed by the Trump Administration, diversifying trade would increase Canada's economic resilience, create a new path for Canadian competitiveness, and strengthen long-term economic stability.

Literature Review

Canada's long-standing sense of uncertainty regarding the U.S. is reflected in a diverse array of academic literature, where each author maps out different options for the future of its economy. With each historical hurdle, Canadian academics have reevaluated the risks of over-dependence and proposed alternative trade strategies that encompass multiple areas worldwide.

Starting at the beginning, **John Hancock** walks us through the Third Option and its current application in his article "*The Third Option: An Idea Whose Time Has Finally Come?*" mentioning how, despite the failure of the Third Option, current economic minds all utter the same belief Sharp once vocalized: Canada needs to diversify as it is "overexposed to the United States and underexposed to faster-growing emerging markets." (*Mark Carney, 2015*). Hancock argues that the reliance on the U.S. exposes Canada to risks due to the U.S. protectionist tendencies within its government and economy, especially during geopolitical disruptions such as the Nixon Shock; diversifying its trade partnerships is not just a strategic move but a necessity for the country's sovereignty and economic resilience, as further integration could lead to assimilations in additional aspects, leading to Canadians to massive job losses. Hancock notes that, despite optimistic thoughts, Canadian ties with the U.S. continued to grow each year. Nevertheless, he remains optimistic, remarking that the share of Canadian exports to the U.S. would fall to two-thirds by 2025, a drop from 75% in 2010.

Daryl Copeland examines the vulnerabilities of Canadian trade dependency on the U.S. during the Iraq War in 2003 in his article "*Diversifying Canada's Dependence: Look East*" and dives deeper into Canadian national and labor security issues, all influenced by the exposure to U.S. economic and policy changes, and argues that this overreliance compromises the ability to act independently and weakens economic indicators such as job resilience. To counter this skepticism, Copeland offers various ways of economic diversification, focusing on the Eastern world, and presents the Islamic world as one promising avenue while also mentioning Asia and

Europe as likely contenders. However, Copeland seems unimpressed by Asia, notifying the reader of the several human rights issues in each Asian region. Nevertheless, Copeland notes: "Asia is simply too big and important to ignore," mentioning its future population growth is a good indicator of markets in the near future, pointing out the magnitude of the big three – Japanese, Indian, and Chinese economies – are expected to reach. Copeland later follows by saying that Canada is shrinking in relevance in today's economic world and highlights the need to reinvent its profile in the East by providing constant funding for development partnerships, strategically investing in agreements with the big three while transitioning from "donor to economic partner." By intensifying public diplomacy, Canada will integrate into the conversation on long-term political and economic benefits while simultaneously bridging the Sino-American rivalry. One thing is clear about Canada: it may stagnate further into economic irrelevance if it fails to adapt its trade strategy to U.S. disruptions and future trends, such as Asia's rise.

"Canada First vs. America First: Economic Nationalism and the Evolution of Canada-U.S. Trade Relations," written by **Hubert Rioux**, offers a peek into the first Trump Administration, arguing that Canada-U.S. trade has long been shaped by tensions between liberalization and protectionism, both deeply embedded within economic nationalism, with a common misconception of protectionism from the U.S. and Canadian liberalization of its markets. Nationalism-based policies are a pattern spanning centuries, with protectionism cyclically reemerging, as seen in the "America First" movement in the U.S. during the first Trump presidency. Rioux mentions that Canada has never been thoroughly liberal, occasionally swaying towards strategic nationalism, as seen in the NAFTA renegotiations, where Canada defended its interests through so-called "selective liberalization" to protect its industries from U.S. influence and dominance. Retaliatory steps in tariffs have helped Canada free itself from dependence on the U.S. market, with further diversification strategies being implemented as

American trade becomes more protective. When applying Rioux's theory, we may classify this moment as a new curve in the pattern of American nationalism and protectionist policies, accompanied by new urgency and economic shocks that Canada must address.

With the second Trump presidency, however, the necessity for trade diversification has been echoed by many, like **Andrew Grantham**, a senior analyst at CIBC, in the report "Seeking diversification: Can Canada reduce U.S. dependency on the U.S.?". In the analysis, Grantham notes that Canada's dependence on the U.S. is one of the most extreme among developed nations, driven by structural challenges, including a massive supply chain and infrastructural dependency on the U.S. for industries such as energy and auto. Attempts at diversification have been stagnant, with exports from countries outside North America declining despite Canada's multiple trade agreements, such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the Comprehensive Economic and Trade Agreement (CETA). To diversify, two main roads are ahead: improving interprovincial trade, which has been trampled by Chinese imports, and globally, requiring businesses to "establish/reestablish relationships in other countries" before scaling up. Trade diversification is not easy; however, U.S. Grantham mentioned that it is necessary, as the current levels of U.S. trade dependency are too high and expose Canada to heightened economic risk, particularly in the event of supply chain disruptions, policy shifts, or geopolitical tensions from the U.S..

Through our timeline of uncertainty and reassessment of Canadian trade dependence and diversification – with Hancock's Third Option Reassessment theory, Copeland's Eastern diversification theory, Rioux's cyclical nationalism theory, and Grantham's well-rounded dependence theory – we can see that cyclical disruptions have not yet been effectively mitigated. Economists express a sense of urgency regarding long-term political and economic risks, advocating for trade diversification as a means to strengthen the Canadian economy and enhance its trade sovereignty in the face of emerging economic uncertainties and disruptions.

Methods

Due to this issue's influence on North American politics and beyond, a bank of knowledge is available for research methods. For literary research, a positive analysis incorporating facts and statistical evidence to give further credibility to and test the hypotheses at hand will be used. This includes articles, economic commentaries, and statistical publications from various sources, from newspapers to academic journals. Some sources may include BDC, OECD, Statista, the Government of Canada, and other institutions. The empirical portion involves two primary methods: 1) an in-person interview with an expert in international economics and trade and an online interview with an economist from TVO Today, both providing expert predictions on the future of Canada and 2) a survey gauging public perception and awareness of current politics shaping the economic future of Canada.

Due to the severity of the issue at hand, it is essential to speak with someone who combines academic and real-world knowledge. William Polushin, currently working at BDC as the Director of International Relations and a Professor at the Desautels Faculty of Management at McGill University, teaches students about the intricacies of international expansion and business. Throughout his extensive career helping Canadian companies to expand into international waters, monitoring Canadian trade has been a daily occurrence for our speaker, meaning his input offers both theoretical depth and knowledge shaped by decades of engagement in the topic. We will also be looking at the interview of Dawn Desjardin, Head Economist at Deloitte, who interviewed with TVO Today about this topic in the Youtube video "Is Tariff Uncertainty Already Pinching the Canadian Economy? | The Agenda". Ms. Dejardin notes that this uncertainty has already impacted the Canadian markets, marking an early sign of an economic slowdown. Both interviews will provide us with an in-depth look into Canada's trade environment and the implications for its economy

Findings

Qualitative: In-Person Interview (William Polushin)

In this section, only the most memorable snippets of the interview will be used due to their magnitude. To view the entirety of the interview, please review the **Appendices** section.

Question: How resilient is the Canadian economy in confronting current tensions with the U.S.?

Answer: "There are always and have always been issues. It is like a family and a feeling of betrayal. Of course, you have challenges and disagreements... But the current actions of the U.S. are unprecedented, it is against the laws and the shared trade agreements, meaning there will be discourse in the WTO... There is a bigger picture here. So yes, there are irritants, but when looking at the bigger picture, it comes down to the family thing. This is more than the family disagreements. It's unprecedented, with a lack of working on these issues as partners. The most scary part is the uncertainty - no one likes uncertainty. Shock has been here before, but uncertainty creates divisions. Without clarity, trade becomes harder; this is a global issue."

Question: You already touched on that a little, but are there some challenges or risks tied to this diversification?

Answer: "Look at the nature of Canadian business: 99.7% of Canadian businesses are small, medium enterprises. When you're dealing with that smaller group of companies, they don't have all those department experts and resources that they can draw upon. So the challenge is the smaller enterprises to be part of this. When we consider the total number of employee-owned or employee-run businesses that are exporting, it's only around 40.5%. So the challenge for Canada is helping the medium-sized businesses beyond what they're currently doing, and enabling the small companies to be active participants in this trade diversification beyond what they're used to in the United States. That's the challenge. It's knowledge,

education, a critical mass, and all the things that you need to create successful, sustainable growth."

Question: Are there any key indicators that you believe will be critical to track Canada's trade vulnerability or diversification progress in the near future?

Answer: "In this case, we must divide it into two main categories: macro and micro...

GDP growth is based on net exports, which will take a hit and thus lower GDP growth. Trade also influences business investments and the other two elements, consumer and government expenditures; however, investments will be hit the hardest after trade. That's where the micro comes in: behind trade, there are businesses which are impacted by those macro decisions. Without coherent and certain trade, business earnings will fall, and there will be a vast reduction in sales. For businesses, a new game of guessing starts- over 50% of the auto industry is exported to the U.S., so what happens now? A hiring freeze, marketing budgets lower with new ways of marketing needed to be found."

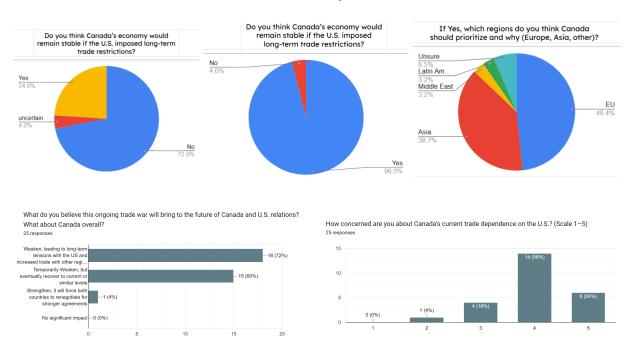
Qualitative: Online Interview (Dawn Desjardin)

Question: Everyone is asking about the impact of tariffs, but I want to ask about the impact of uncertainty. Talk us through that.

Answer: "... We're not sure how this is going to play out. We don't know how our cost of business is going to play out. We don't know if there's going to be demand to make a big expansion. Are we going to be able to sell it, or are we going to get a return on investment? And so, to that extent, I think that's what we see. A giant step back by both businesses, and then also consumers who are wondering stepping back on spending money. What does that mean in terms of the labor market? Do they want to keep as many employees? As we say, and we see volatility in financial markets, one day, they are feeling like this might be okay the next day; they feel that, oh my goodness, it could cause a recession even in the U.S.. The U.S. data is also showing pretty pronounced slowing, and that is sort of interesting..." (TVO Today, 2025)

Quantitative: Indicators, Charts, and Survey

Survey



Charts

Indicator 1: GDP

FIGURE 1: The GDP of a country is defined as the total market value of all the finished goods

and services produced within a country's borders in a specific time period. In this graph, we can see the percentage of Canada's GDP made up by trade, indicating that domestic production growth is significantly influenced by trade. (*CEIC*,2024)

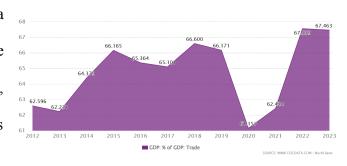


FIGURE 2: This graph reflects the share of Canadian exports with the destination to the U.S.. (1960: Government of Canada, 1970: Government of Canada, 1980: Statistics Canada, 1990: World Bank, 2000: Statistics Canada, 2010: World Bank, 2020: World Bank, 2024: Statistics Canada)



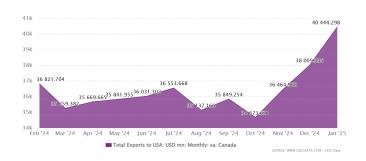
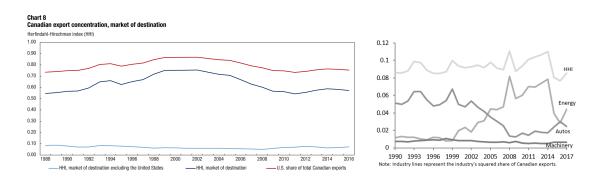


FIGURE 3: This graph reflects the total dollar amount of Canadian exports to the U.S.. (*CEIC*, 2025)

Indicator 2: HHI

FIGURE 4 (4.1 & 4.2): These graphs reflect the Herfindahl-Hirschman Index (HHI) – calculating the market concentration of a country, determining its market competitiveness – of Canada, both including and excluding the United States. Once the U.S. is taken out of the equation, the HHI falls. In the second graph, the HHI of Canadian energy is spiking, indicating that its trade diversification in the sector is declining. Unfortunately, no recent data is available; however, with the rising share of Canadian exports to the U.S., we can conclude that the HHI did not decrease. (Government of Canada, 2017 & Government of Canada, 2017)



Indicator 3: Employment

FIGURE 5: This graph explains the % change in total employment as the Trump Administration announced the 25% tariffs, showing a decline in labor demand within affected sectors. (*Brookings*, 2025)

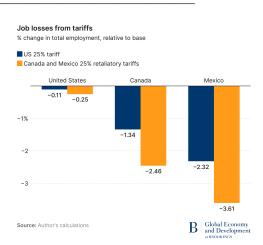


FIGURE 6: This graph explains the share of exports to and imports from Canada depending on each country. The U.S. accounts for a massive proportion of both Canadian exports and imports. (*Government of Canada, 2018*)

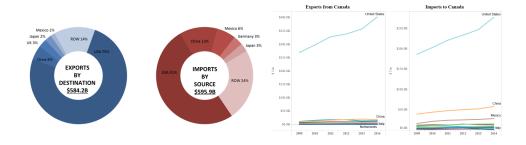


FIGURE 7: This shows the share of all trading partners of the U.S.. The first treemap displays the share of exporters to the U.S., while the second shows the share of importers from the U.S..

Figure 7.1: The following graphs show the top U.S. export partners (Forbes, 2024 & TD Economics, 2024)

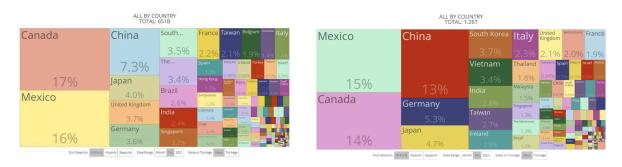


Figure 7.2: The following graphs show the top U.S. import partners (Forbes, 2024)

FIGURE 8: The following charts indicate Canada's exports to the U.S. by type of product.

Figure 8.1: In this bar chart, we can see Canada's main exports to the U.S.. The primary one is energy, followed by agriculture in 8th place. (*Bloomberg, 2024*)

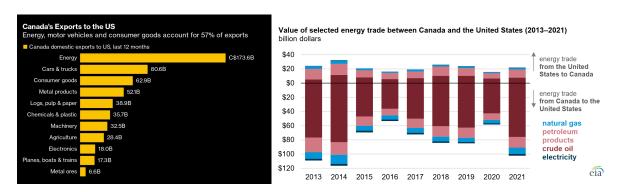
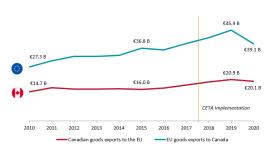


Figure 8.2: The value of energy trade Canada-U.S., by type, clearly showing the magnitude of energy exports from Canada to the U.S. (*EIA*, 2022)

FIGURE 9: The graphs below show the trade growth experienced by the EU and Canada under the CETA agreement. (*Government of Canada, 2021*)

FIGURE 10: This graph shows the EU imports of energy products by partner. Canada does not appear on this infographic, while the U.S. is the leader in EU imports of liquified natural gas and second in petroleum oils. (*Eurostat*, 2024)



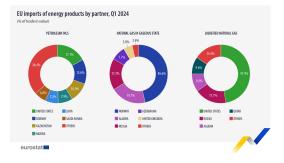


FIGURE 11: Shows the EU's total demand for energy in the upcoming future. (Economist Impact, 2013). Due to the war, these numbers are significantly higher than predicted in 2013, as reflected in Figure 11.2.

Figure 11.1: This figure illustrates the total primary energy demand in the EU, showing an increase in gas over time, which is one of the primary energy resources Canada exports to the U.S., as seen in Figure 8.2. (*Economist Impact, 2013*)

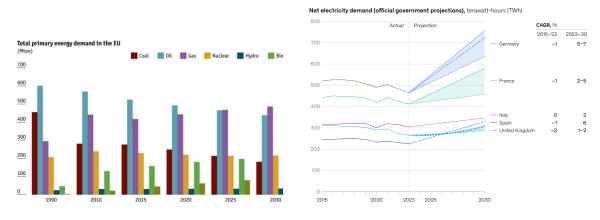


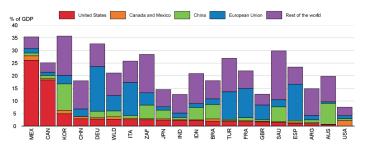
Figure 11.2: Net electricity demand of EU, by country. This graph takes into account the current Ukraine-Russia war. (*McKinsey&Co, 2024*)

FIGURE 12: Explains the structure of Canadian exports, explaining Canada's main exports. The main exports to bear in mind are Energy at 22.6% and Agri-food at 6%. (Fraser Institute, 2022)

FIGURE 13: This graph shows the distribution of merchandise

exports per country, showing that Canada - while also pinned with

Figure 3. The direct impact of merchandise trade tensions varies across countries Distribution of merchandise export volumes in 2024



Note: Merchandise export volumes as a share of GDP volumes based on 2024 data, except for Argentina, India, Mexico and Saudi Arabia when data are for 2023, and Türkiye where data are for 2021. Bilateral trade shares based on OECD estimates for 2021. Source: OECD Interim Economic Outlook 117 database; OECD Balanced International Merchandise Trade Statistics; and OECD calculations.

Total goods exports, of which: 82% - Electrical/electronic equipment/parts 3.5% - Aerospace products 2.6% - Agri-food 6.0% Motor vehicles/parts - Chemicals, plastics and rubb 4.8% - Consumer goods 9.5% - Energy 22.6% Metal/non-metallic mineral products 9.1% Forestry products/building materials 6.3%

Table 1: The Structure of Canada's Exports (2022) % share of Canada's exports of goods and services combined

18%

4.8%

tal Canadian Exports

Machinery and equipment

Metal ores and non-metallic mi

Total services exports

Mexico - figures in minimal numbers in European and Asian countries, all while the U.S. takes in a decent share. This signifies an opportunity for Canada, given the recent tariffs announced. (OECD, 2024)

FIGURE 14: Canadian trade agreements by trade volume, showing the influence of each agreement on Canada's trade volume. Among these trade agreements, CU.S.MA (the Canada–United States–Mexico Agreement) dominates in trade volume, significantly surpassing both CETA (with the EU) and CPTPP (with the Asia-Pacific). (Asia Pacific Foundation of Canada, 2024)



FIGURE 15: These two graphs show the momentum China-Canada trade is gaining, with its trade being twice as much as with countries in the CPTPP agreement, highlighting the need for a China-Canada agreement for fair and free trade.

FIGURE 15.1: Canadian trade with China is showing positive growth. (Canada China Business Council, 2020)

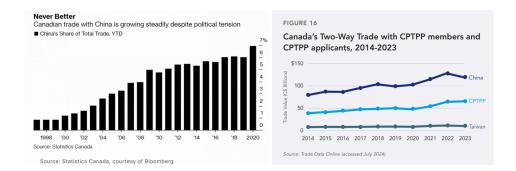


FIGURE 15.2: Canada's Trade with CPTPP members and applicants, showing the strength of Canada-China trade relations compared to its trade agreement. (*Asia Pacific Foundation of Canada*, 2024)

FIGURE 16: A detailed breakdown of Canadian Agriculture exports based on products and destinations. (*Financial Post, 2024*)

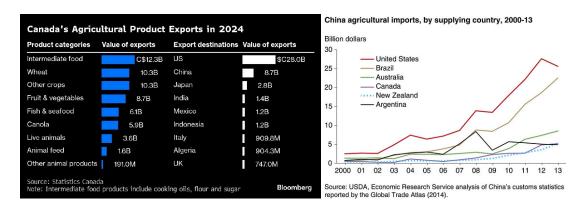


FIGURE 17: Main supplier of Chinese agriculture trade by country (U.S.DA, 2015)

FIGURE 18: This graph shows the possibilities of Canada to increase its Agri-Food trade with Asia, as current levels remain below capacity. (*Asia Pacific Foundation of Canada*, 2023)

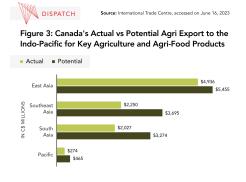
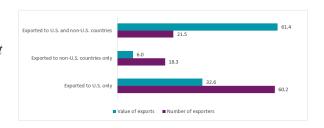


FIGURE 19: Distribution of SME goods exporters and export value by sales destination, 2020 (%) (*Government of Canada, 2024*)



Discussion

Uncertainty Amidst

As previously noted by the authors and Mr. Polushin, uncertainty is the Achilles' Heel of trade, disrupting decision-making and eroding the economic confidence of businesses and consumers. In the survey, 80% expressed concern about the current trade tensions, with many holding mixed opinions on their outcome. Some expected long-term tensions and trade diversification, while others anticipated a restoration of the relationship. As Dawn Desjardin mentions in her interview, this uncertainty, which has already had a daunting effect on the global stock market, also leads Canada to a decrease in consumer expenditures and investments, as reinforced by Mr. Polushin. This uncertainty ripples through the economy, discouraging economic activity and sending Canada's GDP growth and employment on a downward trend. As shown in Figure 5, tariffs have already taken their toll on Canadian employment, with a 2.5% decrease in affected sectors following the announcement of retaliatory tariffs. This decline is primarily due to company-level uncertainty, which prompts layoffs, hiring freezes, and slowed investment, thereby reinforcing the first hypothesis mentioned and outlining the dire economic consequences of trade-related uncertainty.

Double Standards: The Canada-U.S. Trade Relation

In his academic analysis, John Hancock claimed the share of Canadian exports going towards the United States would "fall to ½ by 2025, after a drop to 75% in 2010" (*Hancock, 2015*). However, as shown in *Figure 2*, this thought was largely optimistic. In fact, the opposite holds true. Notwithstanding the current tariffs Canada is getting ready to fight, trade dependence on the U.S. appears to increase sluggishly over time, with CU.S.MA (the Canada-U.S.-Mexico Agreement) taking up 67% of Canada's total trade volume (*Figure 14*).

However, this relationship is not reciprocal. In 2024, the U.S. accounted for 49.2% of Canadian imports (Statistics Canada, 2025), whereas Canada accounted for only 14% of total U.S. imports (*Figure 7.2*), highlighting the gap in mutual reliance. Clearly, the U.S. is much less economically dependent on Canada, as its trade diversification is significantly broader (despite Canada having a similar ratio of trading partners to the U.S.), placing Canada in a more vulnerable position if the tariff wars were to escalate in the near future. Not only that, but Canada's GDP is heavily reliant on its trade, meaning any disruption in trade, especially from our biggest trading partner, has a significant impact on Canada's economic growth. With around 67% of Canada's GDP reliant on trade (*Figure 1*), declining exports due to strains such as tariffs can slow down economic performance and reduce business efficiency, impacting other economic indicators, including employment (Figure 5), and business investments, as mentioned by both consulted professionals. This vulnerability is further supported by Figure 4, which shows that the HHI of Canada's market concentration decreases significantly when the U.S. is excluded from the equation, indicating that its dependence is not based on a lack of opportunities to diversify its trade, but rather artificially inflated due to its disproportionate reliance on the U.S. market. This reliance, as mentioned by authors previously, exposes Canada to heightened risks of economic instability from any U.S.-related shocks —and thus, in tandem with the first hypothesis.

The EU Crisis

One avenue for Canadians to limit their dependence on the U.S. and create further opportunities for diversification and economic stability is utilizing their current trade agreement with the EU, the Canada-European Union Comprehensive Economic and Trade Agreement (or CETA for short). Although it accounts for only 8% of Canada's trade volume (*Figure 14*), the CETA has had a significant impact on Canadian trade, with imports and exports increasing by 46.4% over

the six years since its implementation (*Government of Canada, 2022*). However, *Figure 9* shows that the EU is much better at utilizing the CETA than Canada, as reflected by a steeper upward export slope compared to Canadians, signifying CETA's significant untapped potential. This may be due to U.S. dependency, which might limit the capitalization of this agreement.

Regardless, Canada must play to its strengths to mitigate this issue, which perfectly aligns with the EU's most significant weakness since the Russia-Ukraine war: energy. The current energy crisis has taken Europeans by storm (*Figure 11.2*), as about half of the EU's gas imports came from Russia (*Bruegel, 2025*). It is now presented with a new challenge: Trump's renewed tariffs on the EU and the current cycle of protectionist policies. These tariffs could further exacerbate the EU's energy crisis, making it even more imperative for the EU to diversify its energy sources. Europeans must seek an alternative way to meet their energy needs, looking for a more sustainable, long-term partner to meet their growing demands, especially for gas (*Figure 11.1*).

This is where Canada comes into play; *Figures 8.1 and 8.2* show that the vast majority of Canadian exports to the U.S. are energy related with goods such as petroleum, gas, and oil in play, resources the EU desperately needs to gain now that their two most significant sources have now turned on them in a critical moment. Thankfully, Canada's energy sector accounts for 22.6% of its total trade structure (*Figure 12*), meaning it is already well-positioned to meet demand, especially with its substantial number of LNG (Liquefied Natural Gas) export projects underway (*Government of Canada, 2025*). Due to the 10% tariffs imposed by the Trump administration on Canadian energy (*Reuters, 2025*), Canada has a strong incentive to pivot toward markets like the EU, simultaneously seeking new economic partners and enhancing its trade sovereignty and stability, realizing the long-sought-after diversification by economists like Grantham and Hancock while increasing its competitiveness and becoming a global leader in energy trade. The alignment of Canada's supply and Europe's demand not only demonstrates

Canada's ability to enhance its global competitiveness but also highlights the mutual benefits of trade diversification, reinforcing the second hypothesis.

New Path Towards the Future of Trade: Asia

However, Canada's opportunities do not stop at the EU borders; they expand into the southern part of Eurasia - just as Copeland mentioned back in 2015. Its current agreements, like the CPTPP, span across many countries. Yet, that agreement only makes up 4% of all Canadian trade volume (Figure 14) – compared to the United States, which consistently accounts for at least 2% of each country's exports as a share of their GDP (Figure 13). This gap highlights Canada's limited economic presence in Asia despite its participation in major trade agreements. Nevertheless, Canada's trade with China is increasing and has now surpassed its trade with CPTPP countries (Figure 15.2). Canada's decision to exclude itself from deeper policy engagement with China is a grave choice, as its most significant opportunities lie within that country. With the current massive trade war, in which China is being hit with 125% tariffs (Al Jazeera, 2025), Canada has the opportunity to maintain its neutrality, as it did during the Iraq War, and strengthen trade ties with China, especially in the agricultural sector. China is one of the largest agricultural importers, totaling U.S.\$215.16 billion in 2024 (China Briefing, 2025), and consumes approximately 14% of all U.S. agricultural exports (The New York Times, 2025). However, the U.S. share lowered considerably during the first Trump presidency and is on track to reduce further during his second one. The rise of tariffs on multiple Chinese industries led to retaliatory tariffs, and American scholars are now losing faith in their agriculture industry (The New York Times, 2025).

This presents a strategic opportunity for Canada, one of the largest suppliers of agriculture sources to the U.S. market (*Jeff Newman Law, 2025*), which they later sell to China. While Canada already exports agricultural goods to China directly, its share remains

underwhelming compared to the U.S. (*Figure 17*). With the rise of tariffs, China is bound to examine additional avenues to address the food insecurity plaguing the country; all eyes may turn to the North, whose capacity, neutrality, and credibility create significant strengths as a future strategic partner. Despite limited market penetration in China, Canada's agricultural trade has risen and has the potential to grow further across Asia, as shown in *Figure 18*.

As Copeland describes, Asia represents a crucial component of the Canadian diversification puzzle. The share of the U.S. in the Asian market is decreasing with each tariff imposed, creating an opportunity for Canada to establish a more substantial economic footprint across the region. Further expansion into countries like China enables Canada to stabilize its economy by diversifying trade partners and evolving into a globally integrated economy, competing internationally and fortifying the second hypothesis, which emphasizes the stabilizing and competitive benefits of trade diversification.

Assessing the Case

As we trace Canada's historical trade contemplations and their evolution fueled by Sharp's innovation, Hancock's reintroduction of Sharp's idea into contemporary Canadian trade relations, Rioux's theory of cyclicality currently witnessing protectionism from all fronts – Copeland's reorientation towards the East, and Grantham's sense of current urgency – it becomes transparently clear that both hypotheses hold value in today's complex world of trade. Canada's disproportionate dependency fuels the "all eggs in one basket" side – the one that has more to lose – with doubt and fear, as it calculates every move and depends on the economic policies of its neighbors. With its heightened HHI index due to the relationship, Canada is disproportionately vulnerable to economic shocks, such as the current tariffs imposed by the Trump Administration, which directly impact its GDP; thus, other economic indicators, including employment (*Figure 5*), investments, and expenditure, are also affected. To mitigate

the vulnerability and harm of tariffs, diversification is a necessary tool for Canada to pursue economic stability. The evidence presented – both quantitative and qualitative – strongly supports the first hypothesis, weaving the data into a condensed narrative and reinforcing its validity.

The second hypothesis is also well-documented by historical and quantitative analysis. To economists such as Hancock, Copeland, or Grantham, diversification creates a new pathway of thought for Canada, one focused on nationalism and self-preservation. By focusing all its resources on the U.S., Canada is missing out on a plethora of markets struggling with issues Canada can be a critical player in fixing, like the energy crisis in Europe or even the rising subject of food insecurity in Asia – especially after being incapacitated by their most significant contributor: the United States. By working with these regions and remaining neutral in the face of American economic and political disruptions, Canada can position itself as a valuable strategic partner, increasing its competitiveness globally and laying the groundwork for long-term strategic partnerships. This approach also reduces vulnerabilities by providing different avenues to target. These developments provide substantial grounds for justifying the second hypothesis through concrete scenarios of worldwide economic crises, for which Canada is uniquely positioned to offer assistance.

Challenges Ahead

Canada's path toward diversification is complex, paved with educational, institutional, and structural challenges. Drawing from Mr. Polushin, the main challenge is based on the business distribution in Canada: around 97.8% of Canadian businesses are small, and 1.9 are medium-sized (*Innovation, Science and Economic Development Canada, 2023*). "SMEs don't have all those department experts and resources to draw upon. So the challenge is for the smaller enterprises to be part of this.", he mentions, meaning these businesses often lack the

internal capacity to diversify their trade operations. Out of the SMEs that export - constituting around 40% of all Canadian trade (BDC, 2025) - less than 40% of exports are to non-U.S. nations, an evident lack of confidence or resources to diversify their portfolio (Figure 19). This highlights a systematic issue that Canada must address to empower itself and its businesses to access broader markets and decrease their overreliance on the U.S. market, a market they have become familiar with, unable to move out of their comfort zone through trial and error due to a lack of resources. "[The challenge] is knowledge, education, a critical mass, and all the things that you need to create successful, sustainable growth," he concludes. These structural shifts take time, requiring the creation of new pathways. Still, by aligning strategic incentives, Canada can move toward sustainable, long-term, and balanced trade and explore new horizons to redefine its role in the global economy.

Conclusion

The current uncertainty fueling not only the future of Canadian trade but global economics raises concerns all around the globe, with eyes fixated on the U.S. not as a global force but as a family member turning their back on the household one final time. As mentioned by Mr. Polushin, this is no ordinary familial dispute like those witnessed in prior disagreements—times when Sharp, Hancock, and Copeland had already championed diversification strategies—but a darker and unpredictable period for Canada, where decisive action must be taken to safeguard the longevity of its economic sovereignty and international standing as a trading nation. This report confirms that both hypotheses hold, underscoring the urgency of diversification as both a strategic necessity and a stabilizing force in a trade environment fueled by uncertainty.

However, it is still up to the future to pave the gravity of the situation, whether it is the ripple leading to a tsunami or just another wave in a turbulent tide and the degree of severity on total global trade. The future is uncertain and subject to daily changes, making future decisions taken by Canada similar to a shot in the dark. The foundations are set up, the choices laid out; it is now only up to Canadian leaders to step forward and place Canada in a rapidly evolving global economy marked by unpredictability and hostility.

One fascinating alley this report may lead to is further research into all of the possibilities for Canada. As Copeland mentioned, Islamic Nations are only one pathway of trade diversification; however, reflection on each choice and weighing the options is essential for long-term economic stability. As mentioned by Mr. Polushin: "There is no negative in regards to trade diversification," fortifying the hypotheses on the table and signifying that every partnership has the potential to strengthen Canada in aspects of competitiveness or innovation. It opens the door of speculation about which markets Canada can enter and which is the most efficient way possible. Rome was not built in a day, but its steady infrastructure, created on beliefs of a longer tomorrow, is what makes it stand to this day, unshakeable.

References

- A Look at Canada's International Trade through Maps and Charts Roberto Rocha. robertorocha.info/a-look-at-canadas-international-trade-through-maps-and-charts/.
- Avy-Loren Cohen. "Why Canada Must Diversify Its Trade Portfolio beyond the U.S.A | Medium." *Medium*, 6 Feb. 2025, medium.com/@AvyLorenCohen/why-canada-must-diversify-its-trade-portfolio-beyond-the-u-s-

medium.com/@AvyLorenCohen/why-canada-must-diversify-its-trade-portfolio-beyond-the-u-s-0bb3cff18417.

- Asia Pacific Foundation of Canada. Canada's Trade with CPTPP Members and Applicants: Current Trends and Future Opportunities. July 2024,
 - https://www.asiapacific.ca/sites/default/files/publication-pdf/IM_CPTPP_Trade_EN_FINAL.pdf.
- Briefing, China. "Opportunities for China-Canada Trade under Trump's Tariffs." *China Briefing News*, 18 Feb. 2025,

www.china-briefing.com/news/opportunities-for-china-canada-trade-under-trumps-tariffs/.

- Canada, "Measuring Canadian Export Diversification." *Statcan.gc.ca*, 2017, www150.statcan.gc.ca/n1/pub/13-605-x/2017001/article/54890-eng.htm.
- ---. "The Daily Canadian International Merchandise Trade, December 2024." *Statcan.gc.ca*, 2024, www150.statcan.gc.ca/n1/daily-quotidien/250205/dq250205a-eng.htm.
- ---. "The Daily Canadian International Merchandise Trade, February 2025." *Statcan.gc.ca*, 2025, www150.statcan.gc.ca/n1/daily-quotidien/250403/dq250403a-eng.htm.
- "Canada Trade Summary 1990 | WITS | Text." *Wits.worldbank.org*, wits.worldbank.org/CountryProfile/en/Country/CAN/Year/1990/Summarytext.
- "Canada Trade Summary 2010 | WITS | Text." Wits.worldbank.org, wits.worldbank.org/CountryProfile/en/Country/CAN/Year/2010/Summarytext.
- "Canada Trade Summary 2020 | WITS | Text." *Worldbank.org*, 2020, wits.worldbank.org/CountryProfile/en/Country/CAN/Year/2020/Summarytext.
- Canada, Global Affairs. "An Overview of Canada-EU Trade Performance under CETA." *GAC*, 29 Apr. 2021, www.international.gc.ca/trade-commerce/economist-economiste/statistics-statistiques/overview_canada_eu-apercu_canada_ue.aspx?lang=eng.
- ---. "Canada's Export Diversity by Product." *GAC*, 2019, <u>www.international.gc.ca/trade-commerce/economist-economiste/analysis-analyse/diversity_product-export-diversite_produit.aspx?lang=eng.</u>
- ---. "CETA@5 Delivering Trade Benefits during Unprecedented Times." *GAC*, 17 Jan. 2022, www.international.gc.ca/trade-commerce/economist-economiste/analysis-analyse/benefits-ceta5-avantages.aspx?lang=eng.
- ---. "Characteristics of SME Exporters in Canada." *GAC*, 5 Mar. 2024, <u>www.international.gc.ca/trade-commerce/economist-economiste/analysis-analyse/sme-characteristics-exporters-pme-caracteristiques-exportatrices.aspx?lang=eng.</u>
- ---. "Dependency or Diversity? The Concentration of Canadian Exports." *GAC*, 2015, www.tradecommissioner.gc.ca/canadexport/158554.aspx?lang=eng.
- ---. "Highlights of Canada's 2018 Merchandise Trade Performance." *GAC*, 16 Aug. 2018, <u>www.international.gc.ca/gac-amc/publications/economist-economiste/highlights_trade-2018-faits_saillants_commerce.aspx?lang=eng.</u>
- ---. "Key Facts about Canada's Competitiveness for Foreign Direct Investment." *GAC*, 19 June 2019, www.international.gc.ca/trade-commerce/economist-economiste/analysis-analyse/key_facts-faits_saillants.aspx?lang=eng.
- Canada, Natural Resources. "Canadian Liquified Natural Gas Projects Natural Resources Canada." Canada.ca, 2025,
 - natural-resources.canada.ca/energy-sources/fossil-fuels/canadian-liquified-natural-gas-projects.
- "Canada's Exports to the U.S. | Energy, Motor Vehicles and Consumer Goods Account for 57% of Exports." *MINING.COM*, 2020,
 - www.mining.com/web/trumps-tariff-threat-to-top-trading-partners-roils-markets/canadas-exports -to-the-us-energy-motor-vehicles-and-consumer-goods-account-for-57-of-exports/.

- "Canadian Economic Observer: Feature Article." *Statcan.gc.ca*, 2025, www150.statcan.gc.ca/n1/pub/11-010-x/00904/7027-eng.htm.
- CEICdata.com. "Canada CA: GDP: % of GDP: Trade." *Ceicdata.com*, CEICdata.com, 2024, www.ceicdata.com/en/canada/gross-domestic-product-share-of-gdp/ca-gdp--of-gdp-trade.
- ---. "Canada Total Exports to U.S.A." *Ceicdata.com*, CEICdata.com, 2025, www.ceicdata.com/en/indicator/canada/total-exports-to-usa.
- Ccbc.com, 2025,
 - ccbc.com/guest-blog-posts/canadian-trade-and-investment-with-china-increasing-despite-tension s/.
- "China Emerging as a Key Market for Agricultural Products." *Usda.gov*, 4 Apr. 2025, www.usda.gov/about-usda/news/blog/china-emerging-key-market-agricultural-products.
- "Continued Drop in EU Imports of Energy Products Eurostat." *Ec.europa.eu*, ec.europa.eu/eurostat/web/products-eurostat-news/w/ddn-20240322-2.
- Copeland, Daryl. "DIVERSIFYING CANADA'S DEPENDENCE: LOOK EAST." *Asian Perspective*, vol. 27, no. 4, Lynne Rienner Publishers, 2003, pp. 277–93, https://doi.org/10.2307/42704437. ISTOR
- "Doubling down to Diversify: CETA and the U.S. Tariff Threat | Business Council of Canada." *Business Council of Canada*, 3 Mar. 2025,

 www.thebusinesscouncil.ca/publication/doubling-down-to-diversify-ceta-and-the-u-s-tariff-threat
- Draper, Kevin. "U.S. Farmers Brace for Losses in New Trade War with China." *The New York Times*, 4 Apr. 2025, www.nytimes.com/2025/04/04/business/china-tariffs-american-farmers.html.
- Ercolao, Marc, and Andrew Foran. "Setting the Record Straight on Canada-U.S. Trade." *Td.com*, 2025, economics.td.com/ca-canada-us-trade-balance.
- "Europe Urgently Needs a Common Strategy on Russian Gas." *Bruegel* | *the Brussels-Based Economic Think Tank*, 3 Apr. 2025, www.bruegel.org/analysis/europe-urgently-needs-common-strategy-russian-gas.
- "Europe's Energy Future." *Economist Impact Perspectives*, 2020, impact.economist.com/perspectives/sustainability/europes-energy-future.
- Global Affairs Canada. "Expand Globally with Canada's Free Trade Agreements." *GAC*, 3 Dec. 2020, www.tradecommissioner.gc.ca/fta-ale-canada.aspx?lang=eng.
- ---. "State of Trade 2023: Inclusive Trade." *GAC*, 28 Aug. 2023, <u>www.international.gc.ca/transparency-transparence/state-trade-commerce-international/2023.asp</u> x?lang=eng.
- Government of Canada, Public Services and Procurement Canada. "Information Archivée Dans Le Web." *Publications.gc.ca*, publications.gc.ca/collections/collection 2019/isde-ised/c2/C2-59-1978-1-eng.pdf.
- Grantham, Andrew. "Seeking Diversification: Can Canada Reduce Its Dependency on the U.S.? | CIBC Thought Leadership." *Cibc.com*, 2025, thoughtleadership.cibc.com/article/seeking-diversification-can-canada-reduce-its-dependency-on-the-us/.
- Hancock, John. "The Third Option: An Idea Whose Time Has Finally Come?" *International Journal*, vol. 70, no. 2, [Sage Publications, Ltd., Canadian International Council], 2015, pp. 322–38, https://doi.org/10.2307/24709464. JSTOR.
- IER. "U.S. LNG May Get a Big Boost from Asian Importers over Trump Tariff Threat." *IER*, 30 Jan. 2025, www.instituteforenergyresearch.org/international-issues/u-s-lng-may-get-a-big-boost-from-asian-importers-over-trump-tariff-threat/.
- In. "Three 'Hard Truths' about Canada's Trade." *Fraser Institute*, 2023, www.fraserinstitute.org/commentary/three-hard-truths-about-canadas-trade.
- "In 2021, Value of Energy Trade between the United States and Canada Rose from 2020 Lows." *Www.eia.gov*, www.eia.gov/todayinenergy/detail.php?id=52338.
- jeffreynewmanadmin. "Newman & Newman PC." *Jeff Newman Law*, 22 Mar. 2025, jeffnewmanlaw.com/guaging-a-spiked-impetus-for-china-canada-agricultural-trade-talks-with-new-us-tariffs-placed-on-canada/.

- Meltzer, Joshua P. "Trump's 25% Tariffs on Canada and Mexico Will Be a Blow to All 3 Economies." *Brookings*, 3 Feb. 2025, <u>www.brookings.edu/articles/trumps-25-tariffs-on-canada-and-mexico-will-be-a-blow-to-all-3-economies/.</u>
- McGregor, Janyce. "Canada-EU Trade, One Year On: Canada's Imports Are Rising Faster than Exports." *CBC*, 16 Sept. 2018, www.cbc.ca/news/politics/ceta-anniversary-imports-exports-1.4823822.
- McNally, John. "Canada-U.S. Trade: Getting up to Speed." *Scotiabank.com*, 31 Jan. 2025, https://www.scotiabank.com/ca/en/about/economics/economics-publications/post.other-publications.canada-and-us-economics-canada-and-us-decks.trade-stats-january-31--2025-.html.
- News, Bloomberg. "Tariffs Throw U.S.-Canada Food Supply Chain into Chaos." *Financialpost*, Financial Post, 7 Mar. 2025, financialpost.com/commodities/agriculture/trump-tariffs-us-canada-food-supply-chain-chaos.
- Power, John, and Erin Hale. "Trump Tariffs Live: China Levy Hiked, but Stocks Soar as Many Duties Paused." *Al Jazeera*, 10 Apr. 2025, https://www.aljazeera.com/economy/liveblog/2025/4/10/trump-tariffs-live-stocks-skyrocket-as-many-duties-paus
- Richter, Felix. "Infographic: How Much Leverage Does the U.S. Have in New Trade Wars?" *Statista Daily Data*, Statista, 10 Feb. 2025, www.statista.com/chart/33907/us-trade-relationship-with-mexico-canada-and-china/.
- Rioux, Hubert. "Canada First vs. America First: Economic Nationalism and the Evolution of Canada-U.S. Trade Relations." *European Review of International Studies*, vol. 6, no. 3, 2019, pp. 30–56, www.jstor.org/stable/26914892.
- Roberts, Ken. "After 14 Years on Top, China Now Ranks Third for U.S. Imports." *Forbes*, 11 July 2023, https://www.forbes.com/sites/kenroberts/2023/07/11/after-14-years-on-top-china-now-ranks-third-for-us-imports/.
- ---. "Top 10 U.S. Export Partners Tells a Different, Less Asian Story." *Forbes*, 29 June 2022, <u>www.forbes.com/sites/kenroberts/2022/06/29/top-10-us-export-partners-tells-a-different-less-asia n-story/.</u>
- Rozario, Pia Silvia. "Positioning Canada's Agriculture to Meet Asia's Growing Food Security Needs." Asia Pacific Foundation of Canada, www.asiapacific.ca/publication/positioning-canadas-agriculture-meet-asias-growing-food.
- Russell, Clyde. "Trump's Tariffs Already Have a Major Carve-Out. Oil and Gas: Russell." *Reuters*, 3 Apr. 2025, https://www.reuters.com/business/energy/trumps-tariffs-already-have-major-carve-out-oil-gas-russell-2025-04-02/.
- The United States Department of Justice. "Herfindahl-Hirschman Index." *Justice.gov*, 17 Jan. 2024, www.justice.gov/atr/herfindahl-hirschman-index.
- "Third Option | the Canadian Encyclopedia." *Www.thecanadianencyclopedia.ca*, www.thecanadianencyclopedia.ca/en/article/third-option.
- TVO Today. "Is Tariff Uncertainty Already Pinching the Canadian Economy? | the Agenda." *YouTube*, 12 Mar. 2025, www.youtube.com/watch?v=M4Fji2wyOgM.
- Weiss, Alexander, et al. "Electricity Demand in Europe: Growing or Going?" *McKinsey & Company*, 24 Oct. 2024, https://www.mckinsey.com/industries/electric-power-and-natural-gas/our-insights/electricity-demand-in-europe-growing-or-going.

Appendix: Interview (Mr. William Polushin)

Question: How resilient is the Canadian economy in the face of rising trade tensions with the U.S.?

Answer: "There are always and have always been issues. It's like a family and a feeling of betrayal. Of course, you have challenges and disagreements. When you look at the nature of the relationship, thousands upon thousands of people have family relations between borders, with thousands of people crossing the border every day. There will always be concerns, but what's important is when you look at the prosperity of the country, the concerns back in the 1980s or 1990s, I agree trade agreements were in place. There was always a recognition that the interconnection of shocks between the U.S. and Canada was in the nature of our agreements, but let's have a shared prosperity and a shared vision of how this plays out long-term. But the current actions of the U.S. are unprecedented; it is against the laws and the shared trade agreements, meaning there will be discourse in the WTO. The current situation is not going to go unchallenged- in trade agreements, if someone does not default in their obligation, the other party has then the right to dismantle the trade agreements. There is a bigger picture here. So yes, there are irritants, but when looking at the bigger picture, it comes down to the family thing. This is more than the family disagreements. It's unprecedented, with a lack of working on these issues as partners. The environment is not consistent with what we mapped out back in WW2, with the U.S. being a major player in it. The most scary part is the uncertainty - no one likes uncertainty. Shock has been here before, but uncertainty is what creates divisions. Without that clarity, trade becomes harder; this is a global issue."

Question: Have there already – in the present or past encounters with similar insecurities with Canada's neighbor – been issues within Canada's economy that have been tied directly to similar disruptions from the U.S.? Can you describe how Canadian employment and GDP (or other economic indicators) have historically responded to U.S. trade disruptions?

Answer: "During the first Trump Administration, he also imposed tariffs on steel and aluminum, right? In that case, yes, it was disruptive and unexpected, but we managed around it, just like the other countries impacted. On the positive side, only one industry was impacted besides the softwood lumber sector, which has been an issue going on for decades. But Canada has won against these issues thanks to its trade agreements - with dispute mechanisms in place. These instruments have helped create a rule-based system in international trade to eliminate trade barriers like tariffs, which lower the economic growth of all countries impacted. In the end, after a long tug of war, Canada and the U.S. came to an agreement, and Donald Trump supported it with changes in the Rules of Origin, IPs, and IT security. Canada has had to deal with these disruptions for many, many years (NAFTA, the first

Trump Administration, ...). However, this is a normal part of trade; there will always be trade waves, and it deeply varies by industry. That's why we need trade agreements. Otherwise, it's a zero-sum game: to create certainty. The BDC has seen an impact in indicators impacted by the recent trade disruptions, so check that out."

Question: Are there any key indicators that you believe will be critical to tracking Canada's trade vulnerability or diversification progress in the near future?

Answer: "In this case, we must divide it into two main categories: macro and micro. When you go back to the GDP formula and you trace back the steps, you can see how all of it is impacted by trade alone. GDP growth is based on net exports, which will take a hit and thus lower GDP growth. Trade also influences business investments and the other two elements, consumer and government expenditures. However, investments will be hit the hardest after the trade. That's where the micro comes in: behind trade, there are businesses which are impacted by those macro decisions. Without coherent and certain trade, business earnings will fall, and there will be a vast reduction in sales. For businesses, a new game of guessing starts- over 50% of the auto industry is exported to the U.S., so what happens now? A hiring freeze, marketing budgets lower with new ways of marketing to be found. And then, yeah, with businesses then, because there's the macro and there's the microsite of this, right?

The micro is business profitability because, you know, how does this impact companies' earnings, you know, future sales and all that, because remember, behind the trade numbers are actual companies, again. How does this impact their businesses? So that's the concern. So you always have to make the bridge between the big macro picture and then, for all of these businesses that are doing business in the United States, what's the direct impact on them? That's the concern over the reduction in sales, reduction in earnings, ... because it's uncertainty. People pull back on their timing of business investments, you know. Korea is looking at Japan, asking, "What's going to be our response?" Because Japan is sending millions of vehicles to the United States, as is Korea. The States represent over 50% of Korea's automotive exports. That's a big deal. Because it's real business, but also will take a step back and say, okay, beyond the rhetoric, what does this represent in hard numbers in terms of our ability to sell into the market? How does it impact volumes but also profitability? And then, with profitability, that's where it starts. You peel back the onion. It's a cascading effect of employment, hiring strategies, investment strategies, and all of that. So macro feeds into the rest of it."

Question: "In your opinion, what are the possibilities/opportunities Canada might run into while diversifying trade within nations like the European Union and Southeastern and Southern Asia?"

Answer: "Well, diversification doesn't happen overnight. But the broader Europe play is probably our most important next move. Carney's first visit internationally – after becoming Prime Minister – was to France and then to the UK, which are both historic parts of our history. But also, when we look at our trade diversification, making sure that that's settled. But challenge on the CEDA side of it, so we've got this treaty, but it hasn't been gratified by all 27 member states yet, including France and the Netherlands, which are some of the two original founders of what the European Union is today. So we just need to get past some of the groups, like it's dynamic. So outside of it, it's dealing with some of the politics you have, making nurture. Politically, it's nurturing, advancing, bad imports for both Europe and Canada to ratify this. Then there's always the danger that that trade agreement potentially comes unbundled. So I think politically, we got it; we have to get all 27 nations ratified through agreement. So there's the political side. This doesn't happen overnight.

On the business side of it, it's helping our enterprises to become aware and diversify. So diversification doesn't happen just by exclaiming: "Let's do trade diversification!". If right now, 76% of our merchandise exports are U.S.-bound, and we started diversifying from that, yes, but then the how comes into play. And how big of a part of it is about education, knowledge, having enough critical mass, which is human and organizational operation? You have to have the foundation for trade to create. Organization, operations, and finances. There's the short-term trade resiliency side of it in terms of helping companies adapt to cash flow issues, employment, and short-term financial implications for your business. If we're having trade disruption with the United States, how do we make sure that your business is stabilized and not negatively impacted and currently are at step one? It's about providing the partners an opportunity and opening up those doors. A lot of work, but that's a medium to long-term play. We have50 different trade agreements around the world; that's good from a policy perspective. But then, is that translating to an actual higher degree of trade with these regions? And the answer is, only not as much as we need to, but like to. So we're opening but as the expression goes: "You can take a horse to water, but you cannot make it drink". Well, we've got the water. We have taken the horse, but haven't gotten to it drinking the water. And that's the next hurdle: trade diversification doesn't happen overnight."

Question: You already addressed that briefly previously, but are there some challenges/risks tied to diversification?

Answer: "Look at the nature of Canadian business; a majority of Canadian businesses are small or medium enterprises. In the Canadian context, a small business is defined as companies that have less than 100 employees. Medium means between 100 and 499. SMEs constitute around 99.7% of all Canadian businesses. That's a huge number. When you're dealing with that smaller group of companies, they don't have all those department

experts and resources that they can draw upon. So the challenge is really the smaller enterprises to be part of this. When we talk about the total number of employee-owned or employee-run businesses that are exporting, it's only around 4.5%. Even with the trade with the United States, you have 100 companies representing over 50% of our exports to the U.S., and out of those, a lot of them are American companies. So we start talking about trade diversification, but who's diversifying? It's the U.S. companies that are trading back to the United States. Not just the big guys but also the small media players. So, the challenge for Canada is helping medium-sized businesses beyond what they're currently doing and enabling small companies to be active participants in this trade diversification beyond what they're used to in the United States. That's the challenge. It's knowledge; it's education; it's a critical mass and all the things that you need to do successful, sustainable growth."

Question: What do you see as the biggest obstacle preventing Canada from successfully diversifying?

Answer: "To me, this is a wake-up moment for our country. We've talked about trade diversification before I started my career. I mentioned that I was in Chile. Trade diversification was in discussion then, right? We have to reduce our dependence on the United States. So, to me, the challenge is that we are very dependent on the United States, overly so, and that does require some serious time and effort to alter.

My personal concern is the need for a fundamental change in how we see our commercial relations: the difference between a trading nation and a nation of traders. Statistically, Canada is a trading nation. Relative to other G7, our trade percentage of GDP is one of the biggest.

I think the nation of traders means that there's a certain mindset, there's a commercialization capacity that you understand internationally, you embrace it, you build on it. So, there's a cultural shift that has to be part of this. To me, that's probably the biggest challenge because I think we have a lot of smart people doing a lot of smart things, a lot of great companies that go head to head with anybody, but when it comes down to the commercialization side of it, we're not used to being that global leader, building those global brands. There are cases, absolutely, but that's just the nature of our economic model and our economic history and relationship with the United States. It's been somewhat, I don't like to say easy, but easier. When they look at it from the U.S. 's perspective, they're the biggest market in the world and their neighbor is taking advantage of it. I don't like to take advantage of anybody, but it's the fact that the United States has such a huge consumption model; yes, we fed into it, we have been feeding into it, and we're part of it. So, from a trade perspective, yes, we absolutely are an important part of the equation; we've built up that with the United States. The fact that the Trump administration is

pushing back in terms of that dynamic is forcing us to really rethink it and how we work with the United States.

We're not an antagonistic culture; it's respecting the United States.

I break it down in terms of two levels, the country level here, dynamic, and then harshly out the challenges to actually make that trade diversification really happen. And that's where all the hands-on-deck provinces come together. The third one is probably within Canada, the inter-provincial trade bears. It is forcing Canada as part of that economic response, recognizing that we've got to, like, why is it more difficult to trade across Canada than it is to trade with Europe? That has to be a limit. So, in terms of the true Canada concepts, let's start acting like a true united and practical form so we eliminate those barriers across the country. So let's say those three dimensions to me would be probably the most important."

Question: Could there be any economic drawbacks from diversification?

Answer: "In my opinion, no. If you're a company and you're selling, you have one company, a customer that represents 75% of your sales, you would never, as a strategy, that's a recipe for trouble, like over-reliance on the buyer, so it's never a good strategy. You're not going to put all your money in one company and investment. So the same thing on the trade side: over-reliance on one buyer in the country is risky, and now we're seeing the results of that risk. So, trade diversification reduces economic risk at a country level. For a company, it reduces terms of sales and business risk. So, for me, trade diversification, you have to be prepared for it. You only have to be prepared for other countries that you have trade agreements with. They speak different languages, different ways of doing business. So if you're not ready for that, then yes, the risk comes in terms of execution risk. And maybe if you don't plan for it properly, yeah, it's going to blow up in the face. So, as a construct, trade diversification is good, but to make it happen, if not done properly, then yeah, it can blow up in the face. But be ready for it. Both country and company."

Question: Do you believe Canada's current trade structure leaves it vulnerable to sudden geopolitical or economic shocks? Why or why not?

Answer: I mean, again, Canada's been a participant in a multilateral rules-based system around the world. And, as a medium-sized economy, we need that. We're not the superpower. We're not a giant economy like the United States or the EU itself as a single market, right? So, for a medium-sized economy, we need a sound multilateral collaborative rules-based system; that's how we thrive and grow as a nation, economically speaking. So, if we're not able to rely, we will continue to push for that. I often think of Canada as a small, medium enterprise,

or enterprise is the same sort of challenge, but as a country, it's the same sort of thing. You have to be smart, very smart, about how you manage relationships, build relationships, and foster them.

Question: Given how rule-based the system is, would losing key partners and relationships undermine its stability?

Answer: If we undermine the foundation upon which we build, if we don't have the WTO, if we can't rely on these trade agreements where there's a specific process for trade resolution and dispute, then yes. But as long as we understand those mechanisms, then we need these mechanisms to address trade irritants and trade problems. However, the whole idea of the Trump administration's tariffs is counter to the trade agreements that we've established. It's counter to the rules-based trade system that we've established, and they've been a part of building. So that's where, if we can't rely on the trade agreements that we're establishing, then that whole dynamic of rules-based systems gets thrown in his face. And so what happens with companies or countries is they start saying: "Who can I rely on? Who can I trust?" And then you start creating those alliances with those that you can create that respectful rules-based system. So that's why I argue that an avenue for Canada is in Europe because we got the trade agreement and then our Indo-Pacific strategy as well in terms of Asia. So we'll build on that. Let's say it's not an overnight exercise. We've got the foundation, we've got the trade going, but then you're not going to sort of displace the U.S. candidate trade overnight. That's the neck level, but we have to do that based on the rules-based proactive engagement strategy that we can all have faith in.

Question: Beyond reducing risk, do you see trade diversification as an opportunity for Canada to stimulate innovation or increase productivity? How realistic is it for Canada to achieve meaningful trade diversification within the next decade, and in which sectors do you see the most potential for growth?

Answer: Energy, broadly speaking. Let's take Europe, for example; it's in an energy deficit. So that's one area. Market diversification from a Canadian perspective: we're a big resource producer. So, again, you start looking at where we can look at alternative markets because our biggest exports are the oil and gas sector and our automotive parts. You start looking at that, where are our other alternative markets because, for us, it's those top exporting products. If you would look up right now, what are the top export products for Canada? It's crude petroleum, petroleum gas, and refined petroleum. If we start diversifying away from our exports to the United States or finding new markets, where are those markets? Ultimately, can we get that product to market faster and cheaper than the resources they have? So the market diversification question is the what, but it's also the how. Because it's one thing to say: "Let's diversify!", but then you are facing competitive dynamics, no matter the sector. There are

decisions that are made over the year, short-term ones that may be tied to technologies and/or commodities. I think the exercise for a new company is to start looking at their diversification of the market: Where is that demand? What kind of growth have you seen in that new market? And then you start making decisions on which of those markets has the best potential to allow for that. It's a costly, time-consuming endeavor. So, which one allows you to realize your business objectives faster than not? It could be any sector, though, that's the point. It's about your company right now in terms of its ability to start exporting or growing.

Question: How can Canadian businesses leverage already pre-established trade agreements with Asia and Europe to improve their competitiveness? In your opinion, which sectors of the Canadian economy would benefit the most from diversification into European Asia?

Answer: "Yeah, I think it's sort of tied together. But that is part of any company. The reason trade agreements are set up is to provide preferential access to these markets. And the concept, if you look at any trade agreement, is the concept of the most favored nation and also the concept of non-discrimination. So, trade agreements are there to facilitate between two nations or multiple nations. And that's why we have the CPTPP, for example. That's why we have the CETA to provide that level of privileged access to the market. So that allows Canadians to become more competitive in your offer relative to countries that don't have that same advantage. Just look at what's happening with tariffs right now. We can find out tomorrow exactly what that looks like. But it's on a global scale. So, for Canadian companies that may have privileged access, it allows their offer to be more competitive relative to other countries, like the U.S. potentially, or other countries that may not have the same preferential action. But the key to part of trade agreements is the most favored nation and non-discrimination. You WANT to have that privilege. And that itself leads to a more competitive offer relative to other countries that don't have that same privilege. Secturally, again, it is very wide, from commercial services to oil and gas products to manufactured goods to aquatic features, like I talked about that company tonight. So, think for any company, because we're engrained in so many different industries, it's a matter of better understanding for a potential exporter. Then, when they start scanning the world, which country enables me to realize those growth objectives faster and more economically than another market? That's part of your market selection process, figuring out which market provides the best condition.

So, if you have trade agreements, that's one of the things you look at because it allows you to have that preferred access. A part of the question you have to ask yourself, too, is not just what you think you can sell but what they are actually looking for. And then, can you tie into that growth? So when they do these trade missions,

this is a factor for that. Even though we're having issues with the United States, you're still going to find good markets if you have a good product or service. But the challenge for companies is you only have so many resources, whether it's human capital or financial, right? You have to make a decision on where you can get the quickest bang or trim for your dollar."

Question: Do you believe that Canadian citizens and business leaders fully understand the risks of trade over-dependence on the U.S.? If not, how should this awareness be increased?

Answer: "Again, I think it's a function of whether you are an experienced exporter or not. How much experience and exposure do you have to international trade and investment? So it's a function of those aspects. If you're a newbie to international business trade, there's a lot of education that's required in terms of understanding what it is, how to do it, all these things that we talk about today, for example. All of these are elements that feed into the degree of sophistication of that company. As you get bigger, chances are you become more international. If you're a smaller company, the challenges are in operational or organizational operational, financial resources, but also knowledge of how to. You find that because small companies that don't have that exposure, there's a lot of education that comes into it because you don't want to waste your money. As they get larger, the benefit of becoming larger is that you have more money to cover up your mistakes. So, even if you're a large company, it doesn't mean you're immune to making mistakes internationally. It's just that you have the systems, you have the people, you have the connections, you have the network. But usually, the rule of thumb is smaller companies, even if they're doing cross-border, so you probably don't have enough capacity to do effective international work. So when you start looking at that, it's the size of the company, the capacity of the company, the resources that they have available in terms of their ability to actually start expanding."

Question: To what extent do you believe Canada's overreliance on the U.S. impacts domestic economic policy decisions, and does this limit Canada's ability to react independently to global economic changes?

Answer: "The Trump administration took office in January. We're seeing the outcome of the overreliance in terms of our trade. And again, as we talked about before, it's not as if this has not been an issue for Canada historically, but the difference now is the U.S. policies. 75% of our merchandise exports are U.S.-bound, and before, they were even higher. So when you have that degree of dependence, overline ability on one market, when your neighbor is playing nice, and you're all working by the same rules of the game, and that's why we have these trade agreements, that's why we have the Canada-U.S. agreement, that's why we have NAFTA 1.0, that's why we have the

KU.S.M.A, and it was even during Trump's administration. When you have a rule of law, when you have well-structured dynamics that guide your trade relationship, then you don't necessarily have the same threats as it comes down to over-reliance on that one market. When you can't depend, or you don't have the certainty that comes with those trade agreements, that's where you're running into trouble, and that influence is negative economic policy; the auto sector is a good example. The current configuration and the integration of the Canadian-U.S. auto sector and later into Mexico, the Canada-U.S. auto pact started back in the 1960s; this is going back 60 years. And the building of that because it was recognized that tariffs and market distortions like that were proven not to be beneficial for either country. You set up these trade blocs. It created the wheels of what started creating that corridor back and forth, the supply chains between the two countries, and now into Mexico as well. Those are all things that have developed over time. So when you have agreements, the danger of being dependent on that one market, which is Canada's case for the U.S., seems lower. Given policy change in the United States, now you bear the challenge of being over-reliant."

Question: Any last comments?

Answer: "You're seeing a really unique case study playing itself out of real-time here. I think that's the important part of it. There's a lot of unknowns right now; institutionally and government-wise. It's created a distrust that hasn't yet been present between Canada and the United States. Even though we've had trade issues that have had long-term implications, we may appreciate the uniqueness of the current policies that are taking place. And if we look at the United States, it is marching forward with a vision based on the utilization of tariffs countering the multilateral rules-based system of trade that we've created over decades; everything happening is counter to something that they've been a part of building over decades, and it's creating a lot of destruction.

There's a lot of unknowns. You see an environment where uncertainty and business risk is much greater now, meaning the horizon of decisions becomes much more challenging for businesses to operate in. Do we make the investment decision? Do we wait? Even constant conversations about another Trump term despite its unconstitutional nature create uncertainty, and that is a risk. There's no clear answer right now. Companies and governments alike have to operate in a much more uncertain environment than has been over the last number of years and decades. And that's creating pressure to create new partnerships or deepen old ones. It's pushing Canada to accelerate how we work with the rest of the world. But since we're so close to the United States, that's not going to disappear, but it does create a new dynamic in how we work together or think about them. That's the changing face of this dynamic right now."

Acknowledgement:
I would like to sincerely thank Professor William Polushin for generously sharing his time and expertise for this project, as well
as Dr. H. R. Horner for his invaluable guidance and support throughout the publication process.