

RECOMMENDATIONS FOR CANADA'S TRADE STRATEGY IN AN ERA OF U.S. PROTECTIONISM



Responding to Global Protectionism: Recommendations for Canada's Trade Strategy

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ISSUE

Canada's trade policy is shaped by several factors, including its economic priorities and international relationships. A particularly significant dimension is its geographic proximity to its largest trading partner and the world's largest economy: the United States. Recent shifts in U.S. protectionist policy toward "new conservative economics" have created a complex challenge for Canada. This approach is evident in Trump's proposals for a uniform 10 percent tariff on all imports and a 60 percent tariff on goods from China¹, as well as Biden's focus on subsidies and tax credits to support domestic industries.² Protectionism has truly become one of the few areas of agreement between Democrats and Republicans, who both lean toward prioritizing domestic economic interests over traditional free trade principles.

This places Canada in a sensitive position. As free trade loses its appeal on the global stage, protectionist and industrial policies are becoming the norm. For Canada, which has historically prioritized trade liberalization, these dynamics raise important questions about whether its current trade policies remain viable.

BACKGROUND

Free trade emerged as the dominant paradigm in global economic policy following World War II, driven by the belief that open markets would enhance efficiency, promote innovation, and drive economic growth. In 1947, the General Agreement on Tariffs and Trade was established to prevent a return to the protectionism widely seen as exacerbating the economic crisis of the 1930s. Its goal was to reduce barriers to trade, particularly tariffs, and create a framework for international economic cooperation. Over the following decades, major economies progressively liberalized trade, which has resulted in the creation of the World Trade Organization in 1995.

The dominance of free trade began to erode in recent decades due to political, economic, and social factors, particularly the perceived uneven distribution of its benefits. While free trade expanded markets and reduced costs, it was seen as contributing to significant job losses in manufacturing, especially in regions reliant on traditional industries. Studies like *The China Shock*

¹Jensen, Jacob. "Trump's 10 Percent Tariffs: Projected Impacts on U.S. Households and Allies." *AAF*, 24 Sept. 2024, www.americanactionforum.org/research/trumps-10-percent-tariffs-projected-impacts-on-u-s-households-and-allies/.

² Jensen, Jacob. "Biden's Protectionist Agenda." *AAF*, 24 Sept. 2024, www.americanactionforum.org/research/bidens-protectionist-agenda/.

by Autor, Dorn, and Hanson³ highlight how increased trade with China disrupted U.S. labor markets, with similar effects felt globally. Even leaders such as Margaret Thatcher adopted selective protectionist measures to address public discontent. Moreover, the escalating rivalry between the United States and China has further strained the free trade paradigm. Today, it is clear that trade policies increasingly serve to manage geopolitical tensions and protect strategic industries rather than promote economic efficiency and global market integration.

In response to this rising global protectionism, Canada has pursued strategies to safeguard its economy and diversify trade relationships. In 2018, the launch of The Trade Diversification Strategy⁴ aimed to reduce reliance on the U.S. market (exhibited by Figure 1 in the Annex) by increasing exports to fast-growing markets in Asia and Europe. Initiatives under this strategy include expanded trade missions, export financing support, and investment in infrastructure to facilitate global trade. Canada has also implemented targeted protective measures, such as tariffs on Chinese steel, aluminum, and electric vehicles, to shield domestic industries from unfair competition. At the same time, the government remains committed to multilateralism, actively participating in forums like the World Trade Organization to advocate for open and rules-based trade.

Nevertheless, and despite these global shifts, Canada has remained a strong advocate for free trade, with exports and imports collectively accounting for roughly two-thirds of its GDP according to Canada's 2024 State of Trade Report⁵. Exports alone are responsible for supporting nearly 3.3 million jobs, equivalent to one in six Canadian workers. Figure 2 in the annex demonstrates the increasing importance of trade relative to Canada's GDP over the past two decades. Moreover, agreements like the Canada-European Union Comprehensive Economic and Trade Agreement, which covers 65 % of global GDP and 1.5 billion consumers, make Canada the only G7 nation with full EU trade access, per Canada's 2022 State of Trade Report. Lastly, Canada remains the only G7 economy with free trade agreements with all other 6 countries⁶.

³ Autor, David, et al. *The China Shock: Learning from Labor Market Adjustment to Large Changes in Trade*, Jan. 2016, <https://doi.org/10.3386/w21906>.

⁴ Canada, Global Affairs. "Diversifying Canada's Trade and Investment Opportunities." *GAC*, 29 Jan. 2024, www.international.gc.ca/gac-amc/campaign-campagne/trade-diversification-commerce/index.aspx?lang=eng.

⁵ Canada, Global Affairs. "Government of Canada." *GAC*, Government of Canada, 3 Oct. 2024, www.international.gc.ca/transparency-transparence/state-trade-commerce-international/2024.aspx?lang=eng.

⁶ Canada, Global Affairs. "Government of Canada." *GAC*, Government of Canada, 17 June 2024, www.international.gc.ca/transparency-transparence/state-trade-commerce-international/2022.aspx?lang=eng.

ASSESSMENT

We recommend that Canada adopt a dual-track trade policy that balances targeted protectionism with continued multilateral advocacy. This approach addresses the immediate challenges posed by the increasing use of protectionist measures by key trading partners, such as the United States, while ensuring that Canada remains committed to the long-term benefits of rules-based trade.

On the bilateral and domestic front, Canada must respond to the competitive pressures created by policies like the U.S. Inflation Reduction Act, which provides substantial subsidies and tax credits for domestic industries. These measures risk disadvantaging Canadian firms, particularly in manufacturing and green technology, where competition is already intense. Targeted protectionist policies are necessary to address these challenges. For example, Canada should introduce tax incentives for domestic production, increase subsidies for green technology and innovation, and consider tariffs to protect industries critical to its economic resilience. These measures will help level the playing field without resorting to blanket protectionism, which could provoke trade retaliation or conflict with Canada's existing trade agreements.

However, at the multilateral level, Canada should continue to advocate for rules-based trade through forums such as the World Trade Organization. Engagement in these institutions allows Canada to challenge unfair trade practices, such as subsidies or non-tariff barriers imposed by other countries, while promoting stability and transparency in the global trading system. This advocacy is particularly important for smaller economies like Canada, which benefit from a predictable and open trade environment.

Targeted protectionism addresses immediate risks to Canada's industries, but overreliance could harm relationships with key partners, particularly the U.S., which accounts for 80 percent of Canadian exports⁷. Maintaining multilateral advocacy safeguards long-term trade interests and reinforces Canada's role in global trade policy.

⁷ World Bank Group. "Canada Trade Summary." *World Integrated Trade Solution*, wits.worldbank.org/CountryProfile/en/Country/CAN/Year/LTST/Summarytext#:~:text=Top%20five%20countries%20to%20which,partner%20share%20of%2076.88%20percent. Accessed 21 Nov. 2024.

Annex

Note: all content included in the Annex has been developed by the candidate.

FIGURE 1: Share of Canadian Exports by Destination (Percentage %)

Seasonally Adjusted, 2003 - 2003

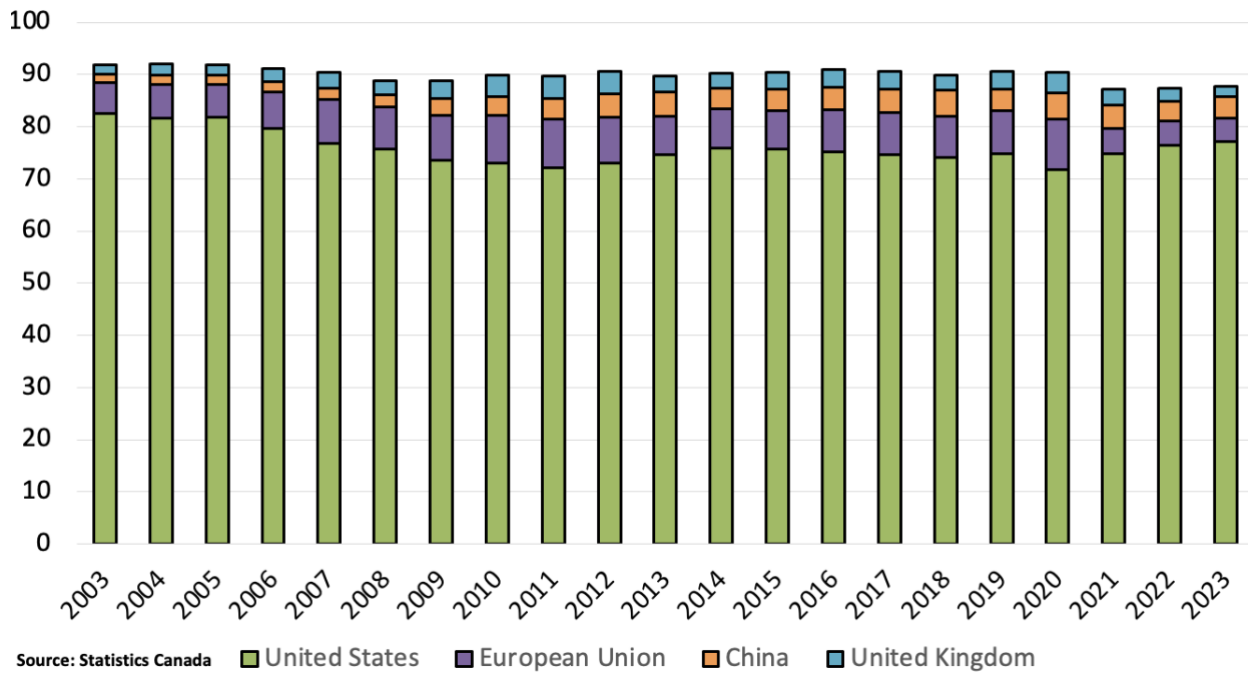


FIGURE 2: Exports and Imports as a Percentage of GDP

Canada, 2000 - 2023

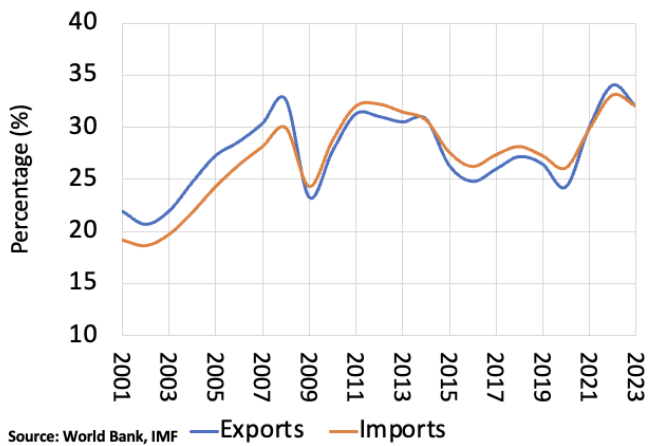
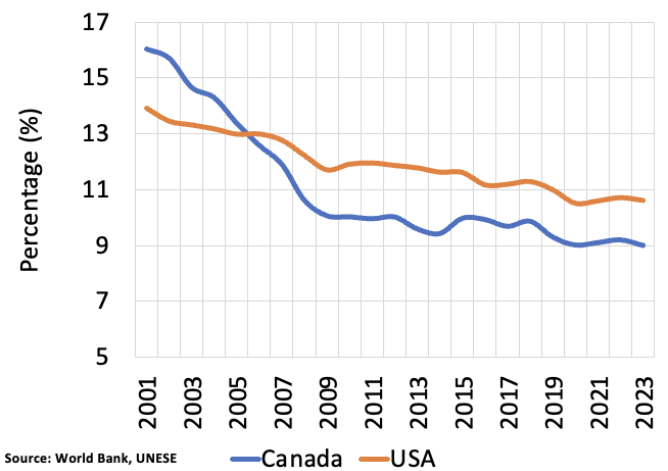


FIGURE 3: Manufacturing, Value Added (% GDP)

Canada, United States, 2001 - 2023



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