It's Complicated ... Canadian Economic Security Policies and Perspectives in a Changing World Order

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Introduction

The United States is Canada's closest economic and security partner. While both countries share many interests, neither their interests nor the means they use to pursue them are identical. This is truer today than it has been at any time since the founding of the post–WWII rules-based international order.

The United States led the creation of that postwar order, often coordinating closely with Canada, and shouldered the burden of upholding global openness and security. For decades, this system served U.S. and Canadian interests well. Globalization, however, also enabled China's rise, exposing deep incompatibilities with liberal market democracies. The system's effectiveness to constrain trade-distorting behavior by state-capitalist economies deteriorated. The United States was the first to adjust, with policies beginning under President Donald Trump's first administration, refined under Joe Biden's administration, and now shifting again under the current Trump administration in both targets and motivations.

Canada, too, shifted its trade outlook amid rising geopolitical tensions. Following Russia's full-scale invasion of Ukraine in 2022, Canada imposed unprecedented economic sanctions on Moscow and created a specialized sanctions bureau. Concurrently, China's detention of two Canadians ("Two Michaels") and its restrictions on Canadian meat and canola exports in the wake of the U.S.-requested arrest of Huawei's Meng Wanzhou in Vancouver focused Canada's attention on the economic and security risks emanating from China. Canada banned Huawei from its 5G networks and used its foreign investment screening to tighten scrutiny and block Chinese investments in certain high-tech sectors and critical minerals. In 2024, Canada mirrored U.S. electric vehicle and steel tariffs on China and suffered retaliation in the form of Chinese restrictions on Canadian agricultural exports.

However, with the second Trump administration, the United States, rather than China or Russia, became Canada's most immediate economic and national security threat. Repeated musings about using "economic force" to turn Canada into the "51st state," coupled with crippling tariffs on core Canadian industries, have transformed Canadian perceptions about the United States as a close military ally and economic partner into a risk for Canada's independence and prosperity. Canadian Prime Minister Mark Carney was elected on a promise to stand up to and rethink relations with the United States and to diversify relations with rest of the world, including by exploring a more nuanced and compartmentalized approach to China that balances economic and security risks with commercial opportunities.

To reset relations with the United States, Carney launched bilateral "economic and security negotiations" with Washington in June. These negotiations, which run in parallel to preparations for the United States–Mexico–Canada Agreement (USMCA) review, have increasingly focused on bilateral tariff relief, especially in relation to the Section 232 tariffs on steel, aluminum, and autos. From Canada's perspective, possible economic security commitments are on the table for both bilateral arrangements and a revised USMCA. The extent of and limits to future Canada-U.S. economic and security relations, however, remain to be determined.

This paper highlights critical issues that could affect Canada's willingness to adopt and align on economic security language alongside the United States (and Mexico) as part of USMCA or through bilateral economic and security negotiations.

Three core issues should be noted at the outset.

- Agreeing on common outward facing economic security commitments depends, in part, on how and whether Canada and the United States can resolve their bilateral economic security conflicts. Such a resolution will depend on the future trajectory of U.S. policy and its corresponding vision for Canada's role in the North American economy.

- Economic security commitments not only shape Canada's relationship with the United States but also affect its relations with other trading partners, ranging from China, where there are considerable differences in political-economic models, to liberal market democracies such as Japan and the European Union. Economic security commitments could thus complicate Canada's trade diversification efforts.

- Canada already maintains relatively robust economic security frameworks (see the Annex) and will need to weigh the benefits and drawbacks of further institutionalizing economic security concepts and related commitments, as well as their timing and format (e.g., USMCA versus bilateral framework agreements).

THE ALLURE (OR NOT) OF "FORTRESS NORTH AMERICA"

Canada sees the future of economic and security relations in North America in more nuanced ways than before. President Trump's economic security threats toward Canada have altered the country's outlook. For Canada, "Fortress North America" increasingly looks less like a bulwark against a hostile outside world and more like a prison that could restrict Canadian autonomy, trade diversification, and the ability to pursue its own interests.

The U.S. market remains a critical source of demand for Canadian exports. Yet, with major economic security threats emanating from the United States, Canada must walk a tightrope. Ottawa must balance deepening cooperation with the United States in select sectors and issues while also ensuring it can maintain its ability to increase trade and investment linkages with other countries, thereby reducing the relative reliance on (and therefore exposure to) the United States.

The implication is that there are both political and economic constraints impacting Canada's willingness to align on economic security measures. An important task is to identify these constraints, which essentially comes down to exploring questions that have no concrete answers, then working toward a corresponding zone of compromise that meets both parties' interests.

Question/Constraint One: What are the U.S. administration's economic security priorities?

- While the United States is changing its posture and nature of engagement with the world, it is still Canada's most important security partner. But there is uncertainty among Canadian citizens and policymakers about the direction of U.S. domestic and international policy.

- It is difficult to get a clear sense of what the U.S. government's primary strategic priorities are and to what degree they will endure under a different presidential administration.

- For example, what are the administration's preferences for the means and outcome in resolving the Russian invasion of Ukraine? What is the nature of U.S.-China relations? What does the United States see as the organizing principles and mechanisms for international trade and security? How does it resolve policy trade-offs on trade and security?

- Another point of uncertainty is the future of the transatlantic relationship. Canada remains strongly aligned with European allies and, under Prime Minister Carney, seeks to deepen security and trade relations with Europe. Given tensions between the United States and EU over trade, it is unclear how far the EU and United States are geopolitically aligned and what a transatlantic rift would mean for Canada.

- With respect to economic security, how does the administration define this concept? (i.e., what is in the domain of economic security issues?)

Question/Constraint Two: Can U.S.-Canada economic security tensions be resolved?

- While most Canadian exports have been exempted from tariffs under the USMCA carve-out, Canadian industries hit by Section 232 duties are suffering.[1] The Trump administration's use of Section 232 tariffs rests on the premise that the hollowing out of certain American industries undermines U.S. national security capacity. Section 232 tariffs are then essentially about restructuring U.S. industry and its relationship with the rest of the world, including Canada.

- This "zero-sum" frame of reference directly undermines the rationale underpinning Canada-U.S. economic and security integration policies dating back to the Auto Pact, which produced deeply integrated supply chains. It turns national and economic security arguments into irritants in bilateral relations.

- Depending on how the United States seeks to predicate market access—not only through tariffs but also rules of origin, investment rules, digital governance, regulatory issues, etc.—Canada will need to undertake a cost-benefit analysis. Given roughly 75 percent of Canadian trade is destined to the U.S. market, including through intra-industry trade, there is a strong preference to preserve preferential market access and a willingness to find compromise, but the experience of the last few months also underscored the need to derisk from the United States.

- Canada has thus become more guarded and selective when it comes to closer North American integration. Prime Minister Carney put it in stark terms in late March 2025 when he concluded that, "the old relationship we had with the United States based on deepening integration of our economies and tight security and military cooperation is over."[2] How bilateral economic security tensions are resolved will shape how the future relationship will look.

Question/Constraint Three: What is the value of a trilateral negotiation for Canada given each country's bargaining positions?

- While Canada and Mexico have a trade and investment relationship that produces benefits for both countries, the priority for both countries is accessing the U.S. market.

- Some Canadian politicians have called to jettison the trilateral approach and deal bilaterally with the United States. They cite closer alignment on economic security matters between Canada and the United States than between the United States and Mexico given the latter's more extensive openness toward Chinese investment and trade (though this is currently being revisited).

- Mexico's rationale for engagement could be perceived as being motivated by advancing economic development to transition from middle-income to high-income status. Its GDP per capita in 2024 was $14,157 USD, substantially lower than the United States' at $69,136.[3] This implies that Mexico can incentivize productive investment from the United States and Canada via high wage differentials. This directly challenges the U.S. imperative to reshore manufacturing. However, presumably the U.S. government recognizes that there is value to having a low-cost manufacturer on the periphery where it can delineate nonstrategic sectors that can locate in Mexico to benefit American consumers.

- Canada's primary rationale for engagement is to maintain its current wealth and trifurcated economic structure, which, to some degree, is underpinned by integration with the United States. Generally speaking, Canadian manufacturing is highly dependent on U.S. markets. Canadian resources (energy, minerals, agriculture, etc.) have mixed dependence on the United States but more flexibility to shift to new international markets. And the Canadian high-tech ecosystem is largely characterized by advanced research and development (R&D) capabilities which are often commercialized in the United States. Canada's GDP per capita is $54,282 USD, which is much more comparable to the U.S. GDP per capita than Mexico.[4] This may indicate why the Trump administration sees an economic conflict of interest with Canada. Canada may be seen as competing for the same productive investments and accompanying jobs.

- This breakdown informs why Canadian policymakers may perceive "Fortress North America" as a risk, with the United States possibly leveraging its market power in the USMCA review to determine the roles and divisions of economic activity between the three parties (i.e., delineating low-value manufacturing for Mexico and resources and R&D extraction from Canada).

- More generally, the current trilateral arrangement is seen as a success. Canada would prefer to maintain USMCA and limit the scope of the upcoming review.

Question/Constraint Four: What is the "currency value" of economic security alignment?

- Through its tariff threats, the United States is making countries around the world "pay" for access to the U.S. market. Given the current emphasis of Canada-U.S. negotiations on economics and security, it's plausible that alignment on economic security could be currency that Canada uses to "pay" for U.S. market access.

- The Carney government is weighing how to navigate the geopolitical tensions between the United States and China without again becoming collateral damage. Canada's alignment with U.S. economic security measures, including its 2024 mirroring of U.S. tariffs on Chinese goods, proved costly, as Chinese retaliation hit Canadian farmers. And rather than being rewarded for its loyalty, the Trump administration hit Canada with tariffs. Canada will seek to avoid such a lose-lose outcome in upcoming negotiations.

- Alignment with the United States on economic security policies could also be a strategic disadvantage vis-à-vis the rest of the world—not only China. This is because it's unclear where U.S. policy will land on other countries, particularly those who have traditionally ran large trade surpluses with the United States such as Germany and Japan. To the extent that Canada is required to essentially impose a common tariff policy in certain sectors (like what appears to be emerging in steel and aluminum), this could undermine valuable economic linkages needed for trade diversification.

ALL THINGS CONSIDERED: GENERAL ALIGNMENT, SELECTIVE DEEPENING, AND RETAINING AUTONOMY

Canada's economic security regime is not the product of a foundational strategy document that articulates the domain and range of a policy suite. Rather, like the United States, Canada, in piecemeal fashion, introduced new policies or adjustments to existing policies in response to a changing global environment—often due to a similar set of concerns as the United States and with considerable overlap in respect to the themes outlined in Emily Kilcrease's and Geoffrey Gertz's white paper.[5] The annex provides an overview of Canada's emerging economic security regime. While Canada has not adopted a specific economic security strategy, it has a robust economic security infrastructure in place.

Canada and the United States had a decades-long commitment to many shared economic and national security objectives. Canada still sees the United States as an important partner, but many Canadians are unsure how the United States sees Canada's future role in North America. Given the potential for economic conflict of interest and uncertainty over the broader U.S. geopolitical agenda, Canada will likely adopt a selective approach to economic security cooperation with the United States, with or without Mexico.

Deeper integration could be envisaged in areas seen as benefitting Canada:

- steel and aluminum clubs to counteract overcapacity in exchange for being exempted from tariffs targeting non-compliant countries
- increased transparency, information-sharing mechanisms, and regulatory best practices when it comes to national and economic security measures to help limit abuse and build confidence within the North American market, all while signaling predictability to non–North American countries, including China
- Indo-Pacific Economic Framework–style arrangements to monitor supply chain risks and chokepoints

At the same time, Canada would be reticent to accept commitments that could undermine overall policy autonomy or that undermine Canadian economic development.

Annex: Canada's Emerging Economic Security Regime

This section briefly summarizes Canada's major economic security tools.

Sanctions—Canada improved its sanction administration capacities in the wake of Russia's 2022 invasion of Ukraine. It maintains both multilaterally agreed-upon sanctions (United Nations Act) and unilateral sanction programs (Special Economic Measures Act).

Export Controls—Canada's system is governed by the Export and Import Permits Act, which is largely embedded in international frameworks such as the Wassenaar Arrangement. Unlike the United States, Canada has not introduced tools equivalent to the Entity List. Unlike Japan and the EU, Canada's industrial base is also narrow and deeply intertwined with the United States. Canadian export controls are generally seen more as signaling devices than effectual policy tools.

Investment Security—The Investment Canada Act is the primary legislation that includes two streams of foreign investment reviews: economic net-benefit and national security. Canada makes use of policy statements to provide context and send signals to potential investors, including how it relates to national security concerns. The act has been used to limit the involvement of Chinese investors, especially in the mining and dual-use technology space.

Trustworthy Technology in Domestic Markets—Canada has a range of policies and regulations that seek to maintain the integrity of critical infrastructure. For example, under a new 2022 telecommunications security framework, Canada conducted an examination of 5G telecommunications technology and related risks and then announced a prohibition on Canadian telecommunication service providers deploying equipment from certain Chinese companies. In June 2025, Canada also introduced Bill C-8, the Critical Cyber Systems Protection Act, which imposes certain requirements for operators in sectors regulated by the Canadian government.

Moreover, Canada also introduced a comprehensive research security program, which prohibits federal grants from going to international research partnerships in designated technologies with designated entities.

Overcapacity in Global Markets—Canada has worked through various international forums, including the Global Forum on Steel Excess Capacity, to discuss how to deal with these matters. In response to U.S. Section 232 tariffs on Canadian steel and aluminum earlier this year, Canada introduced new measures that closely align with the types of concerns outlined by the U.S. Executive Order, including using the broad authorities granted under Section 53 of the Custom Tariff.

Outside the scope of this discussion, Canada has introduced new border security measures in response to U.S. International Emergency Economic Powers Act tariffs and committed to spending 5 percent of its GDP on defense—actions clearly taken in response to U.S. calls to share more of the burden. However, neither of these measures have yielded formal relief.

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1. Canada has both the lowest average realized tariff rate of all countries importing into the United States but also the highest spread between overall average realized tariff rate and average tariff rate over tariffed products, meaning that those sectors subjected to tariffs are hit hard in comparison. See Matthew Higgins and Thomas Klitgaard, "A Country-Specific View of Tariffs," Liberty Street Economics, October 6, 2025, https://libertystreeteconomics.newyorkfed.org/2025/10/a-country-specific-view-of-tariffs/.
2. Filip Timotija, "Mark Carney on Trump Tariffs: Old Canada-US Relationship Is 'Over,'" *The Hill*, March 27, 2025, https://thehill.com/policy/international/5218631-mark-carney-on-trump-tariffs-old-canada-us-relationship-is-over/.
3. GDP per capita figures were all drawn from the Federal Reserve Bank of St. Louis website: https://fred.stlouisfed.org/categories/32264.
4. GDP per capita figures were all drawn from the Federal Reserve Bank of St. Louis website: https://fred.stlouisfed.org/categories/32264.
5. Emily Kilcrease and Geoffrey Gertz, "Economic Security in North America: Recommendations for the USMCA Review," Center for a New American Security, December 3, 2025, https://www.cnas.org/publications/reports/economic-security-in-north-america.