

Commercial Sovereignty: Enhancing Canada's Economic Security amid Global Tensions

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Issue

Canada's current approach to trade is too narrow: the country has too few partners and, despite being reliant on exports, it fails to coordinate its trade and economic policy.

Background

Canada's territory and natural resources have historically been a major strength. However, as trade tensions rise, the fungible nature of natural resources (Canada-United States-Mexico Agreement [CUSMA] 2019) have limited the country's ability to negotiate. It must diversify its exports away from natural resources to strengthen its negotiation position in trade agreements. Canada's most important exports are supply chain inputs. In fact, over 60 percent of Canada's net exports are unprocessed goods (Growth Lab at Harvard University 2023). This means that Canada captures very little of the profit generated throughout the ever-lengthening global supply chains (Kim and Park 2024; Wang et al. 2017).

While a complete redesign of the domestic industry is inadvisable, and clearly outside the scope of the Global Affairs Canada (GAC) mandate, the reorientation of trade toward new partners may create incentives for Canadian industries to invest in refining or transformation. Canada's current main partners, the United States, China and the United Kingdom, are some of the world's principal importers of primary resources (UN Comtrade n.d). Reorienting trade incentives, such as trade agreements,

toward countries that import mostly transformed goods could have a knock-on effect and encourage production of these transformed, higher margins, goods (Kohl 2014; Orefice and Rocha 2014). This hypothesis is further supported by the high level of interest in transformed goods and intellectual property intensive industries in trade negotiations such as the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP) implying they see a high potential benefit from these agreements (Rodrik 2018).

Investment agreements would also be conducive to this shift. While they may not directly encourage domestic industry to move toward transformation, by encouraging Canadian investors to invest in other countries and encouraging foreign direct investment into Canada, they will enable greater integration of Canada into global value chains. By selecting partners and shaping these agreements to encourage specific types of investments (for example, limiting investments into natural resources) they can be made even more effective (Egger, Pirotte and Titi 2023; Gopalan, Park and Rajan 2023). Thus, Canada needs to take the lead and identify key partners with compatible economies to sign partnership agreements with and raise the country's standing in the global value chain.

Canada's Investment Struggles

Beyond its external exposure, Canada faces several structural problems hindering its long-term economic security, specifically in terms of its declining business investment in non-residential sectors (Caranci and Marple

2024; Bafale and Robson 2024). This decline in capital intensity has been linked to lower productivity among Canadian firms, placing the national economy at risk amid the erosion of key trade ties (ibid. 2024). Should this continue, Canada's private sector will experience greater difficulty in global markets, ultimately constituting a threat to employment. In a world marked by the aggressive postures taken by the Trump administration and rivals such as China, Canada must align its growth ambitions at home and abroad to weather these threats.

A core issue is the lack of effective capital deployment into new ventures and projects. Although it remains a high-income country, Canada ranks next-to-last for capital stock per worker among Organisation for Economic Co-operation and Development states, outpacing only New Zealand in 2022 (C.D. Howe Institute 2022). Under such conditions, Canadian firms increasingly struggle to secure non-residential private investment, looking disproportionately to financial institutions in the United States (McIntyre 2025). Considering recent shifts in rhetoric between Ottawa and Washington, a strategy must aim to address the shortfalls in Canadian investment and open opportunities elsewhere. An effective asset of Canada is its institutional investor presence, namely, its public sector pension funds, which perform at a world-class level. While politicizing said fund's decisions would be ill-advised, building knowledge networks with financial professionals in these firms could enable holistic action (O'Leary 2025). Further, the complexity and multi-layered nature of the Canadian taxation environment has long posed a challenge for international investment in the country (RBC The Growth Project 2024). Efforts to simplify, streamline and build leaner requirements for firms, particularly in emerging markets such as the tech sector, will be critical to securing their long-term investment potential. Ontario's Special Economic Zones, while controversial, provide an interesting initiative that could be bolstered through bonded warehouses or expanded to include easier visa processing or trade policy leeway (Crawley 2025).

Canada's Incentive Complex

At present, over 150 federal government programs have been identified as business subsidies, providing either tax-based incentives or direct financial assistance to Canadian firms (Lester 2024, 8–9). Administered by a great number

of federal departments including GAC through its Trade Commissioner Service, government expenditure on direct subsidies has grown by 140 percent since 2015 (ibid., 6–8). Given the renewed focus on fiscal responsibility at the federal level, such programs must emphasize flexibility and maximize their impact-per-dollar. Thus, rather than attempting to expand them, it may be beneficial to consider compartmentalization and centralization of their administration at GAC.

Under the CANExport umbrella at GAC, for instance, several programs are offered to provide advice, expertise and financing below market rates for Canadian firms (GAC 2025b). Although they provide value, it could be beneficial to review their operations for potential overlap with other departments supporting export activity including Innovation, Science and Economic Development (ISED) or perhaps crown corporations such as Export Development Canada (EDC) (ISED 2025; EDC 2025). Cross-administration of these financing activities with other stakeholders in the public service could introduce additional policy lenses and enhance delivery at little additional cost. Further, by conducting a comprehensive review of various specialized programs that aim to bolster export activity, funds could be transferred from high-impact to low-impact programs over the long term.

Diversification through Trade and Diplomacy

Canada's economic security remains vulnerable due to its continued overreliance on the United States, which still accounts for approximately 75 percent of Canadian exports (Statistics Canada 2025). This concentration puts Canada at a high risk, especially considering deteriorating bilateral relations under the second Trump administration, which has been marked by protectionist policies, trade tensions and sector-specific tariffs in key areas such as manufacturing, automotive and energy (Hernandez-Roy 2025).

Recognizing the need to mitigate overdependence well before this latest shift in US policy, the Canadian government launched the Export Diversification Strategy in 2018 (GAC 2018). The strategy aimed to increase overseas exports by 50 percent by 2025 through investments in trade infrastructure, support for small- and medium-sized enterprises, and the negotiation of new

free trade agreements (FTAs). As of 2025, Canada has 15 FTAs with 51 countries, including major framework agreements such as CUSMA, the Canada-European Union Comprehensive Economic and Trade Agreement (known as CETA), and the CPTPP (GAC 2020).

More recently, Canada has adopted region-specific approaches. The Africa Strategy (GAC 2025a) seeks to deepen engagement with African institutions, promote youth employment and strengthen peace and security partnerships. The Indo-Pacific Strategy aims to reduce dependence on traditional partners by enhancing trade, investment and supply chain linkages across the Asia-Pacific, partly in response to a growing Chinese influence in this area (GAC 2022). These efforts are supported by increased diplomatic outreach, such as the Team Canada Trade Missions (GAC 2024; Globerman 2023).

However, major gaps remain. Canada has not finalized free trade agreements with key emerging economies and blocs such as the Association of Southeast Asian Nations (known as ASEAN), India, MERCOSUR (a South American trading bloc consisting of Argentina, Brazil, Paraguay and Uruguay), or the long-delayed Canada-CARICOM (Caribbean Community) agreement (GAC 2021; GAC 2017b; GAC 2016b; GAC 2016a). Efforts to strengthen ties with India, Canada's tenth-largest trading partner and the world's fifth-biggest economy, were stalled following diplomatic tensions in 2023 (Choudhury, Dawar and Dutta 2025). While Canada has trade agreements with several Latin American and Caribbean nations (for example, Chile, Colombia, Costa Rica, Peru), it lacks a cohesive regional strategy. Unlike Africa and the Indo-Pacific, where formal strategies guide Canadian engagement, or the Canada-CARICOM Strategic Partnership launched in 2023, no comprehensive Latin America strategy exists, limiting Canada's policy guidance to coordinate trade, diplomacy and development policy (Batacan et al. 2023; GAC 2017a).

Recommendations

Diversify and optimize partners. Within the framework of Canada's Export Diversification and Indo-Pacific Strategies, the government should reevaluate the scope and focus of its engagement with Indo-Pacific nations, considering the recent leadership transition under Prime Minister Mark Carney. Restoring diplomatic relations with India should be a top priority. A clear road map

for re-engagement must be developed, including the scheduling of high-level meetings between prime ministers and foreign ministers, in continuation of the Group of Seven invitation. Canada should also actively advocate for the resumption of negotiations on the Early Progress Trade Agreement.

Prioritize trade partners based on economic compatibility with its export objectives, particularly those with a demand for Canadian transformed goods rather than raw inputs. To support this, GAC and the Trade Commissioner Service should reassess the geographic focus of current trade missions, ensuring they are strategically targeted. Where appropriate, resources should be redirected toward Latin America, especially in countries with underutilized FTAs, such as Peru and Costa Rica, or where trade negotiations are ongoing, including with CARICOM. This should become part of a formal Latin American and Caribbean strategy. Clear priorities and timelines should be set, and input from diaspora communities and the private sector should be included. Canada should design trade policy with Canadian industry in mind, prioritizing transformed goods over raw resources for exports.

Align economic, fiscal and trade policies for resilience. GAC should create a volunteer advisory board to establish ties with the Canadian financial sector, paving the way for a future global investment strategy. This will allow the government to benefit from the Maple Eight¹ public sector pension funds and banking giants' expertise and aid in identifying strategic opportunities for major Canadian firms in emerging markets, while also reducing policy risk for these actors. To reduce overlap with ISED on business subsidy activities, GAC should institute an interdepartmental working group with the goal of aligning funding schemes between the two organizations. This will become particularly important with the growing interest in diversifying trade and economic ties away from the United States. This working group should include relevant crown corporations (for example, EDC) to identify opportunities for joint financing and administration on projects that offer both an economic security benefit and gains for Canada's private sector to ensure the centralization of services.

¹ Maple Eight are the eight-largest Canadian pension funds.

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