

Modernizing Canada's Trade Approach: Recommendations for Strategic Trade Policy

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Issue

Canadian policy changes in response to the currently shifting global economic paradigm have left the needs of some sectors insufficiently addressed by a uniform approach to trade policy.

Background

Recent global economic policy shifts have been dominated by a broad protectionist turn. A confluence of factors drive this turn, but particularly relevant are the political shifts in the United States, a decline of the influence of multilateral trade organisations, particularly the World Trade Organization (WTO), an increase in state-led industrial policy, a growing push to force the internalization of climate costs and a rising desire for more domestic supply chain resilience. These shifts do not impact all sectors in the same way and some, due to differentiated impacts, require individualized attention. This brief recommends that Canadian digital exports, critical minerals and agricultural sectors require new, specialized responses from Global Affairs Canada's (GAC's) trade policy. The benefits of these policy changes involve new opportunities, derisking, increasing economic resilience and driving economic growth.

This policy brief will focus on specific industries as GAC's overall trade policy has already moved to address broad trends that impact most Canadian industries, such as working to counter the threat of tariffs. There

is no single answer to the protectionist turn that will entirely alleviate the economic damage and risk. In this environment, strategic considerations around key industries are increasingly important, particularly when domestic industrial and trade policy must coordinate. A strategic approach helps enable Canada to take advantage of anticipated trade diversification resulting from third markets becoming more hostile to the United States as tariffs and uncertainty risk rise.

The recommendation is to consolidate critical minerals trade policy into the Canadian Critical Minerals Strategy (CCMS), increasing policy harmonization and taking into consideration the impacts of non-tariff barriers on digital industries and moving toward a "shock-centred" approach to building agricultural import and export opportunities.

Digital Exports

Digital exports² — cross-border trade in services and goods delivered electronically, such as software, streaming, cloud computing and e-commerce — are a fast-growing segment of Canada's economy. These exports are embedded within Canada's broader trade strategy, with agreements like the Canada-United States-Mexico Agreement and the Comprehensive and Progressive Trans-Pacific Partnership including dedicated digital trade chapters, chapters 19 and 14, respectively (Government of Canada 2018; 2020). These agreements ban customs duties on

² The digital goods and services trade is sometimes referred to as electronic commerce or e-commerce.

digital products, mandate free cross-border data flows and prohibit forced data localization and source-code disclosure. Through them, Canada has positioned itself as a supporter of open digital trade, emphasizing innovation and global competitiveness.

Globally, digital protectionism is intensifying. Countries are increasingly regulating digital trade through data localization requirements, digital service taxes and platform-specific obligations, which may function like new kinds of non-tariff barriers (NTBs). China has adopted some of the most restrictive policies, mandating domestic data storage and limiting access for foreign tech firms (Zhang 2024). The European Union, despite its strong privacy framework, has been criticized for targeting foreign digital giants through regulatory regimes such as the Digital Services Act and Digital Markets Act (European Union 2022). The United States has challenged the digital policies of allies and implemented its restrictions on data flows tied to national security (US Department of Justice 2025). These trends suggest a growing fragmentation of the global digital economy. Countries are increasingly asserting control over data, content and platform governance in ways that often conflict with international digital trade norms. To better tackle this fragmentation in the global trading regime, identifying policies that both serve domestic purposes and function as non-tariff trade barriers, such as The Online Streaming Act, Digital Charter Implementation Act and the recently discarded Digital Service Tax is critical. Incorporating these strategically into a negotiating framework is key to modernizing Canada's trade strategy regarding digital goods.

While these measures reflect legitimate domestic policy goals, they also resemble the kinds of digital trade barriers that Canada has committed to avoiding, and are increasingly the tools used in trade conflicts around digital services, rather than direct tariffs. In this context, Canada must adopt a more strategic approach to digital protectionism, directly addressing the trade risks associated both with international and domestic regulations. While open digital markets benefit Canadian exporters, domestic regulations — especially those related to privacy, culture and taxation — are politically important. Policy makers and trade negotiators should, therefore, treat digital protectionism as both a tool and a negotiating asset. At the same time, Canada must be cautious not to undermine its trade credibility or open itself to dispute

resolution claims. Additionally, with Canada's comparative advantage in cheap energy costs, and a similarly educated digital labour force, Canada also stands to gain with the global trade diversion away from the United States. To manage this balance, Canada needs a coherent digital trade strategy that aligns domestic regulatory goals with international commitments.

Critical Minerals

The shift in the international trade environment has been particularly notable for critical minerals. However, unlike many goods that are impacted by tariffs on imports, the critical minerals sector has instead seen the rise of export restrictions. In Indonesia, export restrictions on raw materials escalating to bans have been put into place as a part of a larger push to capture critical minerals refinement (Hopewell 2024). In China, critical mineral tariffs have been used as a part of larger trade and security conflicts against both the United States and other nations (Fan, Omura and Roca 2023). A large number of nations have placed less dramatic restrictions, and across the whole market, restrictions on exports have been increasingly broad and severe. While some of these restrictions result from the confluence of security policy and trade, or as a part of trade conflict, the broad pattern in their expansion is fundamentally rooted in the market dynamics of the critical minerals industry. As stated by an Organisation for Economic Co-operation and Development paper on the practice, "Such restrictions create incentives for other producing countries to introduce similar restrictions, putting yet more upward pressure on international prices and ultimately creating more incentives to restrict exports." (Kowalski and Legendre 2023). These market dynamics have accelerated in the face of the WTO appellate blockage and ongoing trade conflicts. All of these factors have led to a market dominated by political restrictions on the movement, use and price of critical minerals.

The CCMS is the centre of Canadian activity within the sector, and targets extraction, refinement and utilization of critical minerals. Canada has signed a significant number of international partnerships, including key exporters such as Indonesia, but they are not broadly targeted to protect Canada from export restriction. As export restrictions are likely to further increase globally, Canada should expect to be subject to both broad and targeted restrictions on Canadian import capacity. At the same time, this market structure presents major opportunities for Canadian producers, so long as they can navigate the unpredictable

price volatility and political dynamics of these markets.

The combination of a highly restricted international market, competing importers, high demand and intertwined security considerations create further risk around both import and export of critical minerals. Exporting at unrestricted prices may see purchasing at a premium by states interested in monopolizing refining, and the use of this monopoly power to move prices, which in turn can impact exporters. This, or other similar practices, may put the capacity for Canada to develop its refining industry in peril, putting pressure on Canada's own industrial policy objectives in this space.

Food

While a sharp rise in protectionism has created a major disruption for most global markets, agriculture already existed in a significantly less open environment. The multilateral approach, now in crisis elsewhere, had been struggling in agriculture since the Doha round failures in 2011 (Castellano-Álvarez, Javier and Ramírez 2022). A combination of agricultural subsidies, tariffs and complex NTBs dominates the international agriculture space. Since the pandemic, a further push toward supply chain resilience and an emphasis on domestic food supply have diminished the capacity to open markets. Part of this emphasis is due to food shocks becoming more common. Political shocks such as the invasion of Ukraine, disease-based shocks, oil shocks and climate change-linked shocks all have roles in recently driving global food prices upward (Bentley et al. 2022). These shocks, particularly climate-based ones, are likely to both continue and intensify (Tchoukouang, Onyeaka and Nkoutchou 2024). Further strains such as the pullback of the US Agency of International Development (known as USAID) and persistent concerns about the impact of food support on local farmers create a transformed global environment (Anfaal et al. 2025; Kelinsky-Jones, Niewolny and Stephenson 2024). This environment offers limited opportunities to open new food export markets, but increased vulnerability to shortages and price spikes, even as they occur more often. This combination puts pressure on global food systems but presents a potential opportunity for Canada.

As noted in Canada's "National Food Pathways" document, Canada is explicitly looking to build a food system that is "more resilient to economic and environmental shocks and better positioned to seize opportunities" (Agriculture

Canada 2021). How can Canada utilize international trade to fulfill this mandate? Canada should build partnerships around responding to medium-term food shocks. The need for the simultaneous ability to respond to increasing shocks and to help maintain self-sufficiency creates the space for a type of standardized shock response, which is referred to in this brief as a framework for temporary exports. The goal of this approach would be to utilize and commercialize Canada's developing flexible domestic food capacity. When shocks occur, Canada can expand production with targeted, negotiated exports to impacted countries. This would both help increase the financial viability of maintaining flexible capacity and reduce global price volatility by addressing shocks through temporary international markets. This approach has the advantage of exporting without permanently suppressing domestic farm prices in the impacted areas.

This framework should not be solely domestic. The goal of this framework would be to enable purchasing countries suffering from shocks to negotiate with interested exporters and to purchase future food production capacity using tools such as negotiated price bands. Exporter governments would work with industry partners to identify capable sellers who have previously indicated interest and work to facilitate the response. These markets would be intended to be temporary, specifically targeting medium-term shocks and looking to utilize resilient food capacity.

This is a largely novel approach and, as such, there is currently no international or common bilateral framework for rapid, temporary modification of trade barriers to respond to shocks. While temporary markets are less desirable than permanent trade openness for Canadian exports, they present a new opportunity, which simultaneously helps create a more shock-resilient global system. While short-term responses to food crises are frequently emphasized, shocks are frequently persistent (Andree et al. 2020), and medium-term responses like capacity purchasing can have value.

Recommendations

GAC must incorporate selective digital protectionism into its trade framework, as both a negotiating mechanism and a means of protecting Canadian digital economic interests at home. This includes ensuring new policies are trade-compliant, leveraging existing trade agreements to challenge unfair foreign barriers and engaging actively in digital trade negotiations such as the WTO e-commerce talks and the Digital Economy Partnership Agreement. By using digital protectionism selectively and strategically, Canada can defend national interests while preserving its position in the global digital economy.

GAC should, working with Agriculture Canada, explore possible partnerships with other food exporting nations through organizations such as the Cairns Group, which enables temporary purchasing of food supply for upcoming harvests at negotiated prices. This framework should attempt to link purchasing governments with domestic farmers interested in the sale of temporary supply. The goal of this framework would be to provide a medium-term response to food shocks, not as a replacement for immediate aid. It should enable governments expecting or experiencing pressure on food supplies to buy within a price band that does not harm local farmers and allows for purchasing without modifying overall trade barriers. This is intended to create new temporary markets for interested sellers, help guard against regional price shocks and help utilize flexible domestic production capabilities in such a way that they are continually maintained.

GAC should move from an oversight role to a direct member of the CCMS horizontal initiative. International and trade agreements in the critical minerals space have uniquely important strategic and risk components. The interlinked nature of the political, market and research environment around critical minerals creates cascading impacts into different sectors resulting from state industrial policy. The international goals of the CCMS, the expectation of new export restrictions impacting Canada and the need for strategic policy harmonization creates a need for the inclusion of GAC into the CCMS. This inclusion should be focused on developing a strategy (including, but not exclusively, international agreements, treaties and partnerships) to respond to export restriction, price volatility and monopolization tactics from international actors.

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