

Intelligence MEMOS



From: Harvey Naglie
To: Trade War Watchers
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Re: REIMAGINING CANADA'S TRADE STRATEGY IN RESPONSE TO US PRESSURES

The C.D. Howe Institute's [report](#) on Canada's response to intensifying US trade pressures offers a pragmatic blueprint centered on economic de-risking, strategic diplomacy, and safeguarding existing trade frameworks like CUSMA/USMCA.

Its recommendations – strengthening economic foundations, restrained retaliation, support for tariff-affected industries, and coalition-building – are rooted in a sober assessment of Canada's vulnerabilities, particularly its reliance on the United States.

Although these measures address immediate threats, such as potential 25-percent tariffs on Canadian goods, the report's reliance on traditional strategies risk perpetuating this country's chronic vulnerabilities. To secure long-term resilience, Canada must supplement the report's pragmatism with bold investments in digital transformation, diversified trade portfolios, and tech-forward global partnerships.

I evaluate the report's key recommendations, highlight missed opportunities, and propose a more aggressive path forward.

Evaluation of Key Recommendations

Strengthening Economic Foundations: The report's call for major infrastructure projects, removal of interprovincial trade barriers, and productivity enhancements is a necessary step to bolster Canada's economic resilience. However, the report's focus on traditional sectors like automotive and steel overlooks Canada's burgeoning digital economy, projected to [grow](#) at 9 percent annually through 2025, driven by [AI adoption](#) and e-commerce. By prioritizing conventional investments over digital infrastructure – such as 5G networks or AI research hubs in Toronto and Montreal – the report misses a chance to redefine Canada's competitive edge. For instance, AI-driven supply chain optimization could [reduce](#) export costs by 10 to 15 percent, according to the OECD.

Retaliation and Strategic Communication: The emphasis on restrained retaliation and targeted messaging to US audiences reflects a nuanced understanding of Canada's limited leverage. Building alliances with US businesses reliant on Canadian inputs, such as Michigan's auto sector, is tactically sound. However, this defensive stance underutilizes proactive tools such as blockchain-based compliance platforms or AI-driven trade analytics could enable real-time tariff tracking and automated customs documentation, reducing administrative burdens for exporters. For example, Singapore's TradeNet system cuts customs processing times by 40 percent, a model Canada could adapt.

Continuity for Affected Industries: Support programs like tax deferrals and financial aid for tariff-hit sectors like forestry and aluminum are critical stopgaps, particularly for SMEs facing immediate cashflow crises. The report's "plan B" for the auto industry – reverting to pre-1965 trade mechanisms – acknowledges worst-case scenarios if CUSMA falters. Yet, this focus on old industrial policy can easily make us forget about transformative opportunities. For instance, the global shift to electric vehicles offers Canada a chance to leverage its cobalt, nickel and lithium reserves, and invest in smart manufacturing.

Coalition-Building with Like-Minded Nations: The report's advocacy for alliances with traditional trade partners, such as the EU or Japan, is prudent. Multilateral frameworks like the CPTPP provide stable alternatives, with Canada's non-US exports growing 12 percent annually since 2018. However, the report frames coalitions within conventional trade blocs, overlooking tech-forward partnerships shaping modern trade. Initiatives like the UAE's TradeTech program or the WTO's Digital Trade Framework emphasize regulatory sandboxes and cross-border data flows, critical for e-commerce, which accounts for 15 percent of Canada's retail growth.

Missed Opportunities for Transformative Resilience

The report's reactive focus, while understandable, sidesteps three critical areas where Canada could redefine its trade strategy. They are as follows:

- Digital and AI Integration:** AI holds immense potential to predict trade disruptions, optimize tariffs, and identify new markets. For example, predictive modeling could help Canadian firms pivot from US-dependent supply chains, as seen in Maersk's 2023 AI pilots, which cut logistics costs by 12 percent. Canada's AI ecosystem – Mila, Vector Institute, and 1,200+ AI startups – is a ready asset. Similarly, blockchain for trade compliance could streamline denied-party screening, [reducing](#) delays by 30 percent or more. Federal investment in these tools, perhaps via a \$200 million TradeTech Fund, would align with Canada's Digital Charter and signal global leadership.
- Meanwhile, Canada's critical minerals and clean energy sectors offer untapped trade potential. With global electric vehicle demand projected to [grow](#) 25 percent annually through 2030, Canada could supply battery materials to Europe or India, reducing US reliance. Green hydrogen, where Canada ranks among the top 10 producers, could anchor trade deals with Germany or South Korea.
- Internal Trade Digitization:** Removing interprovincial barriers is a cornerstone of the report, but pairing this with digital platforms would amplify gains. A cloud-based regulatory system could harmonize standards for goods and services, cutting [compliance costs](#) by 25 percent.

A Hybrid Path Forward

To address US trade pressures, Canada needs a dual-track strategy that blends the report's pragmatism with transformative ambition.

To ensure short-term survival while building future capacity, Canada could extend tax deferrals and aid for tariff-hit sectors, but tie relief to digital adoption. A \$100-million SME Digital Trade Program could subsidize AI analytics or blockchain tools, mirroring Australia's 2022 Trade Modernization Fund.

It should also invest \$500 million over five years in 5G and AI hubs to support trade-related applications, leveraging Canada's 10-percent [share](#) of global AI patents.

On trade, Canada should expand CPTPP and EU trade while negotiating mineral and hydrogen deals with Asia and Europe. Join the WTO Digital Trade Framework to shape e-commerce rules, ensuring Canada's 15,000+ online retailers thrive globally.

By integrating digital transformation, diversifying into critical minerals and green energy, and modernizing internal trade, Canada can balance immediate needs with a more resilient vision for the future. These shifts are needed to avoid locking Canada into a cycle of US dependency rather than charting a bold, independent path.

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