Beyond the Border: Rethinking Canada's Economic Future Without U.S. Trade

By: Mariana Garcia Mejia.

Canada's economy is built on a handshake with the United States. But, what happens when that handshake turns into a closed fist? Recent events have shed light on the importance that U.S. trade has for the Canadian economy, making it natural to wonder if Canada could survive without its largest trading partner.

This relationship has been carefully cultivated through decades of free trade agreements, in efforts to preserve "the largest and most important trading relationship in the world", as stated in the Canada-US Free Trade Agreement of 1989[1]. Yet, on February 1st, the stability was shaken. A regulation that had been avoided for so many years was put in place all of the sudden, and a previously thought untouchable relationship was severed. The Trump administration slapped a 25% tariff on all Canadian goods (except energy, tariffed at 10%); hours later, Canada struck back with retaliatory tariffs on steel, aluminum, and consumer products[2].

The impact of this policy became clear immediately, as both countries took hits, but not equally. In Canada, tariffs affected almost three-quarters of all exports, slowing the economy and weakening the job market in trade-intensive industries[3]. On the other side of the border, the U.S. faced higher prices for Canadian raw materials—such as the aluminum that makes up 90% of its auto industry inputs[4]— however its larger, more diversified economy helped mitigate the losses[5]. While the effects rippled far beyond than this in both countries, the imbalance made one fact clear: in any sustained breakdown, Canada would face the greater disadvantage.

Exports to the U.S. account for roughly 17% of the Canadian GDP[6], meaning that a sudden halt in trade would trigger a deep recession. Thousands of jobs would be threatened across all provinces, and industries would struggle to secure machinery, electrical components, and other vital imports once supplied by the U.S.[7]. The consequences for the U.S. would be significant as well, but the asymmetry is striking—Canada sells nearly $42 billion worth of goods to the U.S., while its next largest buyer, China, takes only $2.6 billion. On the import side, the gap is just as wide—Canada imports about $40.8 billion in goods from the U.S., compared with only $5.1 billion from China[8].

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While Canada is vital for the U.S., the dependence is not mutual—only 18% of U.S. exports go to Canada, and only 14% of its imports are Canadian[9]. These figures show why Canada is tied far more tightly to U.S. trade than the reverse and urgently call for diversification, both in trading partners and in products, if Canada is to begin gaining real economic independence.

In previous years, the province of Newfoundland and Labrador has had great success in diversifying trade and provides an important example for the rest of the country. Although three-quarters of Canadian goods exports go to the United States, only about one-third of Newfoundland and Labrador's goods exports are US-bound. Local energy producers have been able to shift from U.S. markets; more than half the province's oil is shipped by tanker to Europe, almost a 10% increase from 20 years ago. They've also experienced growth in the tech and services sector by using digital delivery to reach markets in different parts of the world[10].

The rest of Canada could benefit from pursuing a similar path in the services sector, especially information and communications technology (ICT), which has consistently outperformed most other industries.[11]. Unlike goods, services are far easier to transport across borders. Profiting from fewer infrastructure barriers would be the key to an immediate boost in exports, in contrast to natural gas and other goods, where Canada would need to wait years for pipelines, ports, and LNG terminals to be built before reaching new oversea markets[12].

Diversification is definitely harder for goods, but could be eased by eliminating interprovincial trade barriers, investing in better east-west transportation links, and constructing high-capacity ports. Canada could also seize specific opportunities by identifying gaps in other economies where Canadian exports could step in. For example, several Asian countries now face wheat shortages due to disrupted grain exports from Ukraine[13]. At the same time, European countries are grappling with soaring oil and gas prices, a direct consequence of the war[14]. Canada has clear comparative advantages in both agriculture and energy, but tapping these markets will require major infrastructure investment to move goods efficiently to distant buyers.

To unlock these opportunities, Canada must make better use of existing trade agreements. The CPTPP, opens doors across the Asia-Pacific region[15], while the CETA provides access to Europe's

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vast market[16]. Leveraging these agreements with investment in infrastructure would give Canadian businesses alternatives when U.S. supply chains falter, while also helping industries like autos, agriculture, and energy to reach new demand abroad. Examples of this could be supporting Asian and European demand for vehicle components, starting to step aside from the dependency this industry has on the U.S.[17], or starting to export more agricultural products and energy, as suggested above. Expanding into these markets won't be easy, but it is a necessary step if Canada is to reduce its dependence on the U.S. and strengthen its resilience.

Canada's reliance on U.S. trade is both a strength and a vulnerability. However, it is clear that Canada has all the tools it needs to become just a little more independent in its economic journey: experience producing goods with great demand such as energy, agricultural and automotive goods, a promising tech industry growing service exports each day, and access to two oceans. Canada must certainly avoid conflict with its closest partner, but it should simultaneously reimagine its trade landscape to achieve a more stable, independent future.

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