



Power Asymmetry in Canada-US Trade Relations: Looking into the Future

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The world's most comprehensive trading relationship

“Geography has made us neighbors. History has made us friends. Economics has made us partners. And necessity has made us allies. Those whom nature hath so joined together, let no man put asunder.”

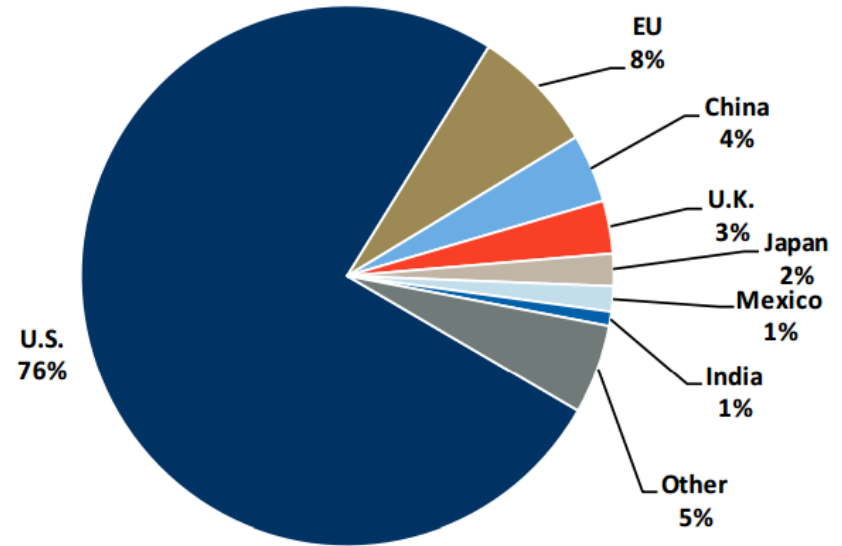
— John F. Kennedy



Key dimensions

- Bilateral trade (**\$1.3 trillion**)
- Trilateral trade pact: **CUSMA-USMCA**
- Border cooperation: **longest** in the world (9,000 km)
- **Highly integrated** electricity networks
- Robust **security and defence** arrangements (NORAD, NATO, the Five Eyes)
- Transboundary environmental relationship (**4 of the 5 Great Lakes**)
- Major **critical mineral** supplier to the US

Canada's exports



Source: Statistics Canada

Power asymmetry



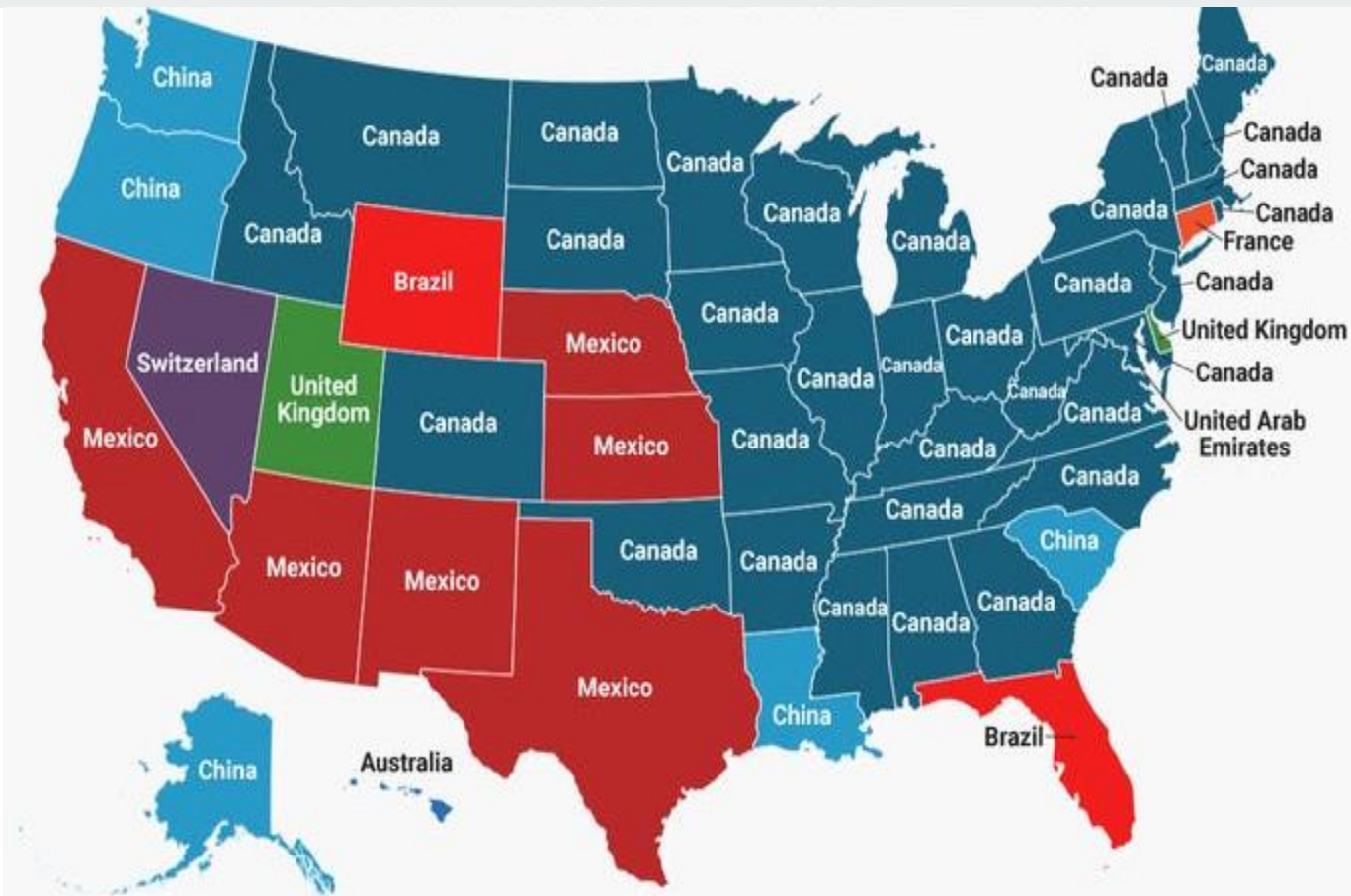
- Trade policy decisions in the US often result in shocks with varying degrees of severity for the Canadian economy.
- Such asymmetry in the influence level has implications for policy.
- Trade relations took on a different tone upon Trump's ascendancy to the presidency in January 2017.

Sources of asymmetry



- GDP: **\$2trillion** vs. **\$23 trillion**
- Population: **38M** vs. **331M**
- **Small open economy** vs. **superpower**
- Canada: the **quintessential small** open economy
 - ✓ Trade accounts for **66% of GDP** (\$1.5 trillion)
 - ✓ Large export-oriented primary goods sector
 - ✓ Highly **integrated manufacturing**
 - ✓ Increased **labour mobility** across countries and between sectors
 - ✓ **Top 3** goods exports: **energy products**, motor vehicles and parts, and consumer goods.

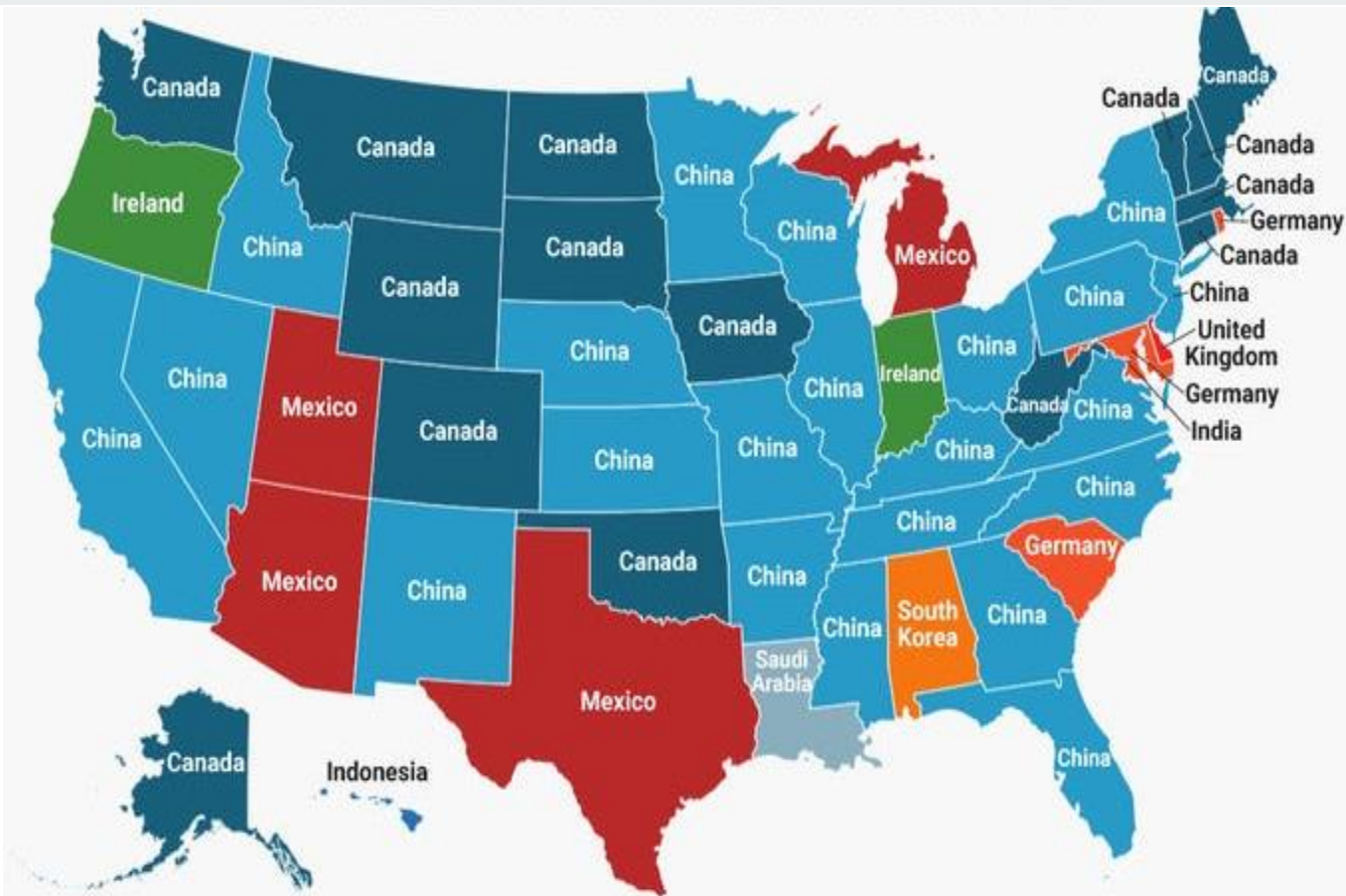
Biggest export trading partner



SOURCE: US Census Bureau

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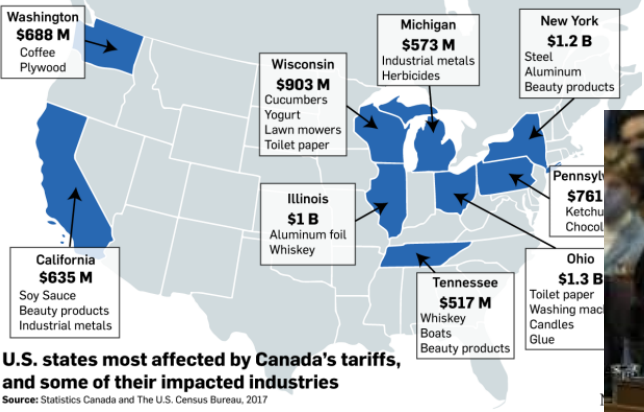
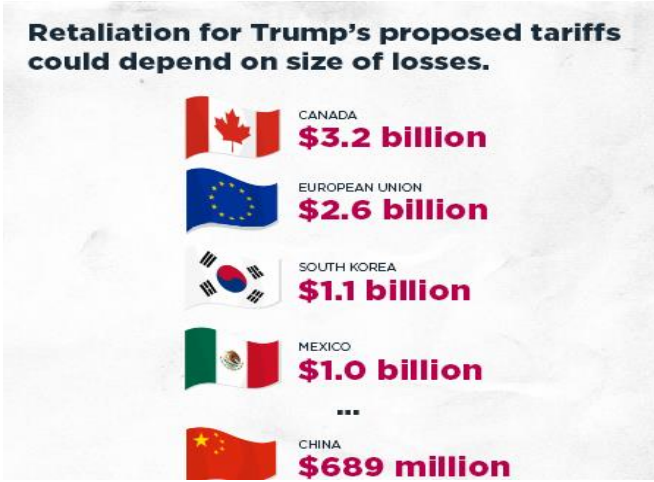
Biggest import trading partner



SOURCE: US Census Bureau

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Irritants, disputes, tensions



US Steel and Aluminum Tariffs and Canadian Countermeasures:

Regular Updates to an Ongoing Story

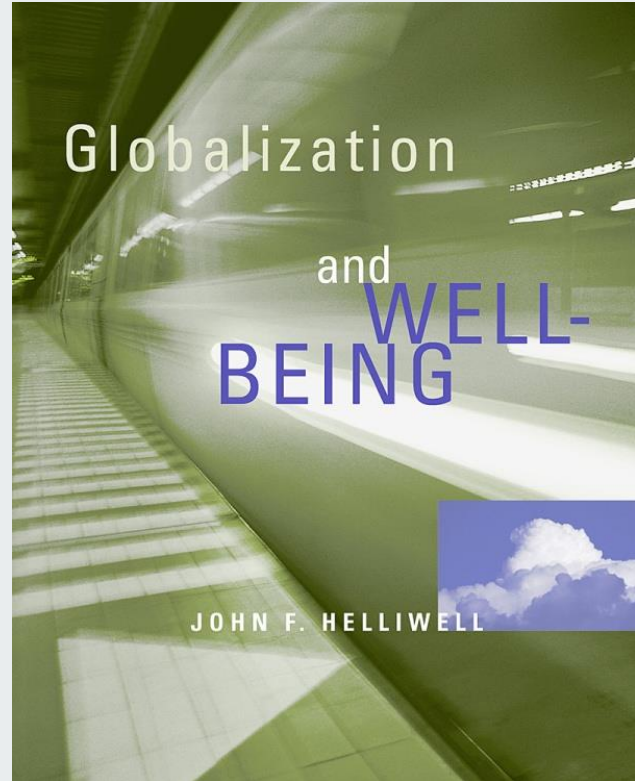
Now with Self-Serve Tariff Finder

To diversify or not to diversify: mixed evidence



Increased intensity in Canada–US economic exchanges may **dampen Canada's ability** to pursue independent policies (Helliwell, 2002).

Integration and removal of border-related trade barriers key to **creating further opportunities** (Anderson and van Wincoop, 2003; McCallum, 1995).



What's within Canada's control?

"Living next to you is in some ways like sleeping with an elephant. No matter how friendly and even-tempered is the beast, if I can call it that, one is affected by every twitch and grunt."

— Pierre Trudeau



Home bias in trade puzzle



The six major puzzles
in international
macroeconomics.

**National Borders Matter:
Canada-US Regional
Trade Patterns.** American
Economic Review (**John
McCallum**, 1995)

Interprovincial trade = **20 x** state-province trade!

Times have changed: looking into the future

- Increased protectionist sentiment
- Slowing growth in the US
- Increased political polarization
- Geopolitics and the climate crisis
- The rise of paradiplomacy
- Realignment of supply chains

