Policy Paper:

Recalibrating Canada's Trade and Economic Foreign Policy:

A Three-Circle Framework in the Era of Tariff Wars

Faramarz Tamanna

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His research and professional expertise focus on Afghanistan and regional politics, foreign policy analysis, security studies, and international relations, with a particular emphasis on the intersection between academic research and practical policy design. Tamanna is the author of five books and numerous scholarly and policy publications in these fields.

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Executive Summary

This policy paper is grounded in the core assumption that Canada's external economic environment, and the international order, has entered a phase of structural and enduring transformation. The experience of tariff wars (2018 and 2024), the persistence of protectionism in U.S. domestic politics, the intensification of U.S.–China strategic rivalry evolving U.S. engagement with Russia, emerging tensions between the United States and its Western allies, and the weakening of the multilateral trading order collectively demonstrate that Canada's economic security can no longer be built on excessive reliance on a single partner. Under these conditions, diversification is no longer an optional policy choice; it has become a strategic necessity for survival, resilience, sovereignty and the preservation of independent decision-making, and arguably the only viable path for sustaining Canada's position in an increasingly complex international environment.

The author argues that President Trump is neither the first American leader to adopt a hardline approach toward trade with Canada, nor is he likely to be the last among current or future U.S. leaders to do so. Consequently, any new Canadian policy designed to manage tariff-related crises must be guided by a long-term strategic lens rather than short-term crisis management.

Written in direct response to U.S. tariff wars, this policy paper proposes a three-circle[1] framework that offers a realistic, layered, and national-interest-driven framework for strengthening Canada's economic resilience and strengthening its strategic and political capacity. This framework has three circles:

- The first circle focuses on deepening alliances and recalibrating engagement strategies with politically aligned and leading economic powers that have remained relatively insulated from U.S. tariff wars (such as Japan and Australia).

[1] In this policy paper, "circles" do not denote mere categories of countries, but concentric layers of strategic engagement, reflecting varying levels of trust, risk, and economic-security alignment. Additionally, these are not rankings from first to third but rather distinctions for each group of countries/regions.

- The second circle emphasizes expanding partnerships with wealthy and high-capacity markets in the Gulf region and East Asia+3 (ASEAN [Association of Southeast Asian Nations] plus South Korea, Taiwan, and Hong Kong).

- The third circle entails a managed and cautious engagement with China, framed through a "Four Chinas" approach, strictly centered on economic and commercial interests while simultaneously limiting political, security, and strategic spillover effects.

This framework does not imply disengagement from traditional partners or abandonment of existing trajectories. Rather, it focuses on the deliberate expansion of options, the reduction of high-risk concentration, and the active management of vulnerabilities in a global economy that has become more volatile, uncertain, complex and ambiguous (VUCA).

The paper advances several key strategic findings.

- First, excessive dependence on the United States constitutes a structural vulnerability, not a temporary fluctuation; no alliance is permanent, and any dependence can ultimately be weaponized.
- Second, economic diversification is now an integral component of Canada's national security, as trade, investment, and supply chains are directly linked to policy autonomy and economic sovereignty.
- Third, external partners do not carry uniform levels of risk and return: the three proposed circles, like-minded democratic powers, non-Western emerging economies, and China, each require distinct instruments, levels of engagement, and risk-management mechanisms.
- Fourth, China is neither a normal partner nor a permanent, total adversary; binary approaches are ineffective, and engagement with China must be selective, sectoral, and carefully calibrated.
- Fifth, while diversification entails costs, the cost of inaction is far greater: diplomatic and infrastructural investments may be expensive in the short term, but maintaining the status quo exposes Canada to far more severe long-term and systemic risks.

On this basis, this policy paper proposes seven core policy actions for the Government of Canada: institutionalizing diversification governance through a high-level task force; accelerating comprehensive trade agreements with countries across all three circles; strengthening support for Canadian small and medium-sized enterprises to enter non-U.S. markets, with a targeted focus on the three circles; strategically leveraging immigration, education, and diaspora networks in line with Canada's post-tariff economic needs; linking external diversification with enhanced domestic competitiveness in infrastructure, skills, and innovation; managing relations with China through selective de-risking rather than decoupling; and, finally, institutionalizing annual reviews and scenario-based planning to ensure preparedness across plausible future trajectories.

The three-circle framework is designed to complement, not replace, existing Canadian foreign-policy approaches and does not conflict with prior frameworks such as the Indo-Pacific Strategy. By focusing explicitly on tariff wars and the need to transition away from high levels of economic dependence on the United States, its objective is diversifying Canada's trade to ensure economic resilience and economic security in a highly volatile global environment. This approach transforms vulnerability into leverage and enables Canada to preserve decision-making autonomy without unnecessary confrontation. Within this framework, diversification is not a confrontational political act, but a rational, forward-looking act, and is an essential strategy for long-term resilience.

Finally, this policy paper is not based solely on official trade and investment data or desk-based analysis. Rather, it draws on a combination of long-term academic research, policy experience, and sustained engagement with fragile and emerging economies across South, East and West Asia. This integrated approach enables a more grounded assessment of political risk, institutional capacity, informal constraints, and state behaviour in non-Western contexts, factors that are often underrepresented in purely quantitative or abstract analyses. This analytical perspective allows the paper to evaluate Canada's trade diversification opportunities and risks not only at a theoretical level, but within the practical realities of international political economy and policy implementation.

Introduction

The return of Donald Trump to power in 2024 and the renewed launch of his tariff war against the world have once again demonstrated that Canada's deep and highly integrated economic relationship with the United States has always been a double-edged sword. While the United States has historically, and due to geographical proximity, remained Canada's largest trading partner, recent developments have laid bare the vulnerabilities arising from excessive reliance on a single market.

The tariff war announced by Donald Trump, including the imposition of heavy tariffs on Canadian steel and aluminum and threats of broader import taxes[2], served as a serious warning for Canada. These restrictive fiscal policies, framed within nationalist slogans such

[2] Christopher Towe, "The Impact of the Trade War on Canada," Available at: https://econofact.org/the-impact-of-the-trade-war-on-canada#:~:text=,directed%20to%20the%20United%20States (18,01,2026)

as *"America First"* and *"Make America Great* Again *(MAGA),"* have disrupted supply chains and essential goods in Canada[3], while placing Canadian jobs and exports under significant threat.

Beyond its immediate economic consequences, the tariff war also revealed a deeper reality: the United States cannot be assumed to be a stable and reliable partner that grounds its policies toward Canada in shared values, culture, and identity. The author argues that President Trump is neither the first American leader to adopt a hardline approach toward trade with Canada, nor is he likely to be the last among current or future U.S. leaders to do so. Consequently, any new Canadian policy designed to manage tariff-related crises must be guided by a long-term strategic lens rather than short-term crisis management.

At a time when the new direction of U.S. foreign policy has affected large parts of the world, prompting active or passive responses from many states, the need for a fundamental rethinking of Canada's foreign policy approach has become evident. The possibility of a renewed rise of the MAGA movement in 2028 and beyond, including the potential return of "Trumpism" or the emergence of a successor with a similar outlook, increases the risk of continued tariffs and economic nationalism at the expense of U.S. allies.[4]

This shift in U.S. foreign policy becomes even more consequential when viewed alongside the rhetoric of current American policymakers under President Trump, including references to Canada as the "fifty-first state" of the United States.[5] Such discourse and actions, once unthinkable between two close allies, underscore the fact that Canada can no longer revert to its traditional foreign policy posture. Maintaining the status quo in its policy toward the United States can no longer be considered a viable or preferred option.

Therefore, it is imperative for Canada to plan for all possible scenarios, including a prolonged period of economic austerity resulting from the United States' tariff war. This requires a bold and innovative rethinking of Canada's foreign and trade policies, aimed at identifying alternative pathways and new strategic options. Written in response to the pressing need to reassess existing policy frameworks, this policy paper argues that Canada should respond to the tariff crisis by strategically diversifying its external economic relations. While maintaining its current partners, Canada should adopt a *three-circle*

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[3] Rimjhim Singh, US-Canada tariff history: The 2018 trade dispute, retaliation, and fallout. Available at: https://www.business-standard.com/world-news/us-canada-trade-war-trump-tariffs-mexico-china-2018-125030400215_1.html (10,01,2026)

[4] Christopher Towe, op. cit.

[5] David Moscrop (2025), Canada Is Entering an Era of Realpolitik, Available at: https://time.com/7337391/canada-carney-economy-trade-trump/ (08, 01, 2026)

framework that actively seeks alternative options and identifies new opportunities for engagement with the international community.

This policy paper does not in any way seek to negate existing policies or approaches, nor does it question or dismiss Canada's active engagement in Europe, Africa, Latin America, or other regions of the world. Rather, it offers a novel perspective by proposing additional policy options for Canadian decision-makers. Accordingly, this paper draws a clear and explicit distinction between diversification and decoupling. The strategies advanced here do not imply economic decoupling or disengagement from existing partners, including the United States.

This policy paper does not in any way seek to negate existing policies, official documents, or strategic frameworks, including Canada's *Indo-Pacific Strategy* (2022)[6]. While the Indo-Pacific Strategy provides an important regional and geopolitical framework for Canada's engagement with Asia, it was not designed to address the structural economic vulnerabilities that have become more pronounced following repeated U.S. tariff wars and the growing use of trade as an instrument of pressure in the post-2024 international environment. The rising protectionism, the increasing politicization of economic interdependence, and the rising uncertainty surrounding even long-standing alliances have fundamentally altered the assumptions upon which earlier policy frameworks, including the Indo-Pacific Strategy, were based.

This policy paper does not stand in opposition to existing strategies but rather builds upon them. By reframing trade diversification as a core component of economic security and proposing a pragmatic three-circle framework, it seeks to reduce the risks associated with excessive concentration without weakening or abandoning Canada's alliances and commitments. From this perspective, this paper responds to post-2024 developments that require a more explicit, operational, and security-oriented approach to Canada's external economic relations.

This paper draws a clear distinction between diversification and decoupling. The strategies advanced here do not imply economic decoupling or disengagement from existing partners, including the United States, but rather emphasize diversification as a means of enhancing resilience while remaining embedded in global value chains.

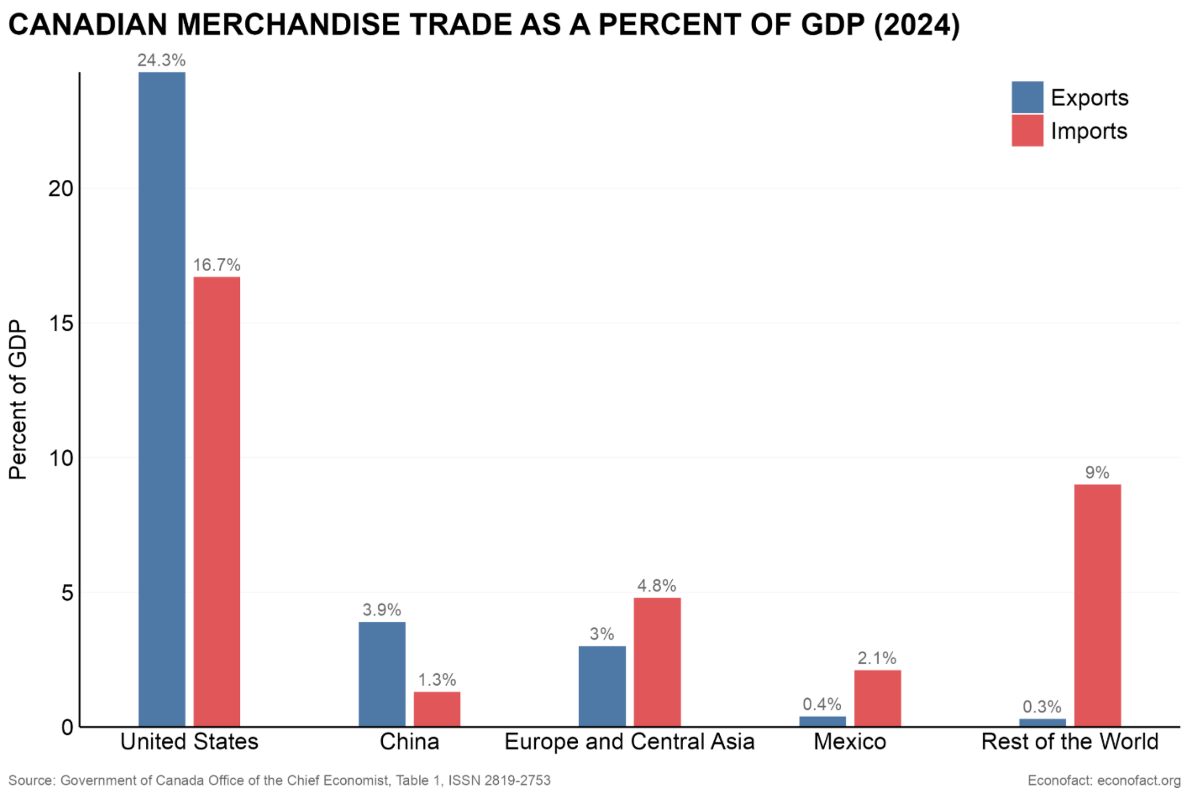
In this framework, diversification means adding options, reducing over-concentration, and enhancing resilience, not severing economic ties or withdrawing from global value chains. The objective is to replace single-axis dependence with a balanced network of partnerships,

[6] https://www.international.gc.ca/transparency-transparence/assets/pdfs/indo-pacific-indo-pacifique/indo-pacific-indo-pacifique-en.pdf (8,0,2025)

such that present or future political and economic shocks originating from any single actor do not render the entire Canadian economy vulnerable. From this perspective, Canada's strategy is best described as selective de-risking: the targeted reduction of risks in sensitive and strategic domains, such as critical supply chains, key infrastructure, and advanced technologies, while maintaining mutually beneficial economic engagement in other sectors.

This approach enables Canada to continue reaping the benefits of global trade without falling into the logic of rupture, while simultaneously responding intelligently to tariff wars and strengthening its economic security and strategic autonomy.

Figure 1:



Canada and the Proposed Three-Circle Framework

In the remainder of this policy paper, the negative impacts of the U.S.–Canada tariff war on the Canadian economy, and the risks associated with the continued overreliance on the U.S. market, are first examined. This paper then proposes a three-circle framework for Canada's foreign policy, as follows:

- **The first circle** focuses on deepening alliances and recalibrating engagement strategies with politically aligned and leading economic powers that have remained relatively insulated from U.S. tariff wars (such as Japan and Australia);
- **The second circle** emphasizes expanding partnerships with wealthy and high-capacity markets in the Gulf region and East Asia+3 (ASEAN [Association of Southeast Asian Nations] plus South Korea, Taiwan, and Hong Kong);
- **The third circle** entails a managed and cautious engagement with China, framed through a "Four Chinas" approach, strictly centered on economic and commercial interests while simultaneously limiting political, security, and strategic spillover effects.

For each "circle," the policy paper analyzes practical opportunities and challenges across multiple dimensions, including economic prospects, potential value-based risks, and likely responses from the United States. The overarching objective of this study is to articulate a comprehensive, original, bold, and yet pragmatic foreign policy strategy for Canada, one capable of safeguarding Canada's economic stability and development amid global economic volatility and the growing unpredictability of U.S. policy.

To ensure analytical rigor and policy relevance, the paper adopts an evidence-based approach, examining current data and trends and employing charts and tables to clarify key findings. The analysis concludes with a set of actionable policy recommendations for Canadian decision-makers, recommendations that are forward-looking, decisive, and proportionate to the scale of the challenges ahead. As Canada's Prime Minister Mark Carney recently observed, *"the world has become more dangerous and more polarized,"* and Canada's economic strategy *"must change fundamentally"* [7]. This policy paper places the need for a bold reconfiguration of Canada's foreign policy at its core, and it can serve as a practical guide for Canadian policy/decision makers.

The core assumption of this policy paper is that, given the exceptionally high level of trade and economic integration between Canada and the United States, no other trading partner currently possesses the capacity to replace the United States in the short term, nor to approximate a comparable level of economic interdependence. Accordingly, this policy paper advances recommendations situated within a medium- to long-term timeframe and seeks to identify relatively comparable new partners that can facilitate a gradual transition away from the current tariff-induced crisis.

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[7] https://www.pm.gc.ca/en/news/news-releases/2025/11/21/prime-minister-carney-secures-new-agreements-united-arab-emirates#:~:text=Abu%20Dhabi%2C%20United%20Arab%20Emirates (13,12,2025)

At a time when impulsive political and economic actions in Washington can instantaneously translate into economic shocks for Canada, and when, over the longer term, U.S. trade policy can shift dramatically with each new administration, it becomes evident that Canada's vulnerability is not merely the result of the behavior of a single president but is structural in nature. Given Canada's limited capacity to respond in a fully reciprocal and effective manner in such disputes, and the disproportionate costs it consequently bears, the proposed solutions must likewise be structural and strategic.

The negative consequences of the tariff war, including lost exports, rising costs, worker layoffs, declining investment, and an increased risk of recession, have thus become a catalyst for a fundamental reassessment of Canada's foreign policy orientation. This experience has unequivocally demonstrated the necessity of diversification in Canada's foreign and trade policy.

The U.S.–Canada Tariff War: Consequences and the Future of Bilateral Relationship

"No room left for Canada." With this statement in 2018, and again through the renewed tariff war launched in 2024, Donald Trump initiated a confrontation that fundamentally undermined Canada's economic security.[8] Invoking "national security" as justification, President Trump imposed heavy tariffs on Canadian goods. Canada responded in kind, leading to a sharp escalation of tariff tensions and a noticeable cooling of bilateral relations.

In late 2024 and early 2025, the United States introduced new tariffs on imports from Canada, further straining bilateral trade relations. These measures were particularly concentrated in the steel, aluminum, automotive parts, and energy sectors.[9] In some cases, tariff rates rose to as high as 35 percent for goods falling outside the commitments of the United States–Mexico–Canada Agreement (USMCA).[10] During this period, Washington also announced the removal of previous exemptions for certain Canadian products and introduced longer-term tariff measures, significantly increasing import costs and intensifying pressure on Canadian industries.[11]

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[8] Rimjhim Singh, op.cit.

[9] Ibid

[10] Jasper Ward and Ryan Patrick Jones (2025), Trump increases tariff on Canada to 35% from 25%, cites fentanyl, Available at: https://www.reuters.com/world/americas/trump-increases-tariff-canada-35-25-cites-fentanyl-2025-07-31/ (20.10, 2025)

[11] https://www.cfib-fcei.ca/en/site/us-tariffs (06, 12, 2025)

1. The Share of the United States in Canada's Exports in 2025

Although comprehensive official data on Canada's total exports for the full year of 2025 have not yet been released, quarterly statistics indicate that a substantial proportion of Canadian exports continues to be directed toward the United States. For instance, in May 2025, approximately 68.3 percent of Canada's exports were destined for the U.S. market, one of the lowest figures recorded in the history of bilateral trade. This represents a notable decline from the recent historical average of around 75 percent, signaling both the impact of tariffs and Canada's efforts to diversify its export destinations.[12]

Official data from Statistics Canada further demonstrate that, in 2024, several sectors of Canadian exports remained overwhelmingly dependent on the U.S. market. For example, approximately 94.1 percent of Canada's automotive and auto-parts exports were destined for the United States, whereas certain mineral products accounted for only about 23.7 percent of exports to the U.S. This uneven sectoral dependence underscores the depth of Canada's structural exposure to shifts in U.S. trade policy.[13]

2. Structural Asymmetry and the Effects of Tariffs

As demonstrated above, the structure of Canada–U.S. trade continues to operate to the advantage of the United States. Canada exports more than two-thirds, and in some years nearly three-quarters, of its merchandise exports to the U.S. market. By contrast, the United States directs only a limited share of its exports to Canada, benefiting instead from a far more diversified set of export markets. While Canada ranks among the United States' top trading partners, a substantial portion of U.S. trade is oriented toward other regions of the world.[14]

This structural asymmetry in trade means that when the United States imposes higher tariffs on imports, the Canadian economy absorbs a disproportionately greater share of the shock. Canada's export dependence on a single market sharply constrains its room for maneuver, whereas the United States, by virtue of its diversified export destinations, can more effectively absorb and redistribute the costs of tariffs. Recent trends indicate that following U.S. tariff pressures, Canada's non-U.S. exports have increased, reflecting an emerging effort to diversify export markets.[15] This very dynamic constitutes the core rationale for the present policy paper.

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[12] Spencer Van Dyk (2025), "Canadian exports to U.S. continue to drop, reach one of lowest proportions on record,", Available at: https://www.bnnbloomberg.ca/business/economics/2025/07/03/canadian-exports-to-us-continue-to-drop-reach-one-of-lowest-proportions-on-record/ (20, 07, 2025)

[13] https://www.statcan.gc.ca/en/topics-start/canada-united-states/trade (2,2,2026)

[14] https://ustr.gov/countries-regions/americas/canada (24,11,2025)

[15] Spencer Van Dyk, op.cit.

Unlearned Lessons from the 2018 Tariff War

The 2018 tariff war between the United States and Canada, triggered by U.S. tariffs on Canadian steel and aluminum under Section 232 of the U.S. Trade Expansion Act, justified on "national security" grounds, represented a critical turning point in the economic and political relations between the two countries.[16] This episode demonstrated that even the closest allies can, under certain conditions, become targets of coercive economic instruments.

Despite this experience, evidence from subsequent years, particularly developments in 2024 and 2025, suggests that Canada has not fully internalized the strategic lessons of that crisis. As a result, the country continues to face deep-seated structural vulnerabilities in the realm of economic security.

In contemporary international relations literature, economic security is understood as extending well beyond mere economic growth or stability. It refers to a state's capacity to preserve decision-making autonomy, structural resilience, and resistance to external shocks, especially those that are politically motivated and deliberately imposed.[17] Within this framework, trade, investment, supply chains, and even market access can function as instruments of power. The concept of geo-economics captures the strategic use of economic tools to achieve geopolitical objectives. From this perspective, tariffs, sanctions, and discriminatory subsidies are not simply trade policies; they constitute elements of interstate power competition.[18] This dynamic becomes particularly salient for Canada when viewed alongside President Trump's rhetoric referring to Canada becoming the "fifty-first state" of the United States.

Accordingly, the 2018 tariff war can be understood as an "economic security shock" for Canada. By invoking national security, the United States restricted Canada's access to the U.S. market, the primary destination for Canadian merchandise exports. This move underscored the reality that market access, even within the framework of free trade agreements such as the USMCA, is neither guaranteed nor insulated from political considerations. Yet Canada's response largely focused on short-term crisis management and restoring the status quo, rather than undertaking a fundamental redefinition of its long-term foreign and trade policy strategies.

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[16] Trump, D. J. (2018). Proclamations on adjusting imports of steel and aluminum into the United States (Section 232 actions). As summarized in Trade Law Counsel. (2018). Section 232 tariffs on steel and aluminum products, Available at: https://www.tradelawcounsel.com/232tariffs (10,11,2025)

[17] OECD. (2020). Economic resilience and national security. Paris: OECD Publishing.

[18] Blackwill, R. D., & Harris, J. M. (2016). War by other means: Geoeconomics and statecraft. Harvard University Press.

Unlearned Lessons Through the Lens of Economic Security

1. The Persistence of Asymmetric Dependence

The first, and arguably most significant, unlearned lesson is Canada's failure to seriously address its asymmetric dependence on the U.S. market. The theory of asymmetric interdependence suggests that in economic relations, the actor with a greater range of alternative options enjoys superior bargaining power. In the years leading up to the 2018 tariff war, more than 75 percent of Canada's merchandise exports[19] were directed to the United States, whereas only about 18 percent of U.S. exports were destined for Canada.[20] This asymmetry enabled the United States to absorb Canada's retaliatory tariffs with limited impact, while the Canadian economy came under disproportionate pressure. Despite clear recognition of this imbalance, Canada did not undertake effective structural measures after 2018 to reduce its reliance on the U.S. market.

2. Short-Term Endurance Instead of Sustainable Economic Security

The second unlearned lesson lies in conflating "shock absorption" with "strategic resilience." Canada's economy did not collapse in 2018–2019, a fact that contributed to the perception that the existing model was sufficient. However, within the economic security literature, genuine resilience is defined as the capacity to redirect trade and supply routes, rather than merely enduring external pressure.[21] While Canada withstood the tariff shock, it did not systematically develop alternative export pathways, the necessary infrastructure for accessing new markets, or diversified supply chains.

3. The Absence of a Formal Economic Security Doctrine

The third unlearned lesson is the lack of a coherent economic security doctrine within Canada's foreign policy framework. While the European Union released its Economic Security Strategy in 2023,[22] and Japan enacted the Economic Security Promotion Act in 2022,[23] Canada still lacks a formal framework that explicitly defines the economy as an integral component of national security. This institutional gap has resulted in Canadian responses that are largely reactive and ad hoc, rather than anticipatory and strategically coordinated.

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[19] Christopher Towe, op.cit.

[20] Ibid

[21] OECD, op.cit.

[22] European Commission. (2023). EU economic security strategy. Brussels.

[23] Government of Japan. (2022). Economic Security Promotion Act. Tokyo.

4. Overreliance on Multilateralism in an Increasingly Power-Driven World

The fourth unlearned lesson is Canada's excessive reliance on multilateral institutions at a time when the global economic order has become increasingly power-centric. During the 2018 tariff war, the World Trade Organization's dispute-settlement mechanism proved largely ineffective and failed to protect Canada's interests in a timely manner. Despite the evident reality that rules unsupported by power are vulnerable to pressure from major states[24], Canada did not design a complementary strategy to address this structural condition even after 2018.

From an economic security perspective, the unlearned lessons of the 2018 tariff war, reinforced by the shocks experienced in 2024 and 2025, suggest that Canada remains exposed to the political use of economic instruments. The continuation of this situation heightens the risk of similar shocks in the future and constrains Canada's bargaining power in its relations with major partners. Without genuine diversification of export markets, the development of strategic infrastructure, and the articulation of an economic security doctrine centered on reducing dependence on the United States, Canada will inevitably be forced to incur higher costs merely to preserve access to its traditional markets.

It is true that in 2022 Canada released its Indo-Pacific Strategy, which explicitly acknowledged China's increasingly "disruptive" behavior and emphasized the necessity of trade diversification. Canadian officials also began to speak openly of "trade diversification" as a national priority aimed at reducing dependence on any single partner.[25] Yet the tariff shock of 2024 and its continuation into 2025 revealed that these approaches, shaped in part by continued trust in the United States and by the failure to anticipate the resurgence of the "MAGA" movement in American politics, did not translate into tangible shifts in Canada's foreign policy behavior, nor did they significantly enhance Canada's resilience against tariff wars. Indeed, the United States absorbed approximately 73 percent of Canada's merchandise exports in 2022 and 77 percent in 2023[26], underscoring the extent to which far more substantial efforts are required for a meaningful transition away from dependence on the U.S. market.

[24] Keohane, R. O., & Nye, J. S. (2012). Power and interdependence (4th ed.). Pearson.

[25] Canada's Indo-Pacific Strategy, Available at: https://www.international.gc.ca/transparency-transparence/indo-pacific-indo-pacifique/index.aspx?lang=eng (18,12,2025)

[26] https://trendeconomy.com/data/h2/Canada/TOTAL#:~:text=Top%20export%20destinations%20of%20commodities,from%20Canada%20in%202023 (11,7,2025)

Rethinking Canada’s Foreign Policy

In what follows, this policy paper advances a novel and relatively bold strategy aimed at forging new economic partnerships, partnerships that, over the long term, can shield Canada from the instability of its trade relations with the United States. It is important to emphasize that this approach does not imply abandoning Canada’s existing partnership with the United States. Rather, the objective is to expand Canada’s range of options in times of crisis, manage the current disruption, and prevent the recurrence of similar economic constraints in the future. As Christopher Towe, has noted, “Canada’s relatively small size and high trade openness mean that retaliatory tariffs would have a limited impact on the United States but impose additional economic costs on Canada”.[27] It is therefore incumbent upon Canada to redefine its foreign policy posture within the international system in order to offset the costs generated by tariff wars.

By actively expanding the circle of its key partners, what this policy paper conceptualizes as the first, second, and third circles, Canada can navigate a world in which even close allies may resort to economic coercion with greater stability and strategic confidence.

Before elaborating on each “circle,” it is worth noting that this policy paper is aligned with recent shifts in Canadian policy thinking. Canada’s Indo-Pacific Strategy explicitly states that “*trade diversification remains an important strategy… as it can lessen the impact of external shocks, especially in particular sectors or countries*.”[28] The strategy underscores investment in relations with a broader range of partners across Asia and other regions, while acknowledging that cooperation with China, despite fundamental differences, will remain necessary in certain areas.[29] Building on this trajectory, the three-circle framework proposed in this policy paper offers a clear, adaptable, and operational roadmap for translating trade diversification into concrete foreign policy practice.

[27] Christopher Towe, op.cit.

[28] https://international.canada.ca/en/global-affairs/corporate/reports/chief-economist/diversification/overseas-markets-2022 (15,7,2025)

[29] Canada’s Indo-Pacific Strategy, op.cit.

The First Circle:

Deepening Alliances with Like-Minded and Aligned Powers (Japan and Australia)

The first circle encompasses powerful countries that share democratic values with Canada, are grounded in the rule of law, possess highly advanced economies, and have demonstrated strong resilience during recent tariff wars and other global crises. These states are politically aligned with Canada in that they are liberal democracies with a shared worldview and, unlike parts of Europe, have not suffered extensive structural shocks from events such as the war in Ukraine or the COVID-19 pandemic.

In practical terms, two particularly suitable countries for inclusion in the first circle are Japan and Australia. Both are members of the G7 and the G20, enjoy stable growth prospects, and are long-standing partners of Canada. Strengthening relations with these countries entails relatively low risk, as cooperation can be built upon existing trust and institutional frameworks, including agreements such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). Most importantly, the United States is itself a strategic ally of both Japan and Australia; consequently, Canada's pivot toward the first circle is unlikely to encounter resistance or concern from Washington.

1. Japan: An Economic Partner and Strategic Ally

Japan, the world's third-largest economy, with a gross domestic product of approximately USD 4026.21 billion in 2024,[30] is the most advanced democracy in Asia. For Canada, Japan represents a premium trade and investment partner with significant potential for deeper and more diversified cooperation.

- In 2024, the volume of Canada–Japan merchandise trade reached CAD 36.4 billion (CAD 15 billion in exports and CAD 21.4 billion in imports), making Japan Canada's fifth-largest merchandise trading partner.[31]

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[30] https://tradingeconomics.com/japan/gdp (13,1,2026)

[31] https://www.international.gc.ca/country-pays/japan-japon/relations.aspx?lang=eng (13,2,2025)

- Japan imports a wide range of Canadian exports, including liquefied natural gas (LNG), coal, critical minerals, and agri-food products such as canola, wheat, pork, and beef.[32]
- Japan is a major source of foreign direct investment (FDI) in Canada:
  - By 2024, Japanese companies had invested more than CAD 48 billion in Canada, particularly in the automotive, financial services, and technology sectors.[33]
- Japan is the second-largest source of investment in Canada from the Indo-Pacific region.[34]

These figures indicate that Japan is already deeply embedded in the Canadian economy and that there is substantial untapped potential for further expansion of this relationship.

Opportunities to deepen Canada–Japan cooperation are particularly evident in several key areas. First, both countries are members of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), a high-standard free trade agreement that entered into force in 2018.[35] The CPTPP has eliminated or significantly reduced a large share of tariffs between Canada and Japan, for example, Japanese tariffs on Canadian beef, wheat, seafood, and forestry products have been reduced or removed. By more strategically leveraging this framework, Canadian exporters can strengthen and expand their presence in the Japanese market.

Available data indicates that Canada's merchandise exports to Japan grew at an average annual rate of 7.6 percent between 2017 and 2022, a pace that accelerated notably following the entry into force of the CPTPP and outperformed Canada's export growth to many other markets.[36] In 2023, Canadian exports to Japan reached CAD 15.8 billion.[37] This upward trajectory should be recognized and consolidated, while additional key sectors should be identified for further expansion of cooperation. Areas such as battery supply chains and clean energy technologies, alongside security cooperation and cultural relations, are particularly well positioned for deeper engagement.

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[32] Ibid
[33] Ibid
[34] Ibid
[35] Ibid
[36] https://international.canada.ca/en/global-affairs/corporate/reports/chief-economist/diversification/overseas-markets-2022 (13,2,2025)
[37] https://www.tradecommissioner.gc.ca/en/market-industry-info/search-country-region/country/canada-japan-export.html (12,4,2025)

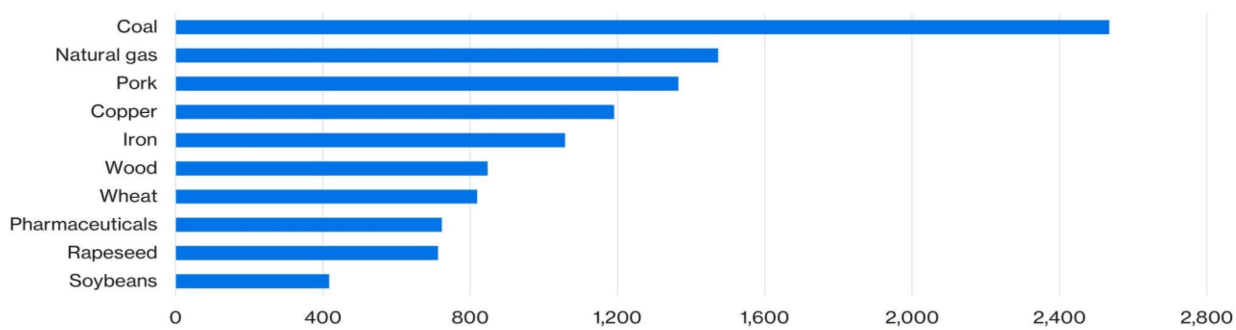
- **First**, in October 2022, Canada and Japan signed a Joint Action Plan that identified priorities including energy security and cooperation in battery supply chains, priorities fully aligned with both countries' efforts to expand electric vehicle production.[38] A memorandum of cooperation in industrial science and technology was also concluded, signaling the shared intention to jointly develop advanced technologies.[39] These initiatives should be fully supported and strengthened, for example through joint R&D financing and by facilitating collaboration between Canadian and Japanese firms in areas such as electric vehicle battery manufacturing, hydrogen energy, and semiconductors.
- **Second**, Canada–Japan defense and security relations, which have traditionally remained limited, can be expanded in parallel with deeper economic ties. Both countries are committed to a Free and Open Indo-Pacific (FOIP) and already cooperate in naval exercises and United Nations peacekeeping missions. Strengthening security cooperation (within the constraints of Japan's pacifist constitution) would enhance mutual trust and provide a durable foundation for economic relations. For instance, continued joint maritime patrols to support freedom of navigation in Asia or information-sharing on cyber threats could further consolidate the partnership. A stronger security relationship would also signal to Japanese companies that Canada is a reliable, long-term partner in a volatile region.
- **Third**, people-to-people ties and cultural exchanges have long provided a solid foundation for bilateral relations. The two countries benefit from a long history of academic exchanges and tourism (prior to the pandemic, approximately 580,000 Canadians visited Japan annually).[40] Canada is a popular destination for Japanese students seeking to learn English or French, while Japanese popular culture enjoys widespread appeal in Canada. These connections foster mutual understanding and can be leveraged to strengthen economic linkages. For example, many alumni of the Japan Exchange and Teaching (JET) Programme who have taught in Japan may later serve as informal bridges for trade and investment. The Government of Canada should actively support this form of cultural diplomacy, including through initiatives such as organizing more "Canada Weeks" at trade fairs and exhibitions in Japan to showcase Canadian innovation, culture, and economic potential. Similar initiatives are already being planned within Canada, and this policy paper recommends that such efforts be expanded and institutionalized.

[38] https://www.international.gc.ca/country-pays/japan-japon/relations.aspx?lang=eng (23,10,2025)
[39] Ibid
[40] Ibid

It should be noted that the risks and challenges associated with the Canada–Japan partnership are relatively limited when compared to the other "circles," though several points merit attention.

One, **economic competition**: Canada and Japan do compete in certain global markets, such as liquefied natural gas (LNG) and some agricultural products. Nevertheless, this competition is manageable, as both countries possess distinct comparative advantages and can cooperate to expand overall market size. For instance, joint development of LNG infrastructure to meet Asia's growing energy demand could represent a mutually beneficial pathway.

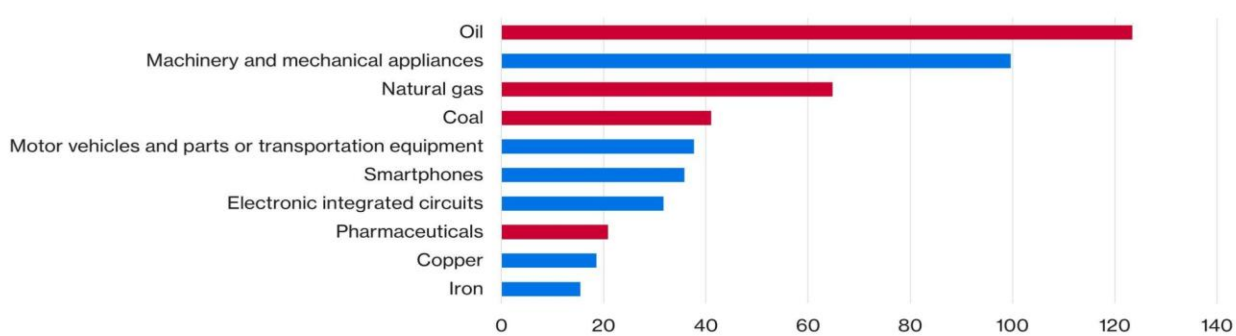
Figure 2: Top 10 Canadian Exports to Japan, 2024 ($CAD, billions)



(source: https://www.conferenceboard.ca/insights/trade-partner-profile-japan/#:~:text=Trade%20Partner%20Profile%3A%20Japan%20,billion%20goods%20to%20Japan)

Two, despite its enormous economic scale, Japan's economy has faced years of low growth and elements of stagflation, alongside a rapidly aging population. That said, recent indicators suggest renewed economic momentum, while Japan's immense wealth and unparalleled technological capabilities continue to present significant opportunities for Canada.

Figure 3: Top 10 Japanese Imports from the World, 2024 ($CAD, billion)



(Source: https://www.conferenceboard.ca/insights/trade-partner-profile-japan/#:~:text=Trade%20Partner%20Profile%3A%20Japan%20,billion%20goods%20to%20Japan)

Crucially, the United States is likely to view a strengthened Canada–Japan axis positively. Washington regards both countries as key partners and has long encouraged its allies to deepen cooperation within the Indo-Pacific framework to help balance non-democratic powers. From an American perspective, a robust Canada–Japan trade and strategic partnership would likely be seen as reinforcing Western presence in Asia and complementing U.S. strategy in the region.

For these reasons, Canada should confidently pursue an upgraded partnership with Japan. This could even include exploring a bilateral free trade agreement (FTA) between the two countries, an arrangement more ambitious than the CPTPP and capable of covering new areas such as digital trade. Analysts have repeatedly advanced such proposals. While the CPTPP currently provides a strong foundation, a bilateral FTA or a more comprehensive economic partnership could further deepen Canada–Japan economic integration, much as Japan has previously done with the European Union.

The table below provides a more detailed assessment of Japan's capacity to emerge as a more stable and higher-level partner within Canada's foreign policy framework:

Table 1: Analytical Table: Japan as a First-Circle Partner

Analytical Dimension	Description
Opportunities	1. Access to the world's third-largest economy, with a GDP of approximately CAD 7.7 trillion 2. Strong growth in bilateral trade (CAD 36.4 billion in 2024) 3. Sustained Japanese demand for Canadian energy, critical minerals, and agricultural products 4. Significant potential for expanded Japanese investment in technology, automotive manufacturing, and clean energy 5. Shared membership in the CPTPP and full alignment with the liberal international economic order
Risks / Threats	• Intense competition from other countries seeking access to the Japanese market • Japan's high sensitivity to energy security and supply stability • The need for compliance with Japan's stringent industrial and technological standards • Japan's geopolitical pressures vis-à-vis China, which may complicate certain multilateral initiatives

Analytical Dimension	Description
Likely U.S. Reaction	• Positive or neutral: the United States is a close ally of Japan and does not view Canada–Japan cooperation as contrary to its interests • Strengthened trilateral cooperation (U.S.–Canada–Japan) in semiconductors, energy security, and supply chains is welcomed in Washington • Very low likelihood of political pressure or concern
Key Areas of Cooperation	1. **Energy**: LNG, hydrogen, critical and strategic minerals 2. **Economy & Trade**: expansion of agricultural exports, automotive cooperation, advanced technologies 3. **Supply Chains**: semiconductors, batteries, clean technologies 4. **Security & Defence**: Indo-Pacific cooperation and joint maritime operations 5. **Science & Technology**: artificial intelligence, automation, robotics, joint university-based research

In the following section, a comprehensive Risk–Reward Matrix is presented for Canadian government decision-makers, offering a structured assessment of the strategic costs and benefits associated with deepening relations with Japan within the framework of the first circle.

Table 2: Risk–Reward Matrix: Deepening Canada–Japan Relations (First Circle)

Level / Dimension	Achievements (Rewards / Strategic Gains)	Risks (Costs / Vulnerabilities)
Economic Dimension	• Broader access to a market with a GDP of USD 5.5 trillion • Increased exports of energy, minerals, and agricultural products • Attraction of higher FDI (currently USD 48 billion, with growth potential) • Participation in secure supply chains (semiconductors, batteries, critical and strategic minerals)	• Risk of excessive dependence on a single Asian market • Intense competition with other CPTPP member states • Japan's sensitivity to fluctuations in Canada's energy supply
Geopolitical Dimension	• Strengthening Canada's role in the Indo-Pacific region • Full alignment with democratic values and the liberal international order	• Intensification of Chinese pressure due to closer Canada–Japan relations • More complex management of East Asian relations amid rising great-power competition

Level / Dimension	Achievements (Rewards / Strategic Gains)	Risks (Costs / Vulnerabilities)
Security & Technological Dimension	• increased Canadian influence within G7 / CPTPP through trilateral cooperation with Japan and Australia • Participation in joint projects on semiconductors, artificial intelligence, robotics, and clean technology with Japan • Enhanced cyber and maritime security in the Pacific Ocean	• Dependence on Japanese technologies • Exposure to potential East Asian crises (Taiwan, East China Sea)
Political & Foreign Policy Dimension	• Very low risk of negative U.S. reaction (US-aligned partnership) • Strengthened international credibility of Canada as a predictable, values-based actor	• Need for broader allocation of diplomatic resources in Asia • Requirement for multi-level coordination among Global Affairs Canada (GAC), trade, energy, and defence ministries
Societal / Soft-Power Dimension	• Increased educational, research, and migration exchanges with Japan • Improved Canadian understanding of labour markets and culture in advanced Asian economies	• Linguistic and cultural barriers for Canadian small and medium-sized enterprises (SMEs) • Need for government support programs for SMEs

Strategic Assessment

- **Rewards: Very High**

  Japan is a low-risk, values-based, and economically powerful partner that can, in the medium term, serve as a partial substitute, or at minimum a critical buffer, for Canada's overdependence on the U.S. market. Its principal advantage lies in its full strategic alignment with the United States and the absence of any credible risk of negative reaction from Washington.
- **Risks: Low to Moderate**
  The principal risks are geopolitical (particularly related to China) and competitive rather than economic in nature. With prudent management, these risks remain controllable.
- **Risk–Reward Ratio: Highly Favourable**
  From the perspective of the Government of Canada, strengthening relations with Japan represents one of the safest and most beneficial pathways for strategic diversification in an increasingly volatile global economic environment.

2) Australia: Leveraging Shared Bonds and Building Mutual Interests

Australia, like Canada, is a wealthy middle power with a resource-based economy and a strong commitment to liberal democracy. The two countries are often described as geopolitical twins: both share deep historical ties with Britain, operate under similar parliamentary systems, and are characterized by vast territories with relatively small populations.[41] Historically, Canada and Australia have fought side by side in major wars and have cooperated closely on global issues ranging from counterterrorism to climate change.

Despite these extensive similarities, economic exchange between the two countries has remained modest, and it is precisely in this area that significant transformative potential exists.

In 2024, total trade in goods and services between Canada and Australia amounted to only CAD 11 billion.[42] This represents approximately 1.5 percent of Canada's total trade and is comparable to Canada's trade with several much smaller economies. In the same year, Canada's merchandise exports to Australia totaled CAD 2.2 billion[43], consisting mainly of machinery, vehicles, and gold. Canadian imports from Australia reached CAD 3.9 billion, largely comprising aluminum ore, beef, and other mineral products.[44]

Investment flows, however, tell a markedly different story[45]:

- Canadian investment in Australia: CAD 111 billion
- Australian investment in Canada: CAD 131 billion

These numbers demonstrate that while a strong foundation for deep cooperation already exists through investment ties, a vast and largely overlooked space remains for diversifying and expanding direct trade between the two countries, an opportunity that has yet to receive sufficient attention from Canadian policymakers.

Opportunities for Canada–Australia cooperation stem from the alignment of interests and complementary capabilities of the two economies. Both countries are rich in natural resources and possess advanced extractive industries; at first glance, this may suggest competition. However, rising global demand, particularly for critical minerals and

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[41] https://www.dfat.gov.au/geo/canada/canada-country-brief#:~:text=Like%20Australia%2C%20Canada%20has%20a,the%20other%27s%20major%20trading%20partner (2,9,2025)

[42] https://www.dfat.gov.au/geo/canada/canada-country-brief#:~:text=Trade%20and%20investment (3,9,2025)

[43] https://tradingeconomics.com/canada/exports/australia#:~:text=Canada%20Exports%20to%20Australia%20was,Canada%20Exports%20to (4,9,2025)

[44] https://www.dfat.gov.au/geo/canada/canada-country-brief#:~:text=2024 (13,8,2025)

[45] Ibid

agricultural commodities, means that both countries stand to gain from coordination and synergy. A concrete example lies in cooperation to build reliable supply chains for critical minerals for allied markets. Canada and Australia rank among the world's leading producers of lithium, nickel, cobalt, and rare earth elements, materials that are essential for clean technologies and defense industries. Rather than competing, the two governments could align their strategies to ensure that these resources are supplied to markets such as Japan, South Korea, and the European Union, all of which are seeking non-Chinese sources.

There are already early signs of such cooperation. For instance, Canada's Trade Commissioner Service and its Australian counterparts regularly exchange views on strategies for attracting mining investment. Establishing a formal partnership on critical minerals could further enable joint ventures between Canadian and Australian mining companies, pooling capital and technical expertise.

Another promising area is higher education and professional services. Both countries are leading destinations for international students, yet there is considerable scope to expand student and skilled labor exchanges between them. Mutual recognition of professional qualifications and the facilitation of work visas for skilled professionals could strengthen two-way talent flows. This would not only enrich innovation ecosystems in both countries but could also catalyze new commercial partnerships, for example, Canadian start-ups using Australia as a gateway to Asian markets, and vice versa.

From a trade policy perspective, Canada and Australia, like Japan, are members of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), which has effectively functioned as a free trade agreement between them since 2018.[46] Tariffs therefore do not constitute a major barrier. The principal challenges lie instead in trade facilitation and business awareness. Many firms on both sides remain insufficiently informed about opportunities in the partner country or face logistical constraints. Addressing these informational and structural barriers could unlock substantial unrealized potential in the Canada–Australia economic relationship.

To address these challenges, the two countries signed the Canada–Australia Customs Mutual Assistance Agreement (CMAA) in November 2025.[47] This agreement strengthens customs cooperation with the aim of facilitating the flow of goods and improving the enforcement of trade regulations, for example, through data sharing to prevent smuggling

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[46] https://www.dfat.gov.au/geo/canada/canada-country-brief#:~:text=General%20Agreement%20on%20Tariffs%20and,FTA%20between%20Canada%20and%20Australia (27,9,2025)

[47] Millar Kreklewetz LLP, "Canada-Australia Customs Pact Signed," Available at: https://www.lexology.com/library/detail.aspx?g=79c428c5-b52f-4a2e-a54d-a369975a0c58#:~:text=This%20new%20CMAA%20with%20Australia,1%20billion%20in%202024 (27,9,2025)

and fraud.[48] Such measures make bilateral trade easier, faster, and more secure, while also signaling the strong political will of both governments to expand commercial relations. Notably, since the entry into force of the CPTPP in 2018, Canada–Australia merchandise trade has increased every year, reaching CAD 6.1 billion in 2024.[49] Efforts should therefore be made to further accelerate this positive trend.

In this context, trade promotion agencies could institutionalize permanent trade missions to each other's markets:

- a permanent Canadian trade mission to Australia, focused on technology and green infrastructure; and
- a permanent Australian trade mission to Canada, focused on renewable energy and digital services.

Moreover, multilateral cooperation can significantly amplify the impact of bilateral Canada–Australia relations. Both countries are strong advocates of a rules-based international order and cooperate closely within institutions such as the United Nations, the World Trade Organization, the Commonwealth, and the Five Eyes intelligence alliance.[50] Through coordinated diplomacy, Canada and Australia can shape standards in areas such as digital trade rules or the ethical governance of artificial intelligence in ways that benefit their respective business communities. For example, the two countries could jointly propose initiatives within the Asia-Pacific Economic Cooperation (APEC) or the Organisation for Economic Co-operation and Development (OECD) aimed at facilitating trade for small and medium-sized enterprises (SMEs) or enhancing Indigenous participation in international trade, thereby leveraging their shared values and policy priorities.

Each successful collaboration further elevates the profile of the Canada–Australia partnership and can generate new and tangible commercial opportunities.

Risks and Potential Downsides

From a geopolitical standpoint, the risks associated with strengthening Canada–Australia relations are minimal. The United States would not only raise no objections, but, as noted earlier, has consistently encouraged its allies to network more closely with one another.

[48] Ibid

[49] Ibid

[50] https://www.dfat.gov.au/geo/canada/canada-country-brief#:~:text=Canada%2C%20Australia%20and%20New%20Zealand,active%20member%20of%20the%20Commonwealth (17,9,2025)

Australia is among Washington's closest allies, including as a partner in the AUKUS[51] security pact. Strengthening Australia therefore aligns directly with U.S. strategic objectives in the Asia–Pacific region.

That said, one notable risk that warrants careful monitoring is Australia's economic dependence on Chinese demand. A significant share of Australia's exports, ranging from iron ore and coal to education services, is directed toward China. When bilateral relations deteriorated in recent years, China imposed retaliatory trade measures (for example, the informal restrictions on Australian wine and coal in 2020). Consequently, if Canada were to rely excessively on Australia, it could face indirect exposure to China-related risks. This might include, for instance, reduced Australian demand for Canadian products or investment in the event of renewed pressure from Beijing. (Such sensitivities could be mitigated if Canada's own economic engagement with China, addressed in the third circle, were recalibrated and strengthened.)

Nevertheless, Australia is likely to manage these challenges through export market diversification and continued adherence to democratic values, an approach that closely aligns with Canada's foreign policy orientation. Indeed, drawing lessons from Australia's experience in managing relations with China, both during periods of economic expansion and during times of tension, would be highly valuable for Canada as it formulates its third-circle strategy.

Table 3: Risk–Reward Matrix: Deepening Canada–Australia Relations

Analytical Dimension	Achievements (Rewards / Strategic Gains)	Risks (Costs / Vulnerabilities)
Economic Dimension	• Greater access to one of the world's most stable economies with a GDP of approximately USD 1.7 trillion • A significant market for Canadian energy, minerals, agricultural products, and educational services • Strong potential for bilateral investment in mining, clean energy, and technology • Easier trade cooperation due to similar regulations and shared CPTPP standards	• Long geographic distance increases transportation and logistics costs • Direct competition between some Canadian and Australian exports (e.g., wheat, meat, minerals) • Sensitivity of the Australian economy to commodity price cycles

[51] AUKUS is a trilateral security partnership between Australia, the United Kingdom, and the United States aimed at enhancing security and defense cooperation in the Indo-Pacific region.

Analytical Dimension	Achievements (Rewards / Strategic Gains)	Risks (Costs / Vulnerabilities)
Geopolitical Dimension	• Full political alignment as liberal democracies • Enhanced Canadian role in the Indo-Pacific through cooperation with a key regional security actor • Opportunities for Canada–Australia–Japan trilateral cooperation within CPTPP and in non-military areas associated with AUKUS	• Potential negative reaction from China to Canada–Australia cooperation, particularly in maritime security • Australia–China geopolitical frictions may generate diplomatic costs for Canada
Security & Technology Dimension	• Cooperation in cybersecurity, maritime domain awareness, and clean-technology projects • Australia as a major partner on critical minerals, creating strong synergies with Canada's strategy • Shared experience in countering cyber threats and foreign interference	• Risk of indirect Canadian exposure to sensitive security arrangements such as AUKUS • Canada's comparatively limited defence capacity may create asymmetries in cooperation
Political & Foreign Policy Dimension	• Near-zero risk of negative U.S. reaction (US-aligned partnership) • Smooth cooperation within international institutions (UN, G20, Commonwealth) • Greater policy alignment on democracy, human rights, and the liberal international order	• Need to expand Canada's diplomatic capacity in Canberra and across the Indo-Pacific • Possible divergence on certain energy and climate priorities
Societal / People-to-People Dimension	• Extensive educational exchanges (students, scholarships, joint academic projects) • Strong potential for cooperation on migration and skilled-labour mobility • Cultural proximity and shared language (English-speaking democracies)	• Geographic distance may constrain people-to-people engagement • Need for targeted financial support to help Canadian SMEs enter the Australian market

Strategic Assessment

- **Rewards: High to Very High**

  Australia is an aligned, low-risk, and stable partner with a complementary economy. The scope for cooperation in energy, critical minerals, clean technologies, and regional security is substantial.

  Overall, deepening Canada–Australia relations within the first-circle framework offers a robust, strategically coherent, and politically safe pathway for diversification, one that reinforces Canada's Indo-Pacific engagement while maintaining full alignment with its closest allies.

- **Risks: Moderate**

  The principal risks are primarily geopolitical in nature (particularly related to China) and stem from commercial competition in overlapping sectors. However, relative to the anticipated gains, these risks remain manageable and containable with prudent policy coordination.

- **Risk–Reward Ratio: Favourable**

  Australia stands out as one of Canada's safest and most natural strategic partners. Strengthening ties with Australia would significantly accelerate Canada's diversification trajectory, while reinforcing its position within a network of trusted, like-minded allies.

Proposed Practical Steps for the First Circle

To consolidate and elevate the level of cooperation within the first circle, Canada could pursue the following measures:

1. Establish an Annual Canada–Japan–Australia Strategic Dialogue at the ministerial level, aimed at coordinating Indo-Pacific strategies and aligning policy priorities.
2. Pursue trilateral cooperation in Southeast Asian infrastructure projects, combining:
   - Canadian investment,
   - Japanese technology, and
   - Australia's regional expertise and networks.
3. Enhance interoperability in trade promotion, for example through the establishment of joint trilateral trade offices in third countries.

By strengthening the first circle, Canada would create a solid foundation from which to engage more complex and higher-risk partners in the second and third circles, thereby advancing a phased and strategically resilient diversification strategy.

The Second Circle:

Expanding Partnerships with Wealthy and Emerging Economies

(The Gulf States and ASEAN+3)

The second circle encompasses countries with significant emerging economies which, while not fully aligned with Canada politically, possess substantial wealth or exceptionally high growth potential and can emerge as important new partners for Canada. These states are predominantly capitalist economies, middle powers or emerging markets, often characterized by large pools of financial capital or expansive markets with a rapidly growing middle class. Although several African and South American countries share similar characteristics, this policy paper focuses, within the second circle, specifically on the Gulf states and East Asia.

Given the current context, where Canada is experiencing economic difficulties following the renewed U.S. tariff war, the second circle is structured around two key subgroups:

1. **The Gulf States** (Saudi Arabia, the United Arab Emirates, Qatar, Kuwait, Oman, and Bahrain): These countries possess vast financial resources, sovereign wealth funds, and ambitious economic diversification agendas.

2. **Major East Asian Economies** (ASEAN+3: South Korea, Taiwan, and Hong Kong): These economies feature large markets, relatively young populations, rapid economic growth, and an expanding middle class.

For Canada, engagement with second-circle partners implies the adoption of an opportunity-driven, interest-based approach, one that may require managing differences in governance models or value systems, but which holds the potential to generate substantial economic benefits.

It is essential to emphasize that engagement with these countries does not imply endorsement of their domestic political systems. Rather, it represents a pragmatic opening for trade, investment, and the diversification of Canada's supply chains. This approach, particularly in a post-tariff-war global environment, signals a departure from Canada's earlier hesitations. As one analyst has observed, Canada has entered an era of "economic realpolitik"[52], an approach that is "less sensitive and perhaps less idealistic," with a stronger emphasis on productivity and economic growth.

Economic engagement with second-circle countries should therefore not be understood as a retreat from Canada's foundational principles. Instead, it constitutes a necessary strategy to safeguard Canada's sustainable economic future and reflects the imperative to move beyond the status quo by interacting with a broader and more diverse range of partners.

From a geopolitical perspective, the United States itself maintains extensive relations with both subgroups, the Gulf states and ASEAN+3 economies, and is therefore unlikely to oppose deeper Canadian engagement. On the contrary, in many cases Washington welcomes a more active role by its allies in these regions, particularly where such engagement contributes to balancing or reducing China's influence.

Figure 4: Canadian Trade with US compared with key Asian trading partners in 2024

[52] David Moscrop (2025), "Canada Is Entering an Era of Realpolitik,", Available at: https://time.com/7337391/canada-carney-economy-trade-trump/ (14,12,2025)

1. Oil, Wealth, and Opportunity: The Gulf States

The member states of the Gulf Cooperation Council (GCC), Saudi Arabia, the United Arab Emirates, Qatar, Kuwait, Oman, and Bahrain, represent a rare and powerful combination of hydrocarbon wealth and state-led capital accumulation, a concentration that is nearly unmatched globally. Several Gulf countries possess sovereign wealth funds managing hundreds of billions of dollars in assets and are actively seeking overseas investment opportunities as part of their efforts to diversify beyond oil-dependent economies. For example, Saudi Arabia's Public Investment Fund (PIF), the United Arab Emirates' Mubadala Investment Company, and the Abu Dhabi Investment Authority (ADIA) now rank among the world's largest and most influential global investors.

Despite this immense capacity, Canada's engagement with the Gulf region has historically been limited and, at times, strained. A prominent example is the 2018 diplomatic crisis, following Canada's public criticism of the human rights situation in Saudi Arabia, which prompted Riyadh to expel the Canadian ambassador and suspend trade relations. This episode vividly illustrated the tension between values and interests in Canadian foreign policy. However, between 2023 and 2025, a markedly different trajectory has emerged. Canada has made a calculated decision to re-engage with Gulf states in a gradual and pragmatic manner, promoting shared economic interests while continuing dialogue on difficult and sensitive issues.

Trade and Investment Overview

1. Saudi Arabia

Saudi Arabia occupies a central position in Canada's engagement with the Middle East, both economically and strategically. According to *Quick Facts* released by Global Affairs Canada, Saudi Arabia was Canada's largest trading partner in the Middle East in 2024, and deeper bilateral ties were explicitly framed as a means to "boost business opportunities and unlock export opportunities and investments" for both countries. Bilateral merchandise trade in 2024 reached approximately CAD 4.1 billion, comprising CAD 2.0 billion in Canadian exports and CAD 2.1 billion in imports. [53] Canada's principal exports to Saudi Arabia include aerospace and defence products, vehicles, pharmaceuticals, and industrial machinery.[54] Beyond trade flows, more than 150 Canadian companies are currently active in Saudi Arabia across sectors such as artificial intelligence, infrastructure development, entertainment,

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[53] https://www.canada.ca/en/global-affairs/news/2025/11/minister-sidhu-strengthens-canadas-economic-relationship-with-saudi-arabia.html (13,1,2026)

[54] Ibid

and related industries, providing a solid commercial and institutional foundation for deeper and more diversified engagement. [55]

From Canada's perspective, engagement with Saudi Arabia directly serves several core national interests. These include access to a large, capital-rich market with significant opportunities in investment, defence procurement, and major infrastructure contracts; cooperation in the energy sector, encompassing both traditional hydrocarbons and the energy transition; and enhanced political influence and engagement within the Arab and Islamic worlds, where Saudi Arabia remains a pivotal actor. Taken together, these interests position Saudi Arabia as not only an economic partner but also a strategic node in Canada's broader Middle East and Global South policy architecture.

The scope for upgrading the relationship is particularly evident in Saudi Arabia's economic and investment capacity, shaped by the ambitions of Saudi Vision 2030.[56] This national transformation agenda requires large-scale inflows of foreign expertise and partnership in priority areas such as infrastructure development (including mega-projects like NEOM, transportation networks, and smart cities), clean energy (notably hydrogen, solar power, and carbon capture and storage), and advanced services including artificial intelligence, urban planning, and engineering. Canada holds clear comparative advantages in many of these domains, especially in engineering and project management, mining and critical minerals, and agricultural and agri-food exports, the latter being particularly relevant given that food security is a strategic concern for Saudi Arabia. A key policy lever to translate these complementarities into sustained outcomes would be the revival and institutionalization of joint economic commissions, supported by Export Development Canada (EDC) and Canadian pension funds, with the aim of normalizing engagement and anchoring long-term investment flows.

A second pillar of engagement lies in the defence–industrial domain. Saudi Arabia ranks among the world's largest importers of defence equipment, and Canada already maintains established industrial ties with the Kingdom, including cooperation in armoured vehicle production. Compared to some European suppliers, Canada is often perceived in Saudi policy circles as a more reliable and less politicized partner, which creates space for pragmatic cooperation. At the same time, domestic political pressures in Canada, particularly those related to human rights concerns, constitute a significant constraint on traditional arms-export relationships. This tension also opens a strategic opportunity: shifting the focus from arms sales alone toward dual-use arrangements, maintenance and servicing contracts, and technology transfer, all underpinned by stricter oversight,

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55 Ibid

56 https://www.vision2030.gov.sa/en (23,,10,2025)

compliance, and accountability mechanisms that align with Canadian legal and normative standards.

Finally, there is meaningful potential to recalibrate engagement through political and diplomatic capacity. Saudi Arabia places a strong premium on respect for sovereignty and favors a diplomatic style that avoids public moralizing or “preachy” rhetoric. Within this context, Canada has scope to reposition its approach by remaining values-driven at the multilateral level, while adopting a more pragmatic and interest-based posture at the bilateral level. Such a dual-track approach would allow Canada to safeguard its normative commitments internationally while rebuilding trust and functionality in its direct relations with Riyadh, thereby enabling progress across economic, energy, defence, and political dimensions without abandoning core principles.

Policy lever:
Quiet diplomacy combined with economic engagement, avoiding highly mediatized confrontational approaches, while maintaining principled positions within multilateral institutions.

2. United Arab Emirates (UAE)

The UAE occupies a growing strategic place in Canada’s global economic policies. In 2024, Canada’s total bilateral merchandise trade with the UAE was valued at about CAD 3.4 billion, with Canadian exports to the UAE reaching roughly CAD 2.6 billion and imports around CAD 800 million, figures that reflect an upward trend supported by diversified exports such as aerospace and motor vehicles. Beyond goods, commercial services also contribute to the relationship, amounting to hundreds of millions in bilateral services trade.[57]

The UAE serves as a major global logistics and connectivity hub, linking markets across Asia, Africa, and Europe. For Canadian companies, this geographic and infrastructural advantage enhances access not only to the UAE domestic market but also to third-country markets in broader regions, making the UAE an effective gateway for Canadian exporters and investors seeking regional diversification.[58]

[57] https://international.canada.ca/en/global-affairs/consultations/trade/2025-12-03-united-arab-emirates?utm (15,1,2026)

[58] Canada-United Arab Emirates relations, Available at: https://www.international.gc.ca/country-pays/uae-eau/relations.aspx?lang=eng&utm (3,2,2026)

Canada's core interests in deepening engagement with the UAE include attracting foreign direct investment, leveraging the UAE's logistics and connectivity assets, and advancing cooperation in technology, artificial intelligence (AI), and clean energy sectors. These objectives align with Canada's broader strategy to diversify export markets and engage with dynamic economies outside its traditional trade relationships.[59]

Key Capacities for Upgrading Engagement

(a) Capital Capacity and Sovereign Wealth Funds

The UAE is home to some of the world's largest and most active sovereign investment institutions, including the Abu Dhabi Investment Authority (ADIA), Investment Corporation of Dubai (ICD), and major state-owned investors such as ADQ and Mubadala's investment arms. Collectively, these institutions manage trillions of dollars in assets globally and continue to expand their presence in high-potential sectors such as technology infrastructure, energy transition assets, and diversified global investment portfolios.[60]

From the UAE's perspective, Canada offers a politically stable, well-regulated investment environment with long-term opportunities in infrastructure, advanced technology, and clean energy. In 2025, the two countries signed a new Foreign Investment Promotion and Protection Agreement (FIPA), which strengthens investor protections and sets a predictable legal framework for cross-border investment, laying the foundation for expanded capital flows. Negotiations toward a Comprehensive Economic Partnership Agreement (CEPA) were also launched, with the potential to further liberalize trade and investment.[61]

Policy levers that can be pursued include concluding and implementing the CEPA, upgrading investment frameworks to meet Gulf investor expectations, and curating a pipeline of "investment-ready" projects tailored to sovereign and institutional capital from the Gulf Cooperation Council (GCC).

(b) Logistical Capacity and Gateway Role

The UAE's strategic geographic location and advanced transport infrastructure, encompassing ports, airports, and free-zones, make it a natural hub for regional and intercontinental trade. Canadian firms can leverage these logistics networks to expand into

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[59] https://www.canada.ca/en/global-affairs/news/2026/01/minister-sidhu-to-visit-qatar-saudi-arabia-and-united-arab-emirates-to-promote-canadian-trade-and-investment.html?utm (1,2,2026)

[60] https://www.khaleejtimes.com/business/uae-adia-icd-mubadala-asset-jump-wealth-fund-next-5-years?utm (12,12,2025)

[61] https://www.mofa.gov.ae/en/mediahub/news/2025/11/22/22-11-2025-uae-canada?utm (12,12,2025)

markets across the Middle East, Africa, and South Asia, supporting both goods and services exports.[62]

To formalize this advantage, expanding trade services presence in key UAE cities such as Dubai and Abu Dhabi and strengthening bilateral business councils can enhance market intelligence, regulatory navigation, and sector-specific engagement.

(c) Technological and Innovation Capacity

The UAE government has articulated national strategies focused on AI, fintech, digital infrastructure, and advanced research. At the same time, Canadian cities including Montreal, Toronto, and Waterloo are recognized as global hubs for artificial intelligence research and innovation. This complementarity offers fertile ground for collaboration that can spur innovation, research and development (R&D) partnerships, and co-financed technological initiatives.[63]

Deepening university-industry linkages, signing research memoranda of understanding in priority technologies, and establishing jointly funded innovation hubs can generate both symbolic and economic gains while remaining relatively low political risk.

Policy Lever:
Deepening university–industry partnerships, concluding research MOUs in artificial intelligence, and establishing joint innovation hubs with co-financing, initiatives that are politically low-risk yet high-impact symbolically and economically.

3. Qatar

Qatar constitutes a strategically relevant partner for Canada at the intersection of energy security, global connectivity, education, and diplomacy. Canada's core interests vis-à-vis Qatar centre on cooperation in liquefied natural gas (LNG), enhanced engagement in aviation and education, and sustained collaboration in mediation and diplomatic engagement in a region marked by volatility. Qatar's role as a major energy exporter and an increasingly influential diplomatic actor provides Canada with both economic and geopolitical entry points.[64]

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[62] https://www.international.gc.ca/country-pays/uae-eau/relations.aspx?lang=eng&utm (3,1,2026)

[63] Rajeev (Raj), Dewan Tim, SunarIshita Kashyap (2026), "Canada-Gulf investment outlook 2026: Key sectors and opportunities," Available at: https://www.dlapiper.com/en-qa/insights/publications/2026/01/canada-gulf-investment-outlook-2026?utm (9,2,2026)

[64] https://www.international.gc.ca/country-pays/qatar/relations.aspx?lang=eng (16,10,2025)

A primary pillar for upgrading Canada–Qatar relations lies in energy and LNG capacity. Qatar is widely recognized as one of the world's three largest exporters of LNG, accounting for a substantial share of global supply and operating one of the most sophisticated LNG production and export systems globally.[65] At the same time, Canada is an emerging LNG exporter seeking to diversify export destinations beyond the United States, with new LNG supply from both the Atlantic and Pacific coasts forming a core part of Canada's energy-diversification strategy.[66]

Crucially, the interests of the two countries are complementary rather than competitive: Qatar brings global marketing power and established LNG trade networks, while Canada contributes new supply capacity, regulatory stability, and geopolitical diversification. A structured energy dialogue focused on coordination rather than competition, including joint investment in LNG infrastructure and maritime transportation, would therefore strengthen global supply resilience rather than exacerbate market rivalry.[67]

A second vector of engagement concerns aviation and connectivity capacity. Qatar Airways is consistently ranked among the world's leading global carriers and operates an extensive intercontinental network via Doha's Hamad International Airport.[68]

The International Air Transport Association's (IATA) empirical research shows that air connectivity has strong multiplier effects on trade, tourism, business mobility, and international education flows. For Canada, expanded air connectivity with Qatar would thus function not merely as a transportation issue, but as a broader trade-enabling and growth-supporting mechanism. A pragmatic and low-cost policy lever in this area involves expanding bilateral air services agreements and regulatory facilitation, an approach supported by Transport Canada's international air policy framework.[69]

A third and longer-term dimension of engagement lies in education and soft-power capacity. Qatar has made sustained and strategic investments in Western higher education through Education City, hosting branches of leading international universities and positioning Doha as a regional knowledge hub.[70]

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[65] Trent Jacobs (2025), "US Ranked as World's Top LNG Exporter in 2024, EIA Reports," Available at: https://jpt.spe.org/us-ranked-as-worlds-top-lng-exporter-in-2024-eia-reports?utm (4,12,2025)

[66] https://www.lngcanada.ca/?utm (12,12,2025)

[67] IEA (2024), Gas Market Report, Available at: https://www.iea.org/reports/gas-market-report-q1-2024 (1,1,2026)

[68] https://www.qatarairways.com/press-releases/en-WW/254995-qatar-airways-expands-connectivity-to-the-united-states-and-south-america-with-aer-lingus-and-level/?utm (12,10,2025)

[69] https://tc.canada.ca/en/corporate-services/policies/blue-sky-policy-made-canada-canada?utm (15,11,2025)

[70] https://www.qf.org.qa/education/education-city (15,12,2025)

By contrast, Canadian universities currently maintain a more limited institutional presence in Qatar compared to their American and British counterparts. Qatar's flagship higher-education hub, Education City, hosts multiple branch campuses of leading U.S. and U.K. universities, while no Canadian university operates a permanent campus in this ecosystem.[71] Canadian engagement in Qatar's higher-education sector has instead focused primarily on student mobility and partnership-based cooperation rather than institutional embedding.[72]

This asymmetry represents an opportunity rather than a constraint. Expanding Canadian engagement through joint programs, research partnerships, faculty exchanges, and student mobility initiatives would strengthen Canada's educational footprint, enhance long-term people-to-people ties, and reinforce Canada's broader soft-power objectives in the Gulf and beyond.[73]

In the most recent phase of bilateral relations, Canada–Qatar ties have entered a more operational and forward-looking stage, particularly in the areas of trade and investment. The Canadian Prime Minister's visit to Doha on Jan. 18, 2026 and the announcement of progress toward a Foreign Investment Promotion and Protection Agreement (FIPA), targeted for completion by summer 2026, signal strong political commitment on both sides to institutionalize long-term economic cooperation. Current engagement focuses on attracting Qatari investment into major Canadian projects, expanding two-way trade, and deepening collaboration in strategic sectors such as technology, infrastructure, and defence. The agreement to establish structured mechanisms, including a joint economic, trade, and technical commission, reflects a shift from ad hoc engagement toward a more durable and strategic partnership. From a policy perspective, this development positions Qatar as a key actor within Canada's "second circle" of economic diversification, one that enhances Canada's economic resilience and reduces over-reliance on traditional markets while remaining broadly aligned with Western partners.[74]

Policy lever:

Establishing Canadian university branches, joint degree programs, and endowed research chairs, initiatives that are politically low-risk yet highly positive in reputational and soft-power terms.

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71 Ibid

72 https://www.qf.org.qa/education/education-city?utm (15,12,2025)

73 https://www.international.gc.ca/education/index.aspx?lang=eng (14,12,2025)

74 https://www.pm.gc.ca/en/news/news-releases/2026/01/18/prime-minister-carney-secures-new-partnership-qatar-increase-trade?utm_source=chatgpt.com (20,1,2026)

4. Kuwait

Kuwait represents a relatively low-risk and stable investment partner for Canada in the Gulf region, particularly in investment and diplomatic engagement. Canada's core interests in its relationship with Kuwait centre on working with a stable source of long-term capital and engaging a state whose foreign policy is generally conservative, cautious, and predictable. Global Affairs Canada characterizes bilateral relations as constructive and grounded in shared interests in trade, investment, and regional stability.

A key capacity for upgrading engagement lies in Kuwait's financial and investment profile, anchored in the Kuwait Investment Authority (KIA). Established in 1953, the KIA is widely recognized as the world's oldest sovereign wealth fund and operates with a long-term, conservative, and rules-based investment strategy focused on capital preservation and intergenerational wealth.[75]

This profile aligns closely with pension-fund–style investments, suggesting a clear policy lever for Canada: prioritizing cooperation in infrastructure, public utilities, and real estate, sectors well suited to stable institutional capital.

Kuwait also stands out in the Gulf for its comparatively pluralistic political culture, shaped by the long-standing role of its elected National Assembly. Despite periodic political tensions, Kuwait's parliamentary tradition remains a regional outlier and offers greater normative compatibility with Canada's parliamentary system.[76] Accordingly, a complementary policy lever lies in strengthening parliamentary diplomacy and technical cooperation in governance, reinforcing long-term institutional ties alongside economic engagement.

5. Oman

Oman represents a niche but strategically valuable partner for Canada, particularly in the areas of regional stability, mediation, and targeted, low-risk economic engagement. Canada's core interests in its relationship with Oman are therefore not driven by scale, but by function: supporting stability, enabling mediation efforts, and engaging selectively in economic sectors where risks are limited and returns are steady. Global Affairs Canada characterizes Oman as a constructive regional actor and highlights bilateral cooperation grounded in diplomacy, development, and modest commercial ties.[77]

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[75] https://www.kia.gov.kw/?utm (20,1,2026)

[76] https://www.idea.int/democracytracker/country/kuwait (23,11,2025)

[77] https://www.international.gc.ca/country-pays/oman/relations.aspx?lang=eng (14,12,2025)

A key capacity for upgrading engagement lies in diplomatic and mediation roles. Oman is widely recognized as a neutral and credible mediator in the Middle East, having played discreet facilitation roles in regional conflicts and diplomatic negotiations, including on Yemen and regional de-escalation efforts. This role has been acknowledged by the United Nations and by leading international policy institutions, which emphasize Oman's preference for quiet diplomacy and non-alignment.[78]

Canada's own foreign policy places strong emphasis on multilateralism and quiet diplomacy, creating clear normative compatibility. In this context, a realistic policy lever involves Track II diplomacy, support for mediation initiatives, and coordination on humanitarian and confidence-building measures, rather than high-visibility political intervention.

Economic engagement with Oman is best understood as targeted and limited, rather than comprehensive. Opportunities exist in specific sectors such as port development, fisheries, and renewable energy, areas identified by international development institutions as priorities for Oman's economic diversification. These sectors are relatively small in scale but low in political and financial risk, aligning with Canada's cautious engagement profile. The World Bank and other development partners have highlighted ports and logistics, sustainable fisheries, and renewable energy as areas where Oman seeks external expertise and investment without large-scale exposure.[79] For Canada, this suggests a focused engagement strategy emphasizing technical cooperation and selective investment, rather than broad trade liberalization or high-risk capital deployment.

6. *Bahrain*

Bahrain is geographically part of the Gulf region and a member of the Gulf Cooperation Council (GCC); however, its position in Canada's foreign and economic policy differs fundamentally from that of larger Gulf states such as Saudi Arabia, the United Arab Emirates, or Qatar. Bahrain's limited market size, the absence of a large sovereign wealth fund, and its lack of significant independent energy-export capacity constrain its ability to emerge as a standalone economic partner for Canada. According to the World Bank's country data, Bahrain's GDP and export base remain modest relative to other GCC economies, and hydrocarbons do not provide the scale of independent export leverage seen in Saudi Arabia, Qatar, or the UAE.[80]

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[78] https://www.newarab.com/analysis/muscat-mediation-omans-diplomatic-success-yemen?utm (3,9,2025)

[79] https://data.worldbank.org/country/oman?utm (23,8,2025)

[80] https://data.worldbank.org/country/bahrain (12,9,2025)

Similarly, the International Monetary Fund (IMF) notes that Bahrain's fiscal position is structurally constrained and heavily reliant on external financial support rather than export-driven revenues.[81]

Moreover, Bahrain's foreign and security policy is closely aligned with, and in key respects dependent upon, Saudi Arabia, particularly since the 2011 unrest and subsequent regional interventions. Multiple authoritative analyses highlight that Saudi Arabia plays a central role in Bahrain's security and fiscal stability, significantly limiting Manama's (the capital of Bahrain) strategic autonomy in regional affairs. This dependency is documented by Reuters, which has repeatedly reported on Saudi financial assistance and security backing to Bahrain.[82] Some policy research further emphasizes Bahrain's structural dependence on Saudi Arabia within the GCC security architecture.[83]

From a political-economy perspective, Bahrain also represents a case of an imbalanced "values–interests trade-off." Persistent governance challenges and human-rights concerns generate relatively high political and reputational risks for external partners, while the prospective economic returns remain limited due to market size and constrained growth potential. These governance and human-rights concerns are well documented by Human Rights Watch and Amnesty International, which consistently report restrictions on political participation, civil liberties, and dissent in Bahrain.[84]

Accordingly, Canada's engagement with Bahrain is best pursued not as a standalone bilateral strategy, but rather within broader GCC frameworks or in coordination with Canada's policy toward Saudi Arabia, where strategic leverage and economic returns are greater. This approach is consistent with Canada's broader Gulf engagement patterns, which emphasize regional and multilateral frameworks in smaller GCC states.[85]

Any bilateral engagement should therefore remain limited, technical, and low-profile, focusing on low-sensitivity sectors such as financial regulation, Islamic banking, education, or fintech cooperation, areas identified by international financial institutions as comparatively insulated from political risk and more conducive to incremental cooperation.[86]

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[81] https://www.imf.org/en/Countries/BHR (12,9,2025)

[82] https://www.reuters.com/world/middle-east/ (12,9,2025)

[83] Carnegie Endowment for International Peace, Available at: https://carnegieendowment.org/2021/03/18/bahrain-s-fragile-sovereignty-pub-84166 (15,8,2025)

[84] https://www.hrw.org/middle-east/north-africa/bahrain (2,12,2025), and https://www.amnesty.org/en/location/middle-east-and-north-africa/middle-east/bahrain/ (2,122025)

[85] https://www.international.gc.ca/country-pays/bahrain-bahrein/relations.aspx?lang=eng&utm (16,9,2025)

[86] IMF country analysis: https://www.imf.org/en/Countries/BHR (7,12,2025)

Bahrain is geographically part of the Gulf region and a member of the Gulf Cooperation Council (GCC), however its position in Canada's foreign and economic policy differs fundamentally from that of countries such as Saudi Arabia, the United Arab Emirates, or Qatar.[87] Bahrain's limited market size, the absence of a large sovereign wealth fund, and its lack of significant independent energy-export capacity constrain its potential to emerge as a standalone economic partner for Canada.

Moreover, Bahrain's foreign and security policy is closely aligned with, and in many respects dependent upon, Saudi Arabia, reducing its degree of strategic autonomy in regional affairs. From a political economy perspective, Bahrain also exemplifies an imbalanced "values–interests trade-off": persistent governance challenges and human rights concerns generate relatively high political and reputational risks, while the prospective economic returns for Canada remain modest.

Accordingly, Canada's engagement with Bahrain is best pursued not as an independent bilateral strategy, but rather within broader GCC frameworks or in coordination with Canada's policy toward Saudi Arabia. Any bilateral engagement should remain limited, technical, and low-profile, focusing on specialized and low-sensitivity areas such as financial regulation, Islamic banking, education, or fintech cooperation, sectors where political sensitivities are lower and mutual benefits are more clearly defined.

Table 4: Comparative Summary

Country	Canada's Core Capacity	Risk Level	Strategic Value
Saudi Arabia	Infrastructure, mining, defence	High (political)	Very High
United Arab Emirates	Capital, technology, logistics	Low	Very High
Qatar	Energy, education, aviation	Low–Moderate	High
Kuwait	Long-term investment	Low	Moderate
Oman	Diplomacy, targeted trade	Very Low	Moderate
Bahrain	Financial regulation, Islamic banking, fintech (within GCC frameworks)	Moderate (political/reputational)	Low–Moderate

[87] https://data.worldbank.org/country/bahrain (19,11,2025)

Strategic Synthesis

Canada's capacity to strengthen relations with the Gulf states does not rest on ideological alignment, but rather on functional complementarity in economic and commercial terms:

- Canada offers stability, expertise, the rule of law, and advanced technology.
- The Gulf states provide capital, markets, energy leverage, and geopolitical reach.

A successful strategy therefore requires differentiation, not a one-size-fits-all approach to the Gulf. Each country should be engaged on its own terms, calibrated to its specific economic model, political culture, and risk profile. Such a tailored approach maximizes returns while managing political and reputational risks, and positions Canada to derive durable economic benefits from a diverse and strategically important region.

Recent Developments

Mark Carney's recent trip to the region in late 2025 marked a qualitative shift in Canada's engagement with key Gulf partners, particularly the United Arab Emirates. During this period, the Government of Canada concluded a Foreign Investment Promotion and Protection Agreement (FIPA) with the UAE, a move designed to enhance legal certainty for investors, encourage participation by Canadian pension funds and large firms in Gulf-based projects, and reassure UAE investors that their assets in Canada are protected against expropriation or discriminatory treatment.[88] At the same time, Canada launched negotiations toward a Comprehensive Economic Partnership Agreement (CEPA) with the UAE, aimed at reducing tariffs and administrative barriers, facilitating two-way investment flows, and significantly expanding bilateral trade over the medium term.[89] The ambition to substantially increase bilateral trade is consistent with Canada's past experience: following the entry into force of the Canada–Korea Free Trade Agreement in 2015, bilateral merchandise trade between Canada and South Korea grew markedly over the subsequent decade, demonstrating that deep trade agreements can credibly deliver sustained trade expansion.[90]

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88 Global Affairs Canada (2025), Canada–UAE FIPA, Available at: https://www.international.gc.ca/trade-commerce/trade-agreements-accords-commerciaux/agr-acc/united_arab_emirates-emirats_arabes_unis/fipa-apie/background-contexte.aspx?lang=eng (28,12,2025)

89 Global Affairs Canada (2025), Canada–UAE CEPA consultations, Available at: https://www.international.gc.ca/trade-commerce/trade-agreements-accords-commerciaux/agr-acc/united_arab_emirates-emirats_arabes_unis/fipa-apie/cepa-apeg.aspx?lang=eng (14,12,2025)

90 Government of Canada, Canada–Korea FTA – Trade Outcomes, Available at: https://www.international.gc.ca/trade-commerce/trade-agreements-accords-commerciaux/agr-acc/korea-coree/index.aspx?lang=eng (15,12,2025)

Table 5: Risk–Reward Matrix for the Persian Gulf States (GCC)

Dimension	Potential Rewards	Risks / Costs	Overall Assessment
Economic–Financial	Access to very large pools of state capital; major infrastructure and energy contracts; trade expansion through CEPA with the UAE, FIPAs, and related instruments	Exposure to oil price cycles; potential project delays during downturns in hydrocarbon markets	**High Reward / Medium Risk**
Geopolitical	Enhanced Canadian role in the Middle East; partial alignment with U.S. interests; scope to balance Chinese influence (and, cautiously, explore limited commercial cooperation with China within a third-circle framework)	Risk of entanglement in regional rivalries (Iran–Saudi Arabia, Iran-UAE, Saudi–Qatar, and other Gulf tensions); sensitivity of security dossiers	**Medium–High Reward / Medium Risk**
Values-Based	Opportunity for constructive human rights dialogue from a position of partnership; gradual expansion of soft influence	Potential reputational costs at home if engagement is perceived as overly accommodative; risk of instrumentalization of Canada's brand	**Medium Reward / Medium–High Risk**
Commercial	Expansion of exports in aerospace, defence, education, healthcare, AI, and infrastructure; long-term contracts	Intense competition; sensitivity to regulatory changes; contractual and sovereign risks	**High Reward / Medium Risk**

Summary

For Canada, engagement with the Gulf Cooperation Council (GCC) represents a High-Reward / Medium-Risk proposition. It is recommendable provided that robust safeguards are in place, namely strong FIPAs, transparent contracting, Environmental, Social, and Governance (ESG) standards, and smart, calibrated human rights diplomacy. The most consequential breakthrough in November 2025 was the United Arab Emirates' commitment to invest CAD 70 billion in Canada over the coming years. Canada welcomes the "UAE's historic decision" to invest $70 billion (US$50 billion) in Canada,[91] widely interpreted as a strong vote of confidence in the Canadian economy. While full details of this financial commitment have yet to be publicly disclosed, it is highly likely that the investment will concentrate in the following areas:

- Canadian energy, including LNG and hydrogen projects;
- Critical minerals;

[91] https://www.pm.gc.ca/en/news/news-releases/2025/11/21/prime-minister-carney-secures-new-agreements-united-arab-emirates#:~:text=The%20world%20is%20more%20dangerous,massive%20pools%20of%20foreign%20capital (17,12,2025)

- Ports and transportation infrastructure; and
- Emerging technologies, such as artificial intelligence, fintech, and other advanced sectors.

An investment injection of this magnitude could be transformational, creating jobs, financing major national projects, and helping Canada diversify its export routes. For example, it could enable infrastructure that facilitates energy exports to Asia, thereby reducing Canada's historic dependence on the U.S. market. More broadly, this scale of financial engagement would deepen economic interdependence between Canada and the Gulf states, anchoring the second-circle strategy in durable, long-term interests.

Re-engaging with Saudi Arabia

Almost concurrently, Canada took concrete steps to restore economic and diplomatic engagement with Saudi Arabia. On 6 November 2025, Maninder Sidhu, Canada's Minister of International Trade, met in Ottawa with Saudi Arabia's Minister of Investment, Khalid Al-Falih, and jointly announced the launch of negotiations toward a Foreign Investment Promotion and Protection Agreement (FIPA) between the two countries, alongside the reactivation of the High-Level Joint Economic Commission. In parallel, Export Development Canada (EDC) signed a memorandum of understanding with Saudi EXIM Bank to expand bilateral trade finance facilities.[92]

This ministerial-level visit and the accompanying agreements signaled that the diplomatic freeze following the 2018 crisis had effectively thawed, giving way to a pragmatic, interest-based approach. As Canada's Minister of International Trade, Maninder Sidhu, noted, *"Saudi Arabia is an important market for Canada ... we are committed to strengthening economic cooperation and mutually beneficial investment"*.[93]

Moreover, Global Affairs Canada, in its *Quick Facts* section, underscored that Saudi Arabia was Canada's largest trading partner in the Middle East in 2024, emphasizing that deeper engagement could *"increase commercial opportunities and open new pathways for exports and investment"*.[94]

Taken together, these developments indicate a strategic reset in Canada–Saudi relations, one that prioritizes economic engagement, institutionalized investment frameworks, and long-term mutual benefit, while managing political sensitivities through calibrated diplomacy.

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[92] https://www.canada.ca/en/global-affairs/news/2025/11/minister-sidhu-strengthens-canadas-economic-relationship-with-saudi-arabia.html?utm (7,11,2025)

[93] Ibid

[94] Ibid

Opportunities and Key Sectors for Cooperation with the Gulf States

As Canada expands its engagement with the Gulf states, it can pursue a range of win–win opportunities across several strategic sectors:

1. Energy Cooperation and the Strengthening of Energy Security

The Gulf states are global energy superpowers. Canada, for its part, is a major producer of oil, natural gas, and uranium; yet nearly all of its energy exports are directed to the United States, largely due to geographic and infrastructure constraints.

Deeper engagement with Gulf partners could enable Canada to access global energy markets through several pathways, including:

- attracting Gulf investment for the construction of LNG terminals on Canada's Atlantic and Pacific coasts;
- developing petrochemical facilities and energy infrastructure in partnership with Saudi Arabia or the United Arab Emirates;
- creating new export corridors that reduce Canada's single-destination dependence on the U.S. market.

Beyond fossil fuels, Gulf countries are investing heavily in the energy transition, including solar and wind power, green and blue hydrogen, and carbon capture, utilization, and storage (CCUS).[95] In these areas, Canadian clean-technology firms can find investors, partners, and clients across the Gulf. Moreover, Canada's strengths in engineering and project management can be leveraged in large-scale projects such as solar farms, smart cities, and advanced power grids in Saudi Arabia and the UAE.

2. Major Infrastructure Projects *(Ports, Airports, Rail, Real Estate)*

Gulf sovereign wealth funds are among the world's most active investors in ports and logistics hubs, airports, real estate, and large-scale transport projects.[96] By contrast, Canada faces significant and underfunded infrastructure needs, including:

- expansion of ports on the Atlantic and Pacific coasts;
- development of Northern Canada;

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[95] Robin M. Mills (2025), Energy Transitions in the Gulf: Realities, Risks, and the Road Ahead (Policy Paper), Available at: https://orfme.org/research/energy-transitions-in-the-gulf-realities-risks-and-the-road-ahead/?utm (18,12,2025)
Also see: https://sustaingulf.org/green-hydrogen-in-the-gcc/?utm (18,12,2025)

[96] https://gccbusinesswatch.com/news/gulf-investors-emerge-as-key-drivers-in-ai-and-private-market-growth-says-standard-chartered-report/?utm (26,12,2025)

- high-speed rail corridors;
- digital and data infrastructure.

Capital from Saudi Arabia, the UAE, Qatar, Kuwait, Bahrain, and Oman could help close these investment gaps while offering stable, long-term returns to Gulf investors. As part of the November 2025 agreements, the UAE explicitly signaled interest in Canadian ports, data infrastructure, and collaboration with Canada's Major Projects Office on LNG and critical minerals projects.[97]

Similarly, Saudi Vision 2030 encompasses large-scale urban developments such as NEOM, creating concrete opportunities for Canadian firms in:

- construction contracting;
- architecture and urban design;
- advanced engineering and project management.

Active and coordinated Canadian economic diplomacy can play a decisive role in helping Canadian companies secure major contracts in Saudi-led projects, translating strategic engagement into tangible commercial outcomes. Energy and infrastructure cooperation with the Gulf states offers Canada a pathway not only to attract capital, but also to reconfigure its export geography, strengthen long-term energy security, and embed itself more deeply in global value chains, key objectives of the second-circle strategy.

3. Agriculture and Food Security

The Gulf states possess very limited arable land and are therefore highly dependent on food imports. By contrast, Canada is among the world's largest exporters of agricultural products.[98] This structural complementarity enables Canada to:

- position itself as a reliable supplier of wheat, pulses, canola, beef, and protein products;
- respond directly to a strategic Gulf concern regarding the diversification of food security;
- conclude long-term supply contracts.

An even greater opportunity lies in the potential for Gulf investment in Canada's agricultural infrastructure, for example through:

- participation in grain transportation and processing companies;

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[97] Prerna Sharma (2025), "Canada's trade-enabling infrastructure under strain," Available at: https://www.edc.ca/en/article/trade-enabling-infrastructure-gaps.html?utm (23,12,2025)
[98] https://agriculture.canada.ca/en/sector/overview (23,12,2025)

- investment in plant-based protein production facilities;
- development of cold-chain supply systems for food exports.

Such investments have precedents in Africa and Asia; however, Canada, owing to its strong rule of law, investment security, and advanced agricultural sector, can represent an even more attractive destination. Canada should actively promote these capacities within its public diplomacy.

4. Investment in Innovation and the Knowledge-Based Economy

The Gulf states are seeking to move beyond exclusive dependence on oil and transition toward knowledge-based economies. In this process, Canada's technology sector and universities can benefit significantly from research and development (R&D) financing supported by Gulf capital. A concrete and highly significant example is the partnership between the Mila Artificial Intelligence Institute in Montreal and the UAE's Technology Innovation Institute (TII) on Nov. 21, 2025, announced during Prime Minister Mark Carney's visit.[99] This collaboration in joint AI research illustrates how Canada's scientific expertise can attract Gulf investment and technological cooperation, thereby accelerating innovation.

A concrete policy recommendation for Canada is to expand this pathway, for example by:

- inviting Gulf investors to participate in Canadian innovation hubs and venture capital funds;
- encouraging Gulf sovereign wealth funds to invest in advanced technology sectors in Canada;
- establishing joint research platforms in areas such as artificial intelligence, biotechnology, cybersecurity, and clean energy.

Security or intellectual property (IP) risks are manageable, as Canada applies robust national security review mechanisms under the Investment Canada Act (ICA) to all sensitive foreign investments, including those originating from the Gulf states, ensuring a high level of scrutiny and protection.

[99] https://mila.quebec/en/news/mila-expands-global-network-through-strategic-partnership-with-uaes-technology-innovation (14,9,2025)

5. Defence and Aerospace Exports

Although domestically controversial in Canada, the reality is that the Gulf states are among the largest purchasers of defence and aerospace equipment globally.[100] Canadian companies, particularly in armoured vehicles, aerospace, and advanced components, have previously secured major contracts in the region. A prominent example is General Dynamics Land Systems–Canada, which has supplied light armoured vehicles to Saudi Arabia.

Accordingly, a stable and predictable diplomatic relationship largely ensures that such contracts are respected and, under appropriate conditions, may even be renewed or expanded (subject to human rights requirements).

Therefore, while every defence contract must be assessed with ethical and human rights due diligence, they should not be categorically abandoned. Doing so would merely cede market share to competitors, without producing any tangible gains for Canada's values.

Challenges and Risks: Managing the Values–Interests Dilemma

Engagement with the Gulf states inevitably raises serious values-based questions. These countries are governed by authoritarian systems, and their human rights records, regarding freedom of expression, gender equality, migrant workers' rights, and arbitrary detention, rightly generate concern in Canada. The appropriate response, however, is not complete disengagement, but rather principled pragmatism.

Proposed Policy Framework

1. Engagement with Values Articulation
    - Canada should continue to raise human rights reform through quiet, constructive diplomatic channels.
2. No Formal Retraction of Past Positions
    - In the 2025 normalization process, Canada did not issue an apology or retract its 2018 position; instead, it allowed relations to gradually return to cooperation.
3. Smart Economic Engagement = Real Leverage

[100] Zain Hussain and Alaa Tartir (2025), "Recent trends in international arms transfers in the Middle East and North Africa," Available at: https://www.sipri.org/commentary/topical-backgrounder/2025/recent-trends-international-arms-transfers-middle-east-and-north-africa (15,12,2025)

- The greater the volume of trade and investment, the stronger Canada's capacity becomes to raise difficult issues credibly.

4. Alignment with Allies' Approaches
   - European countries and the United States also manage value-based disagreements while maintaining trade with the Gulf.
   - Their experience demonstrates that isolation does not lead to human rights improvements.

5. Entering the Second Circle with Eyes Open
   - Secure economic interests and conclude contracts, while remaining faithful to core principles over the long term and continuing dialogue on freedoms and Canadian values.

Table 6: Values–Interests Trade-off Matrix for Canada's Engagement with the Gulf States (GCC)

Policy Dimension	Canada's National Interests (Interests)	Canada's Core Values (Values)	Potential Tensions / Conflicts	Proposed Solutions (Principled Pragmatism Tools)
Trade & Investment	Access to Gulf sovereign wealth funds; increased exports; attracting capital for infrastructure, energy, and technology	Economic transparency; anti-corruption safeguards; ensuring fair treatment of workers	Concerns regarding the activities of foreign firms and ownership of assets or projects	Use of FIPAs; strengthened ICA screening; ESG conditionality; participation in joint projects with shared governance
Energy & Green Transition	Expansion of LNG and hydrogen; attracting clean-energy investment; access to global markets	Decarbonization commitments; environmental protection	Gulf investment in projects with environmental externalities	Joint CCUS frameworks; shared environmental standards; conditioning investment on climate objectives
Defence & Security	Preserving jobs in defence and aerospace industries; cooperation on counterterrorism and regional stability	Non-complicity in human rights abuses; adherence to arms export control laws	Defence contracts may become controversial domestically	Case-by-case ethical assessment; transparent reporting; targeted restrictions; emphasis on non-offensive defence technologies
Research & Development (R&D)	Attracting investment for AI, biotech, and advanced technologies;	Protection of IP; cybersecurity; preventing dual-use exploitation	Potential misuse of technology or IP-related risks	ICA national security screening; clear IP clauses; limited data-sharing frameworks;

Policy Dimension	Canada's National Interests (Interests)	Canada's Core Values (Values)	Potential Tensions / Conflicts	Proposed Solutions (Principled Pragmatism Tools)
	strengthening academic cooperation			monitored cooperation mechanisms
Foreign Policy & Geopolitics	Increased Canadian influence in the Middle East; reducing dependence on the U.S.; building a partner network for economic diversification	Support for freedom of expression; gender equality; rule of law	Accusations of proximity to authoritarian regimes	Quiet diplomacy; bilateral human rights dialogues; linking cooperation to gradual progress on governance indicators
Food Security & Agriculture	Securing stable export markets for wheat, canola, and beef; long-term contracts	Food safety standards; protection of agricultural workers' rights	Pressure to dilute standards or adjust domestic regulations	Long-term procurement agreements while maintaining Canadian standards; supply-chain partnership models
Society & Public Opinion	Job creation, economic growth, strengthened innovation ecosystems	Citizens' concerns regarding human rights and GCC domestic policies	Friction between economic interests and ethical sensitivities	Public transparency; annual impact reporting; civil society participation in evaluation processes

Conclusion:

Proposed Model for Canada's Policy: "Principled Pragmatism"

This approach enables the Government of Canada to expand economic revenues and opportunities while preserving its value-based identity, and to build relationships that are both beneficial to Canada and capable of exerting a positive influence on internal reforms in partner countries. An additional risk should be considered: The Middle East's persistent instability, marked by Saudi–Iranian tensions, proxy conflicts, and ideological rivalries, creates a risk that expanded Canadian economic engagement, or limited security cooperation, could inadvertently draw Canada into regional disputes. Canada's approach should therefore be tightly calibrated: prioritize economic and diplomatic engagement; avoid partisan alignment in regional rivalries unrelated to core Canadian interests; and consistently support stability, international law, and dialogue. Given the United States' role as the primary security guarantor in the Persian Gulf, Canada's most effective contribution is political-diplomatic facilitating dialogue, humanitarian support, and governance capacity-building, rather than assuming a frontline security role.

Likely U.S. Reaction

A key point is that Canada's proposed approach toward the Gulf states will likely be met with U.S. acceptance, or at minimum, positive neutrality.

- The United States regards Saudi Arabia, the United Arab Emirates, and Qatar as strategic partners, notwithstanding periodic tensions.
- If Canada deepens economic ties and stability-oriented partnerships with these countries, such engagement does not conflict with U.S. geopolitical objectives.
- The entry of Canadian firms can provide Western-aligned alternatives to Gulf investment, an outcome Washington generally welcomes, particularly as a means of limiting China's influence.

The principal U.S. red line, and the only scenario in which Washington might express dissatisfaction, would arise if Canada were to pursue an independent course directly at odds with U.S. policy, such as excessive rapprochement with Iran or the undermining of U.S. sanctions regimes against certain regional actors. None of the recommendations advanced here imply such a direction. All second-circle partners, including those in the GCC and ASEAN, are countries with which the United States itself actively engages.

As long as Canada's diversification strategy does not undermine U.S. security interests, which cooperation with Gulf partners does not, U.S. reactions can be expected to range from positive neutrality to informal support.

2. East Asia (ASEAN + 3): Leveraging the Growth of Emerging Economies

If the Gulf provides capital and financial resources, East Asia (the Association of Southeast Asian Nations (ASEAN) plus Korea, Taiwan, and Hong Kong) offers growth and markets for Canada. The ten member states of ASEAN, together with these three economies, constitute one of the fastest-growing regions in the world. ASEAN, with a collective population exceeding 650 million and a multitrillion-dollar economy, is recognised as one of the fastest-growing markets globally, and when considered alongside dynamic East Asian economies such as South Korea, Taiwan and Hong Kong, the region offers substantial growth opportunities and market potential for Canadian trade and investment.[101] ASEAN encompasses economies such as Indonesia (a G20 member with a population of about 280 million), Vietnam (around 100 million people and one of Asia's fastest-growing economies),

[101] https://asean.org/wp-content/uploads/2022/12/investment-report-2023.pdf (22,7,2025)

Malaysia, Thailand, the Philippines, and the city-state of Singapore.[102] Although these countries are at different stages of development, they are all on a clear upward growth trajectory.

By 2030, Asia, including East Asia, is projected to be home to the majority of the world's middle-class population, with estimates indicating that around two-thirds of global middle-class households will reside in the region by then.[103] This implies a massive expansion in consumer demand. For Canada, deepening engagement with ASEAN + 3 represents both a diversification strategy and a growth strategy. Exports to these markets can help offset potential losses resulting from U.S. tariffs and position Canadian firms at the center of global economic dynamism.

Current Situation: ASEAN as a Trading Partner

At present, ASEAN as a bloc is Canada's fourth-largest merchandise trading partner, after the United States, the European Union, and China. In 2024, two-way Canada–ASEAN merchandise trade reached a record CAD 42.3 billion, representing an increase of nearly 9 percent over the previous year.[104] For comparison, this figure accounts for roughly 7 percent of Canada's total merchandise trade. In other words, ASEAN is already significant, and although its share remains far smaller than that of the U.S. market, it possesses substantial potential for expansion.

The composition of this trade is relatively diversified:

- Canadian exports to ASEAN include wheat, fertilizers, metals, and wood pulp;
- Services exports (education and financial services) are also notable, particularly to countries such as Malaysia and Singapore;
- Canadian imports from ASEAN largely consist of machinery, electronic equipment, and consumer goods. Vietnam, in recent years, has become a major source of electronics and apparel.[105]

In the area of investment, linkages remain relatively shallow but increasingly promising:

- Singaporean investment in Canada is significant, with Singaporean sovereign funds holding stakes in Canadian real estate and infrastructure;

[102] https://data.worldbank.org/?locations=TH-MY-ID-SG-PH-VN (22,7,2025)

[103] https://www.weforum.org/stories/2020/07/the-rise-of-the-asian-middle-class/ (15,11,2025)

[104] https://www.pm.gc.ca/en/news/news-releases/2025/10/27/prime-minister-carney-advances-new-trade-economic-and (12,12,2025)

[105] https://www.vietnam.vn/en/xuat-khau-sang-canada-tang-truong-an-tuong (3,12,2025)

- Canadian pension funds are likewise showing growing interest in identifying projects across ASEAN.

Policy Framework: From FTA Negotiations to Results-Oriented Diplomacy

Recognizing the importance of Association of Southeast Asian Nations (ASEAN), Canada has in recent years elevated the level of engagement. In 2021, Canada and ASEAN agreed to launch negotiations toward a Canada–ASEAN Free Trade Agreement (FTA).[106] Several negotiating rounds have since been held, and this file has become one of Canada's flagship initiatives in trade diversification. In 2023, ASEAN-Canada relations took an important step forward with the launch of the ASEAN-Canada Strategic Partnership, an important signal of Canada's growing relationship with ASEAN and presence in the Indo-Pacific region.[107] Through this Strategic Partnership, Canada is deepening its relationship with ASEAN, including through cooperation in three main areas: political-security, economic, and socio-cultural.

A Canada–ASEAN FTA could reduce tariffs and improve market access for Canadian goods in ASEAN markets (many ASEAN members still apply higher tariffs than Canada's existing partners), while also providing greater certainty for services trade and investment. It is worth noting that some ASEAN members already have FTA linkages with Canada through other pathways: Vietnam, Malaysia, Singapore, and Brunei are all members of the CPTPP; under this framework, Canada already maintains de facto free trade relations with Vietnam and Singapore.

However, a comprehensive agreement at the ASEAN-wide level would bring large economies outside the CPTPP into a preferential framework, most notably Indonesia, the Philippines, and Thailand. Among these, Indonesia is of particular importance: given its vast population and large economy, it could become a central pillar of Canada's Asia strategy. Canada and Indonesia launched negotiations toward a Comprehensive Economic Partnership Agreement (CEPA) on June 20, 2021, and held multiple negotiation rounds through 2022 as part of ongoing efforts to deepen bilateral trade ties.[108] Progress on this track has recently slowed due to certain tensions and Indonesia's domestic electoral cycle, but political will to advance the agreement remains.

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[106] https://www.canada.ca/en/global-affairs/news/2021/11/canada-and-asean-proceed-with-free-trade-agreement-negotiations.html (7,8,2025)

[107] https://www.international.gc.ca/world-monde/international_relations-relations_internationales/asean/index.aspx?lang=eng (4,9,2025)

[108] https://www.international.gc.ca/trade-commerce/trade-agreements-accords-commerciaux/agr-acc/indonesia-indonesie/cepa-apeg/background-contexte.aspx?lang=eng (25,11,2025)

Canada has also pursued closer political relations with ASEAN. In 2022, Canada was designated an ASEAN Strategic Partner, a diplomatic status signaling high-level and long-term commitment to cooperation with the bloc.[109] In addition, Canada participates as an observer in the ASEAN Defence Ministers' Meeting-Plus (ADMM-Plus) working groups on Humanitarian Assistance and Disaster Relief and Maritime Security, reflecting its engagement in regional defence and security cooperation under the ASEAN framework and provides development assistance across the region.[110] This includes initiatives in global health security, women's economic and social empowerment, and governance capacity-building, all of which are identified in Canada's Indo-Pacific Strategy.[111]

Taken together, these measures demonstrate that Canada has adopted an integrated approach toward ASEAN, one in which diplomacy + development + trade function as mutually reinforcing pillars. This approach is strategically sound, as political engagement and capacity-building help pave the way for deeper trade access and more sustainable economic cooperation. The Indo-Pacific Strategy allocates approximately CAD 2.3 billion in five-year funding for regional initiatives, a significant share of which is directed toward ASEAN countries, including:

- Infrastructure investment through Canadian climate finance mechanisms;
- Enhanced security and maritime cooperation;
- Development and capacity-building projects in governance and human rights.[112]

Risk–Reward Matrix (Illustrative) for Three Key ASEAN Partners

1. Indonesia

Indonesia represents a high-reward but medium–high-risk partner for Canada in Southeast Asia. With a population of approximately 280 million people, Indonesia is the largest economy in ASEAN and a member of the G20, positioning it as an emerging regional power and a central Asian market.[113] The country shows strong demand for infrastructure, energy, fertilizers, wheat, timber, and clean technologies, alongside extensive opportunities for Canadian investment in mining (notably nickel), renewable energy, and associated value

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[109] https://www.pm.gc.ca/en/news/news-releases/2022/11/13/prime-minister-strengthens-ties-asean-and-expands-partnerships-indo (13,10,202)

[110] https://www.canada.ca/en/department-national-defence/news/2025/08/canada-signs-a-military-cooperation-memorandum-of-understanding-with-indonesias-armed-forces.html (15,10,2025)

[111] https://www.international.gc.ca/transparency-transparence/indo-pacific-indo-pacifique/2022-2023.aspx?lang=eng (13,9,2025)

[112] https://www.canada.ca/en/global-affairs/news/2022/11/canada-launches-indo-pacific-strategy-to-support-long-term-growth-prosperity-and-security-for-canadians.html (20,10,2025)

[113] https://www.worldbank.org/ext/en/country/indonesia (20,10,2025)

chains.[114] These prospects are reinforced by ongoing Canada–Indonesia negotiations toward a Comprehensive Economic Partnership Agreement (CEPA), which could enable preferential market access and improved investment certainty.[115] At the same time, investors face complex bureaucracy, regulatory volatility, weak contract enforcement, and domestic sensitivities toward foreign investment, particularly in the mining sector.[116] Persistent rule-of-law and corruption risks, as well as periodic political tensions, including those surrounding the 2024–2025 electoral cycle, can further slow policy implementation and economic decision-making.[117] Overall, Indonesia can function as a central pillar of Canada's Asia strategy, provided that regulatory and political risks are actively managed.

Rewards

- Very large market: approximately 280 million people; the largest economy in ASEAN.
- G20 member and an emerging regional power.
- Strong demand for infrastructure, energy, fertilizers, wheat, timber, and clean technologies.
- Extensive opportunities for Canadian investment projects (mining, nickel, renewable energy).
- Ongoing Canada–Indonesia CEPA negotiations, which could create preferential market access.

Risks

- Complex bureaucracy, regulatory volatility, and weak contract enforcement.
- Domestic sensitivity toward foreign investment, particularly in the mining sector.
- Rule-of-law and corruption risks.
- Periodic political tensions (e.g., the 2024–2025 electoral cycle) that slow economic decision-making.

Overall Assessment: High Reward / Medium–High Risk

Indonesia can serve as the central pillar of Canada's Asia strategy, provided regulatory and political risks are effectively managed.

[114] https://asean.org/our-communities/economic-community/ (11,1,2026)

[115] https://www.international.gc.ca/trade-commerce/trade-agreements-accords-commerciaux/agr-acc/indonesia-indonesie/cepa-apeg/background-contexte.aspx?lang=eng (14,1,2025)

[116] https://www.worldbank.org/ext/en/country/indonesia (15,1,2025)

[117] https://www.transparency.org/en/cpi/2024 (5,1, 2025)

2. Vietnam

Rewards

- One of Asia's fastest-growing economies; population of roughly 100 million.
- CPTPP partner of Canada, providing preferential market access.
- Manufacturing hub for electronics, textiles, and industrial components; an attractive destination for supply-chain diversification.
- Rapidly expanding middle class, driving demand for quality food, education, and financial services.
- Strong government support for foreign direct investment (FDI).

Risks

- Single-party governance with human rights constraints and limited transparency.
- Logistics infrastructure still requires significant development.
- High dependence on trade with the United States and China, creating vulnerability to geopolitical tensions.
- Labour-related risks (standards and industrial disputes).

Overall Assessment: High Reward / Medium Risk
Vietnam is an ideal destination for Canada's supply-chain diversification and for expanding agricultural and industrial exports.

3. Singapore

Rewards

- Most stable and advanced economy in ASEAN; a major international financial centre.
- CPTPP partner and a long-standing Canadian partner in services, education, and finance.
- Key destination for Canadian corporate and institutional investment.
- Highly transparent, simple, and secure business environment.
- Gateway for Canadian firms entering the broader ASEAN region.
- Extensive cooperation in technology, digital services, artificial intelligence, cybersecurity, and clean energy.

Risks

- Intense competition from U.S., European, and Asian firms.
- Small domestic market (approximately 6 million people), limiting consumer-scale opportunities.
- High business costs (rent, labour).
- Dense financial regulation, requiring advanced compliance capabilities.

Overall Assessment: Medium Reward / Low Risk
Singapore is a low-risk regional hub that facilitates Canadian entry into ASEAN markets.

Table 7: Strategic Summary for Canada

Country	Reward	Risk	Proposed Role in Canada's Policy
Indonesia	Very High	Medium–High	Core pillar of Asia strategy; focus on CEPA and energy/mining
Vietnam	High	Medium	Key destination for supply-chain diversification and agricultural exports
Singapore	Medium	Low	Regional hub for investment, finance, and technology

Opportunities in ASEAN: A Broad Set of Capacities for Canadian Businesses

1. Rapidly Expanding Consumer Markets

As household incomes rise across Southeast Asia, demand is increasing for a wide range of Canadian goods and services, including:

- High-quality food products: notably seafood, beef, high-value fruits, and other products for which Canada can guarantee premium quality.
- International education: prior to the COVID-19 pandemic, tens of thousands of students from ASEAN countries were enrolled in Canadian universities. Expanding educational cooperation and establishing Canadian university branches in the region could accelerate this trend.
- Financial services: Canadian insurance companies and banks are expanding their presence in the region. Manulife's operations in Vietnam and Singapore represent a prominent example.

In this context, a Canada–ASEAN Free Trade Agreement (FTA) could reduce trade barriers and ensure that Canadian service providers compete on an equal footing with Australian, European, and Asian rivals.

2. Supply Chain Diversification "China + 1"

Many Western companies are adopting a China + 1 strategy, maintaining part of their production in China while relocating another portion to ASEAN countries in order to reduce geopolitical and tariff-related risks.[118]

- Vietnam, in particular, has emerged as a major manufacturing hub for electronics, apparel, and industrial components.
- Canadian firms can strengthen their regional presence through joint ventures or by sourcing inputs from these countries.

Key opportunities include:

- Establishing critical minerals processing facilities in Thailand or Indonesia;
- Canadian participation in pharmaceutical supply chains and the production of active pharmaceutical ingredients (APIs);
- Government of Canada support for industrial matchmaking, linking ASEAN firms with Canadian companies.

Together, these opportunities position ASEAN as a central pillar in Canada's strategy for resilient supply chains and long-term growth diversification.

3. Infrastructure and Urban Development

Many ASEAN countries are implementing large-scale infrastructure programs, including new airports, smart cities, metro systems, and modern transportation networks. Canadian companies such as SNC-Lavalin, WSP Global, Alstom, and Bombardier Transportation are well positioned to compete for these contracts, particularly when supported by Canadian export financing through Export Development Canada (EDC). There are also successful historical precedents in this area: prior to the sale of its rail division, Bombardier secured major contracts to supply metro rolling stock to Malaysia and Thailand.[119]

Accordingly, a Canada–ASEAN Free Trade Agreement that includes government procurement access provisions could generate extensive opportunities for Canadian engineering and construction firms.

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[118] https://www.mckinsey.com/capabilities/operations/our-insights/risk-resilience-and-rebalancing-in-global-value-chains (5,10,2025)

[119] https://www.globenewswire.com/news-release/2016/12/29/1506328/0/en/Bombardier-s-INNOVIA-Metro-300-Enters-Service-in-Kuala-Lumpur.html (21,1,2026)

4. Digital Economy and Innovation

ASEAN's digital economy is expanding rapidly, driven by the growth of ride-hailing and super-app platforms such as Grab and Gojek, alongside rapid expansion in fintech, digital banking, e-commerce, digital payments, and online education.[120] The region's digital economy is projected to exceed USD 300–360 billion by 2025, making it one of the fastest-growing digital markets globally.[121] This transformation creates significant opportunities for Canada, particularly in fintech, education technology, cybersecurity, and data governance. Singapore functions as the primary regional gateway for digital and financial services, offering a stable regulatory environment and serving as a launchpad for foreign start-ups, including fintech firms from Ontario and the Waterloo ecosystem, seeking access to ASEAN markets.[122] At the same time, Canadian educational technology providers can serve ASEAN's large, young, and digitally connected population, while cooperation in cybersecurity, cloud services, and digital governance aligns closely with ASEAN's Digital Masterplan 2025 and Canada's Indo-Pacific priorities.[123] However, this cooperation faces challenges, particularly divergent data regulations and digital laws across the region. A modern FTA could therefore ensure cross-border data flows, recognition of digital signatures, and predictable privacy regulations, developments that would strongly benefit Canada's technology sector.

5. Green Economy and Climate Cooperation

Southeast Asia faces serious climate challenges, including rising sea levels, the need for renewable energy, deforestation, waste management, and biodiversity loss. These challenges create the following opportunities for Canada:

- exporting clean energy technologies (wind, solar, energy storage, grid-management software);
- providing carbon capture, utilization, and storage (CCUS) solutions;
- participating in climate projects financed through Canadian climate finance mechanisms;
- leveraging Canada's experience in sustainable forest and fisheries management, which can be particularly valuable for countries such as Indonesia and the Philippines.

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[120] https://www.bain.com/insights/e-conomy-sea-2023/ (4,12,2025)
[121] https://seads.adb.org/news/aseans-digital-economy-top-300-billion (23,11,2025)
[122] https://www.mas.gov.sg/development/fintech (23,1,2026)
[123] https://asean.org/book/asean-digital-masterplan-2025/ (23,12,2025)

6. An Illustrative Win–Win Project:

If a Canadian company supplies solar technology for a project in Indonesia, and that project is financed through Canadian climate finance funds, the outcome simultaneously advances ASEAN's climate objectives and Canada's commercial interests.

Table 8: Canada–ASEAN Policy Matrix

Policy Area	Strategic Objectives for Canada	Proposed Tools and Actions (Policy Tools)	Risks & Constraints
Trade & Market Access	Expand Canadian exports and services; reduce dependence on the U.S. market	- Finalize the Canada–ASEAN Free Trade Agreement (FTA) - Facilitate market access for agriculture, financial services, and education - Support Canadian SMEs entering ASEAN markets	High tariffs in some countries; intense competition from Australia/Europe; local bureaucracy
Investment & Supply Chains	Create "China + One" pathways and attract reciprocal investment	- Launch industrial matchmaking programs - EDC support for joint ventures - Attract Singaporean and Malaysian capital into Canadian infrastructure	Political risk in Indonesia/Vietnam; regulatory volatility; foreign ownership restrictions
Digital, Innovation & Knowledge-Based Services	Make digital engagement a core pillar of economic relations	- Include digital trade provisions in the FTA - Establish a Canada–Singapore joint accelerator - Cooperate on AI and cybersecurity with Vietnam and Singapore	Divergent data regulations; cybersecurity risks; IP protection
Infrastructure & Major Projects	Secure a share of ASEAN's USD 2 trillion infrastructure market	- Leverage EDC and CIB financing capacity - Participate via JICA, ADB, or multilateral formats - Negotiate government procurement access in the FTA	Competition from China/Japan/Korea; corruption; complex tenders; domestic sensitivity regarding AIIB
Education, Migration & People-to-People	Build long-term ties through students, education, and skills-based migration	- Expand Canadian university branches in ASEAN - Increase quotas for ASEAN students - Joint internship programs with Indonesia, Singapore, and the Philippines	Competition from Europe/Australia; visa constraints; capacity pressures on Canadian universities

Policy Area	Strategic Objectives for Canada	Proposed Tools and Actions (Policy Tools)	Risks & Constraints
Climate, Clean Energy & Environment	Position Canada as a leading partner in ASEAN's energy transition	- Allocate a share of the CAD 2.3 billion Indo -Pacific Strategy budget to clean projects - Export wind/solar/CCUS technologies - Forestry cooperation with Indonesia and the Philippines	High financial costs; project implementation risks; strong European competition
Diplomacy & Regional Governance	Consolidate Canada's role as a reliable Indo-Pacific actor	- Activate Strategic Partner status with Association of Southeast Asian Nations (ASEAN) - Participate in ADMM-Plus, ARF, and EAS (as guest/observer) - Support capacity-building in governance, human rights, and health	Political instability; sensitivities around perceptions of external interference

Policy Synthesis

This matrix demonstrates that Canada's policy toward ASEAN should rest on three core pillars:

1. **Economy + Industrial Planning**: an FTA with a strong emphasis on supply chains, digital trade, and infrastructure;
2. **Diplomacy + Capacity-Building**: active presence in ASEAN institutions and sustained development diplomacy;
3. **Climate + Clean Technology**: alignment of climate finance with clean-technology exports.

This model integrates all three domains as secure pathways toward a stable, balanced, and future-oriented relationship with ASEAN.

Challenges in Engaging ASEAN

Unlike Japan and Australia, ASEAN countries exhibit highly diverse political systems, ranging from Indonesia's democracy to Vietnam's single-party communist system and Brunei's absolute monarchy. Many of these states differ from Canada in terms of values and governance standards. Nevertheless, Canada has a long record of engaging constructively with a wide spectrum of regimes. In practice, Canada's principal challenges in ASEAN often relate less to human rights (though such issues do exist, for example, Myanmar under military rule remains a serious concern, and Canada, alongside others, has largely sanctioned the country) and more to local business environments and regional competition.

Corruption and lack of transparency in procurement processes can also pose obstacles in some ASEAN countries. Canadian firms may require government support to compete with Chinese or Korean companies that benefit from strong local networks or state backing. This underscores the fundamental importance of government-to-government engagement in creating a level playing field for Canadian enterprises. Canada's presence at negotiating tables, such as FTA talks or high-level bilateral meetings, enables advocacy for fair procedures and access to market intelligence, both of which are essential for Canadian business success.

Another challenge concerns distance and engagement thresholds. Canadian small and medium-sized enterprises (SMEs) may find ASEAN markets difficult to enter due to geographic distance, cultural differences, and complex distribution networks. This highlights the need for trade promotion institutions, including the Trade Commissioner Service (TCS) and Export Development Canada (EDC), to strengthen their regional presence while simultaneously raising awareness among Canadian firms.

That said, despite these challenges, there are encouraging signs for Canada–ASEAN engagement. Canada maintains trade offices in all ten ASEAN countries through the Trade Commissioner Service, ensuring on-the-ground commercial support across Southeast Asia, and the Canada–ASEAN Business Council has recently been formally recognized by ASEAN,[124] expanding Canada's access and opportunities. These are positive steps toward on-the-ground support for Canadian companies. Canada should build on this momentum, including by establishing "Canadian hubs" in locations such as Singapore or Jakarta to support the establishment and scaling of Canadian start-ups in Asia.

South Korea

South Korea represents Canada's most important and stable option for deepening economic and commercial engagement in East Asia (outside China and Japan). It is an advanced industrial economy, a major technology exporter, and deeply integrated into global value chains. The existence of the Canada–Korea Free Trade Agreement (CKFTA)

[124] https://www.international.gc.ca/world-monde/international_relations-relations_internationales/asean/index.aspx?lang=eng (6,11,2025)

since 2015 constitutes a key institutional advantage, one that Canada lacks in its relations with many other Asian economies.[125]

Core areas of cooperation include automotive and auto parts, advanced batteries, semiconductors, hydrogen and clean energy, and critical minerals. From a foreign-policy perspective, South Korea is closely aligned with the United States and the liberal international order. Consequently, expanding relations with South Korea entails no significant geopolitical sensitivity and would be viewed positively in Washington. In sum, South Korea is a low-risk partner with high strategic returns for Canada.

Taiwan

From an economic and technological standpoint, Taiwan is another highly critical potential partner for Canada in East Asia, although it is also the most politically sensitive option. Taiwan plays a central role in global semiconductor supply chains, advanced electronics, and digital technologies, and has become increasingly important for the economic security of Western countries.[126] Taiwan was Canada's 15th-largest merchandise trading partner in 2024 with $6 billion in goods exchanged.[127]

For Canada, engagement with Taiwan is particularly attractive in advanced technologies, artificial intelligence, supply-chain security, and technology-oriented investment. The principal constraint, however, is pressure and sensitivity from China, which requires that engagement with Taiwan be designed in a non-official, technical, and non-political format. In other words, Taiwan is an economically highly valuable partner for Canada, but only insofar as cooperation is pursued under a framework of "non-flagged engagement" and in coordination with Western allies.

Hong Kong

Historically, Hong Kong was one of East Asia's most important financial and commercial hubs and a principal gateway to the Chinese market. However, recent political developments and the erosion of its autonomy have significantly weakened its position for Canada. Canada has suspended certain bilateral arrangements with Hong Kong, and the political risk associated with engagement has increased.[128]

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[125] https://www.worldbank.org/ext/en/country/korea (3,11,2025)

[126] https://www.oecd.org/en/topics/sub-issues/digital-security-risk-management.html (15,12,2025)

[127] https://financialpost.com/news/china-not-answer-canadas-trade-troubles (21,1,2026)

[128] https://data360.worldbank.org/en/economy/HKG (5,12,2025)

Nonetheless, Hong Kong continues to retain capacity in areas such as financial services, logistics, regional trade, and private investment, and therefore should not be excluded from Canada's evolving foreign-policy considerations. From a policy perspective, however, Hong Kong cannot be treated as an independent strategic partner. Rather, it constitutes a limited, conditional, and high-risk option, where engagement, given its residual financial role in East Asia, must be conducted with caution and continuous assessment of political developments.

Analytical Synthesis

Overall, outside China, Japan, and ASEAN, Canada's capacity for economic and commercial engagement in East Asia is concentrated in a limited number of countries rather than a broad regional bloc. South Korea constitutes the core, low-risk pillar of this strategy; Taiwan is a critical partner in advanced technology and economic security, albeit with high geopolitical sensitivity; and Hong Kong represents a declining and high-risk, yet still partially valuable, option. This configuration underscores that a successful Canadian strategy in East Asia must be targeted, differentiated, and grounded in the specific institutional and political characteristics of each country, rather than based on a uniform regional approach.

Likely US Reaction

The United States is likely to be neutral with Canada's deeper engagement with Southeast Asia. The logic is straightforward: the region is a central arena of strategic competition between the United States and China, and Washington, together with its allies, seeks to provide credible alternatives to Chinese influence. Canada's active engagement with ASEAN complements initiatives such as the Indo-Pacific Economic Framework (IPEF) and contributes to strengthening its presence in the region. That said, Canada must manage its involvement carefully so as not to trigger excessive Chinese sensitivity, given that China constitutes a key element of the proposed "third circle" in this policy paper's foreign-policy framework.

Moreover, enhanced Canadian engagement with ASEAN would be interpreted as a reduction in overdependence on China, fully aligned with U.S. objectives related to friendshoring and the construction of supply chains among like-minded partners. From Washington's perspective, there is little downside, unless Canada was to adopt positions explicitly contrary to U.S. interests, which is highly unlikely. ASEAN itself generally pursues a balancing strategy between the United States and China and is not anti-American.

Indeed, through multilateral platforms such as Asia-Pacific Economic Cooperation (APEC) and the Group of Twenty (G20), the United States frequently works alongside partners to support ASEAN's development. Should Canada succeed in concluding a Canada–ASEAN Free Trade Agreement in 2026,[129] this arrangement could later generate synergies with a potential U.S.–ASEAN trade framework, subject to U.S. domestic political developments and policy alignment with Canada. In the interim, a Canada–ASEAN FTA would help anchor ASEAN economies more firmly in open and rules-based trade.

Strategic Implications for Canada

In sum, Canada's engagement with second-circle partners, notably the Gulf states and ASEAN+3, offers a substantial opportunity for trade and investment diversification. The Gulf states provide capital and new markets for high-value Canadian exports (energy, defence industries, advanced services), while ASEAN+3 offers production platforms, alternative supply chains, rapidly growing consumer markets, and financial opportunities. These partnerships are undeniably more complex, involving value differences and the need for calibrated diplomacy, yet Canada has already demonstrated its capacity to manage such complexity, illustrated by the re-engagement with Saudi Arabia and the pursuit of a Canada–ASEAN FTA.

The strategic benefits of this approach are significant:

- Expanded options for Canadian exporters.
- More diversified sources for critical imports, reducing overreliance on the United States.
- A stronger Canadian presence in regions that will shape global economic growth in the twenty-first century.

At the same time, Canada must approach the second circle with a clear strategy, adequate diplomatic and economic resources, and a balanced posture, one that continues to reflect Canadian values even as the scope of cooperation broadens. Ultimately, the second circle is about opening new opportunities without abandoning existing partners, adding new links to Canada's chain of resilience and prosperity, so that this chain is never dependent on a single vulnerable point.

[129] https://www.pm.gc.ca/en/news/news-releases/2025/10/27/prime-minister-carney-advances-new-trade-economic-and (3,11,2025)

Third Circle:

Calibrated Economic Engagement with China

(The “One China, Four Chinas” Approach)

The third circle, in effect, consists of a single but exceptionally large actor: the People’s Republic of China. This circle reflects China’s unique position as the world’s second-largest economy and Canada’s second-largest trading partner (after the United States), while at the same time recognizing that China is neither politically nor normatively aligned with Canada. China presents a set of challenges that are fundamentally different from those associated with partners in the first or second circles.

Relations with China are characterized by significant strategic and ideological frictions. China’s authoritarian governance model, its highly contested human rights record, and its increasingly assertive foreign policy frequently conflict with Canadian values and interests. In recent years, bilateral relations have deteriorated sharply due to developments such as the Meng Wanzhou case and the detention of two Canadian citizens (2018–2020)[130], growing concerns regarding Chinese interference in Canada’s domestic affairs, and persistent disagreements over issues including Hong Kong and Xinjiang.

For these reasons, China cannot be treated as a “normal” partner in the same way as Japan, or even Saudi Arabia. Nevertheless, given China’s enormous economic weight and its central role in global supply chains, it is unrealistic to assume that Canada can pursue full decoupling or exclude China altogether from its diversification strategy.

Canada therefore requires a multi-layered, nuanced, and segmented approach, one that allows for engagement with different “Chinas” across different domains. This is the logic underpinning the “Four Chinas” framework, introduced in this policy paper for the first time

[130] https://www.cbc.ca/news/meng-wanzhou-huawei-kovrig-spavor-1.6188472 (14,1,2026)

in the Canadian context. By conceptually disaggregating China into four distinct dimensions, Canada can better calibrate its engagement:

1. **China as a major economic and trade actor;**
2. **China as a powerful political and security actor;**
3. **China as a cultural–ideologic force;**
4. **China as a scientific and technological power.**

Through this analytical separation, Canada can maximize economic-trade gains from managed engagement with China (within the third circle) while minimizing the political and security risks that would arise from deeper, undifferentiated entanglement. This approach neither denies China's importance nor underestimates its risks; rather, it provides a structured and realistic framework for selective engagement consistent with Canada's long-term strategic interests.

China's Economic Attractiveness versus Political Challenges

1. China One: Economic / Trade China

On January 16, 2026, Canada and China reached a new trade agreement, aimed at easing tensions and lowering tariffs on electric vehicles and major agricultural exports, marking a shift after years of strained relations between the two countries.[131] China's economy offers substantial opportunities for Canadian exporters and investors, opportunities that cannot be easily ignored. In 2024, China accounted for approximately 3.8% of Canada's merchandise exports, valued at around CAD 29.9 billion. In the same year, Canada imported roughly CAD 87 billion worth of goods from China, underscoring China's significant share in Canada's overall imports.[132] Data from the first half of 2025 indicate a further increase in bilateral trade; for example, Canada–China merchandise trade reached approximately CAD 64.2 billion in the first half of 2025, representing growth compared to the previous year, with energy and mineral exports serving as the primary drivers of this increase.[133]

Canada exports a range of products to China, including wood, pulp, grains, oilseeds (during periods when restrictions are not in place), meat, and minerals, as well as certain services, most notably education. Tens of thousands of Chinese students study in Canada,[134] contributing billions of dollars to Canada's education sector and local economies. Although

[131] https://www.thenews.com.pk/latest/1388710-canada-china-trade-deal-all-you-need-to-know-about-the-new-agreement (21,1,2026)

[132] https://www.international.gc.ca/country-pays/china-chine/relations.aspx?lang=eng (21,1,2026)

[133] https://ccbc.com/ccbc-update/the-state-of-canada-china-trade-h1-2025/ (16,11,2025)

[134] https://www.international.gc.ca/education/report-rapport/impact-2022/index.aspx?lang=eng (12,1,2025)

these flows declined during the COVID-19 period and amid diplomatic tensions, they remain economically significant.[135]

Many Canadian companies, from Bombardier to Shopify, have targeted China's vast consumer market. The scale of China's economy is such that even a small market share can translate into billions of dollars in sales.[136] Prior to 2019, for example, China was one of Canada's most important markets for canola and pork.[137] Diplomatic tensions subsequently led to temporary import bans that inflicted hundreds of millions of dollars in losses on Canadian farmers. These restrictions were lifted in 2022, but the episode clearly demonstrated that China represents both a major opportunity and a major risk for Canada.

From a diversification perspective, China's economic growth can help offset downturns in other markets. China's approximately 5% economic growth in 2025 suggests that, despite a slowdown compared to earlier decades, it remains one of the principal engines of global economic growth. This growth, however, is increasingly quality-oriented and state-managed, rather than the explosive expansion of previous decades, with the Chinese government seeking to anchor it in domestic consumption, advanced technologies, and the green transition.[138] Demand in China for commodities, high-quality food products, and services such as tourism is therefore expected to remain strong.

Canada's tourism and education sectors benefited enormously during peak periods of Chinese arrivals. In 2019, more than 708,000 Chinese tourists visited Canada, making China one of Canada's most important long-haul tourism markets.[139] In the same year, Chinese nationals constituted the second-largest group of international students in Canada, with approximately 140,537 study-permit holders, second only to India.[140] Official statistics show that in 2023, travel from Asia to Canada remained below 2019 levels due to the lingering effects of COVID-19 and reduced outbound travel from China. Nevertheless, the recovery trend is evident: according to Statistics Canada, approximately 206,275 visitors from China entered Canada in August 2023[141]. As bilateral relations stabilize and post-pandemic conditions normalize, these figures could rise again, injecting renewed vitality into Canada's local and national economies.

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[135] https://www150.statcan.gc.ca/n1/pub/13-605-x/13-605-x2023001-eng.htm (4,10,2025)
[136] https://www.international.gc.ca/country-pays/china-chine/relations.aspx?lang=eng (14,1,2026)
[137] https://www150.statcan.gc.ca/n1/daily-quotidien/190305/dq190305b-eng.htm (14,1,2026)
[138] https://www.imf.org/en/news/articles/2025/12/10/pr-25415-china-imf-staff-completes-2025-article-iv-mission-to-the-peoples-republic-of-china (16,12,2025)
[139] https://archives.destinationcanada.com/en/markets/china (16,12,2025)
[140] https://www.canada.ca/en/immigration-refugees-citizenship/corporate/transparency/committees/cimm-feb-28-2024/international-student-program-at-a-glance.html (23,5,2025)
[141] https://www150.statcan.gc.ca/n1/pub/12-581-x/2023001/sec19-eng.htm (22,7,2025)

2. China Two: Political–Security China

The Chinese government has demonstrated that it is willing to employ economic coercion as a response to political disagreements:

- Australia faced sweeping import bans after calling for an investigation into the origins of COVID-19;
- Canada, following the arrest of Huawei's Chief Financial Officer, was subjected to canola import bans and the arbitrary detention of two Canadian citizens;
- Other countries have likewise experienced pressure after meetings with the Dalai Lama or criticism of China's human rights record.

Accordingly, any Canadian effort to expand economic relations with China must incorporate mechanisms to reduce vulnerability. Examples of such risk-management measures include:

- Diversification within the Chinese market (selling to multiple buyers rather than relying on a single state-owned enterprise);
- Identifying alternative markets for critical exports;
- Building domestic capacity to withstand informal or unofficial sanctions.

Canada's Indo-Pacific Strategy explicitly acknowledges this duality. On the one hand, it recognizes that *"China's size and influence make cooperation necessary to address global challenges, and its economy presents significant opportunities for Canadian exporters"*; on the other hand, it affirms that *"Canada will challenge China when it undermines international rules or Canadian interests."*[142]

This is precisely the dual-track approach Canada must adopt: expanding trade while simultaneously safeguarding national interests and mitigating political risk.

From a foreign-policy perspective, Canada must remain firmly committed to its values and security imperatives. In coordination with its allies, Canada should continue to push back against China's coercive behaviors, from the militarization of the South China Sea to unfair trade practices. Domestically, Canada must protect itself by strengthening counter-foreign-interference legislation, enhancing oversight of, and where necessary blocking, investments by Chinese state-linked firms in sensitive sectors (as illustrated by Canada's 2022 decision to prohibit Chinese investment in critical minerals projects due to national security

[142] https://www.international.gc.ca/transparency-transparence/indo-pacific-indo-pacifique/index.aspx?lang=eng (6,1,2026)

concerns[143]), and allocating resources to bolster cybersecurity and counter state-linked espionage.

These measures imply that even if Canadian companies engage in trade with China, the Canadian state must ensure that critical infrastructure and sensitive sectors remain insulated from Chinese influence or control.

Such protection may include:

- Stricter export controls on sensitive technologies;
- Rigorous screening of research collaborations;
- Intelligence-sharing with allies regarding China-related activities.

In short, in the political and security domain, Canada should engage China as a security competitor, employing highly calibrated and diplomatic actions aligned with G7 and NATO assessments, while keeping economic and commercial engagement as the primary, but carefully managed, track.

3. China Three: Cultural-Ideologic Dimension

The cultural–ideologic dimension refers to the values and social systems of the two countries. In this sphere, Canada must acknowledge that Canadian and Chinese social values differ fundamentally, particularly with regard to individual freedoms, democracy, and human rights. It would therefore be misguided to assume that economic engagement alone will rapidly lead to China's democratization; experience over past decades clearly contradicts such an assumption.

At the same time, it is essential to distinguish between the Chinese Communist Party (CCP) and the Chinese people. Over 1.8 million Canadian residents are of Chinese origin, and on December 31, 2024, approximately 100,000 Chinese citizens held valid study permits for studying at a Canadian educational institution for 6 months or longer. Mandarin is Canada's third most spoken language after English and French, and immigrants born in China (including the Hong Kong Special Administrative Region) form one of the largest groups within Canada's immigrant population. Tourism flows and ongoing cultural exchanges enrich bilateral linkages.[144] Moreover, cultural, academic, artistic, and civil-society ties

[143] https://www.canada.ca/en/innovation-science-economic-development/news/2022/10/government-of-canada-orders-the-divestiture-of-investments-by-foreign-companies-in-canadian-critical-mineral-companies.html (12,9,2025)
[144] https://www.international.gc.ca/country-pays/china-chine/relations.aspx?lang=eng (5,1,2026)

between the peoples of the two countries, if carefully managed, can foster mutual understanding and reduce the risk of misperception or unnecessary tension.

Canada's Indo-Pacific Strategy explicitly emphasizes this point, noting that *"the people of Canada and China are the cornerstone of our relationship"* and that Canada must *"distinguish between the actions of the Chinese government and the Chinese people."*[145] Accordingly, cultural engagement should remain open and sustained, encompassing the following areas:

- Encouraging educational and academic exchanges;
- Continuing to welcome Chinese students (while maintaining reasonable security oversight);
- Promoting Canadian values through public diplomacy, including support for Canadian cultural and media content in Mandarin;
- Expanding Canada–China academic dialogues on shared global challenges, such as climate change.

Such cultural engagement is inherently a long-term process, an opportunity to build understanding and trust over decades, and is fully consistent with Canadian values. At the same time, Canada must remain vigilant to ensure that these interactions are not exploited by the Chinese state, for example for state propaganda purposes or for interference within Canadian society. It is therefore essential that Canada:

- Protect the freedom and security of Chinese-Canadian communities;
- Ensure that no individual in Canada is subject to intimidation, surveillance, or political pressure by a foreign government.

In this way, Canada can sustain meaningful people-to-people engagement with China while safeguarding democratic integrity and social cohesion at home.

4. China Four: Scientific and Technologic China

China today is a scientific and technological superpower. It has made massive investments in research and development and is on a trajectory to become a dominant global force in areas such as artificial intelligence, biotechnology, quantum computing, and space technologies.[146] This reality presents Canada with both a competitive challenge and selective opportunities for cooperation.

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[145] https://www.international.gc.ca/transparency-transparence/assets/pdfs/indo-pacific-indo-pacifique/indo-pacific-indo-pacifique-en.pdf (14,9, 2025)

[146] https://www.atlanticcouncil.org/content-series/strategic-insights-memos/assessing-chinas-ai-development-and-forecasting-its-future-tech-priorities/ (7,10,2025)

For Canada, the primary concern in engaging with China in this domain is national security. A clear distinction must therefore be drawn between sensitive and non-sensitive technologies. Canada must not allow the transfer of sensitive Canadian technologies to China, particularly those that could enhance China's military capabilities or state surveillance systems. Within this framework, Canada's decision to exclude Huawei from its 5G networks appears to have been prudent. Canada has also strengthened oversight of research collaborations to prevent intellectual property theft or unintended technology transfer. These measures, and similar ones, should not only continue but be further reinforced.

At the same time, there are domains in which scientific cooperation with China is both necessary for Canada's global interests and largely free of security sensitivities, including:

- Global public health: joint research on pandemics, where Chinese data and cooperation are essential;
- Environment and climate change: given China's major role in global greenhouse gas emissions and its control over critical environmental data.

Cooperation in such areas, particularly through multilateral frameworks, serves the interests of all countries. As Canada's Indo-Pacific Strategy explicitly states, Canada will work with China to identify shared solutions on issues such as climate change, biodiversity loss, global health, and nuclear non-proliferation.[147] This may include cooperation under frameworks such as the Paris Agreement, or participation in World Health Organization (WHO) projects aimed at disease control, irrespective of existing political disagreements.

With regard to the competitive dimension of technology, in the contemporary international system, given the divergent political and security approaches of Canada and China, technological competition with China is unavoidable. Accordingly, Canada should increase investment in domestic innovation and deepen cooperation with its allies, particularly Australia and Japan, which are identified in Circle One of this policy paper, to ensure that it does not fall behind China in critical and sensitive technological domains.

It should also be recognized that technological engagement with China does not always imply partnership or integration, but may simply involve learning, monitoring, and maintaining channels of interaction. For example, examining China's progress in electric vehicle batteries (as mentioned in the China-Canada Trade Deal in January 2026), or tracking its rapid advances in artificial intelligence, enables Canada to better calibrate and refine its own national science and technology strategies.

[147] https://www.international.gc.ca/transparency-transparence/assets/pdfs/indo-pacific-indo-pacifique/indo-pacific-indo-pacifique-en.pdf (14,11,2025)

Moreover, scientific engagement can function as an informal diplomatic channel. As demonstrated during the Cold War, American and Soviet scientists maintained scientific exchanges even amid severe political tensions.[148] In this sense, preserving academic dialogue with China, while applying caution and robust protective frameworks, can be both valuable and constructive.

Implementing the "One China, Four China" Approach

Given the complexity of engaging simultaneously with the "four Chinas," Canada's strategy in Circle Three should be guided by the following principles:

• Maximizing Economically Beneficial Engagement for Canada

Canada should encourage its exporters to take advantage of opportunities in the Chinese market, while deploying risk-mitigation instruments, such as Export Development Canada (EDC) export insurance, to reduce exposure. In addition, Canada could cautiously resume official economic dialogues with China at the technical level, which were suspended after 2018, strictly for trade facilitation purposes. While a Canada–China free trade agreement is politically unrealistic under current conditions, sector-specific arrangements or targeted cooperation, for example, updating the *Canada–China Film Co-production Agreement* or concluding a *tourism cooperation agreement*, could be explored.

• Minimizing Political Entanglement

Since the core objective in Circle Three is managed economic engagement, Canada should not pursue any form of comprehensive strategic partnership or deep political alignment with Beijing under present circumstances. High-level political contacts should be pragmatic. Canada should not offer political or symbolic concessions to China in exchange for economic gains, concessions that rarely deliver the promised returns. Accordingly, Canada must ring-fence and safeguard its values: there should be no retreat on human rights, and no compromise on strategic alliances. Even if such positions provoke dissatisfaction in Beijing, Canada must continue to raise issues such as human rights violations in Xinjiang and the erosion of freedoms in Hong Kong. These are principled positions and should not be treated as negotiable assets.

• Fortifying Defenses

[148] Olga Krasnyak (2019), "How U.S.-Soviet Scientific and Technical Exchanges Helped End the Cold War,"Available at: How U.S.-Soviet Scientific and Technical Exchanges Helped End the Cold War | American Diplomacy Est 1996 (23,12,2025)

Canada must strengthen its domestic laws and institutions to mitigate the negative externalities of engagement with China. This includes:

- Updating the Investment Canada Act to apply stricter screening of investments linked to the Chinese state;
- Enhancing the capacity of the Canadian Security Intelligence Service (CSIS) and the Royal Canadian Mounted Police (RCMP) to counter foreign interference;
- Protecting Chinese-Canadian communities from intimidation, coercion, or external political influence;
- Cooperating with social media platforms to counter disinformation and influence operations.

A core component of the Indo-Pacific Strategy also emphasizes strengthening Canada's analytical and cognitive capacity on China, including investments in research, training China-specialist diplomats, and expanding Mandarin language education,[149] so that Canada can engage China from a position of knowledge, confidence, and strategic awareness.

• Working Multilaterally

While Canada's unilateral leverage over China's political and security behavior is limited, its influence increases significantly when acting alongside the G7, the European Union, ASEAN, and other partners. Key steps in this regard include:

- Coordinating with allies on trade and regulatory standards;
- Joining collective legal challenges at the WTO when China violates trade rules;
- Shaping joint positions on core security and governance issues.

At the same time, Canada can continue constructive multilateral cooperation with China where interests align. A prominent example is the 2022 United Nations Biodiversity Conference (COP15), hosted by Canada in Montreal with China serving as a co-chair, demonstrating that cooperation is possible even amid broader tensions.[150]

In parallel with these measures, Canada should continue to diversify critical supply chains away from excessive dependence on China, a process that will be advanced in part through Circle Two, particularly by deepening engagement with ASEAN and other alternative producers.

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[149] https://www.international.gc.ca/transparency-transparence/assets/pdfs/indo-pacific-indo-pacifique/indo-pacific-indo-pacifique-en.pdf (8,12,2025)

[150] https://www.unep.org/news-and-stories/story/cop15-ends-landmark-biodiversity-agreement (9,9,2025)

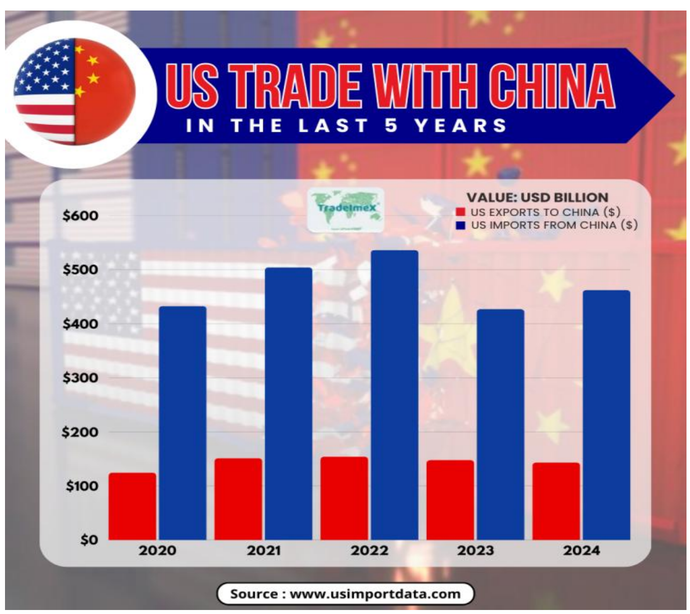
Likely U.S. Reaction

This balanced approach toward China is also essential for preserving Canada's most important foreign-policy relationship, its relationship with the United States. Even in the era of tariff war, Washington expects Canada to remain aligned on strategic China-related issues, an expectation that has largely been met, as reflected in Canada's decision to ban Huawei from its 5G networks and to condemn Chinese interference in Canada's domestic affairs.

Where U.S. concern could arise is if Canada were to expand its economic relations with China in ways that undermine collective allied efforts. For example, if Canada were to pursue a bilateral free trade agreement with China that effectively provides China with a "backdoor" into the North American market, Washington would strongly object.

The approach proposed here does not contemplate such actions, and the domestic political environment in Canada would not support them in any case. The proposed engagement is limited to the sale of Canadian goods and the maintenance of dialogue channels on global issues, an approach that mirrors U.S. practice itself. The United States maintains extensive trade with China and continues high-level dialogues despite strategic rivalry.

Figure 5: US-China Trade (2020-2024)



As long as Canada remains aligned with the United States and its allies on core strategic issues, Washington is likely to accept, or even appreciate, Canada's careful and balanced role. For instance, if Canada can serve as a mediator or facilitator of dialogue in specific areas such as climate change or global health, this could reinforce the broader Western strategy toward China.

That said, the United States will closely monitor Canada's China policy. Accordingly, while exercising foreign-policy autonomy, Canada must maintain full transparency with Washington and with its strategic partners in the first circle, as well as with the European Union, regarding its objectives and red lines. In practice, the success of Circle Three requires walking a fine line: pursuing economic engagement without weakening national security or allied commitments. This is difficult, but not impossible.

Several U.S. allies, including Japan and Germany, have adopted precisely this dual approach: trading with China while actively managing strategic risks. Japan, in particular, offers a useful model for Canada. Despite deep commercial ties with China, Japan is among the most proactive countries globally in countering China's threatening security behavior. Canada could work closely with Japan and other partners to share best practices in risk management and strategic resilience.

Synthesis of Circle Three

China occupies a distinct and sui generis position in the recalibration of Canada's foreign policy. It is neither a full partner nor a full adversary; rather, it is simultaneously a partner in certain domains, a competitor in others, and a systemic challenger in yet others, an approach often described as one of "competition, cooperation, and challenge at the same time." By disaggregating the concept of "China" into four analytical dimensions and designing differentiated policies for each, Canada can pursue a strategy of smart engagement with China that is both realistic and resilient:

- engaging in trade and investment where this clearly serves Canadian interests and contributes to diversification in the context of reduced or uncertain access to the U.S. market;
- avoiding strategic dependence on China in critical sectors; and
- maintaining firm adherence to Canadian values and allied commitments in the face of any hostile behavior or violations of international law.

This calibrated and carefully sequenced Third Circle strategy ensures that, even if the full realization of the First or Second Circles requires time, Canada can still maintain a managed, controlled, and interest-based relationship with the world's second-largest economy. Such an approach allows Canada to benefit from access to Chinese markets without drifting into China's sphere of influence. The balance is inherently difficult, but under current conditions it represents the only pragmatic pathway for managing the economic pressures generated by U.S.-led trade conflicts and for preventing broader economic disruption.

U.S. Reactions and Managing the Transition Period

One of the critical dimensions of implementing the three-circle foreign policy framework is anticipating and managing the reaction of the United States, given that Canada's economy and security still remain deeply intertwined with those of the U.S. As Canada pivots toward new partners, Washington will undoubtedly monitor these developments closely. Based on the preceding analysis, a spectrum of likely U.S. responses can be anticipated as follows:

1. Support and Reassurance (Circles One and Two)

In initiatives involving Japan, Australia, and, most likely, many engagements with Southeast Asia and the Gulf states, the U.S. reaction is expected to be positive or neutral. These moves are broadly aligned with American interests:

- strengthening the alliance network (Circle One), and
- providing stable, non-Chinese alternatives in strategically important regions of the world (Circle Two).

For example, if Canada succeeds in attracting major investments from the United Arab Emirates or other Gulf countries, or in expanding its trade with India and ASEAN, the United States will see the emergence of a stronger and more resilient Canadian economy, one that is less dependent on U.S. support while simultaneously contributing to shared strategic objectives in the Indo-Pacific and the Middle East.

As David Moscrop has noted in *TIME* magazine, Canada's turn toward such pragmatic partnerships represents a rational response to the "global economic environment shaped by the challenges of the Trump era."[151] It is also noteworthy that even at the height of NAFTA-related tensions, some U.S. officials privately encouraged Canada to diversify its trade portfolio in order to enhance its bargaining power.[152]

A more diversified Canada is a less vulnerable Canada, and therefore a more secure neighbor for the United States. Accordingly, with respect to Circles One and Two, aside from routine questions or the need for initial coordination, such as ensuring that technological cooperation with Gulf partners does not result in the unintended transfer of U.S.-controlled technologies, serious friction with Washington is unlikely.

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[151] https://time.com/7337391/canada-carney-economy-trade-trump/ (16,12,2025)

[152] https://www.piie.com/microsites/2025/future-usmca (20,1,2026)

2. Cautious Monitoring (Circle Three – Economic Engagement with China)

With respect to China, the U.S. reaction is likely to be mixed and cautious. The United States welcomes Canada's firm stance on security issues (such as the ban on Huawei and the screening of Chinese investments), but it will closely monitor Canada's commercial dealings with China. If Canada merely maintains its current level of trade with China, or increases it in a limited and calibrated manner, the United States is unlikely to object, particularly given that U.S.–China trade itself remains far more extensive, and Washington recognizes that its allies inevitably trade with China.

However, if the perception emerges that Canada is, even inadvertently, undermining U.S. pressure on China, for example by facilitating the circumvention of U.S. tariffs or export controls, this would trigger serious concern and a strong reaction from Washington.

To prevent such a scenario, Canada should take the following proactive steps:

- Strict enforcement of re-export regulations to prevent Chinese goods from transiting through Canada into the United States for the purpose of evading tariffs or trade remedies.
- Close consultation with the United States on major transactions; for example, if a Chinese firm seeks to invest in a Canadian critical minerals project, informal advance notification to U.S. counterparts would be a prudent and confidence-building measure.

Overall, as long as Canada's engagement with China remains calibrated, transparent, and aligned with the broader posture of its allies, the United States is likely to regard it as reasonable and acceptable. Indeed, the Indo-Pacific strategies of many U.S. allies are based on the same logic: continued trade with China alongside firm pushback in other domains.[153]

The scenario Canada must avoid is one in which the United States is considering new sanctions against China while Canada opportunistically expands its exports to fill the resulting gap. Such behavior could be perceived as profiting at the expense of an ally. Given Canada's values-based foreign policy and its established record of coordination on sanctions regimes (for example, in the case of Russia), such conduct is unlikely. With China as well, Canada should adhere to the same pattern of coordination on major measures.

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[153] https://www.uscc.gov/sites/default/files/2024-11/Chapter_1--U.S.-China_Economics_and_Trade_Relations_Year_in_Review.pdf (9,11,2025)

3. NAFTA / USMCA Considerations

One area requiring particularly careful management is the interaction between Canada's new initiatives under the three proposed circles and the USMCA (the successor to NAFTA). Notably, Article 32.10 of the USMCA contains a clause allowing any party to withdraw from the agreement if another member concludes a free trade agreement with a "non-market country",[154] a term widely understood to refer to China. This provision was included at U.S. insistence and effectively constitutes a veto over any Canada–China free trade agreement.

At present, prudence dictates that Canada should have no intention of activating such a scenario, as the clause clearly reflects the high sensitivity of the United States on this issue. By contrast, the expansion of Canada's relations with other countries that the United States does not classify as "non-market economies" poses no such problem. In fact, the United States has no objection to Canada's participation in the CPTPP, nor to the prospect of a Canada–ASEAN free trade agreement. The United States itself may, in time, re-engage with Asian trade frameworks or launch new initiatives; Canada's activity in these areas would therefore complement U.S. policy rather than conflict with it.

Policy Recommendations

Canada stands at a critical inflection point in its foreign policy, one that compels us to confront difficult realities. Canada's economic security can no longer rest on the assumption of permanent goodwill and enduring stability in our most important trading relationship. The tariff war initiated in 2018 under the Trump administration's "America First" and "Make America Great Again" agenda, and reaching its peak in 2024, served as a stark warning: even Canada's closest ally can, under a particular type of political leadership, disrupt the status quo and impose heavy economic costs on Canada in pursuit of domestic political gains.

To be sure, Donald Trump was not the first U.S. president to exert pressure on Canada. From the long-standing softwood lumber disputes of the 1980s to the protectionist shocks of the Nixon era, history repeatedly demonstrates that Canadian interests and U.S. domestic politics periodically collide, and Trump will not be the last. The persistence of the MAGA movement and the possibility of a return or repetition of populist nationalism in U.S. politics

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[154] https://www.international.gc.ca/trade-commerce/trade-agreements-accords-commerciaux/agr-acc/cusma-aceum/text-texte/32.aspx?lang=eng (6,11,2025)

underscore a clear lesson: Canada must plan for worst-case scenarios, even while hoping for the best.

This policy paper has outlined a comprehensive three-circle framework for a bolder, more diversified, and forward-looking Canadian foreign policy, one aimed at safeguarding Canada's economic future in a world marked by deep uncertainty. This approach does not advocate a rupture with traditional partners; rather, it is grounded in the intelligent expansion of options, the reduction of vulnerabilities, and the strengthening of national resilience. It charts a course that allows Canada to remain proactive and prepared, rather than merely reactive, in an increasingly unstable global environment.

In concluding, it should be emphasized that to implement this strategy, the Government of Canada (and the policy advisors to whom this policy paper is addressed) should consider the following practical steps:

1) Establish a Diversification Task Force

A high-level task force should be created under Global Affairs Canada (GAC) and the Department of Finance or other relevant departments to lead and coordinate the three-circle framework. This task force should set measurable targets, such as "increase exports to Circle One and Circle Two countries by X percent by 2030" or "attract Y billions of dollars in non-U.S. foreign investment over the next five to ten years", ensure interdepartmental coordination, and report regularly to the Prime Minister and Cabinet so that whole-of-government alignment is maintained. To enhance credibility and effectiveness, the presence of representatives from provincial governments on this task force is essential, because, in practice, trade diversification is often achieved through provincial export-promotion programs.

2) Intensify Trade Negotiations and Agreements

Ongoing negotiations, especially the Canada–ASEAN Free Trade Agreement and the Canada–Indonesia Comprehensive Economic Partnership Agreement (CEPA), should be accelerated through greater resource allocation, with the objective of concluding high-quality agreements in the 2027–2030 period. At the same time, new negotiating tracks should be pursued. In addition, Canada should revisit the feasibility of a Canada–Gulf Cooperation Council (GCC) trade agreement; negotiations were previously stalled, but the warming of relations with Saudi Arabia and the United Arab Emirates creates an opportunity to return to this file. The Canada–UAE Comprehensive Economic Partnership Agreement (CEPA) could be a constructive starting point and serve as a platform for a broader agreement with the GCC. Finally, existing agreements should be modernized and fully implemented; for instance, ensuring the full ratification of CETA by the remaining EU member states, since Europe remains a "key existing partner" that should not be neglected, even if this policy paper's focus is on other regions.

3) Trade Promotion and Support for Small and Medium-Sized Enterprises (SMEs)

A dedicated "Export to Diversified Markets" Program should be launched for Canadian SMEs, with the objective of reducing the risks associated with entering markets in Circles Two and Three. This program could include the following components:

- Increasing the budget of Export Development Canada (EDC) to expand risk coverage in higher-risk markets;
- Providing grants or cost-sharing mechanisms for trade missions or e-commerce initiatives targeting markets in Asia, Central Asia, the Middle East, Africa, and Latin America (although Latin America and Africa are not examined in detail in this paper, diversification should also encompass renewed and robust engagement with these regions, perhaps as a "Circle 2.5", given their significant growth potential).

The overarching objective is to lower the barriers for Canadian firms entering non-U.S. markets and to facilitate a gradual, managed exit gradually from the perceived "safe zone" of the U.S. market.

4) Leveraging Immigration Policy and Diaspora Networks

Canada's demographic diversity constitutes a strategic asset for building external economic linkages. For example, Canada's Indian, Chinese-origin and Arab communities can serve as effective bridges for engagement with India, China and Gulf Countries, respectively (and other diaspora communities can play similar roles). The government should actively collaborate with these communities and encourage them to identify trade and investment opportunities in their regions of origin. Practical measures could include, but are not limited to:

- Establishing advisory councils composed of business leaders from diaspora communities to provide guidance to Global Affairs Canada on market strategies beyond North America;
- Facilitating targeted immigration pathways for idea owners, traders, investors, and students from countries across the three circles.

Every international student or entrepreneur from ASEAN, the Gulf states, or other regions who has a positive experience in Canada, whether they eventually return home or remain, can become an informal ambassador for Canadian trade and investment.

Accordingly, educational exchanges, particularly with countries in Circles One and Two, should be expanded. For example, Canada could increase the number of scholarships awarded to students from ASEAN countries in line with the commitments outlined in the Indo-Pacific Strategy.

5. Protecting and Enhancing Domestic Competitiveness

Diversification will succeed only if Canadian industries remain competitive in terms of quality and innovation. Accordingly, the government must complement trade and foreign policy initiatives with domestic policies aimed at boosting productivity in the long term, including:

- Investment in infrastructure (ports, transportation networks, and coastal export corridors to facilitate shipments to Asia);
- Investment in technology and skills (so that Canadian exporters can produce the goods and services demanded by new markets);
- Strengthening strategic sectors such as critical minerals (for example, accelerating mining permitting processes so that Canada can meet the battery supply needs of Japan and Korea).

The 2025 federal budget could have included a dedicated package entitled "Competitiveness for Diversification," directly aligned with this strategy.

6. Maintaining a Delicate Balance with the United States

As emphasized throughout, the United States retains the capacity to disrupt any diversification strategy pursued by Canada. Therefore, sustained diplomatic engagement with Washington is essential. Should the United States seek to exert additional pressure on Canada to advance political objectives, Canada should also be prepared to adopt alternative approaches. Such approaches could include inviting the United States to participate in selected initiatives, for example, encouraging U.S. firms to take part in Canada-led infrastructure projects in Asia (like the approach Japan has at times adopted in its own projects involving the United States).

7. Regular Review and Scenario-Based Planning

Given the inherent unpredictability of global politics, Canada must institutionalize strategic intelligence within its foreign and trade policy framework. This requires conducting annual reviews of the performance of foreign and trade policy across each of the proposed circles, as well as implementing scenario-based planning exercises for all plausible futures.

For instance, if one plausible scenario is that the 2028 U.S. presidential election results in a renewed return of the "MAGA" agenda, Canada must already have a contingency plan in place to accelerate certain partnerships, such as rapidly deepening trade relations with the United Kingdom and the European Union. Although these regions were not central to this report due to the ramifications of the war in Ukraine, they nevertheless remain important and stabilizing partners.

Conversely, if the United States were to be governed by a strongly pro–free trade administration, Canada could once again place temporary and tactical emphasis on North American trade, strictly for the purpose of compensating for the economic losses incurred as a result of the post-2024 tariff war.

8. Calculating the Political and Economic Costs of Diversification

Although trade and strategic diversification can enhance Canada's long-term economic security and geopolitical resilience, this path is not without costs. Ignoring the short- and medium-term costs of diversification can lead to overly optimistic assessments and, ultimately, implementation failures. A realistic strategy must therefore explicitly identify and manage the political, economic, and institutional costs of this transition alongside its benefits. These costs can be organized into three main categories:

8-1. Infrastructure and Physical Investment Costs

Canada's trade diversification, particularly toward China, Australia, Japan, the Asia–Pacific, the Middle East, Central Asia, East Asia, and other distant markets, requires a substantial reconfiguration of the country's physical infrastructure. Historically, Canada's economy has been structured around deep integration with the United States, and its infrastructure, railways, highways, ports, and energy terminals, have largely been oriented southward toward the U.S. market. A pivot toward non-U.S. markets challenges this entrenched economic geography.

In practical terms, this entails large-scale investments in:

- the expansion and modernization of West and East Coast ports (notably Vancouver, Prince Rupert, and Halifax) to increase export capacity to Asia and Australia;
- the development of LNG infrastructure and energy export corridors to non-U.S. markets;
- improvements in logistics networks, warehousing, and multimodal transportation to reduce costs along longer supply routes.

These investments typically require billions of dollars, take considerable time to complete, and are often accompanied by domestic political challenges, including environmental concerns, Indigenous rights, and federal–provincial disputes. Diversification is therefore not a low-cost option, but rather a national investment project that requires political consensus and sustained financing.

8.2. Diplomatic, Institutional, and Human-Capacity Costs

Effective diversification does not occur through markets and the private sector alone; it is highly dependent on state capacity. A sustained presence in new markets requires the expansion and deepening of Canada's diplomatic and commercial footprint in target regions. This generates significant costs, including:

- the expansion or strengthening of Canada's diplomatic and trade missions in Asia, ASEAN, the Middle East, and other emerging regions;
- the training and deployment of diplomats, trade negotiators, and regional specialists with linguistic, cultural, and economic expertise;
- the reinforcement of institutions such as the Trade Commissioner Service (TCS), Export Development Canada (EDC), and other trade policy delivery mechanisms.

While these costs are often less visible than infrastructure expenditures, they are critical to the success of any diversification strategy. Without sufficient human and institutional capacity, trade agreements will not translate into tangible outcomes for Canadian firms. In this sense, diversification requires a more capable and proactive state, not a minimalist one.

8.3. Geopolitical Costs and Friction with the United States

Perhaps the most sensitive cost of diversification is the increased risk of short-term friction with the United States. Canada's economy remains deeply intertwined with that of the U.S., and any effort to reduce dependence or create alternative options may be viewed in Washington with suspicion or concern, particularly during periods of U.S. protectionist or nationalist policy orientations.

Such friction may manifest in several ways:

- political or media pressure targeting Canada's independent trade policies;
- instrumental use of USMCA mechanisms to constrain Canadian initiatives;
- or even short-term retaliatory measures, such as increasing tariffs, regulatory delays, or informal restrictions.

While these costs are not necessarily permanent or structural, they can impose significant short-term burdens on specific Canadian industries or provinces.

Conclusion and Assessment of Implementation

To assess the effectiveness of the three-circle framework and to ensure the practical realization of Canada's economic diversification objectives, it is essential to define a set of quantitative, measurable, and reportable indicators. In the absence of such benchmarks, diversification risks remaining a largely discursive ambition, with no reliable means of evaluating real progress. Accordingly, this policy paper proposes a set of Key Performance Indicators (KPIs) that should be monitored on a regular and annual basis.

The first and most fundamental indicator is reducing Canada's trade dependence on the United States. Within this framework, the objective is to lower the U.S. share of Canada's total trade from the current level of approximately 75 percent to around 50–60 percent by 2030. Over a longer time horizon beyond 2030, a gradual move toward a range of roughly 25–30 percent may be considered as a strategic end goal. This indicator directly reflects the extent to which high-risk concentration is being reduced and the structural resilience of the Canadian economy strengthened.

The second indicator concerns growth in Canadian exports to First Circle and Second Circle countries. Specifically, exports to these countries should increase by at least 30–40 percent by 2030 as a concrete quantitative target; the share of Japan, Australia, ASEAN+3, Persian Gulf Countries, and other emerging economies in Canada's overall exports should be monitored annually to determine whether a meaningful shift in the geographic composition of exports is taking place.

The third key indicator is the expansion of non-U.S. foreign direct investment (FDI) in the Canadian economy. This includes increasing the share of non-U.S. FDI in total inward investment and attracting tens of billions of dollars in new investment from China (Economic/Trade China), the regions such as ASEAN+3, the Gulf states, Japan, and Australia by 2030. This indicator captures whether Canada has been successful in diversifying its sources of capital and reducing financial dependence on a single country.

The fourth indicator relates to the operationalization of trade agreements. The success of the three-circle framework should be measured not merely by the launch of negotiations, but by the conclusion and effective implementation of free trade agreements or comprehensive economic partnerships (FTAs and CEPAs). In this regard, finalizing and bringing into force at least 10 to 20 new agreements by 2030, such as with ASEAN+3 countries, and other Gulf countries, should be a core target. A complementary indicator in this domain is the actual utilization rate of these agreements by Canadian firms, which serves as a measure of their practical effectiveness.

The fifth indicator focuses on the level of participation by small and medium-sized enterprises (SMEs) in non-U.S. markets. An increase in the number of Canadian SMEs exporting to Circle Two and Circle Three markets, along with a clearly defined annual growth rate, for example, a 10 percent increase in the number of exporting firms, would signal that diversification is deepening and becoming more broadly embedded across the Canadian economy.

Finally, a set of institutional and capacity-building indicators should be taken into account. These include increasing the number of active trade offices, economic diplomats, and targeted trade missions in priority regions, as well as reducing the time required for firms to access support services provided by institutions such as Export Development Canada (EDC) and the Trade Commissioner Service (TCS) in new markets. Improvements in these indicators would demonstrate the government's institutional capacity to provide effective, hands-on support for diversification efforts.

These indicators should be reviewed on an annual basis and incorporated into the government's formal reporting to Parliament and the Cabinet. The success of the three-circle framework should be measured not by symbolic agreements or rhetorical commitments, but by tangible changes in trade patterns, investment flows, and Canada's overall economic resilience. Only through such a framework can diversification move from a policy slogan to a durable economic reality.

Implementing the steps outlined within the proposed three-circle foreign policy framework will require political courage and strategic foresight from Canadian leadership. Undoubtedly, criticisms will arise. Some will argue that even limited engagement with authoritarian governments such as Saudi Arabia or China carries excessive costs; others will express concern about increased pressure from the United States. Political leadership, however, must articulate the logic of this path with clarity and confidence.

Canada is not in confrontation with any partner; but it has learned that alliances are inherently vulnerable and therefore seeks to ensure that it is never left alone in the future. The world must be told clearly that Canada remains a trading nation, committed to multilateralism and shared values, but no longer naïve about the necessity of maintaining a broad and resilient foundation of partnerships. A Canada that adopts the three-circle framework will be more economically secure, more geopolitically influential, and more faithful to its identity as an open trading nation grounded in ethical frameworks.

Canadian industries will gain access to new markets for growth, and Canadian foreign policy will acquire safer and more credible strategic options. For example, when faced with unreasonable demands from the United States, Canada will be able to say “no” with greater confidence, because it will no longer be dependent on a single pillar. At the same time, the United States will remain a powerful ally, but one that increasingly recognizes Canada’s autonomy and independent standing.

Canada will also play a greater role in global stability: whether through infrastructure financing in ASEAN, facilitating dialogue in the Gulf region, or maintaining a more active presence in multilateral arenas beyond its traditional circle of partners. Domestically, Canadians will benefit from greater prosperity and economic resilience, with lower systemic risk, ensuring that a single tweet or foreign tariff decision can no longer abruptly endanger jobs and livelihoods.

In short, the proposed new Canadian foreign policy can transform vulnerability into strength. Rather than relying on a single axis of trade and cooperation, this approach surrounds Canada with multiple circles of partnership, functioning as a form of strategic insurance against the disruption of any single relationship. The tariff war was a harsh lesson, but if Canada learns from it, the country can emerge more resilient, more autonomous, and more durable in an increasingly fragmented world.

It is often said that every crisis contains opportunity. Canada’s opportunity at this juncture lies in reclaiming agency over its economic destiny by expanding its horizons. With courage and strategic foresight, Canada can, and must, pursue this bold diversification agenda. The recommendations outlined in this report provide a roadmap, but traversing this path requires sustained political will. The time to act is now, before the next crisis arrives.

Leaders across government, academia, and industry must unite behind this agenda, and public opinion must align with the understanding that Canada’s future prosperity and sovereignty depend on a more global Canada. In doing so, Canada honors the legacy of its trade pioneers, who consistently sought new horizons, and secures its place in a rapidly changing world. As the Government of Canada stated in 2022:

“Trade diversification remains an important strategy, especially in an environment of heightened uncertainty, as it can lessen the impact of external shocks, especially in particular sectors or countries.”[155]

Today, this statement is more relevant than ever. This strategy must be pursued boldly and unapologetically, so that Canada never again becomes hostage to the emotional or erratic decisions of a single partner.

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[155] https://international.canada.ca/en/global-affairs/corporate/reports/chief-economist/diversification/overseas-markets-2022 (13,9,2025)

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