POLICY PAPER SERIES

1 Recalibrating Canada's Trade and Economic Foreign Policy:

Concept and Rationale

Faramarz Tamanna
CIPS, University of Ottawa
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Executive Summary

This four policy paper series are 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 series 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 in volume 2**, 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 series, "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 in volume 3**, 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 in volume 4**, 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 series 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 series 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 as *"America First"* and *"Make America Great* Again *(MAGA),"* have disrupted supply chains

[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)

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

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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)

This policy paper series 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 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 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 series responds to post-2024 developments that require a more explicit, operational, and security-oriented approach to Canada's external economic relations.

These policy paper series draw 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.

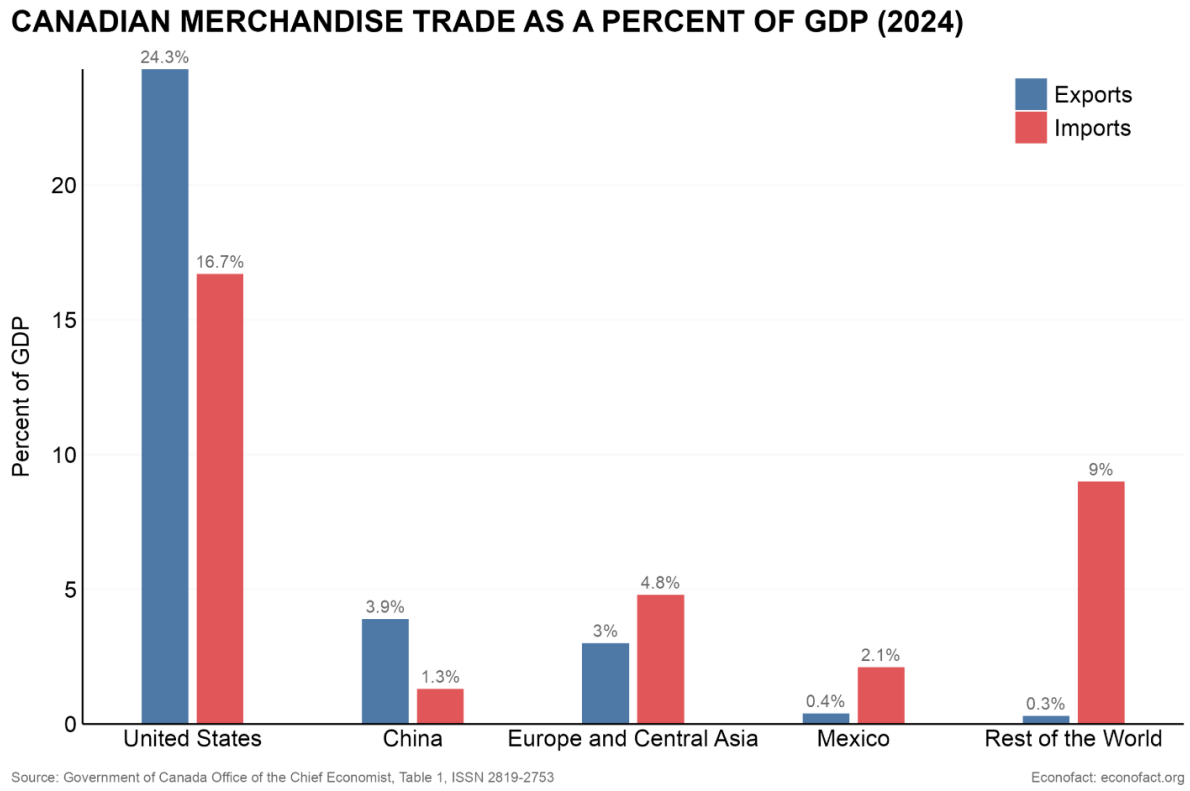
In this framework, diversification means adding options, reducing over-concentration, and enhancing resilience, not severing economic ties or withdrawing from global value chains. The objective is to replace single-axis dependence with a balanced network of partnerships, such that present or future political and economic shocks originating from any single actor do not render the entire Canadian economy vulnerable. From this perspective, Canada's

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

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 series, 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 in three separate volumes, as follows:

- **The first circle (volume 2)** 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** (**volume 3**) 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 (volume 4)** 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," each volume of this policy paper series 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 series 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 series 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 series 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.

[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]

[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

[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)

effort to diversify export markets.[15] This very dynamic constitutes the core rationale for the present policy paper.

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

[15] Spencer Van Dyk, op.cit.
[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.

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.

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

[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.

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.

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.

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[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 series 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 series conceptualizes as the first, second, and third circles in three volumes, 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 series 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 series 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.

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