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Recalibrating Canada's Trade and Economic Foreign Policy:

Australia and Japan

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CIPS, University of Ottawa
2026



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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,[1] is the most advanced democracy in Asia. For Canada, Japan

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

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.[2]
- 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.[3]
- 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.[4]
- Japan is the second-largest source of investment in Canada from the Indo-Pacific region.[5]

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.[6] 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

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

many other markets.[7] In 2023, Canadian exports to Japan reached CAD 15.8 billion.[8] 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.

- **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.[9] A memorandum of cooperation in industrial science and technology was also concluded, signaling the shared intention to jointly develop advanced technologies.[10] 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).[11] 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

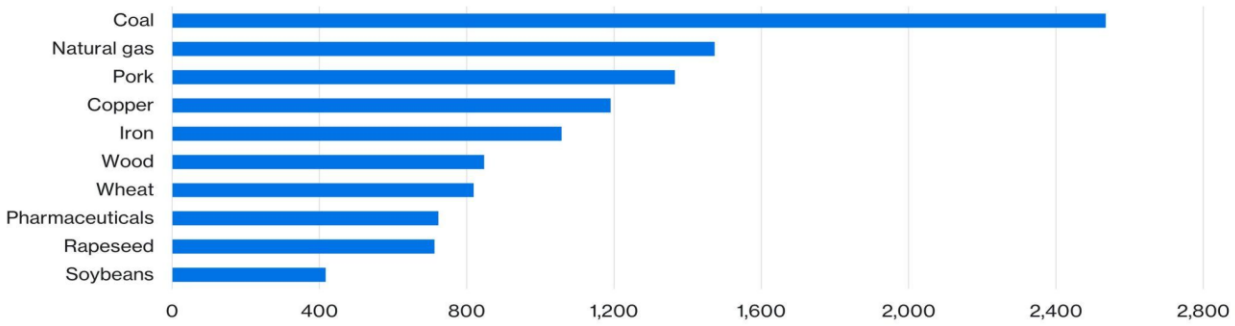
[7] https://international.canada.ca/en/global-affairs/corporate/reports/chief-economist/diversification/overseas-markets-2022 (13,2,2025)
[8] https://www.tradecommissioner.gc.ca/en/market-industry-info/search-country-region/country/canada-japan-export.html (12,4,2025)
[9] https://www.international.gc.ca/country-pays/japan-japon/relations.aspx?lang=eng (23,10,2025)
[10] Ibid
[11] Ibid

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.

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.

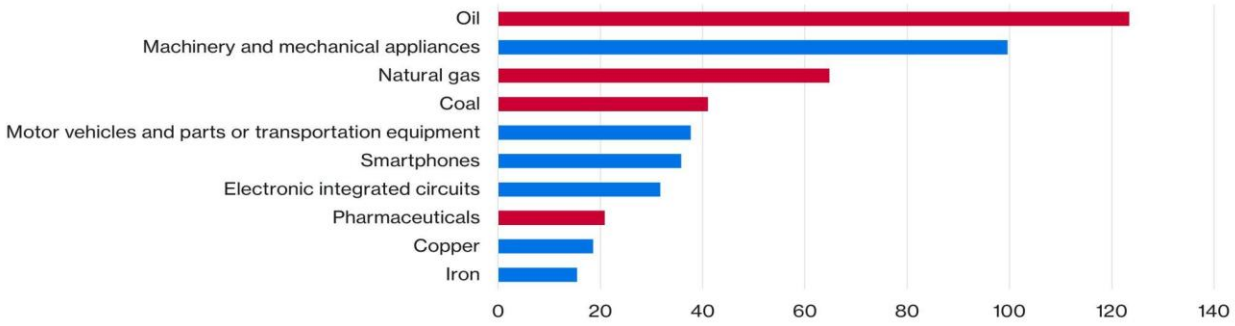
Figure 2: Top 10 Canadian Exports to Japan, 2024 ($CAD, billions)



(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
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 • increased Canadian influence within G7 / CPTPP through trilateral cooperation with Japan and Australia	• Intensification of Chinese pressure due to closer Canada–Japan relations • More complex management of East Asian relations amid rising great-power competition
Security & Technological Dimension	• 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.[12] 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.[13] This represents approximately 1.5 percent of Canada's total trade and is

[12] 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)

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

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[14], 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.[15]

Investment flows, however, tell a markedly different story[16]:

- 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 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

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

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

[16] Ibid

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.[17] 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.[18] 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 and fraud.[19] 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.[20] 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.

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

[18] 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)

[19] Ibid

[20] Ibid

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.[21] 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. Australia is among Washington's closest allies, including as a partner in the AUKUS[22] 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

[21] 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)

[22] 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.

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
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	• Risk of indirect Canadian exposure to sensitive security arrangements such as AUKUS • Canada's comparatively limited defence capacity may create asymmetries in cooperation

Analytical Dimension	Achievements (Rewards / Strategic Gains)	Risks (Costs / Vulnerabilities)
	• Shared experience in countering cyber threats and foreign interference	
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.

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