



**CANADIAN GLOBAL AFFAIRS INSTITUTE**  
**INSTITUT CANADIEN DES AFFAIRES MONDIALES**

# **Navigating Canada's Interests Through Resurging Protectionism**

by Karla Cisneros Rosado and Magdalena Steen  
April 2023

# CONFERENCE REPORT

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Prepared for the Canadian Global Affairs Institute  
1800, 150 – 9th Avenue S.W., Calgary, AB T2P 3H9  
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## After NAFTA: Leading Canadian Trade Policy Through Protectionist Times

**Steve Verheul** – Principal, GT & Company Executive Advisors

Steve Verheul, one of Canada's most well-known trade experts and practitioners, opened the 2023 CGAI trade conference with a synopsis of recent major changes in international trade and trade policy. He noted that there has been an important turn on the road to free trade due to global events such as the COVID-19 pandemic and the Russian invasion of Ukraine. The broad buy-in for international trade that led to the expansion of the World Trade Organization to 164 members (including China and Russia), he considers, no longer exists. The pendulum has swung from free trade and freer markets to protectionism, government intervention, and investment incentives.

We are experiencing very different economic conditions and higher geopolitical tensions than in the recent past. These new pressures have caused changes to trade policies, particularly in relation to climate change, and have also led to the rise of industrial strategy and government intervention around the world. While these used to be considered “bad” policy, the challenges of today are different to the challenges of the past and thus, different strategies are needed to achieve today's objectives.

Climate change is also becoming an important driver in economic policy and there is significant pressure on countries to invest in new technologies to address it.

From a trade policy perspective, two challenges are starting to converge. The first one is the increasing impacts from climate change and government involvement to address it. Climate change needs to be thought of as a clear economic issue, not only as an environmental one. Labour standards and their impact on trade form a significant part of this challenge. Similar to environmental standards, if countries modernize or increase their labour standards, they are putting themselves at a competitive disadvantage against those that do not.

The second challenge is the rising geopolitical tensions and their impact on trade. As we explore how to address environmental and geopolitical challenges, we have to think about how they overlap in many ways. The actions that countries take regarding climate change will lead to a split between regions or geopolitical groupings in the world. There are renewed efforts to cultivate alliances through friend-shoring. These initiatives include some trade policy, but their main purpose is to build and strengthen alliances around shared values.

It is important for Canada to be part of other initiatives, such as the Indo-Pacific Economic Framework and the Global Arrangement on Sustainable Steel and Aluminum. It is in our interest to invest in the industries that will help us strengthen friend-shoring relationships.

There has been a lack of innovation in trade policy and how it could address some of the major challenges of today, such as climate change and labour standards. Canada and other similarly motivated allies could collaborate on developing ways to address these issues through trade policy design and how this could work in practice. This could help Canada bring value and make a real difference in trade negotiations, including becoming part of initiatives we are not currently part



of. In addition, this could potentially add pressure to larger trade players that may not be seeking to make significant changes to address environmental or labour standard issues.

## Resurging Industrial Policy and Friend-shoring

**Mark Warner** – Fellow, American Bar Foundation

**Robert Asselin** – Senior Vice President, Policy, Business Council of Canada

**Mary Lovely** – Anthony M. Solomon Senior Fellow, Peterson Institute

**Meredith Lilly** – Moderator

Mark Warner explained that Canada has two choices in terms of friend-shoring by either choosing protectionist policies or using it to get aligned with American protectionist policies. In terms of friend-shoring, it is difficult to find Canada's friends in trade, as countries that are mentioned in the Budget 2023 are limited and there is a broad focus on Ukraine and the United States. Focusing on friend-shoring with democracies seems to be a fragile ground as Canada cannot measure the level of corruption in some democracies. Mark Warner believes that nearshoring is a reliable trade option for Canada. Moreover, challenges in friend-shoring can manifest themselves in labour standards and environmental issues. Also, anti-trust and competition laws should be followed and watched closely when it comes to trade with the U.S. to prevent obstacles. He highlighted that Americans need to pay attention to Chinese manufacturers who are moving to other countries in the region to make it easier to trade with the U.S. Importantly, in terms of the USMCA, Americans had to be consistent in expanding their trade with Canada to make sure that Chinese products would not be shipped from Canada to the U.S.

Mary Lovely emphasized that it is not possible to restrict our friends to democracies. Therefore, there is a shift towards "like-minded" allies who are determined to enhance the resilience of trade by taking a strong stand against China. Currently, many countries want to be "friends" with the U.S., which allows Americans to pick their friends from countries that provide both security alliances and good economic partners who move away from China. Canada already possesses these characteristics and is America's trusted trade partner. She indicated that choices have been made by U.S. and Canadian policymakers to try to compete in the new world by using the governments broadly in creating the infrastructural conditions to compete in certain sectors. Alternatively, governments can push for creating industries immediately by introducing producer subsidization. Notably, politicians should be aware of the risk involved in supporting specialty industries to succeed through protectionist policies that will drive trade. This is due to the excessive cost of friend-shoring and preferential trade agreements, which makes production more expensive and trade problematic. Also, there are issues with security, environment, and labour in various U.S. trade partners that require consistent improvements in state capacity to support business development. Therefore, friend-shoring is an opportunity that takes coherent effort and smart regulations to turn into a positive endeavour.



Robert Asselin noted the return of political economy that has brought two key imperatives driving countries to be more interventionist: national security and climate change, the U.S. Inflation Reduction Act is emblematic of that. He pointed out that current industrial policies take the form of mega subsidies, green manufacturing, and the protection of domestic production. Robert Asselin added that there are problems with capital formation and business investments at a scale that are rooted in regulatory frameworks at federal, provincial, and municipal levels in Canada. Therefore, there needs to be a surgical fix for the issues with trade regulations at all levels. Finally, industrial composition matters in being competitive in the market of developed countries. Canada should enhance science and technology and invest in manufacturing and innovation to be able to couple its trade with developed countries and focus on corporate labs. Currently, Canadian comparative advantage in technology and biotech needs to become the center of attention. Technologically, it is wise to focus on IP creation that contributes to the economy. Also, focusing on biotechnology that is related to American industrial policies will be helpful. The main industries that need immediate attention are 1- computer-related industries; 2- clean technology; and 3- biotechnology. Finally, investing in semiconductor production, which needs highly skilled workers, is promising.

## Doing Trade in the Indo-Pacific

**Nadir Patel** – Senior Strategic Advisor, Norton Rose Fullbright

**Jonathan Berkshire-Miller** – Director, Foreign Affairs, National Defence and National Security, Macdonald Laurier Institute

**Vina Nadjibulla** – Adjunct Professor, School of Public Policy and Global Affairs, University of British Columbia

**Trevor Kennedy** – Moderator

Nadir Patel asserted that the total Canadian investment portfolio records in India have grown substantially, despite the pandemic. India today is a vibrant business area that is a suitable candidate for Canada's friend-shoring initiative. Indians have a substantial share of students, tourists, and permanent residents in Canada, which is an indicator of the potential for trade growth. Considering the size of India's growing economy, Canada's nearly 100 billion dollars of investment is small and feasible. Following the example of Australia in terms of diversifying investment in different industries will be helpful. While it is important to remember that China imports commodities from Canada and cannot be ignored, diversifying in Northeast Asia helps with de-risking trade with China. Besides, Canada needs trade allies such as Japan and South Korea, as the government is moving away from trading with dictatorships and extortionists such as China, Iran, and Russia, based on the recent Canadian Budget 2023. Canada is taking the right steps toward trade with India through the Comprehensive Early Harvest Trade Agreement. Also, Canada needs to diversify trade with India across distinct sectors such as infrastructure, ecology,



innovation, technology, healthcare, and biotech. The amount of \$5.4b investment in Ukraine in comparison to the \$2.4b investment in the Asia-Pacific deserves a second look.

Jonathan Berkshire-Miller sees great opportunities for Canada in the North-Pacific. However, Canada needs a more comprehensive balance of trade with Japan. He considers the new proposal of Canada-quad (South Korea, Japan, the US, and Canada) as a positive initiative. However, Canada needs to be more specific in defining the additional value that interlocking U.S. in the mix will bring to everyone. Importantly, in North-east Asia Canada is seen as more of a strategic partner who provides energy security to its allies. There are two views on the relations with the North-Pacific region. The first view sees opportunities with Japan and South Korea as the two large economies of CPTPP, which help Canadian trade. The trending thought in Seoul and Tokyo is to create a comprehensive and balanced relationship with Canada. At this point, Canada has found a comfort zone in trade with Japan and South Korea that needs to be challenged for further inspiration. The second view focuses on improvements in the leadership role of Canada. The initiation of the transpacific partnership is a good start, but it is not enough. Also, deepening participation in the Quad can leverage trade relations. However, Canada must be more specific about what “value-added” component can Canadian trade bring to the mix. For instance, the ability of Canada to export LNG to North-East Asian countries and support them in energy security is not getting enough attention in Canada.

Vina Nadjibulla believes that Canada needs to pay more attention to India and ASEAN. The Canadian approach to ASEAN is not about the containment of trade with China, but it is about making choices. As we live in a dangerous and competitive world, we need to be adaptive, which the Indo-Pacific Strategy recognizes. There are two narratives regarding this issue: (1) follow and opportunist dynamism with North-East to deepen trade and expand Canada's presence; (2) face the strategic challenges in geopolitical tensions. It is not about decoupling from China, but de-risking and diversification of trade. Canada needs to get into trade with eyes wide open and understand the disrupting power of China, which could affect our security. Yet, we need to be careful as some Canadian firms are using the abandoned Chinese “hiding and biding” strategy about trade with China, which is against public opinion and Canadian political discourse. Canadian businesses and firms need to participate in making our supply chains not only more resilient but also reflect our values. Therefore, Canada is obligated to deepen and strengthen our connections with allies such as the U.S., Japan, and South Korea and eliminate our vulnerability to dictatorships such as Russia, China, and Iran that rely on extortion and interference with our policies.



## Critical Minerals and Battery Supply Chain

**Photinie Koutsavlis** – Vice President, Economic Affairs & Climate Change, Mining Association of Canada

**Jean-Christophe Lambert** – Director Growth and Business Development, Lithion

**Brendan Marshall** – Principal Advisor External Canada, Rio Tinto

**Brian Kingston** – Moderator

Photinie Koutsavlis pointed out the importance of critical minerals and that without the opportunity to produce them, there will be no future for the EV industry, transmission lines, solar panels, and nuclear energy. Graphite, Lithium and Cobalt production must be increased by nearly 500 per cent by 2050 to keep up with the development in clean technologies. She considers it a generational opportunity. The upstream segment of the value chain is the geoscience and finding the deposits well defined in last year's budget. We need to find new producers and using the fiscal and taxation policies to unlock the downstream production can be helpful. For instance, the 30 per cent tax reduction provided will support incentives in downstream production. The federal government revealed its critical mineral strategy in December 2022, and has recently unlocked \$1.5 billion over 7 years under the Critical Minerals Infrastructure Fund, which, despite not being enough, is good to start various stages of establishing the necessary infrastructure in Canada. Another component of production is the environmental and permitting process of major projects. It takes on average 12 years in Canada to start a project and have a producing mine. This timeline reveals a regulatory structure that is overly complex, confusing, and lengthy. There is an urgent need to make the developments more efficient at various levels of government and regulatory processes. Fortunately, the incremental strategy seems to be an effective way to solve this issue collectively.

Jean-Christophe Lambert highlighted the role of recycling in helping to meet the demands of the industries that cannot not be satisfied with achieving the mining goals alone. Mining and recycling are complimentary processes to bridge the gap between what is demanded by manufacturers and what is needed for future industrial production. Canada is a hub for recycling as it has the resources, technology, and knowledge that are required for recycling critical minerals. The process that Lithion employs is to receive batteries and then dismantle, shred and separate the key critical minerals from other components like plastic. That way, it can recover many types of minerals, such as graphite, cobalt, manganese, lithium, copper, and aluminum. Today, massive investments are needed to achieve the goal of recycling critical minerals at a large scale. Regulatory policy is important for the recycling of critical minerals, as it is an industry that has yet to fully develop. We can potentially decrease the timelines and make the process more efficient. Considering the "know-how" and the capacity that Canada has for the recycling industry, the implementation of efficient and timely regulation can make us the international leaders in this industry.





Brendan Marshall noted that the metal manufacturing segments of mining are the largest recyclers in Canada. The recycling of minerals and auto batteries, which is aggressively advancing, takes less energy than extracting, transporting, refining, and smelting do. There is a value-added beneficiation of recycling that makes it significant to industries. Trade partnership with the United States is particularly important, as most of the minerals extracted are shipped there. The recognition of fundamental economic interrelationship between countries and the changes in geopolitics has made it even more important to have sound trade and industrial policies. For instance, while the U.S. imposed tariffs on aluminum and steel on Canada about 5 years ago, those tariffs no longer exist as the U.S. imposed a 200 per cent tariff on Russian aluminum and now needs Canada to cover for the reduction of the U.S. aluminum imports from Russia. The launch of the IRA was initially seen as a protectionist policy, when in fact it has benefits Canada can use. It is hard to appreciate the scale of demand that is needed for clean technology in the future. For instance, to keep Canada's market share we need to double the production of nickel by 2050, which means adding seven more mines, two more smelters, and another refinery. This is only for one mineral. Using the circular economy and recycling is about the maximization of the full value of a product, and Canada has the potential to invest in and benefit from the various stages of producing value-added products that are made of critical minerals.

## Info-Primer on Canadian Trade

**Marie-France Paquet** – Chief Economist, Global Affairs Canada

Marie-France Paquet discussed the current state of the Canadian and global economy after three years of the onset of the COVID-19 pandemic and other global disrupting events, such as the war in Ukraine. The world's GDP appears to continue decreasing, from 3.4 per cent in 2022 to a projected 2.9 per cent for 2023. The 2.9 per cent was forecasted by the IMF in January of 2023 and new forecasts have revised it down to approximately 1.7 per cent. Some of the main contributing factors causing this slowdown include tightening financial conditions, continued uncertainty from the war in Ukraine, elevated inflation, and China's lower than pre-pandemic production.

In terms of international trade, the World Trade Organization's trade barometers indicate that goods will be 'below trend' and services will be close to being 'on trend' but slowing down. The overall forecast for world trade is between -2.8 to 4.6, which signals the elevated uncertainty in the world economy.

Some of the positive news is that the global supply chain pressure that arose due to the pandemic has eased in 2023. However, there is also rising trade protectionism around the world. While there were 99 new trade measures in 2022 that helped liberalize international trade, there were 536 that restricted it. This shows a clear negative trend against trade liberalization.





There was strong growth in the Canadian economy in 2022, however, it is forecasted to slow down significantly or even contract in 2023. Canada's real GDP forecast is 0.3 per cent growth for 2023, a shallow recession, and 1.5 per cent for 2024.

There are significant differences in the performance of Canada's trade of goods and services. The recovery and growth observed in Canadian exports has been mainly driven by higher prices from inflation. In other words, Canada's volume of exports did not change significantly between 2022 and 2023 and thus, higher prices are driving the recovery of Canada's trade, particularly for exported goods.

Canadian overseas exports rebounded strongly in 2022 and we are back on track towards achieving our trade diversification target set in Canada's 2018's fall economic statement. The goal is to increase over 50 per cent overseas exports (outside of the U.S.) by 2025, using the overseas exports Canada had in 2018 as a starting point. The strong negative impact from the pandemic made it seem like we would not be able to reach this goal, however, the recent growth in trade has put us back on track.

There were concerns during the NAFTA renegotiations about a potential negative impact of the new agreement (now CUSMA) on our level of trade with the United States. Evidence shows that the impact of CUSMA (compared to NAFTA) has been minimal, with preference utilization rates remaining at fairly similar levels, with only a slight decrease between 2020 and 2021.

CETA has also had a positive effect with utilization rates improving since 2019, however, these are still modest. The utilization rates for CPTPP have varied, which means that there are potential tariff savings that were unused. This could be partly due to CPTPP being a more recent agreement and companies being unaware of potential savings. This could also be due to implementation issues. The government could help improve this by collaborating with the private sector to raise awareness of the how companies can benefit from the agreement.

## Industry Perspectives on Digital Trade

**Anna Barrera** – Director, Public Affairs, UPS Canada

**Patrick Leblond** – Associate Professor, Graduate School of Public and International Affairs, University of Ottawa

**Jeanette Patell** – Head of Government Affairs & Public Policy, YouTube Canada

**Adriana Vega** – Moderator

Anna Barrera noted that the rapid transition from traditional to online during the pandemic was very difficult for many small and medium size enterprises (SMEs). There are still many components of digital trade that are daunting for SMEs, such as cyber security and data privacy. Given that the vast majority (approximately 98 per cent) of Canadian traders are small and



medium size enterprises, helping them understand and use digital trade is key to supporting the Canadian economy. Trade has changed substantially and as a trading nation, we need to adapt to that change as well. Future trade agreements could improve this by clearly including elements of digital trade. For example, the United Kingdom and Singapore have a specific digital trade agreement that goes into great detail about different components of digital trade.

Sarah Goldferer shared that General Motors sees digital trade primarily in the format of data, including data protection and data ownership. As a global automaker, the seamless and secure movement of data through different jurisdictions is key to their day-to-day operations. Ensuring that we have frameworks and clarity on requirements surrounding data is critical to trade. She noted that trade agreements need to include multiple elements of digital trade while also providing an opportunity to adjust in the future. This would help incorporate the many developments taking place in this space, instead of allowing trade agreements to quickly become outdated. CUSMA provides such an opportunity since we will have to renegotiate it in 2026. However, having this ability in all our future trade agreements would be beneficial to digital trade. In general, clarity, predictability, and coherence help international trade. Further, it is important for the Canadian government and governments around the world to include all of the stakeholders, large and small, in this conversation.

Jeanette Patell shared how the platform has allowed Canadian content creators to access customers at a global scale thanks to having no barriers to entry. As a small market, Canada benefits from having access to global markets. She considers that recent policies, such as Bill C-11, are putting at risk the success of Canadian content creators. A first mover Bill like C-11 shows a lack of coherence in Canada's policymaking, since Canada has been an important advocate for trade liberalization for many years. Policies like these, in spite of having good intentions, may harm our trade competitiveness. Increasing digital trade literacy inside the government is critical. For regulators and policy-makers to develop policies and regulations that will be helpful to traders going forward, they must keep up with a very dynamic eco-system. Performing their job effectively requires a solid understanding of technology, consumer behaviour, and trade methods of the day.

## Reflections of the Day

**Sara Wilshaw** – Chief Trade Commissioner and Assistant Deputy Minister, International Business Development

**Stephen Tapp** – Chief Economist, Canadian Chamber of Commerce

**Meredith Lilly** – Moderator

Stephen Tapp stated that while 2023 may be a challenging year due to the slowdown of the global economy, he is optimistic about the long-term opportunities that Canada has in many areas, such as critical minerals, digital trade, food, and fuel, among others. It is a difficult time for Canadian



businesses and for Canadian trades in general as supply chain issues remain, protectionism is on the rise, and geopolitical tensions continue.

His main take aways were: (1) in the short term, trade is a difficult department to be in; (2) Canada's nominal trade is doing well but real trade volumes are not. It is possible that the pandemic shocked the system, lowered volumes, but also gave us an inflationary shock. Inflation put us back on our 2025 trade diversification target; (3) We have seen an important rebound of overall services trade but not for Chinese tourists. We need to consider how long this might last, as tourism is a big part of our services export market; (4) We are moving from trade agreement negotiation to implementation. We need to think about how we can get the most out of our existing trade agreements. This includes making trade information easier and faster to access, especially for small businesses.

Sara Wilshaw, Chief Trade Commissioner at Global Affairs Canada, noted that the conversations and stories shared during the conference reflect the interconnectedness of North American trade. Further, hearing about instability and unpredictability was not entirely surprising, as some trends like protectionism were rising before the pandemic began. The needs of businesses engaged in international trade are changing and the ground is shifting at the same time. The Office Chief Trade Commissioner has over 17,000 clients of which more than 90 per cent are small and medium size enterprises; all with different needs. 1,500 Canadian trade commissioners are located in 160 cities around the world. The 2022 fall economic statement provided additional resources to the trade commissioner service to expand its services. She noted that it is important to use technology in new ways to significantly increase the reach and access of trade information.

Stephen Tapp asked if building something similar to ChatGPT for trade in the near future would be possible. This system, he suggests, could process trade data based on our trade agreements and quickly provide information to businesses that need it. Similar to a chat bot, this would automate the information providing process and free up resources from the trade commissioner service. Sara Wilshaw thinks that the potential is enormous in that space.

Sarah Wilshaw also agreed with Steve Verheul's comment about the need for creativity in the next generation of trade agreements. Canada's trade ecosystem needs to think about how we are going to future-proof our trade agreements or build different types of trade agreements for the technologies and companies that are emerging. We need to analyze where we have vulnerabilities, where our needs overlap with those of our trading partners, and how can we negotiate to secure those needs while making us friends, in the friend-shoring sense.

Stephen Tapp concluded the thoughts of the day by highlighting that one of Canada's strengths is that it has some of the best trade negotiators in the world, has a highly skilled and extensive trade commissioner service, has trade lobbying groups, academics, and business associations working to support Canada's trade. However, there is much more for Canada to do to expand its international trade and reach its trade diversification goals.

## ► About the Author

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**Karla Cisneros Rosado** is a Strategic Foresight Analyst at Defence Research and Development Canada (DRDC), an agency of the Department of National Defence, and a Ph.D. candidate in International Affairs at the Norman Paterson School of International Affairs (NPSIA) at Carleton University.

Karla's Ph.D. specialization is in international economic policy. Her research is supervised by Dr. Meredith Lilly and focuses on the impact of national border effects on international trade between Canada and the United States.

Karla has a Master of Arts in economics, with specialization in financial economics, from Carleton University and a Bachelor of Commerce with honours in economics from Saint Mary's University.

Karla is a strong advocate for equity, diversity, and inclusion (EDI) and is a member of the EDI Committees at NPSIA, DRDC, and the Department of National Defence.

**Magdalena Steen** is a 3rd year Ph.D. student of Global Economic Policy at NPSIA, Carleton University.

She served as Student Policy Analyst at CIRNAC for a period of 6 months.

Magdalena obtained her Masters degree in the Political Economy of European Integration from Berlin School of Economics and Law in Berlin, Germany and a Bachelors of Arts in International Relations from Malmo University in Malmo, Sweden.

The focus of Magdalena's Ph.D. is on the impact of IMF conditionality policies on the growing debt in the global south, under the supervision of Dr. David Long.

Magdalena has a vast international work and study experience and is passionate about the rights of people with physical and mental disabilities at educational institutions.

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