Intelligence MEMOS

From: Parisa Mahboubi

To: Tariff watchers

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Re: **Canada's Resilience Wake-Up Call**

Donald Trump's looming tariffs – including potential levies of up to 100 percent on **Canadian-made cars** – reinforces the ongoing uncertainty surrounding US trade policy.

Whether the tariffs ultimately come into effect, partially or otherwise, this moment has exposed critical vulnerabilities in Canada's economy and must serve as a wake-up call. The mere threat of such broad tariffs highlights the urgency of strengthening our economic resilience and reducing our vulnerability to US trade policy decisions.

If the tariffs are imposed, the economic **consequences** will be severe, with potential **layoffs**, disruptions to supply chains, and rising costs for businesses and consumers – especially if they remain in place for an **extended period**. Canada needs to be ready to respond decisively to support its workers, protect jobs, and maintain long-term economic stability. However, even if a deal is reached, the unpredictability of US trade policy means Canada cannot afford to be complacent. Future trade disputes or economic changes could put us in a similarly precarious position unless we take decisive steps now.

The lesson is clear: Canada must strengthen its internal economic foundations so that we are as strongly positioned as possible in the event of future disputes.

First, Canada must prioritize internal economic efficiency by **eliminating** interprovincial trade barriers and enhancing **labour mobility**. These structural reforms will help businesses adjust to potential tariffs and unlock **broader economic benefits**. Provinces must collaborate to **improve** the Canadian Free Trade Agreement which would allow businesses to more easily find new opportunities and generate economies of scale, strengthening domestic industries and supporting good quality jobs. Prioritizing labour mobility across provinces is also essential, ensuring that **skilled workers** can move easily into the industries and regions that need them most.

Ensuring a resilient workforce and facilitating smooth transitions for affected workers into high-demand industries is crucial. Tariffs often result in job losses and economic uncertainty, making proactive workforce planning essential. Expanding employment services, **upskilling programs**, and targeted training initiatives will help workers transition into sectors where Canada has a competitive advantage, including those that can see expanded exports outside the United States. This strategy is not only essential for responding to tariffs but also for future-proofing the workforce against broader economic disruptions.

Our country should also become more attractive for **business investment**. A competitive tax policy is crucial in this regard. The US has **employed** tax cuts and business-friendly policies to attract investment, and Canada must respond similarly to remain an attractive destination for both domestic and foreign investors. Reducing corporate tax rates could help counter the adverse effects of potential tariffs and encourage companies to expand their operations in Canada instead of relocating elsewhere.

Beyond tax competitiveness, Canada must also ensure that its **regulatory** environment fosters innovation. Canada has made strides in supporting **high-tech** industries, but cumbersome regulations can hinder growth. Simplifying and modernizing the regulatory environment would encourage more domestic production, particularly in sectors like electric vehicles, clean technology, and AI-driven manufacturing. Investing in research and development and fostering collaboration between the public and private sectors would further strengthen Canada's position in innovation-driven industries. Regulatory efficiency and technological advancement will be essential to build economic activity that is less vulnerable to external shocks.

Finally, while the US will likely remain our largest trading partner, the threat of tariffs stresses the importance of diversifying export markets and the need for pivoting to a new world. Strengthening or concluding trade agreements with Europe, the Indo-Pacific region, the Caribbean and Latin America would reduce Canada's US dependence and provide more stability in times of geopolitical uncertainty. Canada should prioritize deepening ties with countries committed to free trade and stable economic relationships. Encouraging domestic production of critical components and reducing reliance on imports from unstable or adversarial trading partners can help insulate Canada from future trade shocks. Investing in infrastructure that facilitates trade, such as modernized ports and transportation networks, would further support these efforts.

Regardless of whether tariffs take effect in March, Canada cannot afford to delay necessary reforms. The threat alone demonstrates the risks of economic overreliance on a single partner. By removing internal trade barriers, fostering workforce adaptability, improving tax and regulatory competitiveness, and expanding trade diversification efforts, Canada can turn this challenge into an opportunity. This moment demands decisive action – not just to mitigate potential short-term harm, but to lay the foundation for long-term economic strength and stability.

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