



November 10, 2025

From: Lawrence Herman
To: Trade War Watchers
Re: OTTAWA NEEDS MORE STRATEGIC COORDINATION WITH BUSINESS

It looks like the Canadian side was caught flat-footed with U.S. President Donald Trump's blow-ups last week – terminating the trade talks and then suddenly adding new 10-per-cent duties.

Then on Monday, Mr. Trump said he did not even want to see Prime Minister Mark Carney. "I'm not going to be meeting with him for a long time," Mr. Trump said.

So, where should the Carney team go from here?

For starters, it is now pretty clear, if it has not been already, that free trade with the United States is dead. Mr. Trump will not remove Section 232 tariffs on Canadian vehicles, steel and aluminum. He will also show no mercy on energy, potash, lumber products and other sectors currently being investigated under Section 232. The situation looks dire for Canada, even with possible carve-outs for some exports compliant with the United States-Mexico-Canada Agreement.

Second, even if an agreement can be cobbled together, the White House wants this to be a handshake-type deal, like the ones concluded with the Brits and the Europeans, subject to the tariff surcharge threats by the President at any given time.

Canada can never decouple from the United States as its largest export market. We know this. The challenge, as the Prime Minister underscored months ago, is to gird ourselves and to lessen exposure to that market. But can Mr. Carney actually follow through?

A key strategic change to reduce overdependence on the United States would be a return to the Third Option concept, a policy initiated by the Pierre Trudeau government in the early 1970s. The policy hoped to change that overdependence – while also lessening US political influence – by developing new economic and trade arrangements with other countries.

The policy never got full buy-in from Canadian business and limped along, before finally being put to rest with the signing of the first Canada-US Free Trade Agreement by the Mulroney government in 1988. The FTA, and later the North American Free Trade Agreement, resulted in tightening commercial and business integration. We now see the enormous risks of that integration with Mr. Trump's bellicosity and as the United States turns decisively to protectionism.

One of the reasons the Third Option never developed traction, in addition to the ease of doing business with the United States, was that Canada lacked market-opening agreements with other regions. Today the trading picture is different, with Canada's preferential trade deals with large economic groups such as the European Union and the Asia-Pacific region. It is an opportune time to renew Third Option thinking.

At the end of the day, of course, trade agreements are government-to-government frameworks to set stable and predictable rules for cross-border business. Regrettably, Canadian companies have failed to fully utilize the business advantages of these market opening deals.

A case in point is our business with South Korea where, in spite of a free-trade agreement, Canada continually runs large trade deficits, estimated at \$13 billion in 2024. Relatively speaking, our trade deal has not resulted in Canada selling heavily into South Korea, but rather the other way around.

Same with the Indo-Pacific region, where Canada ran a trade imbalance of \$78 billion in 2023 with its trade agreement partners under the Comprehensive and Progressive Agreement for Trans-Pacific Partnership. Likewise with the European Union, where Canada had a 2024 trade deficit of some \$33 billion in spite of the Canada-EU free trade deal. Why conclude these deals if business doesn't follow through?

We have to do better. But expanding into foreign markets can't just fall on the shoulders of the private sector alone. It requires sustained engagement by the federal government. We need to consider how other countries do things.

Take Germany, which has institutional structures for permanent business-government co-ordination on international trade through semi-public institutions such as the German Chambers of Commerce and Industry. The German model has paid off handsomely. Japan, another trading giant, likewise has a system of tight co-operation through powerful business federations with permanent structures.

Canada, by contrast, only has loose, unstructured arrangements that are entirely ad hoc, reflecting domestic politics and the predilections of the trade or industry ministers at any given time. While Canada's industry associations do a commendable job within this impermanent system, there is a total absence of anything like systematic co-ordination.

This has to change. Even if adopting formalized structures might be a leap too far, Canada still needs a much more sophisticated, strategically focused system. The private sector investment measures in last week's budget are a good advance but, even with that, the federal government must work much more closely with the business community, as do other governments, to end Canada's overdependence on its unreliable – even hostile – neighbour to the south.

Lawrence Herman, a former Canadian diplomat, is counsel at Herman & Associates and senior fellow of the C.D. Howe Institute.

To send a comment or leave feedback, email us at blog@cdhowe.org.

The views expressed here are those of the author. The C.D. Howe Institute does not take corporate positions on policy matters.

*A version of this Memo first **appeared** in The Globe and Mail.*