Fallout of US-Canada trade war won't be limited to North America

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OPINION

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On September 8, President Donald Trump further escalated the US–Canada trade war, banning the import of some Canadian goods, in response to Canada's retaliatory tariffs that took effect the same day. It is difficult to view Trump's actions against Canada as anything other than unnecessary, avoidable, short-sighted, and harmful to both economies. Crucially, these moves deepen widespread concerns about the Trump administration's trade policy — not only across North America, but with other key partners, including in the Asia Pacific.

Indeed, the administration's confrontational approach risks weakening the North American production platform that supports US competitiveness. The dispute also forfeits a chance to build a coherent trade framework that advances long-term US economic and strategic interests by aligning partners around shared goals rather than relying on coercion. Moreover, by focusing on bilateral relationships, the United States is missing a chance to shape global trade through commitments backed by a meaningful coalition of partners. Finally, a trade war with Canada — and with other US allies and partners — wastes time and diverts attention away from real and urgent strategic challenges the United States cannot afford to neglect.

How we got here

In July, the United States declined to extend the United States–Mexico–Canada Agreement (USMCA), which was negotiated during the first Trump administration. The move left the agreement in place until 2036 but triggered annual joint reviews through then. As a condition for opening trilateral talks on extending the agreement for another sixteen years, the United States demanded progress in separate bilateral negotiations with Canada and Mexico. Discussions with Mexico were advancing, but Trump became impatient with the slow pace of negotiations with Canada and threatened to impose tariffs on Canadian goods unless Canada capitulated to US demands within thirty days.

Negotiations in that window seemed to be proceeding toward a successful conclusion, and businesses that have deep supply chains based on USMCA rules were relieved. But the deal collapsed in August, and the United States imposed a 50-percent tariff on $20 billion worth of Canadian goods. Canada responded with dollar-for-dollar retaliatory tariffs that went into effect on September 8. Washington counter-retaliated the same day, banning imports of Canadian motorcycles, certain dairy products, and alcoholic beverages. It also modified the July tariff list, swapping out some products for others it said would better serve the public interest, and it ordered the removal of Canadian products from US government procurement programs accounting for more than $50 billion annually.

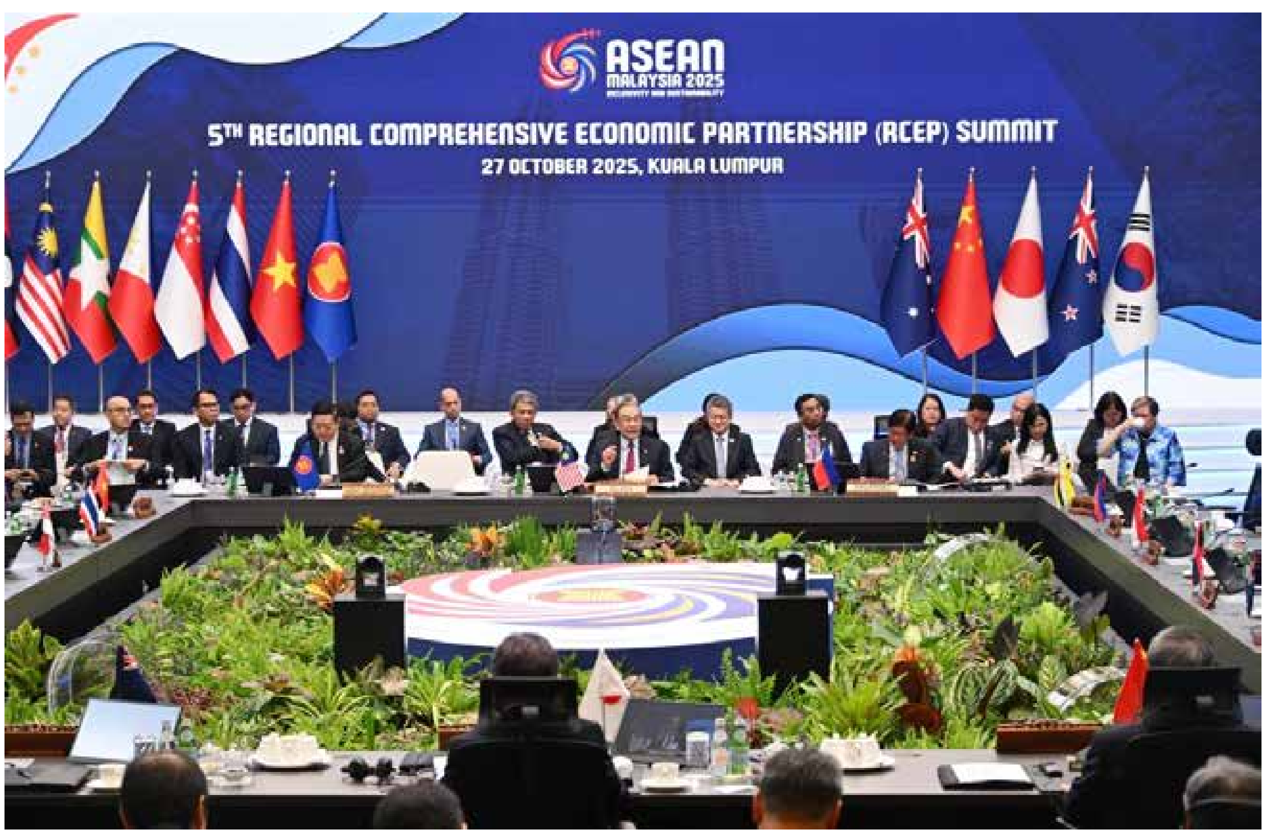
Divergent goals

The two countries disagree on the cause of the breakdown in negotiations, but the collapse reflected a deeper erosion of trust on both sides and fundamental differences over objectives.

The United States focused on reducing its trade deficit with Canada, including by pressing for rules that would shift more manufacturing to the United States. It sought to rebalance trade and address barriers in specific sectors, including automotive, dairy, and alcoholic beverages, as well as align Ottawa's economic security policies with Washington's. It also wanted to gain preferential access to Canada's critical mineral resources. Canada, by contrast, sought to build a "Fortress North America" that would eliminate tariffs among the United States, Canada, and Mexico and establish more common external tariffs. It also wanted specific tariffs — known as Section 232 tariffs — on Canadian steel, aluminum, autos, lumber, and other goods removed.

Before making major concessions, the Canadian government wanted assurances that the deal's terms would hold and that the United States would not later use new national security or other tariffs to undermine the balance of the bargain struck.

The Trump administration is correct that access to the US market can be a powerful motivator for other countries to accept even disproportionate US demands. But accepting such terms while leaving Washington broad authority to impose new tariffs or make unilateral demands would put the Canadian government in a politically untenable position and cast Canada less as a US partner than as a vassal state.



The fifth Regional Comprehensive Economic Partnership (RCEP) summit convenes in Kuala Lumpur, Malaysia, on October 27, 2025.
ASEAN SECRETARIAT

Politics complicate compromise

In addition to differing negotiating goals, upcoming US and Canadian elections made compromise more difficult. The hardest issues in any negotiation are often left for political leaders to resolve at the end, and those talks can take time and become heated. Imposing tariffs — and negotiating in public — only makes concessions harder by encouraging both sides to dig in to protect their political standing. Nor was there any urgency: Under the terms of USMCA, the two countries had another decade to agree on changes. The United States has longstanding concerns it wants to address before concluding a deal, but both sides could have explored possible win-win compromises and returned to the table after their respective elections, when the political calculus might have shifted.

The new tariffs will be a strain on businesses and consumers in both countries, especially given inflation caused by the Iran war and the broader Trump administration tariffs on countries around the world. But they appear to be more of an immediate political liability in the United States than in Canada. Canada sends nearly 75 percent of its exports to the United States, so the import bans and tariffs will increase economic pressure, although some regions will be hit harder than others. However, Canadians have overwhelmingly supported Prime Minister Mark Carney's decision to walk away from negotiations and retaliate, and his Liberal Party won all three federal special elections last month. And the Canadian government has announced the goal of creating $300 billion more in non-US trade in the next decade, including by negotiating new trade agreements with partners around the world, attracting more foreign investment, and building trade-enabling infrastructure. It also announced a $7.5 billion expanded economic relief program for workers affected by US tariffs, building on the nearly $25 billion in support it has provided since the Trump administration first imposed tariffs.

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By contrast, Trump's approval rating has fallen to its lowest yet, according to recent polls, with voters citing growing concerns about the cost of living and most rejecting Trump's trade policy. Some Republicans have raised concerns behind closed doors with Trump administration officials about the tariffs on Canada, but many stand behind him. Democrats are fiercely criticizing the Canada tariffs. Should Democrats take one or both houses of Congress in November, Trump may face additional constraints on his trade policies.

Notwithstanding these political dynamics, both sides have an interest in reaching agreement as soon as possible — but the damage to the bilateral partnership is likely to outlast the Trump administration. Lingering mistrust will make Canada less willing to cooperate with the United States on economic initiatives, including efforts to address shared challenges. The Trump administration's bilateral focus and reliance on tariffs — which it incorrectly sees as the only way to leverage US market power — will also limit opportunities to build broader coalitions better suited to tackling emerging trade problems, such as Chinese overcapacity.

In past negotiations, tariff threats were not necessary for other countries to accept US-proposed rules, even politically difficult ones. America's trading partners defended their interests, but they ultimately believed Washington would find mutually beneficial outcomes rather than insist on one-sided deals. They also believed that the United States stood for values and a rules-based trading system that they respected and wanted to help strengthen. That belief has been severely eroded.

The view from Asia

US trading partners in Asia are watching the US-Canada dispute closely for signs of how it may affect their own interests. Washington's action will reinforce the view that even close, strategically aligned, and economically important partners are not immune from US pressure unless they yield. While leverage from China forced the Trump administration to retreat from its tariff war and seek managed competition, Washington's reaction to Ottawa will make Asian governments even more cautious about defying the United States or provoking Trump.

Asian governments share Canada's concern about the lack of certainty and predictability that is likely to result from the agreements they are negotiating with the United States and the risk that the United States will impose new tariffs even after these deals are concluded. They may be unsure how seriously to take Trump's recent threat to the US Federal Reserve to "lower the [interest] rate or I'll stop trading with countries with which we have a deficit." Many are already anticipating new tariff announcements from the Section 301 investigation into countries with industrial