

# A Literature Review of the U.S.-Canadian Trade Relations and Scenarios on Impacts of Tariff Changes Proposed

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**Abstract:** It is essential to comprehend the current U.S.-Canadian trade relations and their potential future implications, as they can have significant and far-reaching consequences. The effects of Trump's recent 2025 tariffs will be analyzed by taking a closer look at five major industries of trade, immediate effects on the national economies, public and expert attitudes, as well as potential future outcomes. First, the literature review will discuss the significance of this research. Second, a historical review will examine U.S.-Canadian trade relations overall and across five major industries. Third, a regression analysis will project trade levels under a best-case scenario; next, there will be a discussion of public opinions regarding the policy; finally, there will be a discussion on the optimistic, realistic, and pessimistic future scenarios backed up with expert views.

**Keywords:** Trade Relation; Tariff; Regression Analysis.

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## 1. Introduction

Recently, the Trump administration has imposed tariffs on imports from over 90 countries, with rates as high as 25% for Mexico and 50% in Brazil. Most recently, for Canadian imports, the tariff rate has been raised to 35% as of August 1st, but only applies to goods not covered under the U.S.-Canada-Mexico Agreement (USCMA).

While this exempts most Canadian exports from tariffs, many key industries, such as lumber and pulp, are still affected. The U.S. has also imposed sector-targeted tariffs, notably 25% on autos and 50% on steel and aluminum. Furthermore, in times of political and economic instability, it is still uncertain if industries currently unaffected by the tariffs will remain unaffected in the future.

These recent tariffs are significant for their many implications on individual countries, broader supply chains, and the global economy alike. This paper will focus on Canada and the United States, as they are connected by one of the most interdependent trade relations in the world, through key industries such as automotive, energy, agriculture & food, machinery and industrial equipment, and lumber. The U.S.-Canadian trade relations are characterized by their long history and high volume of trade [1]. Due to this high interconnectivity and dependence on free trade, tariffs have incredibly disruptive effects on these major industries and broader economies, with results such as slowing GDP, heightened unemployment, decreased investment and innovation, and damage to the United States-Mexico-Canada Agreement (USMCA)[2]. Conducting research on the impacts of the recent tariffs and projecting future scenarios will help Canadian and U.S. policymakers make better-informed decisions and allow for better reflection on the effects of Trump's protectionist policies once this period has passed. Interest in this topic has been high, as shown by various conferences related to the topic of the recent tariffs (Canadian Manufacturing Technology Show; The Conference Board of Canada). There are also many political implications, with the ongoing negotiations of Canadian politicians with

those of the U.S.

## 2. Data on U.S. and Canadian Trade and Proposed Tariffs

Using data from the United States Census Bureau and Statistics Canada, annual imports from Canada to the U.S. from 2015 to 2024 were graphed, covering Trump's first term of office and the Biden administration, on a linear regression. Fig.1 represents the aggregate annual imports, while Fig.2 to Fig.6 depict the annual imports divided into the five major industries of trade. Assuming no significant change in tariffs, the import volumes for the next four years were then extrapolated by using the estimated linear regression model – this will serve as a baseline to compare the projected and actual outcomes of the recently proposed tariffs. It is important to note that these projections are based only on past trade trends and do not account for unexpected policies, economic fluctuations, or geopolitical shocks.

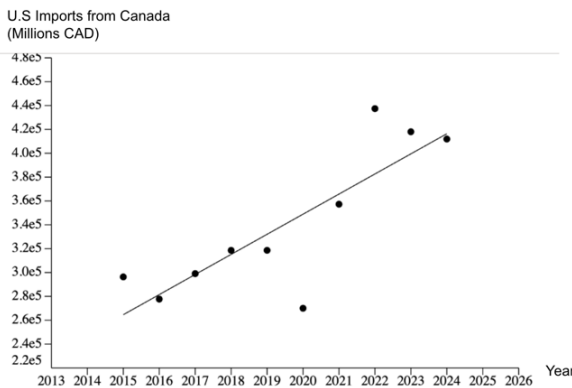
To identify which five industries are major industries of trade between Canada and the U.S., this study took a look at the percentage of total U.S. imports from Canada each industry takes up. The agriculture and food industry was identified as a major industry, with it taking up 10.34% of the total number of U.S. imports from Canada. While lumber only takes up 2.82% of the total U.S. imports from Canada, over 25% of the U.S. softwood lumber demand is supplied from Canada. Its widespread effect on consumers, along with its history of policy conflicts such as the softwood lumber disputes, underscores its political and economic impact [3]. The automotive industry is another major industry of trade, taking up 12.07% of the total U.S. imports from Canada. It is built on a highly integrated supply chain throughout North America, with a single part crossing up to 8 borders. Both the energy and the machinery and industrial equipment industries take up 26.69% and 10.19% of the total volume of imports, respectively.

Total U.S. imports from Canada, 2024: 435,560 (million USD)

**Table 1. U.S. Imports from Canada by Industry, 2024**

Industry	Dollar Value (Millions USD)	% of total U.S. imports from Canada
Total U.S imports from Canada	435,560	100
Agriculture & Foods	45,032	10.34
Lumber	12,304	2.82
Automotive	52,584	12.07
Energy	129,322	29.69
Machinery and Industrial Equipment	44,364	10.19

Data Source: Trading Economics



Data Source: United States Census Bureau and Statistics Canada

**Fig 1. Overall Trade**

Overall, general imports into the U.S. from Canada have been on an incline. Aggregate imports during 2020 and 2022 are outliers. The COVID-19 Pandemic caused lockdowns, breakdown of supply chains, and reduced demand [4]. As will be reflected in their regressions, Agrifood, automotives, energy, machinery, and industrial equipment all experienced an abrupt decrease in imports at the start of the pandemic. In contrast, the unusually high overall U.S. imports from Canada in 2022 can be explained by a combination of post-COVID economic recovery, heightened global inflation, and energy shortages due to Russia’s invasion of Ukraine [5,6].

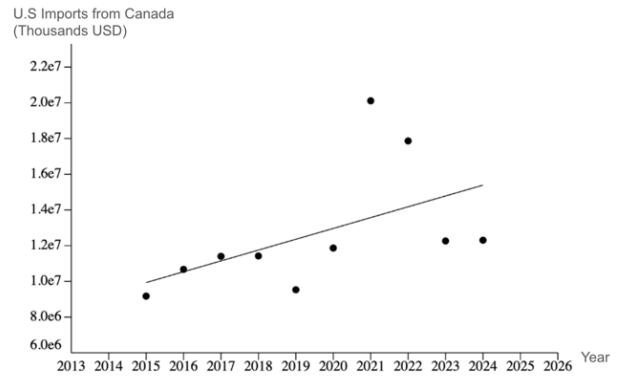
**Table 2. U.S. imports from Canada extrapolated based upon historical trend for the next 4 years**

2025	419,263 (Increased)
2026	436,121 (Increased)
2027	452,979 (Increased)
2028	469,837 (Increased)

Note: Values are presented in millions CAD,  $R^2=.68$

Lumber:

The lumber industry matched the upward trend seen in the overall imports; however, there was an unusually high level of imports in 2021. This may be explained by the lockdown during the pandemic. In addition to an increase in the volume of DIY projects and home renovation.



Data Source: United States Census Bureau and Statistics Canada

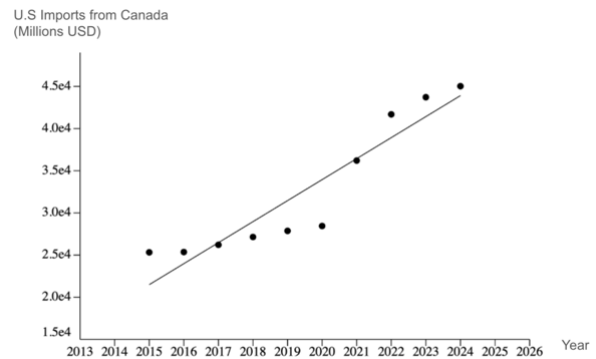
**Fig 2. U.S. and Canadian major industries of trade (lumber, agriculture/food, energy, automotives, machinery & industrial equipment)**

Demand for new homes skyrocketed, with 1.6 million houses started – the highest pace since 2006.

**Table 3. U.S. lumber imports from Canada extrapolated based on historical trend for the next 4 years:**

2025	15,999,040 (Increased)
2026	16,605,309 (Increased)
2027	17,211,578 (Increased)
2028	17,817,847 (Increased)

Note: Values are presented in thousands U.S. dollars,  $R^2$  is low=.27



Data Source: United States Census Bureau and Statistics Canada

**Fig 3. Agrifood**

The agrifood industry matches the overall trend of aggregate imports.

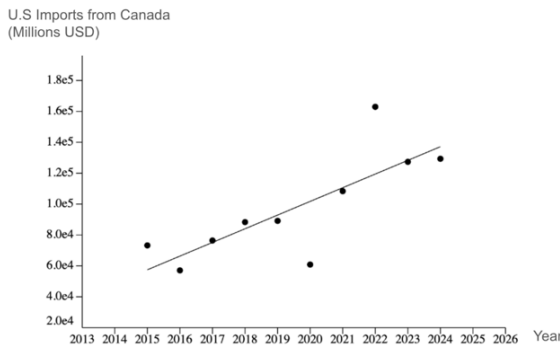
**Table 4. U.S. agriculture and food imports from Canada extrapolated based on historical trend for the next 4 years**

2025	48,961 (Increased)
2026	51,452 (Increased)
2027	53,943 (Increased)
2028	56,434 (Increased)

Note: Values are presented in millions USD,  $R^2$  is high=.87

U.S. energy imports from Canada followed a general upward trend over the past decade, with a sharp low in 2020

and a spike in 2022. Again, the lower end can be explained by the COVID-19 pandemic, causing transportation, manufacturing, and commercial activity to be shut down, leading to reduced demand. The abrupt increase in energy imports in 2022 is a result of both the recovery of U.S. demand as the pandemic subsided and Russia’s invasion of Ukraine [7]. Uncertainty and higher energy prices caused by sanctions led U.S. buyers to turn to Canada as a cheaper and more stable option [8,9].

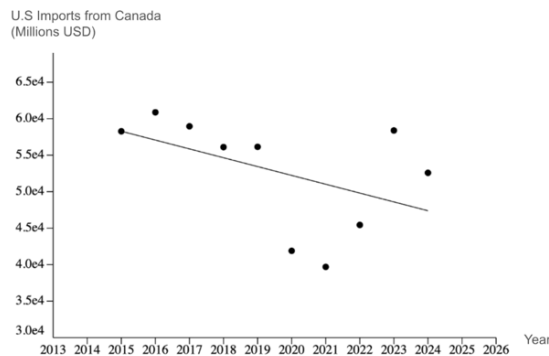


Data Source: United States Census Bureau and Statistics Canada  
**Fig 4. Energy**

**Table 5.** U.S. energy imports from Canada extrapolated based on historical trend for the next 4 years

2025	138,275
2026	146,129
2027	153,983
2028	161,837

Note: values are presented in millions USD, R2 = .62



Data Source: United States Census Bureau and Statistics Canada  
**Fig 5. Automotives**

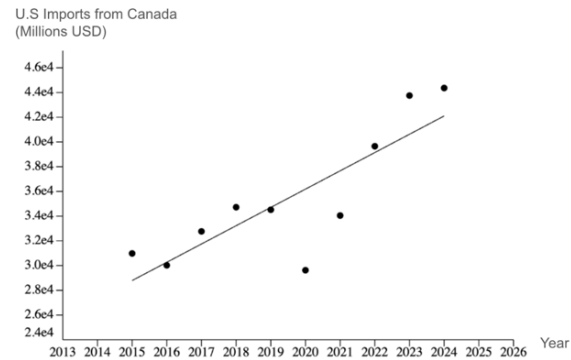
The automotive imports from Canada showcase a distinct downward trend. This is due to many large automotive corporations moving production to Mexico for its lower costs and long-established infrastructure [10]. This was a development allowed by the North American Free Trade Agreement (NAFTA) in 2013, which enabled automakers to offshore their production without facing trade penalties. The pandemic resulted in a sharp decline in automotive production by 2020; it was further worsened by the global chip shortage in 2021.

Machinery and Industrials imports followed the same upward trend as the aggregate imports. It experienced a low outlier in 2020 as a consequence of the onset of the COVID-19 pandemic.

**Table 6.** U.S. imports from Canada extrapolated based on historical trend for the next 4 years

2025	44,697
2026	43,486
2027	42,275
2028	41,064

Note: values presented in millions USD, R<sup>2</sup> is low=.23



Data Source: United States Census Bureau and Statistics Canada  
**Fig 6. Machinery and Industrials**

**Table 7.** U.S. imports from Canada extrapolated based on historical trend for the next 4 years

2025	42,857
2026	44,336
2027	45,815
2028	47,294

Note: values presented in millions USD, High R<sup>2</sup>=.69

The extrapolated values of the aggregate economy and the five major industries all trend upwards – except the automotive industry. These forecasts predict the future of U.S. imports from Canada under the assumption that tariffs are not implemented. They will be useful as a baseline to gauge the effect of Trump’s policies on Canadian imports a few years into the future. In other words, any disparity from this baseline can be used to identify trade disruptions.

### 3. Importance of free trade and free trade agreements (NAFTA, USMCA)

The mostly upwards trending extrapolations of the trade volumes overall and for individual industries are under the assumption that free trade, a practice historically facilitated by NAFTA and USMCA, will not be disrupted in the future [11]. Any disruptions to free trade are likely to cause deviations from the forecast, as evidenced by the historical effect of protectionist policies imposed on the U.S.-Canadian trade [12].

Free trade agreements are known to reduce or eliminate trade barriers and tariffs, which in turn reduce costs, increase market access, enhance efficiency through comparative advantage, and allow for greater competition with foreign companies [13]. Tariffs are known to undermine free trade, which has many harmful effects [14]. Many of Canada’s

major industries are highly integrated with the U.S., and this has led to an over-reliance on both imports and exports. Notably, over 20% of Canadian GDP comes from trade with the U.S., with about 75% of its exports going into the U.S. The U.S.-Canadian oil ecosystem is highly integrated; in fact, 97.4% of Canada's crude oil exports go to the United States. Canadian imports are similarly highly dependent on the U.S. economy, with 77% linked to the U.S. through production and logistical reasons. These facts emphasize the high economic costs of both the initial U.S. tariffs and retaliatory tariffs from the Canadian side.

Trump's recently proposed tariffs on Canadian imports, outlined in the introduction, could also have high economic costs for the U.S. Thierry Waren emphasizes in his study the benefits the U.S. gains from trade with Canada. Notably, when Canadian energy exports are excluded from the trade balance, the U.S. actually has a small surplus, implying the benefits of this trade relation. The U.S. and Canada share one of the largest bilateral trade relations in the world, with Canada being the U.S.'s top export market and third largest import source. The high integration is exemplified in the automotive sector, where a single part passes the U.S.-Canadian border up to 8 times before assembly. Tariffs will undermine this integration, disrupting the U.S. and Canadian economy alike.

### **3.1. The Immediate Impacts of The Recent Tariffs Imposed**

Considering the high trade interdependence of the U.S. and Canada, it follows that there are immediate impacts of the recent tariffs imposed. Ikhenade et al. have established that protectionist policies worsen employment, living standards, market inefficiencies, and long-term economic growth. Such policies are also shown to raise production costs, disrupting the tightly integrated U.S. - Canadian supply chains. The tariffs will disrupt the integrated U.S. - Canadian supply chain, and as a result, both Canadian and U.S. companies are looking to diversify their suppliers to mitigate these effects [15]. Canada, with its relatively higher level of dependence on the U.S., has had a more significant shift. Aluminum, steel, and automotive parts are looking for alternative buyers and suppliers [16]. Automotive manufacturers, energy companies, and agrifood companies, for example, are considering markets in Europe and Asia [17]. However, it is important to note the limitations in expansion. Canada's dependence on the U.S., physical distance, limited infrastructure, and tensions with China as obstacles [18,19].

### **3.2. Public opinion**

It is important to understand the overall public opinion on the recently proposed tariffs, as this has implications for the viability of the policies on the political stage [20]. More Americans and Canadians alike seem to feel skeptical or critical of the policies than supportive. According to studies by Gallup, the majority of Americans feel that the recent tariffs will overall cost the U.S. both in the short run and the long run – 70% and 62%, respectively. To further emphasize the disparity in public opinion, according to studies done by the Angus Reid Institute, only about 28% of Americans believe the imposition of tariffs was the right decision, in contrast to 48% opposing the policy. Americans and Canadians alike have had strong emotional reactions to the announcement of the tariffs, with 57% of Canadians and 33% of Americans feeling angry, and 32% of Canadians and 27%

of Americans feeling anxious [21]. Although these sentiments do not indicate the true effects of the tariffs, they will no doubt influence future political leadership and economic decisions going forward.

## **4. Three Scenarios on the Impact of Tariffs on the U.S.-Canadian Trade**

### **4.1. Best-case Scenario from the Canadian Perspective**

In the best-case scenario, Trump's tariffs are just a short-term negotiation tool used to gain leverage over Canada and Mexico, especially considering the upcoming USMCA negotiations in 2026. In fact, according to Christien Dipel at the Lawrence National Centre for Policy and Management, the tariffs are not intended to even last until the upcoming negotiations. Firstly, Dipel argues that it is reasonable to assume that Trump's economic advisors understand that increasing exports and decreasing imports will not improve the trade deficit, as the trade balance is determined not by the net exports but by money flows. The Triffin Dilemma is another argument for why the U.S. will not find success in pursuing a trade surplus [22]. Additionally, it is undeniable that the U.S. is still reliant on its trade relations with Canada. Canada provides many key commodities that form the basis of U.S. manufacturing, including oil and gas, agricultural products, and minerals. Not only will this make reshoring difficult, but the rise in input costs will also lead to inflation in the American economy. China is the end goal for the U.S., and Canada is an important ally in achieving these means. Therefore, according to these arguments, Trump's tariffs will not last.

Adding on to the argument, Meltzer from the Brookings Institution considers the possibility of the U.S. using these tariffs as negotiation tools during the USMCA negotiations. The U.S. is looking to gain favourable terms for ROOs; in addition, it wants to have Mexico and Canada align more closely in trade enforcement rules against Chinese circumvention of American trade barriers. According to CSIS, Trump is also looking to weaken the highly integrated North American trade system by creating bilateral trade relations with Mexico and Canada. This may further undermine negotiation power and make them more susceptible to U.S. demands, which is to ultimately align the North American supply chain against China.

To further add on to the best-case scenario, Canada's resilience should also be factored in. Tariffs, reducing Canadian exports, will likely lead to lower GDP and lower interest rates. This would mean a weaker currency. According to Edward Jones, a weaker Canadian dollar will increase the competitiveness of exports in the U.S. market, potentially offsetting some of the negative effects of the tariffs. Fiscal and monetary policies will also help moderate.

Governor Tiff Macklem lays out two scenarios, the more optimistic one where the tariffs are lifted. This would avoid a deep Canadian recession with a more moderate one (Politico). Overall, the best-case scenario is that the tariffs are used mainly as a U.S. negotiation tool, and they are lifted either before or right after the upcoming USMCA negotiations.

### **4.2. Worst-case Scenario from the Canadian Perspective**

While the best-case scenario highlights potential resilience, it is equally important to consider a pessimistic outlook in

order to frame a balanced middle ground. In this scenario, Trump's tariffs become embedded in the long-term global trade environment. Governor Tiff Macklem's second scenario involves a year-long recession, remaining until 2027, and overall worsening the long-term going forward.

The tariffs may cause USMCA to collapse, causing long-term damage. Canadian GDP would potentially drop by 3%, investment could drop by 12%, and there would be an increase in unemployment. In this case, retaliation would worsen the damage, while trade diversification would have little effect – at least in the short term[23]. Similarly, TD Economics believes that Canada's real GDP would fall by 2.4 percentage points over the two years relative to baseline projections. These are the most pessimistic projections as the models used do not consider many balancing factors. Experts overall have a pessimistic view on the outlook of Canada following the imposed tariffs. Common views include rising unemployment, decline in GDP, decline in investment, and currency depreciation [24–26]. As many Canadian industries are dependent on exporting to the U.S., they will also suffer.

The impacts of the imposed tariffs have, as also shown in the earlier section, already begun to show. Reuters reported a record Canadian deficit drop, as a result of the 10.7% drop in Canadian exports. The Brookings Institute states that the tariffs will damage highly interdependent North America supply chains, such as auto parts, metals and machinery, electronics, and energy and mining, with Canadian electronics and transport exports to the U.S. potentially shrinking up to 79%. This will no doubt undermine the USCMA, and thus also harm the U.S. With a weakened North American supply chain, trade will redirect away from the U.S and increase the economic power of China. This seems contradictory to their goal to reduce trade dependence on China.

These views are also supported [27]. Sharma & Kashyap predicts higher production costs, disruption of North American supply chains, and reduced global integration as a result of increasing regionalism.

### 4.3. Realistic case scenario from the Canadian perspective

While the optimistic scenario views the tariffs as a short-term bargaining tool and the pessimistic one foresees long-lasting economic shocks with deep structural consequences, the middle-case scenario appears most plausible. In this more balanced outlook, Trump's tariffs are expected to disrupt North American interdependencies and trade flows temporarily, but are likely to be adjusted or reduced around the upcoming 2026 USMCA renegotiations.

Canada is projected to experience a moderate recession and slower economic growth, particularly in sectors heavily reliant on trade with the United States. Nevertheless, fiscal and monetary measures—together with natural stabilizing forces such as exchange rate adjustments—will help cushion the overall impact. Although trade structures will suffer from increased fragmentation and regionalism, Canada will continue its efforts to diversify, reducing dependence on the U.S. market by expanding ties with Europe and Asia.

The forthcoming USMCA negotiations are also likely to result in stricter rules of origin (ROOs) and tighter trade restrictions favoring the United States. Despite ongoing U.S. concerns over China, the trade relationship among North American partners is expected to endure. Overall, the middle-case scenario highlights a moderate, rather than catastrophic,

impact of the tariffs on regional economic stability.

## 5. Conclusion

In this paper, historical trends of overall and major industries of trade between the U.S. and Canada were analyzed, finding an increasing pattern in all industries other than automotive. The regressions were extrapolated to find the projected levels of trade in the next 4 years. Then, the interdependencies of trade between the U.S. and Canada, and why tariffs could be harmful to the integration, were discussed. After presenting data on the public opinion on these tariffs, this paper proposed the optimistic, pessimistic, and middle case scenarios of the future of Canada-U.S. trade relations. The best-case scenario is if the tariffs are used mainly as a negotiation tactic and are removed as soon as possible before the USCMA negotiations, and that moderating factors will help mitigate the consequences of the tariffs. The worst-case scenario is one where the tariffs become the norm in the long-term economic landscape, causing damage not only to the U.S. and Canada but also to the global economy. The middle case scenario is the most probable, where balancing effects such as diversification or negotiations to reduce tariffs will make the effects more moderate. It would be insightful to revisit this topic in a few years. The extrapolated regressions—based on a no-tariff assumption—provide a baseline against which actual trade volumes can be compared. This comparison will help illuminate the true effects of the tariffs.

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