



# Canada's Changing Geopolitical Landscape: Rethinking Global Partnerships

## Transcript Canada in a Changing World Series

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### MCE

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## Transcript

**Michael Burt, 00:00-01:42**

Hey everyone. My name is Michael Burt and I'm a Vice President of The Conference Board of Canada. I'm going to be your MCE for today's session.

I'd like to thank all of you for joining us today to discuss this really important topic, namely how Canada can rethink global partnerships in the era of US coercive diplomacy.



So, before we begin, I'd just like to begin by acknowledging that I'm joining you from Ottawa, the traditional unseated territory of the Algonquin Anishinaabe people and extend this acknowledgement to the indigenous caretakers of the land where you are joining us from. So, I now have the pleasure of introducing you to two distinguished speakers.

Firstly, Pedro Antunes, our Chief economist. He's a long time colleague and the main spokesperson for many of the products it's forecasts that we produce here at The Conference Board from our economics team. Pedro's worked recently on a variety of projects, including things like inequality, productivity, climate change, and of course all things related to tariffs.

We're also extremely pleased to have Michaela McQueen join us from PwC Canada, where she is a partner. Michaela helps lead the national economics and policy practice for PwC and she's an expert in helping clients navigate the increasingly unpredictable landscape of the gold policy and investment environment. And so, we're extremely pleased to have Michaela join us today at a time when of course, certainty is certainly, well certainly we're at a point of high unpredictability and certainly it's really something a luxury for many of us. So, with that, thank you again, Michaela.

Just one final before I turn it over to our panelists. I will be monitoring Q&A panel during this discussion. We'll have some time for questions at the end of the session. So, if you do have questions for either Pedro or Michaela, please feel free to post them there.

With that, I'll pass it over to you, Pedro.

### **Pedro Antunes, 01:46-06:55**

Great, thank you. Thank you, Mike. Thank you so much, and welcome and good afternoon, everyone. And thanks again, Michaela, for joining us. It's a real pleasure to work with you on this.

And essentially, I'm going to take us through a number of slides to talk a little bit about. Well, let me just go right to the first one here. Three issues that I think are, how should I say that? I think we're all interested in, the latest on the US tariff storm.

And I can tell you that we were working on this PowerPoint right up until Friday and we have to make some changes on the weekend. It's just an ongoing, how should I say, an ongoing sense of uncertainty around what is really happening. And so, we'll talk a little bit about that.

We'll certainly talk about the implications of that for, well, the US, but certainly for the world and for Canada as well.

Just a quick look at what you know, our latest thinking is on all of that.



And then we'll go into the last section, which is really talking about rethinking global partnerships.

And we're working hard at the Conference Board, really on a report right now that we'll publish soon to look at essentially what we're facing in terms of this geopolitical pressure, this kind of almost acrimonious situation that we're feeling with our most trusted Southern partner with the US, the US and the US administration.

And really something that we should have done a long time ago is not just rethink global partnerships but really diversify our trade.

And you know, Mike and I had worked in the past with what we call the Global Commerce Centre. This was a centre we had at the Conference Board where we made grand efforts to talk about diversifying trade is something that we should have done a long time ago. But of course, for many reasons, we have not moved as much as we might have. So, it's time to rethink that once again.

So let me start by essentially talking about what's going on in the US.

The very latest, I guess essentially, we're seeing the US wage a trade war, not just on what we first felt with the pain of which was, you know, we thought we had the majority of the trade tariffs fixated on Canada and Mexico. But as we saw on Liberation Day, now that, you know, President Trump has widened that blanket of tariffs to the rest of the world. And then, of course, a day or two later, we saw that that pressure ease a little bit with some essentially some pushback as to when we'll actually see the tariffs.

We're on pause now for another 90 days, it seems. But it can. But then that that got ramped up with China and we're feeling essentially a lot of concern here about what is the, you know, what is the reasoning, is there a strategy behind this and what's going on?

But one thing for sure is that this is going to be very, very painful for the US economy. It's going to be very painful for Canada and Mexico, but it will also be very painful on a global basis.

Again, we'll see where we land, but every day brings new information around this.

The point here is that the US is going to suffer just as badly as other economies. I think most of the forecasts that we're seeing out there now, with this situation of uncertainty around tariffs, even if the you know, the US would decide on a certain amount of tariffs and put those in place, that would be one thing, but to have this on again, off again tariff that creates is so much uncertainty that I think the idea that this will help move investment home is really getting eroded. I mean, I just we have trouble seeing as to how this is going to really



attract investment back to the US, and in any fact, in any effect, bringing manufacturing or steel production or other industry back to the US would take years, if not decades. If we're certainly talking about critical minerals and mining, those are projects that would take multiyear, if not, if not a decade long. So, you know, to have this uncertainty. And you know, for a lot of investors, the inability to see whether these tariffs are going to be short lived or long lived just is not going to, you know, kind of meet that target. So, and finally, just on raw materials.

I know Michaela, we talked about it earlier, there are some tariffs now that the US is applying on some resources, if we look at Canada's resources that are going into the US, it's only the noncustomer compliant, compliant, that are being affected. So we think it's a small portion of some of the resource sectors entry in the US, but it makes absolutely no sense at all for an economy like the US to essentially target tariffs on what are critical inputs into its production process, including things like minerals, potash, for instance, a lot of agri food, lumber, which we all have tariffs on, and, of course, tariffs already on steel and aluminum.

#### **Mikaela McQuade, 06:55-08:28**

If I could jump in there, I think that's exactly right in terms of trying to understand the end game is really important, to try to understand the pain tolerance of the administration to some of these factors in the way that they're going to influence consumers, which are ultimately voters in the grand scheme of things, I think ultimately you touched on the ultimate economic goal, which is to be able to drive domestic economic activity and investment into the United States at a much higher order.

But I think this does require you in terms of understanding the ultimate, ultimate end goal, to kind of crawl into the psyche of Donald Trump, which I don't think any of us are experts in. So, I won't even dip my toe in that one.

But I think really importantly, it's also a goal that the world takes seriously the threat of the use of tariffs, that the world takes seriously that the United States will continue to use tariffs as a tool of economic coercion to get what it wants from a foreign policy perspective or from a geopolitical perspective, and realistically, they're trying to exert their geopolitical muscle when it comes to trade to try to get at other aims as well.

So, I think it's when we kind of contextualize the end pursuit. It's really important to also understand that it throughout the course of this conversation, you're going to touch on a lot of different areas where trade has been significantly disrupted or relationships have been severely questioned as a result of some of these actions, that there will be no regression to the mean, that the way that we traded before, the way that we price risk into trading agreements, either as a private sector or as governments, is out The window, and we're now entering kind of a new era of trade and how we think about it in the world.



**Pedro Antunes, 08:28-10:18**

Yeah, thanks, Mikaela.

And I thought I understood what the end game was and what the motivation was behind President Trump's policies and changes that he was looking for, because I thought we were seeing a repeat of what we saw back in 2016 which was essentially create that sense of uncertainty about access to the US consumer, and what we lived through it, through the first term, was essentially the dissolution of NAFTA and the threat of NAFTA being gone without, in the end, really seeing a lot of change when we renegotiated our new agreement, so we had tariffs in place on steel and aluminum for a year, but then we resettled back with a with kusma, which was, in fact, a free trade agreement that was very similar to NAFTA.

But I'm starting to lose faith that I had saw I had some faith that I might have understood what President Trump was after, but it's really looking. It's really looking, you know, uncertain that he's going to meet these objectives. And I can, you know, certainly understand the US being concerned about China's ascension into the world and its geopolitical clout, that it's that it's having. And of course, now we're seeing more and more threatening behavior from between China and US, but to wage a war against not just China, but not but the rest of the world all together, all at the same time, this is just going to be so difficult for the US economy.

I do say here, as you pointed out, some tariffs will undoubtedly stick, and we are going to be pushed further on. Border Security, Defense spending and supply managed agriculture.

These are some issues that we're going to deal with. We're hearing today about, more than the last couple of days about pharmaceutical industry as well. So, you know, I do think this is not just the bark of tariffs, but the bite of tariffs, and it's going to be painful.

**Mikaela McQuade, 10:18-10:34**

That's exactly right. And to your point, the bark of tariffs is just as impactful to markets. What you've seen is that the actual tariffs themselves and the impact markets is dwindled by the uncertainty aspect and that actual kind of drag economically of that.

**Pedro Antunes, 10:34-12:33**

Yeah, and I think this is, this is the end game.

I think the point what we're looking at here is essentially the trade deficit that President Trump keeps talking about this is in US dollar terms, and you can see it's nearly 1 trillion trade deficit that the US has with the rest of the world.



But there's two points I want to make on this. So, first is that you don't want, well, you can't expect that you'd have a balanced trade with every country in the world. And when we think about Canada, for instance, half of what if half or more of what we trade with the US, what we export to the US economy is essentially resources, energy, electricity, let's not forget and other key inputs into US economy. There is no reason at all we should have essentially a trade balance on the good side with the US economy. And in fact, we consume a lot of firms. Almost all of our autos are consumed from the US, and we import more cars than we export, certainly. And if we look at the trade balance in manufacturing, we're essentially the US is in surplus with us. The other point, I think, is that what you're seeing in these in the deficit is supported by essentially a surplus on the capital account.

So, somebody is willing to lend the US money and bring money into the US economy to take advantage, essentially, of what has been a phenomenal economy over the last certainly over the last two decades, US has been a leader in productivity. It's attracted investment into that country and the so. So, the balancing act here is, really, there's a deficit on the trade side, but there's a surplus that's essentially due to investors wanting a piece of action in the US economy. So that, in fact, is a good thing for the US economy to have that capital investment coming into the country.

#### **Mikaela McQuade, 12:33-13:02**

And I think it's important to contextualize this in the broader agenda of the Trump administration that we tend to lose sight of if we're so narrowly focused on tariffs and their economic impact, and that is that this is within the context of an aggressively nationalist and protectionist kind of trade and foreign policy and immigration push that we'll see kind of the administration able to capitalize on what is a long standing grievance rhetoric from its base that this lends itself very well too.

So just leave it at that.

#### **Pedro Antunes, 13:02-15:14**

All right, so this is where we're at, and just very quickly, I'm sure folks may have seen this slide as well.

We're looking at the effective tax rate over a long period of time in that lighter blue line, and you can see the essentially the jump, and we're not quite sure where we're where we're at right now, there's a jump from Liberation Day. Then there was a slight pullback, because we've removed the tariffs on most of the countries, or at least held back on tariffs from most of the countries that were announced on Liberation Day in, you know, including some of our smaller countries like Lesotho, the islands where the penguins live, and St Pierre, Michele, for instance, but just a little bit ridiculous around these Tariffs applied to all of these countries in the world, but we've pulled back on that, but we've ramped up the tariff war with China.



So, the sense that we're getting is that we're still at an effective tariff level for the US economy that is really, really high historically. Not only that, but we're also seeing that the share of imports in the US economy is much, much higher than it was, certainly at any time in the past when tariffs were this high.

So, this is just the impact of these tariffs on, again, on the US economy, are very grave. And there's this idea that, in fact, China is in a worse position, a worse situation, more dependent on trade than the US. But when you start to dig into the you know, essentially what, essentially what the US is importing from China, you start to understand that a lot of those imports have a lot of value that is generated within the US economy. So we're all over the map here. This is not a policy that is going to be helpful to the US. And whether you know who blinks first on this is still, you know, there's still a lot of questions around it.

Of course, we. Seen us blink during the weekend, take some tariffs off of electronic goods, etc.

But again, we're just very uncertain as where this will land, and of course, how long it lasts will be. You know, the key question here.

#### **Mikaela McQuade, 15:14-16:32**

And I think in terms of who could blink first, I think it's important to note that China has spent the intervening years between Trump's first administration and the second, preparing for a protracted trade war with a kind of second Trump administration.

So, they have a lot more fiscal firepower, and they've exerted kind of a lot more kind of long-standing potential to bear the pain than maybe the United States could. What you saw in terms of the United States backing off of certain tariffs, I think is an indication of where a lot of this tariff conversation will go when it comes to the most consumer facing goods, and wanting to kind of insulate consumers, and ultimately voters, from a lot of the pain of this tariff war.

I think in terms of the deadlock, it's also important to note that both the United States and China are desperate to get to a negotiating table. Both of them are interested in deescalation, but both of them want to win. And really importantly, we tend to think of China as a bloc, but realistically, Xi Jinping has domestic political constraints as well, and he cannot enter a negotiation table with the United States unless there is seen to be kind of a notion of at least mutual respect, and right now, I don't think that exists in terms of how negotiations or tariffs have been handled, but it's a key kind of milestone for being able to unlock the deadlock, so to speak.



**Pedro Antunes, 16:32-17:29**

Well Michaela, Trump did say that he had a lot of respect for the Chinese people, and he that Xi Jinping just didn't know how to negotiate, and that was a problem.

They're coming to it. We'll see. All right. Well, so what is all this leading to?

Well, just leading to phenomenal things happening, not only in terms of stock markets and equity markets, which we're seeing here. This is just daily data right up until, in fact, it includes right up until Friday, the slide and then the recovery, and then the kind of sideways movement that we've seen in the last two days. But just phenomenal, phenomenal that, you know, essentially a policy that is being applied is having so much impact on the markets.

And Mikaela, I know you want to talk a little bit of maybe I'll let you step in here just in terms of what's happening as well with financial markets.

**Mikaela McQuade, 17:29-19:20**

Absolutely.

And I think we're especially exposed to this as deals partners within PwC Canada, where a lot of my colleagues focus on mergers and acquisition activity in the market. And I would say whether you're looking at this in terms of the S and P and TSX Composite Index, whether you're looking at the VIX in terms of a measure of volatility, or you're looking at some of the other indices available, like the global measures of policy or economic uncertainty, I think you're seeing the same story play out, that these tariffs or the even the threat of tariffs, have the ability to absolutely crash expectations around certainty or raise expectations around the Long term risk profile of a lot of the trade that industries and investors are exposed to, I would say, really importantly, when we think about this, is that markets are quick to react.

And you saw that at kind of markets rally on the single tweets or social media posts for President Trump saying that things would get better, or Katie, when announcements are made rapidly. They're also slow to manifest in really drastic decisions. Most of the activity that we've seen so far in the market is that investors and businesses are holding their breath and trying not to make drastic business decisions, understanding that that uncertainty is so high and that they don't know where things are going to go with the administration or kind of with international trade flows, or what they might be subject to in terms of tariffs, they're also slow to exit the market in terms of these big dips.

And it's really important that there's a long hangover of market uncertainty that businesses will be reticent to re engage in the same way supply chains will have reconfigured. They'll be reticent to engage with the same partners.

So, when you look at how things will shift at the end of this, which will hopefully come soon and quickly. I think it this is an important feedback loop to policy makers that are especially



sensitive to either investors in the investment community or Wall Street or other kind of business actors, as the administration has at least in the past proven itself to be.

**Pedro Antunes, 19:20-33:44**

Yeah, and essentially all of this, how should I say uncertainty is, you know, essentially leading to revisions downward on the global economy.

Now, when we think about global growth, and there's two reasons why I thought we should take a trip through and look at what's happening through a few areas, a few countries and a few regions in the world, because it not only lends itself to what's going on in the world and the implications of the tariff war we're currently living, but also gives us a view into where Canada might, in fact, move its trade ties and look to expand and diversify. By its trade relations.

So, we'll go on that path now. World economy is certainly already on a path of slowing growth. We know that because, you know, some of the fast growth maturing economies, especially China, we're already seeing some trouble and on a kind of a declining path. But and we had certainly lingering pressures from inflation. We've already talked about de globalization, and the impact that de globalization is having on most developed economies, ability to bring inflation back into the target ranges that the central banks are looking for. So, we hadn't seen as much success. Certainly, in Canada, we've seen the Bank of Canada lowering interest rates, perhaps more quickly and ahead of many other regions. But in most developed economies, inflation seems to be a little bit sticky. They can't quite get it to 2% and in fact, I would argue that might be, in fact, the case for Canada as well. So already we were seeing essentially not a return to these very low interest rates, and this sense that it was going to be perhaps harder to get the global economy back into a strong growth mode, with these pressures of ongoing fairly high interest rates.

But the world, of course, now, with, with this tariff war has changed completely. We're seeing a situation where tariffs will obviously add to inflationary pressures, and we've just pummeled business and consumer confidence as we've been talking about so again, this uncertainty in the threat of tariffs and the unknowing of what's happening and what's going to evolve, just even days or weeks or months ahead is just really hurting that investment decision.

So, let's just go right into it, trade wars and uncertainty eroding global growth. I think there was a sense that perhaps we would see in 2025 and 2026 a slightly stronger performance. This is the very latest from the OECD their forecast for the next two years, which includes some tariff hits, but does not include this was done in March, does not include the Liberation Day tariffs. So again, a lot of uncertainty. What the OECD is telling us is, on a global basis, a 10% tariff would lower growth by about point three percentage points. So already we're seeing that eroded in this scenario, but with the scenarios to come, with the uncertainty



that's happening, I think we're already looking at and staring at something that is very optimistic for the next two years. And you know, if you go back to, you know, looking at where the trend is for global growth, because, of course, we have developed economies that are growing more slowly, but developing economies grow more quickly. You know, anything below that 3% starts to feel like a recession, or certainly not very strong growth in many economies. And that's what we've lived through in 2024 essentially even in 2023 so not a lot of how should I say, bounce back in in the in the years to come, especially again with this tariff war that we're on.

I just wanted to reiterate that point about the US being such a, you know, such a strong economy. And we've heard very different message from the current administration in the US. But if you look at growth over the past four years in the US. This is the darker bars here. First of all, the hit from the reset from the pandemic, was much less in the US than it was in Europe. Certainly, in Canada, we also had a decline of 5% in real economic activity. But the bounce back in 2021 was almost was just as strong for the US, and since then, that economy has been just forging ahead despite the high interest rates that we saw in 2023 and 2024 compare that to the euro area, or compare it to Canada, much lesser performance in in relative to the US. So, to say that the US economy was struggling prior to the, you know, prior to today is absolutely not true. We were, we were thinking that we were going to see a US economy slowing down. But now, with the tariffs impact, this is our forecast, not the OECD for the US. We're seeing the US economy down to that one and a half percent range. But again, we're, you know, just playing catch up here with the policy changes that we're hearing almost on a daily or weekly basis.

Certainly, I just want to touch through China as well. China's economy was, has been really suffering. In fact, in, you know, we've heard about the, you know, the problems with the with the real estate market in China, they haven't really been able to get their consumers, consumer spending up. Employment has been suffering. And in fact, in 2024 growth held up fairly well, but it was really due to a lot of government programs and spending by. The way the US, the Chinese economy now, or the Chinese the Chinese economy overall, is selling US Treasuries to keep its economy going. So, whereas China was for many years buying a whole lot of US Treasuries, it is now putting back on the market, and we've seen a fairly significant decline in the holdings of US Securities, so that they're essentially using that money to support their economy. But the economy is still frail, especially as we go into this tariff war.

And again, this is the OECD forecast for 2526 I think if you know, given what's evolved in the last few weeks, this is pretty optimistic for an outlook India is interesting. And again, we're going to go back to, you know, fast growth markets in the world, and markets where we may look to trade more as we get into our discussion. But India really has not performed very strongly in comparison to China, if you if you know, if you seen the reports recently, India recently became the world's most populous country at just over 1.4 billion, just slightly



more than China. And there was a time when we thought that India was going to relive, or live that that strong growth that would allow its its economy to grow on a much stronger per capita basis, like China has done, but it's still very much a laggard. There's been a lot of reforms that were put in prior to the pandemic. And looking ahead now, there is some hope that we're going to see India's economy actually doing better over the next couple of years than it did in 2024 we'll see how it goes. India is a very services based economy as well, perhaps not as I say, not as impacted by these trade wars, but really, we'll have to see if India can sustain and maintain some stronger growth over the next couple of years. I also wanted to talk quickly about ASEAN economies.

So, if we think about the last three slides I just showed you, China, India, ASEAN economies. We're talking about, you know, 1.4 billion people in India and China together. That's 2.8 here's another 600 billion in the ASEAN region and Southeast Asia, essentially. And you know, essentially, we're talking about half of the world's population with really quite strong, especially in this area, quite strong outlook for per capita growth, because population growth in these countries is really lowered and really timid. It's in line with a lot of that in a lot of developed economies, Malaysia and especially Singapore. Singapore is a very wealthy country. These are not developing economies. Malaysia and Singapore are more or less developed economies. But still, we're seeing a lot of opportunities, and we are signing free trade agreements. We're working on free trade agreements with this region, with some of these countries, Indonesia, we have signed just very recently, a free trade agreement. We just haven't ratified it yet. But I think again, as we keep our eyes and our focus on where can we diversify, this is a region that I think we should keep in mind, certainly very quickly on Canada, that sinking feeling, I'm sorry to say, but it's not very good news for Canada.

We're looking at this, this tariff war, and again, I think we're seeing more and more bark, sorry, more and more bite from these tariffs than we were originally expecting, even as we look at the latest rounds. You know, Canada wasn't an implicate. What wasn't mentioned, I guess, in the in the Liberation Day tariffs, but certainly we were made mention of in the speech that President Trump gave, talked a lot about supply, managed agriculture in the dairy industry that we have here, talked about those tariffs that we have the quotas and the tariffs that we have on dairy.

So, we're not out of the woods yet, even if we didn't get the brunt of the hit on Liberation Day. But this is just killing confidence in Canada. You can see consumer confidence. This is a series of questions that we've been asking households in Canada for a long, long time, the same kind of questions, how do you feel about your job prospects? How do you feel about your financials? And we're down to where we were in the pandemic in the month of March, with the latest reading, similarly on business confidence, a similar kind of survey. We do this one Quarterly. We just got the first quarter business confidence numbers, and with the exception of one quarter that we had during the pandemic, we're just as low as we've ever



been in terms of business confidence. And this does not bode well for, you know, essentially, driving investment or employment, really. In this country.

So again, I won't give you the forecast, because, you know, we're still working on a revised forecast with the latest, how should I say with the latest tariff news? But I can tell you that the impact is going to be very dependent on the length of time that the tariffs last. We keep thinking, and I think it's still a valid How should I say assumption? We keep thinking that when that essentially, these tariffs are untenable for the US for any length of time. So, our assumption has been in the in the baseline forecast that we completed, and in some prior work that we had done, that we're going to get a hit that lasts a quarter, and then these tariffs will be off. Hopefully, if the tariffs stay on, though, the hit that you're seeing here, both in terms of employment or GDP, that would be essentially, that would stay so those lines wouldn't bounce back in the next quarter. They would stay low. And here we're talking about taking 1.3 percentage points out of growth in Canada. So, if that were to stick, if those tariffs were to go beyond a quarter, we'd see those kinds of impacts just lasting, and in fact, growing and getting worse over time, the employment hit. We're talking about 136,000 jobs here. You know, this is a massive hit, especially in the manufacturing sector. But again, we're working on this. The point here is that it is very dependent for both the US, for Canada, in fact, for the world economy, very dependent on how long the tariffs will last.

All right, so what can we do?

A few of these things we've been talking about before. I'll just mention them quickly. But you know, certainly in terms of attracting investment, this is something we've been talking about for a long time. Mike will know this, and Mikaela, I'm sure you've, you've heard these themes as well, but you know, we do need to level the playing field on attracting private investment.

There's a whole lot, a lot of issues that we need to address, including tax reform, but if we focus at least on the R and D and tax sectors, at least we'd have some opportunity there to gain some wins on the knowledge economy side of the of the ledger. We've been talking for years. I mean, I started the board many, many years ago, and, you know, Mike and I worked on interferential trade barriers, we kind of gave up for a while, but certainly I think we're seeing that issue revived. And in that third bullet, really the issue around again, focusing on the knowledge economy, focusing on where we win, where we have been winning and growing. Our economy on the services side seems to be less attention paid by the US administration on the services side of the economy, on services exports.

So maybe this is something that we should continue to do, but the last two points are what we're going to be focusing on in the next section, and that is essentially, how can we address the challenges that we're going to see in our industries from this trade war and tariff war, which, as I mentioned, you know, even if we see tariffs last a quarter, I think the pressure is going to be ongoing. We're going to see ongoing pressure.



You know, what can we do? Well, if we do need to meet our NATO targets, you know, maybe there's something we can do around our defense, ramping up our defense spending, and aligning with some of the gaps that we have here in other areas of the economy. And lastly, we have many bilateral trade agreements. I think Department of Foreign Affairs boasts like 15 free trade agreements that we have with the rest of the world. We have to take advantage of those. And we'll take a look at some of those thoughts in just a moment.

**Mikaela McQuade, 33:44-34:50**

And I think if I could chime in here just towards the end, they'll be quick, because I know we're desperate to get to audience questions, but I think really importantly, this is in the context that our partners, both from a security and a trading perspective, are reevaluating both their own security and their own kind of economic picture for the future, at a time when Canada is doing the same, which offers us an extraordinary opportunity.

And I think that Canada has been both a great security and economic partner to a lot of those countries. So, we're particularly well placed. I think in addition to what Canada can do, it's what Canada must do in terms of governments behaving differently and shifting from kind of a traditional economic model to one that is catalytic, fundamentally in terms of economic activity, both changing it and kind of traditional economic activity, and making it more productive and more beneficial for all Canadians.

And I would also say that there is also kind of an imperative to balance, or strike the right balance, I should say, between private and public capital, which governments can be a lot better at. I think, in terms of both attracting investment and being diligent with how they spend their own kind of fiscal firepower.

**Pedro Antunes, 34:50-36:26**

You're right. Michaela, we are.

We do want to get to our discussion, but just very quickly, when we are rethinking about our global partnerships, diversify. Trade, retool tariff hit sectors, invest in strategic industries and boost defense spending. So, this is the kind of themes that we're looking at in this study that we're talking about today, and that we'll have out on our website soon.

But I thought I'd just bring two points here. One is this gravity model of trade. You know, economists like to simplify everything in the world, but we have this essentially a model of trade that talks about proximity, free trade, whether you have a border with the country, as being a big driver, of course, of trade. And of course, we can add a lot of other things to that gravity model of trade, like common language, common history, geopolitical alignment, all of



these things, and it fits so nicely with the US, or at least it did fit so nicely with the US up until very recently.

And this is why we've had such an extraordinary pull, and why almost all of our trade, or certainly our exports, are to the US economy. But again, now is the time to move away from that. We can't be so dependent on that one economy. And the thing that's really important here is, given the situation, given the Liberation Day announcements that we just saw, we're not alone in seeking to diversify. Many other countries across the world are seeking to do that. So, I think there's really a lot of opportunity at the present to really build those trade ties elsewhere.

### **Mikaela McQuade, 36:26-38:01**

Pedro, you and I, in preparing for this, had talked a little bit about Canada's status as a middle power and what it either affords it or what it costs it in a circumstance like this.

And I think it's really important to really assess what our place in the world is when it comes to multilateralism and our long-standing commitment to it. And I think if we are a middle power, and we have been long standing advocates for things like diplomacy and peacekeeping and rules-based governance, including rules-based trade, I think that we're going to be a reliable ally to a lot of people in this conversation.

But Canada now has to find a way to shift its and adapt its foreign policy to be more strategic in terms of its economic interests. And that's not just moral that gets into alliances and defense packs and kind of the defense of small liberal values on the global stage, but it's really kind of retooling Canadian foreign policy from that middle power status to kind of a middle power heavyweight when it comes to kind of economic negotiation. So, I'd say that should be the front and center when we consider that gravitational pull towards the United States, which we hadn't necessarily talked about. But one thing to be clear eyed about is that Canada will continue to trade with the United States. A border isn't going up and stopping all trade flows. We will maintain our status as a highly integrated North American economy. What that looks like to and through the renegotiations of the usmca or Cosma or NAFTA, or whatever you want to call it into the next year, is an open question, but in the long term, we will be trading partners with the United States, so we're going to have to walk and chew gum at the same time in terms of finding new trading partners and reassessing our supply chain risk. And our trading risk with existing ones.

### **Pedro Antunes, 38:01-41:31**

No, absolutely, absolutely.

So, I have just, well, actually here, here is what we're going to talk about in a second. But the alliances that old, alliances like the UK and Europe, where we essentially were



underperforming, really in terms of our trade, we need to align with, you know, essentially, fast growth Asian countries, as I mentioned, such a big part of the world, pop world's population, and some really fast growth in terms of GDP per per capita, per person, those economies are getting, are getting wealthier over over time. We need to be able to be tapped into that and take advantage of that. Easier to, how should I say to trade with a growing economy than to essentially, how should I say displace trade with an economy that's more how should I say more mature and has less growth? China and India, of course, you know, we have our challenges with security and diplomacy. We've had a lot of tough issues with those countries, and as you mentioned, the US, which we will always be trading with, and certainly a lot of important relationships that will not break with our relationship with the US. Just a quick snapshot. This is a global GDP shares. Let's not forget the US is, despite its smaller size, still 26% of the global economy. You can see the rest of it with China a big, big cloud there, but of course, many more people. But it's important to remember that the US being a smaller population, even though they're much wealthier on a per capita basis, it does mean that there's certain aspects of their consumption is going to be different. China, for instance, consumes twice as many vehicles right now as the US does, even though it's a smaller economy in terms of its total GDP cloud on a current exchange rate basis. So just a quick snapshot of how dominant essentially China the US.

But look at the European Union as well, a big, big market, which, whom, which we have free trade. And essentially, I think we can take advantage of, or more advantage of, this is our trade with the world. Just, I think everybody's very aware of this, but 76% going to the US in 2024, and current account basis, sorry, on a current dollar basis. And I think we'll just move into our last point that's really important. So the size of the economy is important, the growth, of course, as we discussed. But let's also be aware, very aware, of exchange rates. And you can see here, essentially, what this chart is showing is how the Canadian dollar has evolved since 2019 versus all these other currencies. And it's important to keep in mind that currencies like the yen, the won the South Korean currency, even the Australian dollar, have depreciated vis a vis the US, whereas we've kind of held our own.

And so, all of these currencies, and we're talking about major depreciations here, vis a vis the Canadian dollar. You can see the Yen is at 80% means a 20% depreciation Since 2019 so these are important considerations when we're looking at essentially the viability of trade with some of these countries. Of course, the US now in the last month, this is up to April 11, going the wrong way here, and of course, that's also very concerning about what's going on there.

So, Mike, we're a little over time, but I know you have some questions, and maybe you've been gathering the audience questions as well for us.

**Michael Burt, 41:31-42:03**

Yeah, for sure. Thanks. Thanks everyone, and thank you both, Pedro, Michaela.



Lots to talk about in in a very short period of time. Um, been trying to kind of gather together some questions for the audience. I do think, I mean, one sentiment, I think I can see here is, you know, never waste a good, good crisis. Every crisis is an opportunity, if you think about it, if this is an opportunity for Canada, where, where should we be going first? I mean, maybe Michaela is the guest. I'll ask you to pine on that one.

**Mikaela McQuade, 42:03-43:22**

Absolutely.

And I think I'll probably end where we're start, where Pedro ended, in terms of what are those blocks that we have the most long standing and natural alignment with in Europe is, is obviously that, and I think we have a unique position in the context of the North American Treaty Organization or NATO that are kind of between a rock and a hard place when it comes to the United States. United States and its positioning on the world stage, and the uncertainty around the NATO alliance and obviously Russia is a big part of that.

But I think when we are so closely aligned in values, in trade and defense, when we have existing trade agreements in place and have been working for a long time to improve our trading relationships with the EU when we have kind of economic alignment between our priorities, especially when it comes to things like decarbonization. A lot of the Canadian climate policy framework and energy transition policy framework is modeled after the EU and kind of in line with similar objectives and tools in place. I think that there are a lot of opportunities, from a resource perspective, to for Canada to bolster its trade with the EU. And realistically, when you look at at what we're good at and what the EU is good at, there's a lot of really good, usually beneficial pieces to come together when it comes to either manufacturing expertise in the EU or resource wealth in Canada.

But I'll let Pedro add, if you'd like to.

**Pedro Antunes, 43:22-44:34**

Oh, yeah, just well, very quickly, yeah, I would agree.

I think we're seeing, essentially, we are a resource economy, and we do have a lot of opportunity there, with Europe. I think Europe needs resources. We've heard a lot about, for example, Germany looking to Canada for natural for hydrogen and natural gas as well. So there's, there's opportunities there. Of course, Europe is manufacturing some very strong economies there manufacturers there that, you know, we could trade with, rather than just the US.

We're also very closely aligned in values one thing, and we, and we do have that free trade agreement that we've been I don't think taking advantage of enough. The only thing I would



say is that Europe is not one country, and it's so it's not as easy as it might seem. It's not a single market, necessarily, and they have different regulations around that perhaps are stricter than what we see in the US. So, we need to keep that in mind as well. But let's not forget, it is, well, it used to be 500 million people until, until Brexit. Now, I think it's around 450 million or so, but it's a big wealthy market that we need to tap into.

**Michael Burt, 44:34-44:40**

Thanks, Pedro, anything specific on UK is it's not part of the EU, yeah.

**Pedro Antunes, 44:40-45:53**

Well, it's interesting, in fact, because again, if we go back to that gravity model that we talked about, you know, one of the, one of the pieces that often shows up as you know, how should I say that encourages trade between colonies or between countries, is these kind of colonial past, colonial ties.

And so, you think we do.

Well with the UK. But in fact, when when we look at what we export to the UK, it's almost just gold. The amount of gold that we export to the UK is about \$22 billion in 2024 out of \$28 billion that we export in total to the UK. So it's the London Metal metals Exchange, or they sell gold into Europe. And they're kind of our facilitator into that market. But aside from that very, very underperforming trade with an economy that is, of course, not only an economy, but a partner really, that is very close to us in all the things that we do, geopolitical alignment, our views on Ukraine, you know, you name it language, and we do have that continuation of trade agreement with the UK that that was extended after the UK Brexit.

**Michael Burt, 45:53-46:27**

Thanks, Pedro.

Maybe I'll move over to Asia now. We had quite a few questions comments related to India and China, certainly, people wondering about, from, from the case of India, how, really, how much it was an opportunity, given some of the political streams that we have with India right now, in the case of China, multiple countries trying to build relationships with them, like, How well positioned are we to take advantage?

**Pedro Antunes, 46:27-48:27**

Yeah, well, I mean, maybe I can. I can start here.

But, you know, I think when we think about India, obviously the relationship soured very recently, given what you know what transpired. But when we, when we certainly it's a, it's a big market. I think I showed the size of the economy of India there relative to China. It's a



much, much smaller market in terms of its wealth on a GDP per capita basis, but it is a big market in terms of population. I think they're desperate for a lot of things that we can offer, especially on the services side of the economy as well. You know, when we think about trade and focus on our knowledge side of the economy, you know, things like educational services and others, I think is something that Canada has been doing very well and but there are challenges, and the trust on a, you know, kind of a geopolitical basis is kind of eroded.

So, I think we need to be also very careful about our trade relationships with some of these countries, certainly with China we've seen. I mean, I think I go back to the issue with Huawei, when essentially we weren't really the problem. There. It was the US that wanted the essentially the Huawei executive, how should I say arrested? And, you know, Canada essentially ended up burying the worst of the trade repercussions from China on that China didn't really want to take on us, so we bore the brunt of that, and we're seeing that again with the tariffs that were applied on canola and and some of the other restrictions that China has put on recently, again because we tend to be a lesser market and easier to beat up on. So, I think the situation with both India and China, we have to be very careful. We have to enter with eyes wide open, and we should be focused on minimizing risk when we trade with those countries.

**Mikaela McQuade, 48:27-49:15**

And I would say, like where we started, in terms of bolstering our traditional relationships with the EU, with NATO countries, with kind of our traditional allies, that remains important, deep in our collaboration with countries like Japan and Australia, where we have kind of shared values and deep kind of societal alignment is also very important.

But as geopolitical influence shifts into different countries and different leaders and styles and of governance, I would also say that it's important that we seek strategic partnerships with emerging economies where that influence is shifting, irrespective of whether or not we necessarily share all their values. And that's kind of where the China question comes into but there's a lot of other countries too, when we think of emerging markets and where kind of global geopolitical power is shifting that we should be focusing on as well.

**Michael Burt, 49:15-49:31**

Thanks, Mikaela. Maybe we'll ask a follow up question of you, because we did have a few questions, I'd say, fall into the bucket of, what about the rest of what about the rest of the world? So, we have questions about opportunities in Africa or South America. Do you, either of you have anything to expand on there?

**Mikaela McQuade, 49:31-50:05**

I think, well, I'll start in Pedro. I'm really interested in your thoughts on this one as well.



I think this has to be an all of the above approach for Canada in terms of seeking out sources for enhancing trade and for, ultimately, kind of bolstering long term economic growth in the emerging markets that will depend on for global growth. So I don't think I would necessarily rule anything out, and I think Canada so far has done a good job with trying to expand our Free Trade Agreement network and expand our lens for how we how we go about both. Between those relationships, both from a trade and non trade perspective as well.

Pedro?

**Pedro Antunes, 50:05-51:31**

Yeah, I think, for when I think about South America, I mean, obviously we have a free trade agreement that includes Mexico, but yet, our trade, direct trade with the Mexico, has been quite, quite small, really, indirect trade, obviously with the supply and integrated supply chain in autos especially, is obviously there, but our direct trade with Mexico is quite weak.

And, you know, possibly we could do better there. And I also would go back to our services side of the economy again, when we think about, you know, Asian markets, developing markets in Asia in Africa or in South America. You know, I think a lot of the benefit that we can provide our engineering services, insurance services, for example, the insurance industry has been quite doing quite well at selling or at exporting to underserved markets in a lot of these countries.

So, I Yeah, obviously there's opportunity possibly in on the good side, but also on the services side. Canada has not been very successful in growing its trade on a good side, outside of the resource sector, outside of energy. So, I keep coming back to that, because we have done phenomenally well at growing our service sector, exports, not just tourism here, I'm talking about essentially commercial services, where we've really had lots of success in recent years.

**Mikaela McQuade, 51:31-52:06**

And I think part of answering this kind of call for action is I saw a question flip through about 40 questions ago on the Q and about whether or not this crisis will kind of spur developed economies, especially Canada, into adopting and leveraging the full potential of artificial intelligence. And I think that's a really good proxy for investing in productivity and really bolstering what we can get out of our services and get out of our goods as we as we look to export them, and using that as kind of a key pool, key tool for driving domestic economic improvements as well, so that we can keep our whole house in order.

**Michael Burt, 52:06-52:36**

I might riff a bit on one of the questions that I saw here. Someone, someone asked, Why do



you think the US administration is so blind, or seemingly blind to trade and services? I mean, it's hard to speculate on what's in the heads of of them, of the folks there, but just, just on your comment.

Michaela, right now, like, it's especially if that's something that's not on the radar, is that an opportunity for us?

So, I don't know. Pedro, Michaela, one of you want to comment on that. Basically, what are the opportunities and services?

**Mikaela McQuade, 52:36-53:14**

Well, I would say I the one aspect that I would add to this is the current brinkmanship between the US and the EU when it comes to tariffs on services, and largely that's kind of been kept out of this conversation for very important reasons, or out of the conversation between kind of global governments. But the threat does remain that should cloud based services be tariffed in the EU, it would be a disastrous hit to a lot of American headquartered tech giants. So, there is kind of a continued threat of using that from the EU that's helped them de-escalate a lot of the trade tension with the United States.

But maybe Pedro has a different perspective from the Canadian perspective.

**Pedro Antunes, 53:14-54:41**

No, no, I don't think I can add to that.

I think, you know, again, I think we, I'm not quite sure why it's under the radar for President Trump. But you know, obviously, when we hear President Trump talk about the trade deficit with Canada, the US trade deficit with Canada, first, it's all the wrong numbers, and then it doesn't include, it doesn't include the services side of the economy. We have a lot of folks that, well, a lot of folks that used to go south for the winter. Don't know if that's going to change, but it's seemingly in the latest stat scan numbers that is changing. And maybe that'll cause the US to pay more attention to, you know, I think the US is going to take a major hit here, from all countries traveling into the US, into the into the US, for tourism purposes.

So that is one area where they're going to get hit. And maybe that'll bring more attention to it, I don't know. But right now, what I'm talking about, or what I was mentioning, was the commercial services side, where, you know, Canada has been really doing, doing very well.

Oh, and Michaela mentioned something around AI. We're actually doing a fair bit of work on how much productivity game might we get from AI, and it's looking pretty phenomenal. So, you know, we're hopeful that this is something that can at the same time, you know, growing



that sector of the economy, but also growing, essentially, its influence on our aggregate productivity.

**Mikaela McQuade, 54:41-54:56**

I would also say on services, it's less politically palpable when you think about what the drum beat behind this trade agenda is and who it's trying to appeal to, in terms of Trump's voters, services tend to resonate not as much as manufacturing jobs. So, I would just say that it's an important kind of political overlay too.

**Michael Burt, 54:56-55:36**

Consider that too political consideration for sure.

So maybe combine two different types of questions I'm seeing here.

One, one is around, you know, we've got free trade agreements with 50 plus countries. How do we, how do we, how do we take advantage of that? How do we deepen that? And then the flip side of it is, you know, how realistic is it for us to actually pull away from the US, given your your point, Pedro, around the gravity model and all the things that, geography, language, culture, history, etc, etc, that really link us with the US. I don't know if you want any tackle one side and the other one, when the other but I think it's a good follow up question.

**Pedro Antunes, 55:36-57:04**

Yeah, well, I think it is obviously, you know, trade isn't done by governments or policy makers or economists. It's done by business.

And, yeah, I think essentially the motivation was always there for, you know, essentially, a huge partner. The gravity model does talk about size of the economy and closeness. It is like gravity; two big economies close together that will drive a lot of activity. But I think here the point is that, you know, we are going to see businesses looking for other options. We are going to see businesses wanting to diversify away from one single market just because of what we've lived through, not only in this administration, but, you know, four years ago, in 2016. Well, four years ago, eight years ago, I guess in 2016 we had a similar situation caused upheaval. And I know for a fact that it did move investment.

In some cases, it did cause a lot of angst for Canadian businesses. So, yeah, I think the motivation will be there. The other point I made was that the motivation is there, not just from a Canadian perspective, but from other countries perspective as well. So, I think the fact that everyone is looking to move trade ties away from US, this will help us kind of bridge and make those, make those essentially commercial ties more easily.



**Mikaela McQuade, 57:04-57:45**

I would add to that, that the US is and will remain the single most important consumer market in the world period everyone wants access to it, whether it's through free trade or not, or free trade agreements or not. And that will be true of Canada as well. There were some chats or some comments in the chat as well about self-sufficiency and building kind of our own value add supply chains. Canada doesn't have everything that Canadians want fundamentally, and that's why we've been beneficiaries of globalization, both from a trade perspective and from kind of a domestic consumer perspective. So, I would say that no matter what, as Peter alluded to, that kind of supply chain integration will exist. It's now a matter of de-risking it for a lot of Canadian businesses and Canadian governments as well.

**Michael Burt, 57:45-58:06**

Thanks. We're getting to the end of our time. One last comment or question for both of you. We're all economists. We tend to look at things from a perspective of risks.

Anything positive we can say out of all this, any, any anything inspiring for our audience as a closing thought.

**Pedro Antunes, 58:06-59:12**

Well, I mean, I could, I could start the positive comment I was thinking of was that, you know, the President Trump will be in power for a limited amount of time, hopefully, and things may change three, three years down the road. So, I do hope that we'll see at some point, you know, a return to having a neighbor that is friendlier and more accommodating to trading with us.

But nonetheless, this is, I think, an opportunity. It is an opportunity to find other markets.

You know, Mike, we talked about intra provincial trade barriers for decades. This is an opportunity to change that. This is, you know, certainly an opportunity to look elsewhere again. We need to have, we need to be more open and diversified, and not have just, kind of just a single market being so determinant of everything that affects our economy.

So, yeah, let's, let's see if we can, if we can move things around a little bit here and become the better for more markets, more competition, better prices for our goods.

**Mikaela McQuade, 59:12-59:47**

Thanks. A similar note and calling it us being focused on risk is a nice way of saying that we are both Debbie downers at dinner parties.

So, thank you for that, Mike.



Well, um, but I would say Canada has the resources and the skills and the drive to absolutely excel in this relation, in this crisis. And I would say that our global relationships are a huge part of that, and we worked long and hard to establish them. So, I think we're really well positioned to really transform our economy and to approach the economic structural change that needs to happen with a lot of grit and determination, and I'm excited for it, fantastic.

**Michael Burt, 59:47-59:54**

Well, thank you to both of you, and thank you to our audience. Hopefully you found us as enlightening as I did. Thank you everyone.

**Mikaela McQuade, 59:54-59:56**

Thanks for having me.

**Pedro Antunes, 59:56-1:00:39**

Thank you, folks.