

EVALUATING CANADA'S FOREIGN-POLICY OPTIONS UNDER U.S. ECONOMIC COERCION AND ASYMMETRIC INTERDEPENDENCE: A POLICY ANALYSIS OF STRATEGIC RESILIENCE

Adnan Zeb^{*1}, Ifrah Awais²

^{*1}Master of Public Administration International Development, University of York-Heslington, North Yorkshire

²BS International Relations, Department of International Relations, Minhaj University Lahore

^{*1}iamadnanzeb01@gmail.com, ²ifrahawais22@gmail.com

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Corresponding Author: *

Adnan Zeb

Abstract

Canada is institutionally closer to the United States, but the structure of Canada's integration with the U.S. is very uneven, with high levels of economic, energy, defence and institutional integration, which means that it is very exposed to disruption. In 2025, 71.7% of Canada's total exports were sold to the United States and 63.4% of Canada's crude-oil imports were from the United States, with 90.1% of Canada's crude-oil exports shipped to the United States. While exports to non-U.S. markets grew, reliance figures are still quite high. This article explores liberal institutionalism, realism, constructivism, and weaponized interdependence as the options that Canada has in its foreign policy. It compares Australia with South Korea in a structured way and employs qualitative policy analysis, secondary trade and energy data to analyse institutional density, reciprocal exposure, and defection costs. The results reveal that Canadian vulnerability is sector-specific, that bargaining power exists, but is limited, and that institutions can limit but fail to eradicate coercive pressures. The article concludes that strategic energy diplomacy, CUSMA institutional defence and trade diversification are mutually supportive means of being more resilient in Canada without separation from the United States.

1. Introduction

The Canada-U.S. relationship is a unique one in international diplomacy, not only due to the extraordinary level of integration that exists between the two countries, but because of the unevenness between Canadian and U.S. dependency. The relationship covers trade, energy, manufacturing, transportation, defence and intelligence, investment, environmental governance and cross-border supply chains. The Canada-United States-Mexico Agreement (CUSMA), North American Aerospace Defense Command (NORAD), NATO and the Five Eyes framework all offer several avenues of coordination between the two countries for their economic and security interests.

But institutionalized interdependence does not necessarily lead to symmetrical dependence. The export pattern of Canada still has a long way to go to being as concentrated on the U.S. market as the overall U.S. economy is on Canada. According to Statistics Canada, in 2025, the United States was Canada's largest export market for merchandise, representing 71.7 per cent of Canadian exports—down from 75.9 per cent in 2024 (Statistics Canada, 2026). Meanwhile, exports to destinations outside the U.S. rose, suggesting that diversification was beginning to take place but had not fully occurred.

The asymmetry is more pronounced if the economic dependence is analysed by sector.

The overall trade linkage is complemented by energy. In 2025, 63.4% of crude-oil imports to the United States came from Canada, and 90.1% of crude-oil exports from Canada were shipped to the United States (Canada Energy Regulator [CER], 2026). The two countries are thus vulnerable to each other, but not in the same places or in the same ways. The current policy challenge is more pressing since economic interdependence has become part and parcel of geopolitical rivalry. Commercial networks can be a tool of state power, as seen in the use of tariffs and other trade barriers.

As of August 2026, the United States enacted \$27.6 billion of tariffs on Canadian exports, which Canada responded with tariffs on \$27.6 billion of its exports as of September 8, 2026 (Department of Finance Canada, 2026). The developments show that institutional economic integration does not eliminate the potential for economic statecraft.

The central question of this article is therefore: What is the right way for Canada to decrease its excessive vulnerability to U.S. economic and political pressure, while continuing to reap the economic, institutional and security advantages of North American integration?

The article contends that managed asymmetric interdependence is the key to understanding Canadian foreign policy. This does not mean that they are not part of the economy of the United States. Rather it's about strengthening useful bilateral institutions and enhancing Canada's capacity to weather the storm, diversify markets, leverage reciprocal exposure, and build coalitions with other middle powers.

2. Literature Review

2.1 Interdependence and Canadian Foreign Policy

An examination of the nature of interdependence and Canada's foreign policy. Canada-U.S. relations can be understood through Keohane and Nye's (1998) notion of complex interdependence. The key points of complex interdependence are that it involves several paths of interaction, the economic and social connections are crucial, and military force is less central in many aspects of interstate relations. Canada and the USA are examples of this with lots of institutional and commercial

integration.

Interdependence doesn't mean equality, though. Benefits and vulnerabilities in an interdependent relationship are distributed based on the relative alternatives that each actor has. A State that has several markets might be less affected by the loss of one market than a State that sells a great share of its exports to a single market.

The question is especially one for middle powers. Partly, middle powers are conceptualised in terms of their diplomatic behaviour, formation of coalitions and their dependence on multilateral institutions, as described by Jordaan (2003). Cooper (2016) also highlights the ability of middle powers to be influential through collective action rather than material power.

The middle power approach has always been the hallmark of Canadian foreign policy. Traditionally, multilateralism, coalition diplomacy, and rules-based governance have played a significant part in Canada's international identity (Keating, 2001).

2.2 Realism and the Limits of Institutions

Institutionalist explanations offer a useful challenge to realist explanations. Mearsheimer (1994) contends that international institutions cannot take the place of the fundamental role state power plays. In this view, institutions can help to enable cooperation, but cannot ensure that powerful states will always accede to institutional rules.

This is a lesson that is applicable to CUSMA. While the agreement establishes formal methods of resolving disputes such as consultations and arbitral panels, it does not rule out that governments take unilateral economic measures.

That doesn't mean that institutions are not relevant. Instead, institutions should be seen as processes and devices which shape the costs and processes of state activity in a context of unequal power.

2.3 Weaponized Interdependence

Farrell and Newman (2019) introduce the notion of "weaponized interdependence" which holds that highly connected global networks can give a state at a strategically critical location

a way to use coercive power. Their model is based on network hubs, chokepoints, and jurisdictional benefits.

This perspective is particularly relevant to Canada, given that it has both high connectivity and concentration in its economic ties with the United States. Canadian companies benefit from having access to the world's largest economy; and when this access is disrupted, it can have significant economic impacts at home.

Canada's status as a significant energy provider offers countervailing exposure along the way. The policy question is thus how to differentiate between those regions where interdependence is a source of bargaining power and those where it is mainly a source of Canadian vulnerability.

2.4 Constructivism and Middle-Power Identity

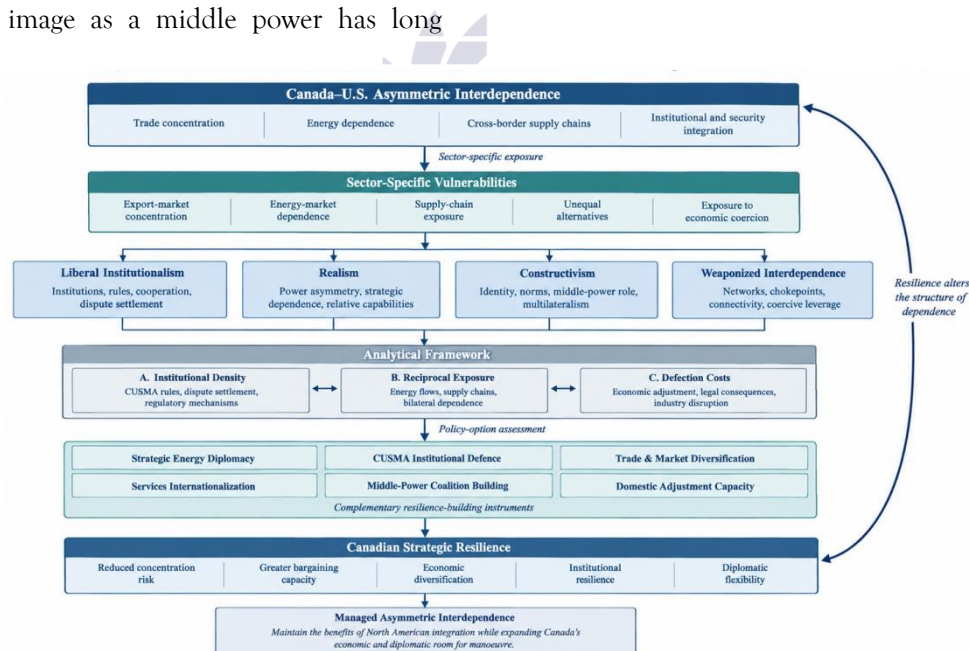
Constructivism thus focuses on the role of identity, norms, and common expectations in international relations (Wendt, 1992). Canada's image as a middle power has long

been conducive to multilateralism and institutional partnership.

But, material constraints cannot be overcome by identity. One factor in Canada's capacity to be a middle power is economic and diplomatic resources. This means that Canada should have a stronger international presence, both normatively as a proponent of multilateralism, and in its economic and strategic diversifications.

2.5 Conceptual framework: The framework explains how Canada's asymmetric interdependence with the United States creates sector-specific vulnerabilities that are mediated by institutional density, reciprocal exposure, and defection costs.

It proposes that energy diplomacy, institutional defence, diversification, coalition building, and domestic adjustment can collectively strengthen Canada's strategic resilience while preserving the benefits of North American integration.



3. Research Methodology

3.1 Research Design

This research is a qualitative policy-oriented research that is carried out with a descriptive secondary data analysis approach and a structured, focused comparative case analysis approach.

The research aims to address a policy question, not provide an estimate of a statistical causal

relationship. Thus, the methodology incorporates:

1. analysis of the primary data;
2. Analysis of literature in international political-economy as a qualitative research;
3. structured comparison of Australia and South Korea
4. policy-option analysis.

5. The policy component has been organized using Bardach and Patashnik's (2020) Eightfold Path, and the international cases are based on the method of structured, focused comparison by George and Bennett (2005).

3.2 Secondary Data

Official Canadian data are employed as the main empirical evidence. The principal sources include official CUSMA documentation, Statistics Canada, Global Affairs Canada and the Canada Energy Regulator.

The secondary data are not analyzed in terms of causal relationships, but rather descriptively.

Table 1

Secondary Indicators of Canada-U.S. Asymmetric Interdependence

Indicator	2024	2025	Policy significance
Share of Canadian merchandise exports going to U.S.	75.9%	71.7%	High export concentration remains
Canadian exports to U.S.	—	−5.8% year-on-year	Indicates exposure to bilateral disruption
Canadian imports from U.S.	—	−2.9% year-on-year	Bilateral adjustment occurred on both sides
Canadian exports to non-U.S. markets	—	+17.2%	Evidence of diversification capacity
Trade with non-U.S. countries	CAD 484B	CAD 553B	Growing external market activity
Canadian crude exports to U.S.	—	90.1%	Strong Canadian dependence in energy
U.S. crude imports supplied by Canada	—	63.4%	Significant U.S. reciprocal exposure
Canadian hydrocarbon exports to U.S.	—	CAD 157.5B	Major bilateral economic linkage
U.S. share of Canadian hydrocarbon exports	—	90.8%	Energy diversification remains limited
Canadian services exports	—	CAD 240B	Important diversification opportunity
U.S. share of Canadian services exports	—	53%	Services are less concentrated than goods

Note. Information sources include Statistics Canada (2026), Canada Energy Regulator (2026), and Global Affairs Canada (2026).

The data show that the Canadian dependence problem is a dynamic one. The share of merchandise exports from the U.S. decreased from 2024 to 2025, while non-U.S. trade increased. But a 71.7% U.S. exposure is still high enough to provide enough bilateral policy change exposure.

The data also suggest that services offer the potential diversification channel. According to Global Affairs Canada's (2026) State of Trade, services exports totalled around CAD 240 billion in 2025 and accounted for only 53% of services exports, while 72% of goods exports went to the United States. This disparity is significant because it suggests diversification can take place while not necessarily replacing the current industrial base of the Canadian economy, but rather expand sectors that are not structurally so reliant on the U.S. market.

3.3 Operationalization of Analytical Variables

Three variables are used to organize the analysis.

Table 2

Operationalization of the Analytical Framework

Variable	Conceptual definition	Operational indicators	Expected policy relevance
Institutional density	Extent of formal rules and mechanisms governing interaction	CUSMA rules, dispute settlement, regulatory institutions	Higher density may increase costs of unilateral action
Reciprocal exposure	Degree to which both states experience costs from disruption	Energy flows, supply chains, imports, infrastructure	Creates potential bargaining space
Defection cost	Economic and political costs of abandoning established arrangements	Adjustment costs, industry disruption, legal consequences	Influences sustainability of coercive policies

The variables are not treated as numerical indexes. Instead, they provide a structured framework for comparing sectors and policy alternatives.

3.4 Comparative Case Selection

Australia and South Korea are chosen as comparative cases because both are middle powers with extensive ties with the United States, and with strong economic ties to other major powers.

Five common questions are used to examine the cases:

What is the distribution of dependence throughout economic and security relationships?

What are the institutional arrangements for vulnerability management?

What are the diversification strategies that have been followed?

What is the balance of security and economic relationships?

What restrictions are there following diversification?

The aim of the cases is not to make direct causal generalization. Instead, they give lessons of policy relevance regarding the ways in which middle powers engage in asymmetric relationships.

Comparative scholarship is recent, and Australia and South Korea are identified as significant case studies of middle-power approaches in the context of major-power competition, with differing approaches of

strategic alignment, hedging and economic engagement (Griffiths & Lee, 2022).

3.5 Policy Evaluation Criteria

Five criteria developed from policy-analysis literature are used to evaluate the policy alternatives:

vulnerability reduction

economic feasibility

institutional compatibility

adjustment costs

diplomatic sustainability.

These criteria enable comparisons without making the assumption that a single policy instrument is always better.

3.6 Research Limitations

There are three limitations to the research. First, tariffs are dynamic, so what is published in 2026 might differ from the tariffs that will actually be in place when they take effect later in the year. Second, trade description statistics provide evidence of exposure but do not provide definitive evidence of the causal impacts of specific policies. Third, there are fundamental differences between Australia and South Korea and Canada with respect to geography, security structures and the economy. There is no effort, therefore, to make policy-relevant analytical statements that could be mistaken as predictions of statistics.

4. Empirical Findings

4.1 Canadian Vulnerability Is Substantial but Sectorally Differentiated

The facts suggest that Canadian reliance on the U.S. isn't consistent.

Automotive manufacturing is tightly connected with cross border value chains. The structure of energy is different: Canada is very reliant on the United States as an export market, while at the same time the United States is heavily dependent on energy supplies from Canada.

Services are another type of product. Their lower share of the U.S. market also implies that there is opportunity to improve economic resilience in Canada by both increasing the number of goods markets and by fostering the growth of internationally competitive services. That indicates that a unified national response to economic coercion may be inappropriate because of the important differences in vulnerability.

4.2 Reciprocal Dependence Does Not Equal Symmetrical Dependence

The energy relationship is the most obvious sign of reciprocal exposure.

Canada supplied 63.4% of U.S. crude-oil imports in 2025, while 90.1% of Canada's crude exports went to the United States (CER, 2026). So, disruption would cost both countries. The type of those costs is different, however. Canada's exposure is extremely high as it exports the majority of its crude to the U.S. market, while the U.S. dependence is targeted at certain commodities and infrastructure networks. It is suggested that Canada has bargaining power for each sector, but does not imply that this extends to the removal of the overall structural imbalance.

4.3 Institutions Create Procedures but Not Guaranteed Compliance

CUSMA offers a significant institutional structure. State-to-state dispute settlement, consultations, mediation, and arbitral panels are established in Chapter 31. In the event a party's failure to comply, the agreement contains mechanisms whereby compliance is required or that allow for the suspension of equivalent benefits (Global Affairs Canada,

2026).

These mechanisms do not have a final say, but rather procedural and strategic. They can offer legal opportunities, ensure that unilateral escalation doesn't occur, mobilize domestic and international support, and create benchmarks for assessing contested measures. They are unable to, however, ensure that a strong state won't enact economically stifling policies.

This reading is in keeping with liberal institutionalism and realism, that institutions count, but that their power is predicated on distributions of power.

4.4 Diversification Is Increasingly Evident

Canada's trade statistics demonstrate that diversification can be achieved

. In total, exports to non-U.S. destinations grew 17.2% in 2025 and total trade with non-U.S. countries moved from nearly CAD 484 billion in 2024 to CAD 553 billion in 2025, according to data from Statistics Canada.

The 2026 State of Trade report is a broader expansion of the non-U.S. portion of Canadian exports of goods and services. It also reflects the fact that Canadian exports of services are much more diversified than exports of goods (Global Affairs Canada, 2026).

The evidence therefore points to the need to think of diversification not just as the substitution of European/Asian demand for American demand for the same products. It also includes altering the nature of Canada's foreign economic affairs.

4.5 Middle-Power Hedging Provides Comparative Lessons

Australia and South Korea are examples of the management of relations with the big powers.

South Korea has a formal security pact with the United States, extensive economic ties with China. Australia also has strong ties with the United States in the field of security cooperation, as well as extensive international trade links. Comparative studies have indicated that these states have tried to balance the security-economic tradeoff in different ways, by combining elements of institutional cooperation, diversification and strategic hedging (Griffiths & Lee, 2022).

The lesson to be learned from both countries is that Canada should not imitate either strategy. The geography and integration of North America are unique. The most easily transferable lesson is that middle powers can keep their close ties with dominant powers while developing alternative economic and diplomatic channels.

5. Foreign-Policy Options

Option 1: Strategic Energy Diplomacy

On the one hand, strategic energy diplomacy. On one hand, strategic energy diplomacy. Canada's energy exposure presents an important source of mutual exposure.

In 2025, Canadian hydrocarbon exports to the United States reached about CAD 157.5 billion, and Canada imported 63.4% of its crude oil, mostly from Canada, into the United States (CER, 2026).

Within the context of energy diplomacy, it might be thought that the value and importance of energy markets, both from an economic and a security perspective, are mutually beneficial to the continent.

Some of the policy instruments that may be considered are:

- enhancing energy security and resilience
- increasing gas consumption of local communities
- supporting energy independence in Canada
- enhancing bilateral ties and mutual understanding through the use of energy security
- diversifying energy sources outside the U.S.

There are some drawbacks because it may be possible for the U.S. consumer to make faster substitutions or domestic economic costs may occur if energy is too much of a bargaining item. So energy should not be used as a means of being permanently coerced, but rather as a tool for negotiation, for capacity building, for resilience.

Option 2: Institutional Defence and CUSMA

The second way is through enhancing the role of the existing institutions.

CUSMA provides formal processes in Canada for challenging contested measures, via its dispute settlement system. This method has the benefit of preserving the principles of bilateral relations.

It also limits the scope of each disagreement to being a wider diplomatic squabble.

But the institutional mechanisms have their boundaries. Legal proceedings are slow, and legal enforcement is in the hands of the law within the political context of an unequal relationship.

Therefore, institutional defence must be used not in isolation from economic resilience.

Option 3: Coalition-Based Trade Diversification

The third line of development is the broadening of Canadian trade and diplomatic ties to other countries.

Canada already has institutional means for diversification via the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), the Canada-European Union Comprehensive Economic and Trade Agreement (CETA) and the Indo-Pacific Strategy.

The CPTPP is a trade agreement between Canada and Australia, Japan, New Zealand, Singapore, Vietnam, Mexico, Malaysia and Chile. CETA offers a significant institutional structure for economic relations between Canada and the EU.

Additionally, Canada's Indo-Pacific Strategy affirms trade and investment and supply chain resilience as strategic goals (Global Affairs Canada, 2026).

The main hurdle is implementation. Market access doesn't necessarily lead to market penetration. Commercial networks, logistics, investment, standards, financing, and continued diplomatic support are needed by firms.

Diversification should thus be seen not as an emergency measure to counter U.S. tariffs but as a long-term foreign-policy activity.

6. Comparative Policy Matrix

Table 3

Comparison of Foreign-Policy Options

Policy option	Main objective	Potential benefits	Key limitations	Implementation requirements
Strategic energy diplomacy	Use reciprocal energy exposure	Increases negotiating capacity; supports energy security	High sector concentration; substitution risks	Infrastructure, export capacity, coordinated diplomacy
CUSMA institutional defence	Preserve rules-based bilateral governance	Legal predictability; formal dispute mechanisms	Institutions cannot eliminate power asymmetry	Legal capacity, coalition support, sustained diplomacy
Trade diversification	Reduce excessive market concentration	Greater resilience; new markets; diplomatic options	Adjustment and infrastructure costs	CPTPP/CETA implementation, trade promotion, investment
Services internationalization	Expand less concentrated exports	Lower U.S. dependence; high-value growth	Skills, regulatory and market-access constraints	Digital infrastructure, talent, international investment
Middle-power coalition building	Increase collective diplomatic capacity	Greater negotiating influence	Coordination problems	Partnerships with Europe and Indo-Pacific states

The matrix demonstrates that the options are complementary rather than mutually exclusive. Institutional defence addresses the rules governing the relationship; energy diplomacy addresses reciprocal exposure; and diversification addresses concentration risk.

7. Discussion

The evidence refutes two simplistic views of Canadian foreign policy.

The first is the assumption that when there is deep interdependence, it will automatically lead to stable cooperation. The modern world of trade is evidence of this: Institutionalized

economic ties are still subject to unilaterally decided policies.

The second is that economic separation from the U.S. is a precondition for strategic resilience in Canada. Bilateral trade, oil and gas infrastructure, manufacturing integration and continental defence are so large, that a quick and complete decoupling will have economic and strategic consequences.

Managed asymmetric interdependence offers a compromise.

In this way, Canada will continue to benefit from North American integration without the costs of too much concentration.

Table 4

Conceptual Model of Managed Asymmetric Interdependence

Strategic layer	Policy function	Expected contribution to resilience
Bilateral institutions	Manage disputes and preserve rules	Procedural resilience
Reciprocal exposure	Identify sectors of mutual dependence	Bargaining capacity

Market diversification	Expand alternative destinations	Economic resilience
Services internationalization	Reduce concentration in goods exports	Structural diversification
Middle-power coalitions	Mobilize collective diplomatic influence	Diplomatic resilience
Domestic adjustment capacity	Support affected firms and workers	Political sustainability

The model captures the wisdom of Farrell and Newman (2019) that vulnerability is not only a matter of connectivity but of the topology of the network and how it is controlled. Resilience for Canada translates to more options for Canadian firms and policy makers. This is especially relevant since there is a geopolitical element to diversification. A country with more alternative markets will have more latitude for withstanding external pressure without a significant disruption of the domestic economy.

8. Policy Implications for Canadian Foreign Policy

The analysis leads to five implications.

8.1 Diversification Should Be Treated as Foreign Policy

The degree of concentration of trade has a direct impact on diplomatic autonomy. The economic goal of developing a market diversification should not be seen as a standalone objective.

The diversification path that Canada is on today appears to indicate that this is already under way, especially with the development of non-U.S. goods markets and services.

8.2 Energy Should Be Integrated into Strategic Diplomacy

One of Canada's most significant sources of exposure to the U.S. is its energy relationship with the U.S.

But, energy diplomacy must focus on reliability, energy infrastructure investment, and energy market diversification, not necessarily on energy resource dependency for political leverage.

8.3 Institutional Resilience Remains Necessary

CUSMA is a significant bilateral economic conflict management tool. Although

institutions cannot prevent unilateral measures, they do have procedures for consultation, adjudication, and retaliation. They remain important because they help to resolve uncertainty and offer a framework of responses to conflicts.

8.4 Middle-Power Coalitions Can Expand Diplomatic Capacity

Canada will not be able to change the international economic order by itself. European and Indo-Pacific country cooperation will build up diplomatic capacity and allow for alternate economic pathways.

This approach is already facilitated by the CPTPP and the CETA.

8.5 Policy Sustainability Must Be Considered

Long-term political and institutional commitment is needed for diversification. A policy that seeks to diversify supply sources temporarily during a crisis, but then slows down as bilateral tensions abate, is unlikely to have any lasting impact on Canada's structural vulnerability.

Patashnik (2021) has written about policy sustainability, and there's a point to be made about the sustainability of policy after adoption, when it faces political and institutional pressure.

In Canada, this involves integrating diversification into longer-term institutions, systems of trade promotion, infrastructure planning and interprovincial/federal cooperation.

9. Conclusion

The combination of benefits and the vulnerabilities that the relationship brings to Canada are a central paradox of asymmetric interdependence: the relationship brings tremendous economic and strategic benefits, and at the same time leaves the Canadians vulnerable to a relationship that can become

more evident during times of geopolitical and trade tensions with the United States.

The level of difficulty is shown in the second evidence. In 2025, Canadian exports to non-U.S. markets grew considerably, and the United States continued to be the leading market for Canadian merchandise exports, accounting for 71.7% of exports. The energy trade between the two countries is even more focused, with 90.1% of Canada's crude exports going to the U.S. market. Meanwhile, Canada has provided 63.4% of the United States' crude-oil imports, showing that there is a degree of reciprocal exposure.

The theoretical analysis explains why such relationships lead to ambiguous results. Liberal institutionalism explains the enduring significance of CUSMA and other institutions, realism is useful for describing power inequalities and their impact, constructivism is useful for understanding the enduring significance of the Canadian commitment to multilateral and middle power diplomacy, and weaponized interdependence is useful for understanding how economic networks can provide opportunities for coercion. The methodological analysis also clearly shows that Canada's vulnerability can not be seen as an overall national phenomenon. It is different in different sectors, in different networks and in different modes of economic transactions.

There are three general foreign-policy options. The strategy of energy diplomacy can leverage on mutual exposure and risks of concentration and substitution. Structural power asymmetry is not eradicated by the institutional defence in the CUSMA model, but it can be preserved and rules can include dispute mechanisms. Over time, trade and diplomatic diversification can bring about a decrease in concentration, but will need significant investment, know how to adapt the trade and political dedication.

These pathways should thus be seen as complementary aspects of resilience, not mutually exclusive options.

The key policy message is that Canada cannot be independent of the United States if it is to increase its strategic autonomy. Rather, it must lessen the extent to which one bilateral relationship can limit the other's options in economic and diplomatic matters. Canada's

strategic resilience can thus be thought of as the ability to have a strong attachment to the United States, while simultaneously having institutional, economic and diplomatic capabilities to respond to periods of coercive pressure.

The objective here is not to break off, it is to diversify; not to confront, but to negotiate ability; not to give up North American institutions, but to increase the freedom of movement within and outside of them.

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