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NINA MOINI: Our top story today. The trade relationship between the US and Canada has taken another sharp turn. Sky-high US tariffs on some Canadian goods took effect over the weekend after trade talks between the two countries fell apart. President Donald Trump is now threatening another 50% tariff on Canadian automobiles, auto parts, and steel starting next year.

Canada says it will retaliate, and Ontario Premier Doug Ford warned that Canada could cut off electricity and critical minerals to the US if the conflict worsens. That's a particularly important story here in Minnesota, where Canada is a main trading partner and where people and businesses regularly cross the border in both directions. Livio Di Matteo is a professor of economics at Lakehead University in Thunder Bay, Ontario, right over Minnesota's border with Canada. Thanks for joining our program, Professor.

**LIVIO DI
MATTEO:** Oh, my pleasure, Nina.

NINA MOINI: Would you mind starting by just giving us a sense for how big of a deal this is. Just how many goods, how much income we're talking about here for Canada in terms of what would be impacted by these new tariffs?

**LIVIO DI
MATTEO:** Well, based on what the situation just seems to change so much from hour to hour, but based on what the proposed tariffs were going into the negotiations for August 19, the cumulative impact on Canada has been estimated at about 90,000 to 100,000 jobs would have been lost if those tariffs had gone into effect. And it would have affected a variety of sectors in Canada with the largest impacts on things like furniture, plastics, machinery and equipment, electrical equipment.

The auto sector, of course, with a 50% tariff, there were-- all the profit margins would have been gone. And so it would have been fairly disruptive. Our unemployment rate, assuming that all came to pass, would rise from about 6.4% to 6.8%. So, I mean, on the one hand, that sounds fairly dramatic, but there are, 21 million people employed in Canada. And so 100,000, well, significant for those who are losing their jobs is actually not as large. The macroeconomic impact would have been noticeable, but relatively small.

However, much of the losses would have been concentrated in three provinces where much of the manufacturing capacity is, and that would have been Ontario, Quebec, and British Columbia.

NINA MOINI: Yeah, and you're saying, would have been and things changing from August 19 to then today, talk of more tariffs related to automobiles and automobile parts. Would you give our audience of mostly Minnesotans, we welcome all listeners, obviously, but an idea for what happens in your country when all of this talk about tariffs starts to take off. I was watching some news clips from Canada and Premier Doug Ford. I mean, he wasn't mincing words. He's pretty-- talking pretty tough. What is happening economically? What is the sentiment with all of this?

**LIVIO DI
MATTEO:** Well, I mean, I certainly can't speak for the Premier, but he did use some rather undiplomatic language regarding body parts apparently in released today that it is quite unfortunate. I think it is very important to stay as calm as possible. However, having said that, I mean, I think the predominant feeling in Canada regarding all of this is that there was a deal. It was called CUSMA.

And basically, the rules are being changed. They're being changed arbitrarily and they're being changed at the spur of the moment. And so you might consider that part of our British heritage that we don't like it when people don't play cricket or don't stick by the rules. But that's in a sense how we see in that the rules keep changing and one day, it's a 50% tariff. Another day, there's a 20% tariff, one day there's no tariff.

I mean, it is reminiscent of the Looney Tunes cartoons, duck season, rabbit season. You just don't really what season it's going to be. So I think that is the major issue. I mean, free trade requires two to tango, and we've done it very well for the last 50, 60 years. It's been very beneficial to both sides. But free trade does require two to tango. And it also requires a degree of trust that the other side will carry through with the bargain that's been negotiated.

And so that has-- I think trust has really been eroded at a personal level. I mean, it's not that Canadians feel they have some type of special status, but I mean, think of neighbors that share a common driveway. I mean, that's really what you're looking at here. And now you have one that is behaving in a more bellicose fashion. And naturally, we have as much right to use our share of the driveway as the other side. And so that I think, is something that's going to have to be ironed out. And hopefully it will be in the coming weeks and months.

NINA MOINI: Yeah, some of the rhetoric and the back and forth adds another dangerous element that can almost have people reacting before there's even need to react, which is concerning. And in the beginning of the second Trump administration, there was a roller coaster around tariffs. It felt like things died off or cooled in different areas. And then last week, is when it sort of started to crumble again in terms of Canada and the US.

But as you mentioned, it's kind of like a shared driveway. This is particularly impactful for Minnesotans in our own way. So when we're talking about what we would call, I guess the United States would call retaliatory tariffs, what leverage does Canada have in this fight?

LIVIO DI MATTEO: Well, the leverage actually is limited. We can certainly put on tariffs. I suspect the tariffs will be targeted. You'll probably be looking at the 20 or 30 US states that have the largest export shares to Canada. So that would probably include Minnesota, which I believe about 25% or so of its exports tend to go to Canada. And North Dakota, for example, 80% of its exports go to Canada.

I guess most people probably don't realize that, but there's a lot of exports from North Dakota going to Canada. Wisconsin, 28%. So I suspect the people at finance are basically compiling a list state-by-state. It will be targeted. There will be a strategy to it. It will not be random. And in terms of what the high profile exports are. And then there's Texas and Florida, which will probably be included probably more for political reasons than anything.

I mean, Texas's export share to Canada is only about 9% of its exports, and yet that's \$35 billion worth. So that's probably worth targeting. And Florida is simply higher profile things like oranges and orange juice. And so I suspect something like that might be targeted also. But I mean, it's a no win situation. I mean by targeting the tariffs-- by targeting products and placing tariffs, I mean Canadian consumers will be paying higher prices.

And so, in terms of inflicting pain, I suspect the American side can inflict more pain than the Canadian side. But in the end, this is probably not about how much pain you can inflict, but how much pain you can bear, and I suspect Canadians are probably better at enduring pain, given our harsh winters than the American side.

NINA MOINI: Well, I wonder, too, what we were hearing some about Canadians maybe avoiding some American products. So you mentioned, the interconnectedness of all of these economies, even among different states across the United States and then into Canada. What is the sentiment around that? Is that still happening? Is that being revived?

LIVIO DI MATTEO: Well, the interesting thing is that travel was starting to pick up again from Canada to the United States. I suspect this will deal with another blow and things will shrink even more. Even in terms of shopping and groceries. I mean, the anecdotal talk-- people were starting to-- it's not that they were starting-- they were starting to relax a bit because-- I mean, up until Friday evening, I mean, it looked there was a shot of Jamieson Greer and Dominic LeBlanc on the stairs of the Trade Office speaking in French, and they were smiling and it looked like the deal was in the offing.

And so I think a lot of sentiment was that things were actually going to improve and they haven't. So I suspect this will provide an added impetus for buy Canadian and avoiding American products when possible.

NINA MOINI: Do you think about long-term impacts of some of these tariffs remain in place, maybe talking in a year versus five years from now?

LIVIO DI MATTEO: Well, I mean, if you look at the deal, that seems to have been brought in at the last minute. With the tariffs, it was not apparently based on the Canadian side. I mean, there's always two sides to every story, but based on the Canadian side, it did sound like an approach to some type of external or internal North American common market, that is with some common tariff policy, but also with some restrictions on for example, what kind of trade and investment deals that Canada could negotiate.

And so if you start to think about that, five years ago, that might have been something that would have flown. The problem now is with all the talk about annexation and the events of the last three or four years, that kind of idea has been killed for the next 50 years. I mean, that is definitely not going to happen. So what's happening now is I think tariffs are here to stay.

The US government is deriving substantial revenue because in the end, that's what they're treating-- the tariffs have a two-fold purpose based on the American position. One, is as a source of revenue. But it's basically a consumption tax for Americans. But it's a consumption tax you only pay if you buy imported goods based on what's been levied. And so that's part of the issue. It's a consumption tax. And the other thing is it's revenue generation for the US government.

And to top it all off, I guess the whole idea is that by creating the tariff wall, it will onshore domestic production. Although, if you look at the US manufacturing numbers, that hasn't been entirely successful. I mean, there's been a lot of job losses, I believe, even in Minnesota, tied to aspects of the manufacturing sector, because the tariffs on the imported inputs from Canada, which were tariff free under CUSMA, are now being tariffed, raising the cost to American producers. And so there have been some--

NINA MOINI: Longer term impacts. I wish we had more time. I hope you'll join us again as the ball kind of keeps rolling here, Professor. Thank you so much.

LIVIO DI MATTEO: Oh, my pleasure, Nina. Have a great afternoon.

NINA MOINI: That was Livio Di Matteo, a professor of economics at Lakehead University in Thunder Bay.