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## ▶▶ The Challenge is Global: Getting ready for the Trump 2.0 roller-coaster

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### ▶▶ Introduction

The election of Donald Trump in 2015 was viewed by many as an aberration in American politics. Not so with his second coming, and the sweeping extent of his victory – the popular vote, the Electoral College, the Senate, the House and the support of Silicon Valley tech titans. Americans voted for Trump with full knowledge of who he was and what he intended to do. The impacts of that U.S. electoral decision will be felt around the globe.

In the immediate ramp up to his inauguration, the Trump roller-coaster was off and roaring: threats of punitive tariffs on America's two NAFTA partners, threats to take-back the Panama Canal, demands that Greenland become U.S. territory by force if necessary, threats of unspecified punishments to the BRICS if they de-dollarize, and an ongoing bullying narrative that Canada should become the 51st U.S. state whether it wants to or not. And this was the prelude to Inauguration Day.

What this Trump narrative is effectively doing, as Gideon Rachman of the Financial Times has highlighted, is to espouse foreign interference by the United States in the affairs of other sovereign states. Whether it is his

statements indicating American hegemony over neighbouring countries or his ally Elon Musk using Twitter (X) to try to influence politics in Britain and elections in Germany and Canada, this is a turning point in the postwar world order by the so-called leader of the Western world. It is also a monumental gift to the likes of Putin and Xi, implicitly justifying Russia's invasion of Ukraine and validating Chinese annexation claims on Taiwan.

So, what more did his actual inauguration bring? Not unexpectedly, 'day one' of Trump 2.0 heralded both over-the-top rhetoric and a flurry of executive orders to begin implementing aspects of his political agenda of tight borders and mass deportations, tariffs, deregulation, and tax cuts.

Trump declared a national energy emergency and plans to unwind drilling limits on offshore and federal lands, rollback many emission regulations and withdraw from the Paris Climate Accords. He reiterated plans to create DOGE – the Orwellian-sounding Department of Government Efficiency – headed by Musk, with a mandate to slash government regulations and spending. Trump also declared a national emergency at the U.S.-Mexico border, plans to employ troops at the southern border, and will begin deportations of undocumented immigrants immediately – and on a massive scale.

On tariffs, which most Americans do not understand, Trump announced the creation of an External Revenue Service but no immediate tariff actions. This suggests that Team Trump is crafting a two-tier strategy: a permanent, largely universal, tariff and additional country-specific tariffs designed to leverage bilateral concessions. Time will tell, but Trump is already hinting about punitive tariffs on Canada and Mexico as early as February 1.

The Trump 2.0 goal for day one was “shock and awe”. The Trump 2.0 challenge will be delivering on such a wide-ranging agenda quickly given the expectations he has raised, the legal challenges the agenda will trigger, and the implementation bottlenecks inherent to government and amplified by the DOGE cuts and chaos.

## ▶▶ The global context for Trump 2.0

The U.S. election unfolded at a time when the world is fundamentally changing. The postwar order of economic liberalism, rules-based multilateralism, and expanding globalization is in retreat. Trade is fragmenting, big power competition has heated up, global cooperation is crumbling, mercantilism is becoming the centre piece of both American and Chinese policy. Core public institutions are often objects of popular attack rather than viewed as pillars of public stability – a sign of authoritarianism on the rise while democracy is ceding ground.

The degree of uncertainty is profound, and will have far-reaching consequences for Canada. Will the Trump 2.0 Administration accelerate these global protectionist and nationalistic trends as it pursues its America First agenda? How will President Xi (and the BRICs) react to Trump’s tariff threats? Will Europe take on the Western mantle of leadership of our collective security to protect against Putin’s Russia? Where are the wars in Ukraine and the Middle East, and the tensions around Taiwan, the South China sea and the Korean peninsula, headed with a more isolationist America and an emboldened Putin and Xi? Can any country’s growth survive a global tariff war unscathed?

These are the big risks Canada must grapple with while, at the same time, it deals with President Trump’s tariffs threats, the renegotiation of CUSMA, and the changing contours of the U.S.-Canada relationship.

## ▶▶ Understanding Trump’s policy thinking

Trump and his MAGA Republicans tapped into the American zeitgeist in a way progressives were incapable of doing. The unprecedented surge in immigration during Biden’s presidency, much of it illegal, troubled many Americans but progressive Democrats seemed oblivious to the sentiment until the election loomed. Concerns about China, and free trade more generally, destroying American manufacturing industries continued to reverberate in America’s industrial heartland. The inflation shock during Biden’s presidency, the first in over 30 years, squeezed

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American pocketbooks, yet Democrats did not appear to feel their pain as Bill Clinton did in 1992. And progressives’ aggressive pursuit of identity politics and “woke liberalism” caused angst and push-back among many segments of the American population.

To truly understand the world of Trump 2.0, it is best to peer back to the America of the late 1800s. This was a time when tariffs not taxes were the main source of government revenue, when mercantilism was primordial in policy thinking, and when industrial policy was a tool to promote national self-reliance. It was a time when trade surpluses were viewed as a sign of national strength and power, while trade deficits signalled weakness and decline. These were also times of American isolationism, strangely juxtaposed with the 1823 Munroe Doctrine which claimed American hegemony within its sphere of influence. It was the American Gilded Age – of fantastic wealth, of incredible corporate concentration, of robber barons roaming the corridors of political power to keep government out of the business of business. Not surprisingly, civil discourse was the exception at a time of public rabble rousers and muck raking media.

If this seems like today, it should.

To advance his policy agenda, Trump has assembled a truly unique Team Trump. It is a Cabinet of disruptors whose only common denominator is fealty to Trump and an antithesis to government as usual. While Cabinets are usually exercises in teamwork, team sports hold no attraction for the likes of Elon Musk, Kash Patel, Pete Hegseth or Tulsi Gabbard. Thus, the power dynamics within the Trump 2.0 Administration, and what it means for policy choices, deserve close attention.

## ▶▶ The Trump world view

Consistent with his isolationist view, Trump has signalled an unwillingness to commit American military resources to foreign conflicts. Before assuming the mantle of office, he bragged that he could end the Ukraine war in days; now in office, he has been rather vague. What the nature of any negotiations on Ukraine’s future are worries European countries who fear what Trump is willing to concede to Putin, and the Russian leader’s next steps. The only real constraint on how the Ukraine conflict ends is Trump’s ego and his fear of being perceived as weak and out negotiated.

Trump is at best lukewarm on NATO, and will pressure certain NATO members, such as Canada, to pay their “fair share” of the defence burden. But the key question is what role will the United States play in our collective defence going forward.

For instance, it is not clear how the Trump Administration will deal with conflicts in the Middle East; with Chinese threats over Taiwan and the South China seas; with possible Russian adventurism in Eastern Europe; or with increasing tensions on the Korean peninsula. Trump has long held a particular animus towards Iran, which itself has suffered setbacks in Lebanon, Gaza and Syria, and he may encourage Israel to take advantage of Iran’s setbacks. Equally unclear is the end-game of Trump’s sudden interest in creating an explicit sphere of American influence and hegemony, targeting (so far) Greenland, the Panama Canal and Canada, while his close ally, Elon Musk, engages in Twitter (X) wars with traditional American allies in Europe, Britain and Germany.

Among the G7 countries, Trump will be at the peak of his power in 2025 while Germany will have a new Chancellor, France has a weakened President, Britain has a stumbling Prime Minister, Japan has a wounded Prime Minister, and, Canada will have a new Prime Minister. In the autocratic camp, on the other hand, there are powerful, experienced and menacing leaders in China and Russia. There are also “wild card” leaders like Modi in India and Erdogan in Turkey who are ambitious for their countries and purely transactional in their international relationships. The global risk level has risen to its highest level in decades, while Western leadership is in transition and turmoil.

## ▶▶ Trump and tariffs

A self-declared “Tariff man”, Trump sees tariffs as a major revenue source for government to pay for his proposed tax cuts as well as a means to punish exporting countries with large trade surpluses vis-a-vis the United States.

This focus on tariffs as revenues is a significant change from Trump 1.0 and suggests that it will be difficult for countries to avoid American tariffs completely. Trump has talked about universal tariffs of 10% or more on friends and foes alike with a special category of tariffs on Chinese exports. With the creation of the External Revenue Service, this suggests permanent American tariffs are on the horizon.

In addition, his pre-inauguration threat of 25% tariffs on Canadian and Mexican exports unless we tighten border security and stop the flow of illegal immigrants and drugs was a signal to other countries as well. While no executive actions were announced, Trump continued to troll that 25% tariffs on Canada and Mexico would be forthcoming. What is clear is Trump will utilize the threat of further tariffs to achieve American First policy aims, and it is doubtful Canada and Mexico will be the only targets of the Trump 2.0 Administration in this regard.

The domestic risk for Trump in this tariff policy fixation is that tariffs are generally passed on to end users, and as such are effectively consumption taxes. They will drive up consumer prices, and on politically sensitive items such as food, energy and cars. The geopolitical risk is that other countries will retaliate in kind, either reducing American exports or, as China has done, restricting exports of critical minerals and inputs to the United States.

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The sum total of such a tariff tit-for-tat will be lower global growth and likely recessions in countries such as Canada that are highly dependent on the American market for their exports. It will also mean higher inflation and living costs in the United States – something Trump has promised to alleviate not worsen. Paradoxically, to the extent the Trump tariffs succeed in reshoring some production in the United States, this will further drive-up U.S. prices and reduce tariff revenues.

## ▶▶ Trump on immigration, borders and security

Tightened border security, both north and south, including a war on drugs coming into the U.S., will be a policy and political totem of the second Trump term. So too will be the mass deportations of an estimated 11 million undocumented immigrants in the United States today.

Deportations on this scale, in addition to the human trauma, will create serious shortages of low skilled workers since many of these illegal immigrants are employed, particularly in the hospitality, agriculture and viticulture sectors. This will push up costs and prices in these industries as well as creating domestic supply chain problems – think California fruits and wines. Large scale deportations will also impose massive fiscal costs on the U.S. government and generate legal battles on an enormous scale.

## ▶▶ Trump on energy and the environment

On the energy front, Trump is very sceptical of many of the current climate change policies in the U.S. He will significantly expand oil and gas production while scaling back environmental regulations and disengaging from the multilateral COP process. His position on EVs, however, is difficult to decipher given the role of Musk in his Administration.

Increasing energy investment and production will stimulate the economy but at the expense of rising climate change costs. The Trump environmental policies will be at odds with most OECD countries, and particularly the EU.

## ▶▶ Trump on taxes, deregulation and government

Then there is Trump's fiscal policy, or more precisely, the lack of a coherent one. His signature fiscal commitment is to extend his 2017 tax cuts and augment it with further reductions in corporate taxes to 15%. Analysts believe these massive tax cuts will stimulate the economy in the short term, but at the expense of large increases in an already very high U.S. government deficit as new tariff revenues will not offset the tax cuts.

While U.S. growth will initially accelerate given the tax, energy and de-regulation stimulus, the inevitable pick-up in inflation will stress bond markets and could lead to an ugly confrontation between an authoritarian Trump Administration and an independent Fed with its inflation-fighting mandate.

Deregulation will be the order of the day in Washington, particularly environmental regulation and regulations affecting technology companies, and this should increase American productivity and growth. The appointment of Musk and Vivik Ramaswamy to cut government spending and employment to the bone – a priority of hard right Republicans – will run headlong into defence and entitlement spending as well as conflicts of interest: posing awkward trade-offs and choices for Team Trump.

## ▶▶ How should Canada handle the Trump 2.0 roller-coaster?

Unfortunately, while Trump is poised for early action on tariffs as well as other policy whims and demands, Canada is largely on pause for the next 4-5 months given the leadership vacuum in Ottawa.

With Parliament prorogued, and a race to choose the next leader of the Liberal Party underway, the reality is a lame-duck Prime Minister and Cabinet until the end of March, followed by an election to be held likely around mid-May and then several more weeks for the new government to get up and running with the appointment of a cabinet. Hopefully Parliament will

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be recalled quickly, with the new government offering a glimpse of their priorities in a Speech from the Throne. But the government also has to prepare quickly to chair the 2025 meeting of the G7 in mid-June and this means that a federal budget is unlikely anytime in the first half of 2025.

Hardly an optimal Canadian scenario for dealing with the threats and risks posed by the Trump Administration. And we should not be under any illusions: these Trump 2.0 policies have the potential to damage the Canadian economy, harm our national interests and impinge on our sovereignty.

So, what can we do to protect ourselves, both in the short term and over the course of Trump's presidency including the 2026 renegotiation of CUSMA? We would recommend five urgent, interconnected, and coordinated initiatives.

**First, create a cohesive national strategy.** Despite the political turmoil in Ottawa over the first half of 2025, it is in the national interest to put an effective and unified Team Canada together, and quickly. Indeed, the ongoing bullying, bluster, and arrogance of Trump with respect to Canada becoming the 51st state should be the lightning rod for all Canadians to pull together, for all federal political party leaders to focus on Canada's interests not their own, for all Premiers to rally together in the national interest not just that of their own province, and for Canadian business CEOs to make their voices heard publicly on both sides of the border not just in the boardroom.

But a Team Canada for these times requires more. It needs to include American business leaders with operations in Canada and American businesses reliant on Canadian supply chains such as oil refineries, car parts and farm belt users of Canadian fertilizers such as potash. Governors of states where Canada is their largest export market – many of them swing states – need to speak out in their own self-interest as Canada is their largest export market.

Canadians with specific connections to the Trump Administration, such as Conservative MP Jimal Javini, need to leverage these ties. And Canadian political leaders need to follow the example of Premier Ford and talk to conservative American media and explain how interconnected and complementary, not adversarial, our economies are.

The clear objective should be to maximize the carve-out from Trump's tariff policies while doing the least damage to Canada's sovereignty and prosperity.

**Second, directly address the Trump tariff threats.** With over three quarters of our exports going to the United States, Trump tariffs will be a major blow to the Canadian economy. But, given the interconnected nature of North American production today, it would also significantly hurt the American economy – raising the costs of gas at the pumps, cars, primary metals used in U.S. manufacturing, building materials for homes, chemicals, fertilizers, and the list goes on. The pressure for carve-outs will emanate from American businesses most affected by the tariffs.

This is why Canada has to be ready to retaliate against vulnerable and politically sensitive U.S. exports to Canada on day one of the imposition of tariffs by the Trump Administration. As part of any retaliatory strategy, Canada should consider export taxes on goods with few alternative sources for American importers. In everything we do, Canada should treat the imposition of a 25% tariff as a national economic emergency, and stand-ready to assist Canadian exporters impacted by U.S. tariffs with legal challenges and financial support.

If Canada amplifies this by responding to Trump concerns about border security, U.S. fears about China accessing the American market through Canada, and dealing with irritants, then Team Trump can claim a transactional victory. Whether this exempts Canadian exports from all Trump tariffs is unlikely given Trump's 19th century view of tariffs as revenue alternatives to taxes.

**Third, meet our defence and security commitments with speed and purpose.** We have to respond with an effective security and defence strategy. Trump border czar, Tom Homan, declared the Canada-U.S. border is a significant national security vulnerability. We heard similar security concerns related to American perceptions of lax Canadian anti-money laundering systems and protections. Strengthening border security is in Canada's self-interest as well as responding to a U.S. concern. Despite promises by the Trudeau government to tighten border security and tackle the cross-border flow of illegal drugs and undocumented immigration, the Trump team will be looking for early and concrete actions not rhetoric.

On defence – if he waits that long – Trump will use the leverage of the 2026 CUSMA renewal to end our days as a NATO laggard. We should move earlier: we committed to our NATO partners to spend 2% of GDP on defence back in 2014 and yet, in 2024, we spent only 1.37% of GDP on defence. Clearly our days of feasting out on the peace dividend are over in a world entering a new cold war. What is needed is a credible timetable to reach the NATO

defence spending target – “trust us” will not work, either with the Trump Administration, or our other NATO partners.

**Fourth, deal with energy.** Any tariffs on Canadian energy exports would be disruptive to the United States given the highly interconnected nature of the North American energy system. Rather than tariffs, many in the American energy industry would prefer greater integration, including oil flowing from Alberta to Texas through a resurrected Keystone XL pipeline. What would likely get a positive reaction in Trump's Washington would be concrete measures by Canada to speed up investment for critical mineral projects which would reduce excessive American reliance on Chinese supplies.

**Fifth, tackle our weak competitiveness.** Trump's instincts are to bully smaller and weaker opponents. We cannot do much to change the relative size of the Canadian economy, but we can and must do something about our lack of competitiveness. A lower Canadian dollar, which is likely, is a help but not a solution.



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Fundamentally, to tackle our competitiveness means improving our anemic productivity, and urgently. The regulatory burden imposed by Canadian governments is stifling productivity and innovation and needs to be lightened. With U.S. corporate taxes set to fall further, we have to look at fiscal incentives to increase capital investment by Canadian businesses. We also need to rebuild our fiscal buffers to be able to respond to Trump's punitive policies. And clearly, we have to expand our trade markets beyond the United States, both by eliminating internal trade barriers and by building stronger trade links with like-minded countries and complementary economies.

The times, they are a-changing. Today there is little comfort in the stirring words of President John F Kennedy to Parliament, “*Geography has made us neighbours. History has made us friends. Economics has made us partners. And necessity has made us allies. Those whom nature hath so joined together, let no man put asunder.*” In the era of Trump 2.0, there is no nostalgia or shared history to rely on, only “America First” self-interest and what Canada has to offer as an economic and security partner.

As Canadians go to the polls this year with the Trump roller-coaster roaring on, one question voters need ask themselves: who is most capable of standing up for Canada's national interests and resolving challenging trade, border, security, and defence issues fairly, rapidly, and securely with the Americans?



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**Kevin Lynch** has been a leader in both the Canadian public and private sectors, and is a strong public advocate for sound economic and fiscal policies that enhance Canada's productivity and competitiveness. Dr. Lynch was the 20th Clerk of the Privy Council, Secretary to the Cabinet and Head of the Public Service of Canada. His government career also included serving as the Deputy Minister of Finance, the Deputy Minister of Industry and the Executive Director for Canada at the International Monetary Fund. Following his government service, Lynch served as Vice Chairman of BMO Financial Group from 2010–2020. At the same time, he was active in a

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