

RESEARCH REPORT

Report No. 02/2026

After the Blue Wave: The Future of Canada–U.S. Relations and Canada's China Policy

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November 2026

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DOI: 10.5281/zenodo.24179178

Abstract

The Democratic Party's capture of both chambers of the U.S. Congress on 3 November 2026 will ease, but not end, the pressure on Canada. Trade policy remains in the hands of the executive branch, which can veto any repeal of tariffs, so Ottawa's core negotiating partner for the next two years is still the White House. What changes is the political climate in Washington: tariffs on Canada are now a liability for the administration, and Congress gains tools of oversight and delay. At the same time, Canada has spent the past year rebuilding relations with China, and the midterms do not reduce the bipartisan suspicion of Beijing in Washington. This paper argues that Canada will pursue a dual-track strategy: a negotiated settlement with the Trump administration under the CUSMA review, and steady but bounded economic engagement with China. The main risk for Ottawa is that its China policy becomes a bargaining chip in North American trade talks.

Keywords: Canada–U.S. relations; Canada–China relations; 2026 midterm elections; CUSMA review; tariffs; middle-power diplomacy

1. Introduction

The 2026 midterms produced a decisive Democratic victory. According to AP race calls reported by NPR and NBC News, Democrats won control of the House, with at least 228 seats in early counts, and of the Senate, where they flipped seven Republican-held seats, including Ohio, North Carolina, Texas and Kansas. The campaign was dominated by voter frustration over the cost of living and perceived corruption. The United States has thus returned to divided government for the final two years of President Trump's term.

For Canada, the timing matters. Bilateral trade talks had been suspended since August 2026, the formal review of the Canada–United States–Mexico Agreement (CUSMA) began on 1 July 2026, and Prime Minister Mark Carney has spent a year repairing relations with China. Tariffs on Canadian goods also became a campaign issue: Democrats blamed them for higher prices, and in Ohio, Sherrod Brown unseated Senator Jon Husted after attacking the levies on Canadian goods. The question is how far this domestic shift in Washington changes Canada's external options.

2. Canada–U.S. relations: what changes and what does not

The executive still decides. The most important constraint is constitutional. Tariffs imposed under emergency and national-security authorities can be lifted by Congress only through legislation the president can veto, and Trump has said he will block Democratic bills. Days after the vote, Democrats moved to repeal the tariffs, and Senator Ron Wyden made the Canadian tariffs a priority. Carney welcomed the effort but said plainly that the U.S. executive, not legislators, will decide trade agreements for the next two or three years.

The political cost of tariffs has risen. Before the vote, Washington had already dropped several demands that caused Canada to walk away in August, including those on cultural policy, French-language protections and a U.S. say over Canada's trade deals with third countries. After an election lost on affordability, new tariff escalation looks costly. RBC analysts note that the threatened 50 per cent tariff on Canadian autos and steel would raise U.S. vehicle prices and is opposed by U.S. automakers. A Fraser Institute assessment is more cautious, suggesting the result may or may not improve relations.

Protectionism is bipartisan. Analysts warn against expecting a return to pre-2025 free trade. The Biden administration kept most first-term Trump tariffs, and an "America First" instinct runs through both parties. The CUSMA review will therefore be difficult regardless of who controls Congress, with dairy supply management, autos, steel and aluminum, and digital policy as the main irritants.

Security files will be reshaped. A Democratic Congress controls appropriations. RBC expects the Golden Dome missile-defence programme to be scaled back toward radars and interceptors, which weakens Washington's demand that Canada pay a large entry price to join. Defence spending and Arctic security will remain on the agenda, but on terms Ottawa can more easily negotiate.

3. Canada–China relations: the reset and its limits

A rapid thaw. Relations collapsed after the 2018 arrest of Huawei executive Meng Wanzhou and China's detention of two Canadians. Carney's 40-minute meeting with Xi Jinping at APEC in Gyeongju in October 2025, the first formal leaders' meeting since 2017, was described by both sides as a turning point. In January 2026 Carney became the first Canadian prime minister to visit China in eight years. The two sides announced a "new strategic partnership": China cut tariffs on Canadian canola and other agrifood goods, and Canada agreed to admit up to 49,000 Chinese electric vehicles, a concession that angered parts of the Trump administration.

Measurable results. Ottawa reports that Canadian merchandise exports to China rose 41 per cent in 2026 compared with the same period a year earlier, and it aims for a further 50 per cent increase by 2030. On 9 November 2026, after talks in Vancouver, the two governments extended the trade arrangement to the end of 2028 and signed three agreements on cooperation among finance ministries, regulators and central banks, including progress on a currency-swap arrangement. Carney is due to meet Xi again at the APEC summit in Shenzhen in mid-November.

Clear limits. The reset is a pragmatic hedge, not a strategic realignment. Canada still imports far more from China than it exports, canola oil still faces a 100 per cent Chinese tariff, and foreign interference, human rights and security remain unresolved. Finance Minister

François-Philippe Champagne framed the policy as normal for a G7 state with clear "guard rails". Ottawa's aim is diversification of trade, not alignment with Beijing.

4. The triangle: how Washington shapes Ottawa's room on China

The midterms change the Canada–U.S. relationship more than they change U.S. policy toward China. Suspicion of Beijing is one of the few bipartisan positions in Washington. A Democratic Congress is unlikely to criticize Canada for trading canola, but it may be just as hostile as the administration to Chinese electric vehicles, batteries and investment entering North America through Canada.

This creates three pressures on Ottawa:

• A China clause in CUSMA. Trade expert Carlo Dade warns that Washington could first persuade Mexico to accept rules on trade with China and then impose the same terms on Canada. The 2018 USMCA already contains a clause on agreements with "non-market" economies; a tougher version is a likely U.S. demand in the review.

• Supply-chain screening. Rules of origin for autos, steel and critical minerals are the most probable tools for restricting Chinese content, and they would directly limit the value of Canada's EV concession to Beijing.

• Linkage. Washington dropped its demand for a veto over Canada's third-country trade deals before the vote, but the issue can return in sector-specific form. Canada's China policy could become a bargaining chip in North American talks.

The midterms also give Canada a modest advantage. With Congress more sceptical of tariffs and U.S. industry pushing for stable supply chains, Ottawa can argue that its engagement with China is limited and transparent, and that North American integration remains its first priority.

5. Outlook and conclusion

The most likely outcome over the next two years is a partial settlement: lower but not zero U.S. tariffs, folded into the CUSMA review, while Canada keeps its China channel open within limits Washington can tolerate.

Scenario	What would trigger it	Implication for Canada–China ties
Partial deal (most likely)	Administration seeks a win before 2028; U.S. automakers press for relief	Canada keeps agrifood and finance cooperation, accepts tighter rules on Chinese EV and battery content
Prolonged stalemate	Veto blocks tariff repeal; CUSMA review shifts to annual reviews	Ottawa accelerates diversification, deepening trade with China and Asia
Renewed escalation	White House turns to foreign trade conflict as domestic agenda stalls	Washington links tariff relief to restrictions on China, forcing a sharper choice

For Ottawa, the policy lesson is to keep the two tracks separate in public while coordinating them in private. Canada's leverage in Washington now rests partly on U.S. domestic politics, and its gains in Beijing depend on not appearing to drift from North America. The midterms have widened Canada's room for manoeuvre, but only slightly, and the next test comes at the APEC summit in Shenzhen and in the CUSMA negotiations in 2027.

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Suggested Citation

Robertson, T. (2026, November). After the Blue Wave: The Future of Canada?U.S. Relations and Canada's China Policy. Institute of Humanities and Social Sciences of Canada. https://doi.org/10.5281/zenodo.24179178