

Canada's leadership vacuum comes at a very perilous time

By Angelo Katsoras

After more than nine years as Canada's prime minister, Justin Trudeau is stepping down amid dismal poll numbers and growing dissent within his ruling Liberal Party. Over the past two years, his popularity has steadily declined as supporters abandoned the party, frustrated by his failure to address key issues such as inflation, soaring housing costs, and the challenges posed by high immigration levels.

Parliament was scheduled to reconvene from its holiday recess on January 27, but Prime Minister Trudeau prorogued it until March 24. While the government remains in power, all parliamentary activity—including ongoing bills and committee work—is put on hold.

This mechanism has been used numerous times by past governments, most notably on two occasions. In 2002-03, Jean Chrétien's Liberal government was accused of using prorogation to delay the release of a report on the sponsorship scandal. In 2008, Stephen Harper's Conservative government resorted to the manoeuvre to avoid a confidence vote that would have allowed the opposition parties to topple his government.

Trudeau has prorogued parliament until March. How does that compare?

Number of prorogued days

Mulroney



Chrétien



Harper



Trudeau



* Trudeau announced on Jan. 6 that parliament will be prorogued until March 24.

Source: Parliament of Canada (Graeme Bruce/CBC)

Source: "Canadian Parliament is prorogued. Here's what that means," CBC, January 6, 2025

This pause gives the Liberals ten weeks to pick a successor, develop an electoral strategy, and prepare for what will likely be a defeat in the House of Commons when it reopens. Candidates must declare their candidacy by January 23, and the Liberal leader will be chosen on March 9. The election is expected to be held sometime in May.

All of this means that when Trump returns to the White House, Trudeau will be a lame duck prime minister, and this will undermine the country's position in negotiations with the United States. What's more, the Liberals will be distracted by their leadership race.



The economy and the Trump factor

Trudeau's resignation has ushered in a fresh wave of uncertainty across the Canadian economy and financial markets. Many major business decisions will likely be pushed back until stakeholders get clarity on Canada's leadership, economic policies, and the outcome of negotiations with the United States.

The same day as the Prime Minister's announcement, a Washington Post story quoted advisors close to Trump who suggested that U.S. tariffs were more likely to apply only to a limited number of critical imports rather than across the board. Trump later rebutted the article on his Truth Social platform.

Next day, President-elect Trump said he would be willing to use "economic force" to push Canada into a political union with the United States. He also argued that Canada had little leverage in trade negotiations, claiming Americans could do without Canadian imports such as automobiles, lumber, and dairy products. Many analysts saw his abrasive rhetoric as a strategy to pressure Canada into making concessions on a range of issues including trade and geopolitics. While Canada will not become the 51st state, Trump's efforts to coerce the country into aligning with U.S. economic and security interests are expected to continue.

Trump's bombast aside, the key point connecting Greenland, Canada, and Panama is his belief that all of these countries should be firmly within the U.S. sphere of influence. This view has gained traction in defence circles that have been observing the country's main geopolitical adversaries—China and Russia—expanding their presence in both the Arctic and Latin America. This strategy includes preventing China from gaining a significant foothold in Greenland's mining sector. Greenland has vast reserves of rare earth minerals, uranium, oil and natural gas.

Part of Trump's rationale in targeting Canada is his belief that the trade imbalance between the two countries is a U.S. subsidy to the Canadian economy. Canada's trade surplus is largely driven by its crude oil and natural gas exports to the United States. Relatively inexpensive imports of oil and natural gas from Canada in turn allow the U.S. to export more higher profit margin refined oil and liquefied natural gas -- a pretty sweet deal for the United States.

Moreover, while Trump is expected to take an aggressive stance on tariffs, it remains unlikely that he will impose a blanket tariff on all imports from allied countries such as Canada (China could be a different story). If he does go through with such a plan, however, he can expect to face legal challenges, significant political opposition from both parties—particularly from border-state Republicans concerned about trade disruptions—and retaliatory tariffs from other countries. In addition, concerns about inflationary pressures could further increase bond yields and thus undermine Trump's campaign promise to lower costs.

Bottom line

Canada faces significant challenges following the resignation of Prime Minister Trudeau. With a leader on way out and a party distracted by a leadership race, it will be difficult to present a strong and united front in addressing Canada's economic challenges and negotiating with Trump. Policy clarity will not emerge until a new leader with a clear mandate takes office after the election.

It is important to note that Trump's aggressive approach reflects the negotiating style he has used for decades, in both business and politics. During the 2018 trade negotiations with Canada and Mexico, he imposed tariffs on steel and aluminum imports, threatened tariffs on auto imports, and called Trudeau dishonest. Trump is likely to take advantage of Canada's political uncertainty by ratcheting up pressure on the country to align with his agenda. He is well aware that Canada's deep economic and political ties with the United States leave limited room for significant divergence on regulatory, tariff, defence, and fiscal policy, especially in a world increasingly defined by protectionism and geopolitical rivalry among the great powers.



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