



# IMPLICATIONS FOR CANADA

**This marks the first time that Canada has appeared in Eurasia Group's Top Risks report—albeit as a sub-entry under risk #8, Divided States of America. Not only is Ottawa's most important trade and security partner fracturing domestically, but its polarized and even violent political culture is threatening to spread north. That might be a #8 risk globally, but it is a top risk for Canada.**

Other significant risks this year reflect the ongoing fallout from the Covid-19 pandemic and Russia's invasion of Ukraine, threats to democracy from disruptive technologies and authoritarian states, and longer-term challenges such as climate and generational change. Canada will be affected by some risks more than others, but its citizens, businesses, and policymakers will need to grapple with the consequences of them all.

Here are some of the key takeaways for Canada and Canadians. For the full list of top 10 global risks this year, please see [Eurasia Group's Top Risks 2023](#).

- In 2023, Canada faces economic and even domestic political risks emanating from the Divided States of America. Despite some good news last year, the US remains one of the most politically polarized and dysfunctional of the world's advanced industrial democracies.



- Chronic gridlock and instability in Washington, combined with ambitious state governors stepping in to fill the policymaking void, is transforming the US into a patchwork of red-blue regulatory systems. With roughly 75% of Canadian exports destined for the US, which is also by far the leading destination for Canadian investment, Canadian businesses and investors face an increasingly fractious economic environment south of the border.
- More concerning is that Canada is already showing signs of contagion from its neighbor to the south—Ottawa’s polarized political parties are exacerbating regional divisions; exposure to the US political and social media ecosystem is facilitating cross-border radicalization; and policy issues, especially energy and climate change, are being weaponized for political gain at the expense of national unity. These symptoms are likely to get worse as the next federal elections draw closer.
- Rogue Russia is Eurasia Group’s top risk this year, and while President Vladimir Putin is likely to target the US and Europe with asymmetric warfare, Canada should be prepared too. It is a core member of NATO and a staunch supporter of Ukraine, including via military training and weapons transfers, and Ottawa has levied sanctions against Moscow as part of the Western effort to impair Putin’s war machine. Although Canadian governments and firms probably are not Russia’s primary targets for retaliation, you can bet they are on the list for cyberattacks, disinformation campaigns, and “fingerprint-free” actions targeting critical infrastructure such as pipelines and fiber-optic cables.
- Canada has already felt the capriciousness of President Xi Jinping in its relations with China—from “wolf warrior” diplomacy to allegations of election interference and Xi’s public rebuke of Prime Minister Justin Trudeau at last year’s G20 summit in Bali. But with his stranglehold on Chinese politics confirmed last year, 2023 promises to be the year of Maximum Xi, risk #2. This equates to elevated volatility and uncertainty in Chinese policymaking and heightened risk that Ottawa will be on the receiving end of economic and political coercion from Beijing.
- And just as Canada has decided to get tough—labeling China an “increasingly disruptive global power” in its new Indo-Pacific Strategy—the US and China are trying to draw a line under deteriorating relations. With a US-China security crisis over Taiwan and an escalating tech competition as red herrings in 2023, Washington will avoid embarrassing or provoking Beijing unnecessarily, raising the risk that Ottawa gets left in the lurch by its southern ally.
- This year will be a tipping point for disruptive technology as advances in artificial intelligence allow large language models to reliably imitate human intelligence. These weapons of mass disruption, pioneered in the US, will upend businesses and markets, empower authoritarians, and supercharge the power of disinformation and social media to undermine democracy. For Canada, this will amplify the impact of US polarization and factionalization, embolden Russian and Chinese disinformation and interference, and deepen domestic political divisions in advance of the next federal elections.
- Persistently high inflation will have powerful downstream effects in the form of higher interest rates, a global recession, financial instability, and increased political risks for incumbent governments. These inflationary shockwaves will hit Canada and Canadians hard—bringing the country’s gravity-defying housing market back to earth, worsening unemployment, and raising fiscal pressures on households, businesses, and governments. And unlike recessions in 2008 and 2020, the federal government and the Bank of Canada will have limited tools at their disposal to cushion the blow.

- If you thought expensive energy was behind us, think again. Tight oil and gas supplies combined with a modest recovery in global demand relative to 2022 will translate into a renewed energy crunch this year. This is good news for fossil fuel producers such as Canada—especially the provinces of Alberta and Newfoundland—which can expect higher government revenue; but it is bad news for consumers, who will again face rising gas prices and stubborn cost-of-living pressures. It also means there will be no respite from the politics of energy, climate change, and the federal carbon tax, which will continue to roil Canadian politics in 2023.

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