



WMRC Article

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Challenges Facing the US and
Canada: Leadership is Key

NAFTA Regional: Challenges Facing the US and Canada: Leadership is Key

The news in North America in 2004 will be dominated both by the campaign for president in the US, and the transition of power from outgoing Prime Minister Jean Chrétien to successor Paul Martin in Canada.

In the US, President George W Bush is balancing an unprecedented number of vexing foreign policy problems such as the ongoing occupation in Iraq, nuclear proliferation in North Korea and Iran, and the stalled peace process in the Middle East, against what will likely be a difficult re-election bid. On the home front, Bush will benefit from what is expected to be a resilient and robust economic recovery, albeit with fewer people gaining employment and with growing budget and trade deficits. For soon-to-be Canadian Prime Minister Paul Martin, he will begin the difficult task of filling out his cabinet in preparation for elections that his Liberal Party will surely win, which will then allow his newly appointed government to begin tackling problems such as a jittery currency, a major overhaul of the country's universal healthcare system, banking reforms, the sour trade and diplomatic relations with the US, and a substantial revival of the country's military capabilities and national security apparatus.

The US and Canada are both expected to do well economically in the coming year. Canada has weathered the global economic downturn much better than the US and recorded its sixth consecutive budget surplus. Canada's prioritisation of reducing debt will only increase with Martin - the former Minister of Finance and champion of deficit reduction - at the helm. It will provide even greater fiscal stability through lower interest as the country gears back up for a sharper increase in economic growth in 2004, but Martin must also make tax reduction a priority in light of the ongoing budget surplus.

The US rebound will substantially outpace the lacklustre GDP growth of the last two years, despite the concerns over a rapidly increasing budget deficit of US\$374bn - more than double the US\$158bn deficit in fiscal year 2002 - which is expected to top US\$500bn in 2004. A negative impact of the US's economic recovery is that a widening trade gap, currently standing at nearly US\$50bn, will likely increase as US consumers have more money to spend on foreign-made goods.

Relations between Canada and the US have suffered primarily as a result of the difference of opinion over the war in Iraq. Canada is typically a strong US ally when it comes to peace-keeping operations and the country's support in Iraq is sorely missed. In the coming year, the relationship is expected to improve with Martin as Prime Minister, but is still unlikely to assist the US in Iraq. Canada's leading role in the Afghan security force will be one of its major foreign policy challenges, especially as the Taliban and elements of al-Qaida are expected to regroup and renew attacks against coalition forces there.

The US-led occupation and reconstruction of Iraq will top the foreign policy agenda for the US, and US troops should begin to return home in late 2004, once greater stability is achieved as a purely organic governing body assumes more control. Other priorities for the US will be ensuring that the multi-party talks over North Korea's nuclear programme continue, keeping up the pressure on Iran to adhere to international treaties regarding its nuclear ambitions, and putting the 'roadmap' for peace between Israel and Palestine back on the right track and keeping it there.

Domestically, both countries, though particularly the US, will need to be hyper-vigilant with respect to national security, as it is highly likely that terror groups will attempt a major attack against Western targets and interests in 2004. Adding to officials' concerns is the increasing likelihood that a group like al-Qaida will attempt an attack using a weapon of mass destruction.

President Bush's campaign for re-election is expected to be a contentious one, particularly because of the divisive opinions over the war in Iraq. All of the leading candidates seeking to challenge Bush have made the war their top criticism of his administration. The keys to a Bush re-election will be whether or not Iraq can be stabilised, with an Iraqi governing body taking enough control to allow some US troops to begin to return to the US, and whether the economy can continue its recovery and begin creating thousands of new jobs. During the campaign he will highlight the strength of his leadership after the terror attacks after 11 September 2001 and the need for him to continue the fight against terrorism to protect Americans at home. His opponents will attack his credibility by highlighting the absence of evidence of weapons of mass destruction in Iraq and his administration's close ties to private industry and the easing of regulations.

In Canada, Martin's agenda will face little political opposition - although two of the country's main Conservative groups will merge, it will not have much impact. The political challenge will be to balance his more conservative perspective against the liberal legacy of out-going Prime Minister Jean Chrétien and all of the Liberal Party members who shared his views. At the end of 2004, Bush will have won re-election and Martin will be celebrating the acceptance of much of his policy agenda.

North America In Focus 2004

Positive Outlook

- The US economic recovery will be robust, leading a worldwide economic surge.
- Canada and the US will lead the way in bringing the Free Trade Agreement of the Americas (FTAA) much closer to ratification.
- Relations between the US and Canada will be greatly improved, paving the way for more cross-border trade and economic growth.
- Iraq will be much more stable as governance is transferred to Iraqis and US troops are replaced by NATO forces.

Possible Crises

- The US will likely suffer a major terrorist attack, although not on the scale of September 2001, either at home or against US interests abroad.
- Canada will experience another and more widespread outbreak of SARS.
- Trade relations, both with China and with Europe, will grow worse amid a resurgence of US protectionism.
- A widening probe into financial sector malfeasance in the US will result in aggressive reforms that could hurt long-term investment and economic growth.

WMRC Contact

David Rice (david.rice@wmrc.com)

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