

# Lesson 5 - Canada's Economy And Ability To Attract International Trade

## The Canadian Economy

Canada enjoys relatively low inflation, a strong dollar, and continued investment in education and infrastructure. This makes Canada a desirable place to live as well as conduct business. There are many other factors that attract investment as well which include:

- Lower Production and Business Costs
- Human Resources
- Positive Business Climate
- Abundant Natural Resources
- Quality of Life



# Lower Production and Business Costs

- In a recent study comparing business costs in North America, Europe and Japan, Canada is the most cost-effective nation in which to do business.
- Canadian business costs (cost of land, utilities, wages, etc.) are approximately 15% lower than the U.S.A.
- Canadian labour costs are approximately 20 to 40% lower than the U.S.A.



# Human Resources



- Canada has the highest percentage of individuals of any country with at least a college/university education.
- Canadian labour turnover rates are half the American rates.
- Canada has the highest computer literacy rate in the G8.
  - Note: G8 represents the world's 8 most industrialized countries. They are a leader for international trade and hold an annual summit to address the major economic and political issues facing the international community. Current countries involved are U.S., Japan, Germany, Britain, France, Canada, Italy, and Russia.

# Positive Business Climate

- Canada ranks fourth in the world with regard to its overall business climate (a measure of ease with which companies can run their businesses).
- Canada ranks first in the G8 business ethic practices.



# Abundant Natural Resources

- Canada's rich and abundant natural resources are a major economic driver of our communities.
- Forests, fresh water, clean air, minerals and metals are all significant resources that are utilized by businesses and fuel our economy.



# Quality of Life

- Canada was ranked one of the best places to live by the United Nations for seven years in a row (out of 174 countries)
- ...but wait...what makes Canada *less desirable* to invest in?



# Factors that Make Canada *Less Desirable* to Invest In

- Large distances between domestic and world markets
- Federal and provincial tax policies
- Larger and stronger multinational companies from other countries competing against smaller Canadian counterparts
- Small domestic market for Canadian products
- Political uncertainty in Quebec at times
- High costs to import machinery, components, new technology due to the value of our dollar compared to other world currencies.

# Pop Quiz! Check Your Understanding

Canada's business costs are approximately \_\_\_\_\_ % lower than in the United States.

- 15 %

Is the following statement true or false?

*Canada has not yet been ranked as one of the top places to live by the U.N. due to the high federal and provincial taxes.*

- False – Canada has been ranked one of the top countries to live by the United Nations for seven years in a row.

Explain how Canada's human resources attract foreign investment.

- Canada has a high percentage of individuals who are educated. Canada also has a lower turnover than the U.S., which saves companies money on training and recruitment. Lastly, Canada has a high proportion of individuals who are computer literate.



# The Business Cycle (1 of 4)

- Like any economy, Canada's economy expands and shrinks at different stages. Each stage has distinct characteristics that investors, politicians as well as citizens observe to try and forecast the future of our economy. All of these stages follow a pattern and are referred to as the business cycle.

# The Business Cycle (2 of 4)

Here is a brief overview of a typical cycle:

- **Slump/Recession**- A downturn in the economy is referred to as a recession if there are two consecutive quarters (or six months) of negative growth. This growth is measured through the GDP (gross domestic product). In this stage, the economy is slow, consumers are buying fewer goods and companies' production slows down as a result. When companies reduce their production levels, the result is often layoffs causing an increase in unemployment. Due to the decrease in demand, inflation is quite low in this stage.

# The Business Cycle (3 of 4)

- **Recovery**- Eventually, price levels drop so much that goods/services become affordable for consumers. Consumers demand goods once again, which stimulates the economy. Due to the increase in demand, businesses must hire labourers in order to increase their inventories and prepare for more consumption. Employment and wage/salary levels increase and investment in the economy increases.

# The Business Cycle (4 of 4)

- **Boom-** Employment is quite high, as is GDP, interest rates as well as the value of the currency. There is an increase in inflation due to the demand for goods and the limited resources that companies have to produce these goods. The cost of capital (interest rates) is also relatively higher in this business cycle stage. Eventually, the cost of goods and borrowing will increase so much that the economy will slow down to correct the inflationary prices and the cycle will begin again.

# Current Event Memo Assignment: Canada's Economic Outlook

See Handout – Assignment must be handed in at end of class:

You are the assistant to the Minister of Finance. The Minister has been away on an extended vacation and has just returned. He needs you to inform him about the current state of the economy and the short-term economic outlook.

Specifically, he wants to know about the:

- Inflation rate
- Prime Interest rate
- Strength of our dollar
- Gross Domestic Product versus last year
- Your opinion – What stage of the business cycle is Canada currently in?

The Minister also wants you to mention how the current economic state will affect international business in the near future.

# How Does Canada Promote Investment?

One of the many roles of our government is to promote Canada as a valuable partner to do business with. When we have increased investment, our economy is stronger, our currency is stronger and employment levels are higher. Canada has many different government agencies that aid in the foreign investment process. One such agency is Foreign Affairs and International Trade.

- In the assignments that follow, you will search for information on the Internet, prepare a speech as Minister of Finance, and participate in a discussion about government agencies and international businesses.

# Assignment #2, #3, #4 (Handout)

## ASSIGNMENT #2: Foreign Affairs and International Trade

- Using the Internet, research the questions on the handout about a government agency that aids businesses in international trade. **Complete the questions and submit your work at the end of class.**

## ASSIGNMENT #3: Minister of Finance Speech

- Using the Internet, research the following questions about a government agency that aids businesses in international trade. **Complete the questions and submit your work at the end of class.**

## ASSIGNMENT #4: Discussion

- Using the Internet, research the following questions about a government agency that aids businesses in international trade. **Complete the questions and submit your work at the end of class.**