Canada's Contradictory International Economic Activities

Elisa Dávalos López*

Canada is enormously stable, both politically and socially, and has a very high average standard of living. Part of the Group of Seven, the world's most industrialized countries, its consumption and educational levels are high; in fact, internationally, in 1989 Canada ranked second only to the United States in per capita consumption (higher than Germany, the United Kingdom, Japan, Italy, Sweden and France). All this puts it way above the socioeconomic status of the countries of the South.

However, if we look at Canada's main exports, we find a long list of natural resources or their derivatives, like metal and non-metal minerals, wood and wood products, paper pulp and paper products, grain and oil. The only important exception to this pattern is automobiles.

Canada's truly remarkable wealth of natural resources, its proximity to the world's largest national market and the way it has developed economically have made for a peculiar economic structure that combines characteristics of a developed nation with those of the periphery.

Because of the importance of natural resources among Canada's exports, it vies for international markets with the countries of the periphery: its competitors are from the South, while with its neighbor, the United States, the economic dynamic is more in the nature of a complement. This, of course, does not mean they do not compete in some branches of the economy in which Canada is very efficient, like telecommunications, or in which the United States has abundant natural resources, like soft woods.

According to 1994 official figures, most Canadian provinces anchor their exports in raw materials: oil made up 59.8 percent of Alberta's main exports; more than 50 percent of British Columbia's were wood pulp and other wood products; over 95 percent of the Northwest Territories' exports were mineral products; 31 percent of Saskatchewan's exports were grains; and only in the country's most industrialized province, Ontario, did 45 percent of the exports come from the auto industry.

Taking exports as an indicator of Canada's international competitiveness (using, for example, the indicator of comparative advantages) might lead us to think that in Ontario we have at last found a province that is industrially highly competitive.

As we know, auto is one of the most important sectors in the North American economic bloc, to the degree that it is enough to follow the auto industry as an indicator of the situation of any of the three countries' economies. It is also one of the most multinational industries, and its international trade actually consists of exchanges among different divisions of the same company. This means that Ontario's high auto exports are more an indication of its being an important base for subsidiaries in the multinational corporate strategy than of a good international competitive edge in manufacturing.

* Researcher at CISAN.

Table 1 allows us to evaluate this in more general terms. Canada's percentage of manufactured goods shipped abroad in relation to total exports is considerably lower than that of other selected countries: almost half that of Japan and around a third of that of Great Britain, the United States and Germany.

TABLE 1
FINISHED MANUFACTURED GOODS AS PROPORTION OF TOTAL EXPORTS

	1955 %	1980 %	1990 %
Japan	64	71	83
Germany	65	60	68
Great Britain	62	50	63
United States	48	52	62
Sweden	33	53	59
France	38	50	57
Canada	11	32	43

Source: G. Williams, *Not for Export*, Mc Clelland & Stewart, Toronto, 1992.

Canada's specific exports are even more significant if we consider the increasing weight that its foreign trade has in the economy. Foreign demand practically doubled between 1960 and 1988, while the domestic market dropped from 82 percent in 1960 to 65.6 percent in 1988. The Canadian economy is increasingly dependent on foreign imports.

Another trait specific to the Canadian economy is the high percentage of capital goods imports due mainly to the fact that Canada never formed the forward- and backward-linking productive chains characteristic of developed countries. In 1989, for example, Germany exported 23 percent of the world total in machinery; Japan, 14 percent; Italy, 8.6 percent; the United States, 5.9 percent; Switzerland, 4.8 percent; the United Kingdom, 2.3 percent; Sweden, 1.6 percent; and Canada, only 0.7 percent.[1] It is common knowledge that production and competitiveness in the capital goods sector stimulate innovation, technological development, control of technology, improved productivity and a better position for winning international markets and ensuring domestic ones. This sector is the key for an industrially successful country. However, just like the countries of the South, Canada's capital goods trade balance shows a deficit.

Another peculiarity in Canada's economy is the high level of foreign investment in its industry. The balance of Canada's current account has a chronic deficit. In and of itself, although this is no advantage, neither is it the whole problem. The greatest stumbling block is actually this deficit's stemming from the large capital transfer from Canadian subsidiaries to their home offices abroad.

As a result of all this, Canada does not fit in the traditional classification of countries. Its technological dependence, the high proportion of foreign ownership of its industry, the enormous importance of foreign sales of both raw materials and manufactured goods and the importance of capital goods imports to its economy make its international status very distinctive.

With such a paradoxical set of circumstances, we must ask why Canada did not take the same road that the rest of the industrialized nations did. Many answers have been given.

A little history is appropriate here. From the time it was a colony, Canada provided raw materials for the center of the [British] Empire. The history of that relationship has been superbly documented in the work of Harold Innis, who traces Canadian economic development through a succession of natural resources: first, cod fishing on the Atlantic coast, followed by the sale of animal pelts from the interior, more or less stable logging camps and, finally, mining. All these resources were extracted and exported according to the needs of a central economy.

Canada has a peculiar economic structure that combines characteristics of a developed nation with those of the periphery.

[1] Michael Porter, *Canada at the Crossroads. The Reality of a New Competitive Environment*, Business Council on Canadian Issues, Ottawa, 1991.

TABLE 2
STRUCTURE OF DEMAND IN REAL TERMS

	1960 %	1965 %	1970 %	1975 %	1980 %	1985 %	1988 %
Domestic demand	82.0	80.06	76.4	77.6	72.8	68.2	65.6
Foreign demand	17.3	18.8	25.0	22.2	27.0	31.8	34.0

Source: D. Drache, *The New Era of Global Competition*, McGill-Queen's University, Montreal, 1991.

Once its colonial period ended and after the inauguration of the "Confederation" in 1867, "British North America" took off on a nationalist road which would determine the main thrust of its development. That thrust was defined in Canada's National Policy. Among other aims and objectives, like the construction of the East-West railroad, the colonization and settlement of the West, the delimitation of a border with the United States, etc., this policy set up protective tariffs for industry.

Interestingly enough, the overall plan, import substitution, is notably similar to that implemented in the 1950s by many countries of the South, particularly in Latin America. Countries like Germany grew through strengthening the capital goods industry. Others, like Japan, grew with an eye toward the strategic development of cutting edge technology. But Canada began to import capital goods to support the development of its consumer goods industry. Its main problem was that what was conceived of as a way to protect its industries in their infancy became a long period of protectionism which isolated them from the realities of international competition. Multinational companies found in Canada (like in Mexico) a host protected by tariffs where they could set high prices without fear of competition. This molded Canada's industrial structure and facilitated the establishment of many U.S. subsidiaries in a country very much like their own, with a shared language, similar traditions and political stability. So, ironically, Canada has been called "the northernmost U.S. industrial region."

Now, why should these problems be of such concern when globalization is at its height, when multinational corporations increasingly hold sway over world production, when national borders tend to weaken, when countries seek at all costs to become part of the process of internationalization and are concerned fundamentally with international markets?

We are in a transitional phase; we have left the past behind but cannot as yet quite make out what the future holds. One thing is clear, however: the regions and countries producing high technology are taking home the biggest piece of the pie, if not the whole pie. Today, North America continues to be made up of countries with different standards of living, each with comparative advantages and disadvantages, where national development is still important.

With NAFTA, Canada became part of a regional North American division of labor in which, to a large degree, it plays the role of supplier of natural resources. Canada's and Mexico's economic structures, both dependent on the United States, produce an atypical effect which, far from making them rivals, means they complement each other as suppliers of raw materials to the region's largest country. Canada's economic challenge at century's end is to stop depending on its great natural wealth and participate in international trade with more technologically developed products.