Canada’s Trading Activity

Introduction

This essay will be reviewing Canada’s recent trading activity, trade is the buying and selling of goods and services between countries (Cambridge Dictionary, 2019). It will be focusing on the year 2017, while assessing the relevance of theories such as, Gravity Model, Linder’s Theory, Intra-Industry Trade and the Mercantilist approach, to the patterns Canada has shown. In 2017 Canada experienced a GDP growth of 2% causing a GDP per capita of $46.7K (US Dollars). In 2017 Canada possessed the 12th largest export economy and listed the 15th largest imported. With a low population density of 4 KM (Canada Population, 2019).

Main Trading Partners

Country Exports (US $ Million)

- United States 319.01
- China 18.19
- United Kingdom 13.64
- Japan 9.12
- Mexico 6.05
- South Korea 4.08
- India 3.3
- Germany 3.09
- Belgium 2.7
- France 2.63

Country Imports (US $ Million)

- United States 221.97
- China 54.66
- Mexico 27.35
- Germany 13.83
- Japan 13.5
- United Kingdom 6.85
- Korea 6.71
- Italy 6.28
- France 4.76
- Other Asia 4.76

Adapted From: World Integrated Trade Solution (2019)

Canadas main trade partner is the United States, in 2017 75.85% of Canada’s export were to the United States, whilst also accounting for 51.33% of Canada’s imports. This high level of trade between the two countries could arguably be explained by the gravity model. As the gravity model suggests that trade between counties is directly related to their geographical

location, and their GDP (Chaney, T, 2018). Although the United States GDP per capita is higher $59.5k (US Dollars, atlas) and Canada's GPD per capita is $46.7K, it is still rather similar and according to the gravity model this would promote trade between the two countries. Furthermore, they are very close in proximity, as they share a border, the reason this is valued so highly in the gravity model is because it reduces transportation costs. However, as its suggested that geographical location is a prediction factor as it reduces costs it presents the question whether that is a reliable method of calculation as North America trade commences mainly through air transportation, which is more expensive than over water (McCallum, 1995), which means that geographical location causing cheaper transportation cost may not be a reason for their vast amount of trade.

It has also been argued that the gravity model includes other factors such as sharing a common language (Anderson, 2011). As Canada and the United States both have same national language, it increases their ease of communication and ability to create deals and negotiations. In addition to this in 1988 Canada and the United States formed a Free Trade Agreement (FTA), followed by the North America Free Trade Agreement (NAFTA) in 1994 (International Trade Law Research Guide, 2019), which means there is no trade barriers, this has been predicted to increase level of trade (Stay and Kulkarni, 2016) between these countries.

On one hand the gravity model would also explain Canada's high trade with Mexico due to its geographical closeness. Whilst on the other hand it has very dissimilar GDP, which is contrary to the gravity model. It does however, have an ease of trading do to the Trans-Pacific Partnership (2016) and such agreements are suggested to be a predictor in the gravity model (Anderson, 2011). As it lowers import and export costs between these countries, Japan, which shown in Table 1. and Table 2., as also participating in high levels of trade with Canada, is also included in the Trans- Pacific Partnership, further supporting the argument that countries with trade agreements have an increased likelihood of trading.

GDP per capita is a popular theory as to why countries trade, Linder's Theory (1961) suggests that counties with similar GDP per capita are more inclined to trade. Whilst countries with a dissimilar GDP per capita will not trade.

As Graph1 and 2 show there is a general trend of increase in GPD in Canada, United States, Germany, United Kingdom and Japan, and through this change in time period they have maintained a similar GDP per capita, with each other. This would support Linder's theory, that countries prefer to trade in similar economic industry. However, China, which in 2017 was Canada's second largest importer and exporter shows a very dissimilar GDP per capita, suggesting that Linder's theory is not entirely relevant to Canada's trade patterns. On the other hand, China currently has the second largest economy (World Bank, 2019) and although its GDP per capita is low it still provides many benefits of trade due to its growing economy.

Main Trading Products

Product Export (US $ Million)

- Fuel 84.59
- Transportation 72.78
- Machine and Electric 45.27
- Miscellaneous 33.58

- Metals 32.42
- Wood 29.13
- Vegetable 24.54
- Chemicals 24.41
- Stone and Glass 19.96
- Plastic 15.77

Product Import (US$ Million)

- Machine and Electric 105.97
- Transportation 84.76
- Chemical 37.17
- Miscellaneous 36.78
- Fuels 29.74
- Metals 28.67
- Plastic or rubber 22.38
- Food Product 18.92
- Stone and Glass 15.1
- Textiles and Clothing 13.88

Adapted from: World Integrated Trade Solution (2019)

Intra-industry trade is when a country imports and exports products of the same classification category (Brander, 1981). A prime example of this is Canada 2017 imports and exports, which is shown in Table 3 and Table 4. Canada is both exporting and importing, machine and electric, fuel, transportation, chemical, plastic and rubber, stone and glass and metals. There are many reasons for this occurrence, for example, transportation has a very similar number of exports and imports. One reason that could account for this is customer preference (Aquino, 1978), intra-industry trade allows for a larger variety of manufacture and style, as the top ten Canadian manufactured cars were large (Cain, 2018) meaning that a demand from consumers for smaller cars, still needed to be met. intra-industrial trade may be used to concentrate on manufacturing larger cars, to achieve economies of scale (Davis, 1995), whilst importing smaller vehicles to provide variety to consumers. Furthermore, it accounts for not simply the customers preference but also different economic status. As Canada has a high GDP per capita they manufacture vehicles to suit the average demographic. It however means, that individual on a lower income may not be able to afford the vehicles manufactured within Canada, which means there is a demand for cheaper vehicles, which is met through importing of other countries, this is applicable to any individuals who do not met the average GDP, individuals who earn higher than the general average and have a preference for more luxurious vehicles manufactured outside Canada.

Product Balance (US$ Million)

- Machine and Electric 60.7
- Transportation 11.98
- Chemical 12.76
- Miscellaneous 3.2
- Fuels -54.85
- Metals -3.75

- Plastic or rubber 6.61
- Stone and Glass -4.86

A classic theory is the mercantilist economic system, existing in Europe during the time period of 1500- 1750. It was based on three central concepts, the first being, that a country's wealth is valued based on their procession of precious metals such as gold and silver. However, this is no longer a relevant representation of a country's wealth. The second being that, these precious metals were regarded as most desirable to precure as they were viewed as stable, with a constant value. The final concept was that international economic activity is a zero-sum game, therefore, to achieve a positive trade balance country's would import less than they export (Smith, 1937), which although in 2017 Canada achieved this as they exported a total of $377B (US Dollars) and imported $326B (US Dollars), which resulted in a trade balance of $51.2B (OEC, 2019). The mercantilist approach would do with primarily colonised countries and exploit them, as the United States and Canada have a mutually beneficial relationship, this suggests that Canada is not exploiting the United States.

However, mercantilist approach promotes importing precious metals at low cost and export large amounts of manufactured goods to create a positive balance. As metals has a negative balance of around $3,750,000 this would indicate that Canada imported more metals than they exported, which would coincide with the mercantilist approach, especially as manufactured goods such as machines and transport have a positive balance. Furthermore, mercantilist approach encourages no tariffs on raw material imports, which co-insides with Canada having no tariffs for the majority of agricultural imports from the United States (Canada Country Commercial Guide, 2019). However, Canada is keen to keep good relation between their trading partners for example, "Canada supports work in China on the rule of law, women and children, peaceful pluralism and respect for diversity" (Canada – China Relations, 2019). This suggests that although Canada does not exploit their trade partners for monetary gain, as much as the mercantilist approach, they may instead adopted aspects of the mercantilist approach.

In conclusion, none of theories reviewed were able to completely explain Canada trade patterns. The gravity model went a long way in explaining Canada's high trade with the United States and numerous other countries, however, it did not completely explain its high level of involvement with countries such a China. Whist patterns with trading with countries of a similar GDP per capita did emerge, Linder's theory is also inadequate to explain Canada's trading patterns. The mercantilist approach also had aspects that applied to Canada's trading patterns however, trade in a more mutually beneficial manner to that of the 1500s-1750.