



# 5

## Canada's Economic Face

### Learning Objectives

- To describe the economic face of Canada, trends of economic activity, and measures used to reflect the overall health of the Canadian economy
- To reveal historical economic shifts in Canada from resource-based economic activity and manufacturing to a more knowledge-based economic focus
- To identify trade agreements and patterns, along with their implications to the Canadian economy
- To consider possible new stages in the evolution of Canada's economic structure.
- To use the core/periphery model as a basis for understanding Canada's global economic position and each region's economic picture
- To outline potential future challenges for Canada's economy

## Chapter Overview

This chapter emphasizes Canada's economic development and its position in the changing global economy. Three dominant themes of this chapter are:

1. Canada's changing industrial structure and trends in resource, manufacturing and knowledge-based sectors.
2. The role of the knowledge-based economy in Canada's future as well as implications of economic issues in regions.
3. The application of the core/periphery model to Canada's geographic regions and global economic position.

### Canada's Economies

It is proposed that Canada has two economies: manufacturing and resource development. Looking to the future, the industrial structure of Canada is expected to shift radically along with labour markets in relation to growth in information technology and the knowledge-based economy.

### Canada's Future Economic Face

Canada has seen growth in the **tertiary sector**, which now employs over 80 per cent of the workforce. Some analysts speak of a fourth sector, with high-end knowledge-based workers and decision-makers.

### The National Policy and Birth of an Industrial Core

In this section the perception that Central Canada benefitted most greatly from the National Policy of 1879 is raised along with the point that the major change in the evolution of Canadian economic policy came with introduction of the Auto Pact of 1965 and the Free Trade Agreement in 1989—both of which influenced north-south alignment of the national core/periphery relationship.

## Globalization and the Stages of Economic Growth Model

This section features Rostow's five-stage model of economic development as well as its shortcomings such as its Western-centric focus.

## The Super Cycle Theory

Canada was a chief beneficiary of the high global growth super cycle sparked by China's industrial growth spurt. Canadian exports of resources such as coal and iron ore soared but in 2014, growth slowed. It remains a question as to whether India will be the next country to trigger a new super cycle.

## Canada's Economy

Measures of the Canadian economy include GDP and unemployment rates. The GDP for 2016 was 1.3 per cent (Figure 5.2) and experts forecast an uncertain future. The unemployment rate for 2016 stayed below 7 per cent, which was lower than 8.3 per cent reached at the peak of the 2009 recession (Table 5.3).

## Trade Agreements

Most trade in North America takes place under the North American Free Trade Agreement, contributing to a continental pattern of economic development in Canada.

## Manufacturing: Alive or Dead?

Manufacturing has seen a dramatic drop in Canada as a result of several factors, including high Canadian wages, automation, outsourcing, offshore job relocation, and a high Canadian dollar (until 2014) making exports more expensive.

## The Wave of the Future: The Knowledge-based Economy

The **knowledge-based economy** may offer hope for Canada to offset a decline in manufacturing activities caused by globalization of trade. However some fear that the technology-driven economy and its robotic machines will not reduce but increase unemployment. The term **creative class** describes the class which places a high priority on innovative and scientific research.

## Regional Economies

Each region has a characteristic economic structure with the tertiary sector dominating in all (Table 5.5). Economic opportunities vary across the country and equalization payments to the provinces from Ottawa strive to ensure a reasonable degree of economic equality across the country. Sagging economies and the lure of low interest rates, though, has contributed to an increased debt load of all levels of government.

## Challenge Questions

1. Why do Canadian governments, both federal and provincial, believe that the future lies in a more vibrant knowledge-based economy?
2. What is meant by the statement "Canada has two economies"?
3. What is meant by the Fourth Industrial Revolution and what might this look like in Canada?
4. What major forces have caused this evolution in Canada's industrial structure over time?

5. Why has the tertiary sector become dominant in Canada's industrial structure?
6. Describe ways in which the National Policy of 1879 influenced the development of Canada's economic structure.
7. What shortcomings are acknowledged with respect to Rostow's Model of Economic Development?
8. What may be the next country to trigger a super cycle?
9. Does Canada's economic future lie with the "creative class"?

## Key Terms

**Business cycle** A series of irregular fluctuations in the pace of economic activity in the world market (capitalist) economy. These fluctuations consist of four phases: "contraction" (a slowdown in the pace of economic activity); "trough" (the lowest level of economic activity); "expansion" (a sharp increase in the pace of economic activity); and "peak" (the maximum level of economic activity). (p. 156)

**Continentalism** Policies, like the Free Trade Agreement, that promote Canadian trade and economic ties with the United States. (p. 161)

**Creative class** Culture workers, from artists to computer programmers, who, Richard Florida argues, are the key to a flourishing and progressive city and who are attracted to urban centres rich in diversity and culture. (p. 166)

**Dispute settlement mechanism** Binding arbitration to resolve trade disputes, as built into the FTA and NAFTA. (p. 161)

**Economies of scale** A reduction in unit costs of production resulting from an increase in output. (p. 161)

**Globalization** An economic/political/social process driven by international trade and investment, as well as by migration and the spread of Western popular culture, that leads to a single world market and wide-ranging impacts on the environment, cultures, political systems, and economic development. (p. 154)

**Gross domestic product (GDP)** An estimate of the total value of all materials, foodstuffs, goods, and services produced by a country or province in a particular year. (p. 158)

**Industrial structure** The sectors of a national, regional, or local economy—primary (e.g., resource extraction and harvesting), secondary (e.g., manufacturing, construction), and tertiary (services)—and the extent to which the whole economy is driven by each of these sectors. (p. 150)

**Knowledge-based economy** Sector of post-industrial economy based on the use of inventions and scientific knowledge to produce new products and/or services, often in engineering, management, and computer technology fields. (p. 149)

**Modernization** A progressive transition from a traditional society to a modern one; underlying theme in Rostow's Stages of Economic Growth theory. (p. 155)

**North American Free Trade Agreement (NAFTA)** Trade agreement between Canada, the United States, and Mexico that came into effect in January 1994, forming the world's largest free trade area. (p. 152)

**Primary sector** Economic sector involving the direct extraction/ production of natural resources that includes agriculture, fishing, logging, mining, oil and gas, and trapping. (p. 151)

**Quaternary sector** Knowledge-based economic activities that provide high-technology information services, such as computing, information and communication technologies, and research and development. (p. 151)

**Secondary sector** The sector of the economy involved in processing and transforming raw materials into finished goods; the manufacturing sector of an economy. (p. 151)

**Staples thesis** Harold Innis's idea that the history of Canada, especially its regional economic and institutional development, was linked to the discovery, utilization, and export of particular staple resources in Canada's vast frontier. (p. 150)

**Super cycle** Concept based on two premises: (1) that demand will tend to outstrip supply and thus keep prices high; and (2) that in a global economic downturn, demand from industrializing countries will keep price declines to a minimum. (p. 149)

**Tertiary sector** The economic sector engaged in services such as retailing, wholesaling, education, and financial and professional services; the quaternary sector, for which at present statistical data are not compiled, involves the collection, processing, and manipulation of information. (p. 151)

**Trade-off** Finding a balance between two things that cannot be had at the same time. (p. 154)

**Trans-Pacific Partnership** Twelve countries (Canada, United States, Mexico, Australia, New Zealand, Peru, Chile, Singapore, Vietnam, Malaysia, Japan, and Brunei) that negotiated a free trade agreement. The agreement was effectively voided before ratification following the 2016 US presidential election when the President-elect reiterated his campaign promise to reject the TPP. (p. 163)

**Unemployment** Lack of paid work, but this term and statistics based on it measure only those who are seeking paid employment. (p. 158)