Economy of Canada

Economy of Canada

resembles the US in its market-oriented economic system, pattern of production, and high living standards. Since World War II, the impressive growth of the manufacturing, mining, and service sectors has transformed the nation from a largely rural economy into one primarily industrial and urban. Canada has a large oil and natural gas sector with the majority of crude oil production derived from oil sands in the western provinces, especially Alberta. Canada now ranks third in the world in proved oil reserves behind Venezuela and Saudi Arabia and is the world's seventh-largest oil producer.

The 1989 Canada-US Free Trade Agreement and the 1994 North American Free Trade Agreement (which includes Mexico) dramatically increased trade and economic integration between the US and Canada. Canada and the US enjoy the world's most comprehensive bilateral trade and investment relationship, with goods and services trade totaling more than $680 billion in 2017, and two-way investment stocks of more than $800 billion. Over three-fourths of Canada's merchandise exports are destined for the US each year. Canada is the largest foreign supplier of energy to the US, including oil, natural gas, and electric power, and a top source of US uranium imports.

Given its abundant natural resources, highly skilled labor force, and modern capital stock, Canada enjoyed solid economic growth from 1993 through 2007. The global economic crisis of 2007-08 moved the Canadian economy into sharp recession by late 2008, and Ottawa posted its first fiscal deficit in 2009 after 12 years of surplus. Canada's major banks emerged from the financial crisis of 2008-09 among the strongest in the world, owing to the financial sector's tradition of conservative lending practices and strong capitalization. Canada's economy posted strong growth in 2017 at 3%, but most analysts are projecting Canada's economic growth will drop back closer to 2% in 2018.

Definition: This entry briefly describes the type of economy, including the degree of market orientation, the level of economic development, the most important natural resources, and the unique areas of specialization. It also characterizes major economic events and policy changes in the most recent 12 months and may include a statement about one or two key future macroeconomic trends.

Canada's Modern Economy and IndustrieS

Having largely abandoned the country's agricultural-manufacturing past, today upwards of 75 per cent of Canadians work in what is dubbed the service sector of the economy, while only a small minority still work in farms or factories. The service sector of the Canadian economy is extremely vast and diverse, and basically entails any sort of (mostly) non-physical work that deals with helping people, rather than making or growing things. Most Canadians who live in large cities like Toronto, Vancouver, or Montreal work in the service sector.

Within the service sector, the largest sub-sector is the trades, which are highly specialized, skill-based professions like electrician, carpenter, or computer repairperson. Other large sub-sectors include health care, which includes doctors, nurses and surgeons, plus their clerks and assistants; finance, which includes bankers, stockbrokers, and real-estate agents; education, which includes teachers, professors, librarians and administrators; and food and retail, which covers cooks, store clerks, and cashiers in places like shopping malls, restaurants, grocery stores, and other shops. Writers, artists, journalists, and entertainers are all considered service workers, too. Government or bureaucratic work has also become quite popular in recent decades, with the Canadian federal government now said to be the single largest employer in the country.

Canada's few remaining farmers reside primarily in the Prairie Provinces of Alberta, Saskatchewan, and Manitoba, where they continue to grow crops such as wheat, corn, and oilseed, as well as raise cattle and pigs for meat and dairy, just like their forefathers before them. In many parts of the country, a renewed interest in organic food is helping provide some Canadian farmers, particularly fruit and vegetable farmers, with a mini boom, but overall, Canadian agriculture remains very much an industry in decline.

Importance of NAFTA to the Canadian Economy

The North American Free Trade Agreement (NAFTA) is a treaty among Canada, the United States and Mexico that eliminated most of the barriers to free trade among the 3 countries.

The agreement means purchasing certain items from NAFTA countries is often cheaper than buying similar goods from non-NAFTA countries. Thanks to NAFTA, enjoying Mexican avocados year-round is easy. Similarly, Canadians can save big by buying an American-manufactured car versus a model from Europe. Goods from NAFTA nations are imported tariff-free, based on NAFTA's rules of origin. These rules state the percentage of the product's content that must originate in the member country.

NAFTA was the result of 14 months of intensive negotiations in 1991 and 1992. It was ratified by the Canadian, U.S. and Mexican legislatures in 1993, and took effect in January 1994. Before NAFTA, Canada and the U.S had a trade agreement called the Canada-U.S. Free Trade Agreement.

Here are 5 key ways Canadians have benefited from NAFTA:

A wider selection of goods

Increased trade volume

Increased foreign direct investment (Canada's foreign direct investment from the States increased by 243% between 1993 and 2013).

Freer movement of professionals and investors across the border

The development of new jobs

Taxes in Canada

Canadians like to complain about taxes, but compared to other major industrialized democracies, Canada's rate of taxation is comparatively low. Total tax revenue in Canada represents about 32 per cent of the country's GDP, compared to 36 per cent in Germany, 45 per cent in France and 47 per cent in Denmark. The bulk of the money Canadians give to their government is withdrawn through taxes on incomes and purchases, which are charged at both the national and provincial level.

Personal income taxes in Canada are progressive, which is to say, people pay a different rate depending on how much income they make. Federally, the bottom rate is 15 per cent and the top rate is 33 per cent, while at the provincial level most rates are (very roughly) half that. Corporations pay income tax too. The federal corporate tax rate is a flat 15% (10% for "small businesses"), one of the lowest rates in the world, while the provincial rates are, again, roughly half that. The bulk of income taxes Canadians pay are deducted automatically from their paycheques, along with other specialized taxes that are used to finance the Canadian Pension Plan (CPP), unemployment insurance, and in some provinces, other services as well (these are known as payroll taxes). Canadians are expected to double-check their income tax records at the end of every fiscal year (April) and pay the government any outstanding income tax owed. Collection of provincial and federal income taxes is jointly managed by the Canadian Revenue Agency (CRA), meaning all tax related matters in Canada are handled by a single federal bureaucracy.

Everything you buy in Canada receives an extra mark-up at the cash register in the form of the Goods and Services Tax (GST) and a Provincial Sales Tax (PST). These days, a lot of provinces merge the two taxes together to make things easier, in the form of a Harmonized Sales Tax, or HST. The GST rate is currently set at 5 per cent of purchase price, while PST rates vary from province to province, but is usually a bit higher.

Canadian Unions

In the old days, when Canada's manufacturing sector was considerably larger and more important than it is today, many Canadian factory workers formed unions in order to lobby for safer working conditions and higher pay from their employers. As manufacturing declined, unionization steadily shifted towards white-collar work, and of the 30 per cent of Canadians who hold union membership today, the majority work in fields such as teaching, nursing, or government bureaucracy.

In a reflection of this growing dominance of government employees in the Canadian labor movement, the largest union in Canada is now the Canadian Union of Public Employees (CUPE), which represents more than 615,000 Canadians working for the provincial and federal governments. Considerably smaller, the country's largest private sector union is Unifor, which was founded in 2013 through a merger of various manufacturing unions. It represents over 300,000 workers. Most union workers are also members of labor federations in their provinces, and there is a national lobby group for union interests known as the Canadian Labor Congress.

Canada is not a country that experiences a great deal of labor unrest, and strikes are usually short and rare. Since an increasing number of the country's unionized workers now perform safe, comfortable jobs for government employers, contract negations have lost a lot of their earlier passion and intensity, and are now mostly around the calm negotiation of things such as vacation lengths, sick days, and layoff procedures.

Rule of law

Although 89 percent of Canada's land area is owned by the state, the 11 percent that is privately owned is well protected. Protection of intellectual property rights meets world standards. Enforcement of contracts is very secure, and expropriation is highly unusual. The independent and transparent judiciary vigorously prosecutes corruption. Canada has a reputation for clean government, and the level of corruption is very low.

Government size

The top federal personal income tax rate is 33 percent, and the top corporate tax rate is 15 percent. Other taxes include value-added and property taxes. The overall tax burden equals 31.7 percent of total domestic income. Over the past three years, government spending has amounted to 40.3 percent of the country's output (GDP), and budget deficits have averaged 0.7 percent of GDP. Public debt is equivalent to 89.7 percent of GDP.

Regulatory efficiency

The transparent regulatory framework facilitates commercial activity, allowing business formation and operation to be efficient and dynamic. Relatively flexible labor regulations enhance employment growth. The government has pledged to phase out extensive fossil fuel subsidies to meet G-20 environmental standards, but heavy state subsidies to airplane manufacturer Bombardier and other favored businesses continue.

Open market

The combined value of exports and imports is equal to 64.1 percent of GDP. The average applied tariff rate is 1.6 percent. As of June 30, 2018, according to the WTO, Canada had 435 nontariff measures in force. Foreign investment in some sectors, including aviation and telecommunications, is capped by the government. The banking sector remains sound. A wide range of nonbank financial companies operate in a prudent business environment.

Sources:

https://www.heritage.org

https://thecanadaguide.com

https://canadianvisa.org