Two-way trade drives US, Canada economies

Millions of US jobs dependent on commerce with Canada

DALE EISLER is Canadian Consul General, Denver. Previous posts at the Canadian Federal Government include assistant secretary to cabinet at the Privy Council Office, and assistant deputy minister for consultations and communications with the department of finance. He is the recipient of the Saskatchewan Commemorative Medal in recognition of his contributions to the province and society. A former journalist and the author of two books, most recently False Expectations: Politics and the Pursuit of the Saskatchewan Myth, he also has extensive experience in the private sector as a business owner. He holds a BA in political science at the University of Saskatchewan, Regina Campus and an MA in political science at Vermont College, Union Institute & University.

The biggest energy supplier to the United States is neither of the countries that spring to mind: Saudi Arabia, no. Kuwait, no. “Canada is by far the biggest energy supplier to the US, about 2.5 million barrels of oil a day, which is more than Saudi Arabia and Kuwait combined,” said Canadian Consul General Dale Eisler speaking at an International Executive Roundtable presented by the Institute for International Business, University of Colorado Denver.

In addition to oil, Canada supplies the US with “huge amounts of natural gas and one-third of its uranium needs for nuclear reactors.”

Since he arrived at the Canadian Consulate, Denver, in Nov. 2007, Eisler has been working to raise awareness of the Canada-US connection while pointing to his country’s importance in the global marketplace.

“Canada is the world’s third largest producer of natural gas; its oil reserves are second only to Saudi Arabia.”

7 million jobs

“More than 7 million jobs in the United States are dependent on trade with Canada, which is the biggest market by far for the US,” said Eisler. “Total bilateral trade in 2007 was about US$640 billion, or US$1.7 billion of goods and services a day.” The EU is Canada’s second largest trading partner with US$109.4 billion in two-way trade in 2007, according to the Canadian Press.

Eisler offered these figures:

- Canada is the largest export market for 35 of the 50 US states;
- US sells more to Canada than it does to all 27 members of the EU combined;
- US trade with Ontario alone is bigger than trade with all of Japan;
- US exports more to Canada than to UK, Germany, Japan, and China combined.

And in Colorado, 123,750 jobs are supported by Canada-US trade (see sidebar).

Canada-Colorado bilateral trade

In 2006, a total of 4133 companies exported from Colorado locations. Of those, 3618 (88 percent) were small and medium-sized enterprises with fewer than 500 employees. Export.gov

Following facts/figures are for 2007. Source: Government of Canada - washington.gc.ca

Canada is Colorado’s most important international trading partner, purchasing more goods than the state’s next two foreign markets — Mexico and China — combined.

**Merchandise Trade**

- Exports to Canada: $1.2 billion
- Imports from Canada: $3.4 billion
- Bilateral trade: $4.6 billion

**Tourism**

- 133,000 Canadians visited Colorado, spent $88 million
- 162,300 Coloradans visited Canada, spent $110 million

**Leading exports to Canada:** Agriculture (19% of total exports), chemicals (18% of total exports), metals (12% of total exports), meat.

**Leading imports from Canada:** Energy (33% of total imports), agriculture (11% of total imports), live animals, meat, crude petroleum, petroleum & coal products.

**Canada stats**

- **Capital:** Ottawa
- **Population:** 33,212,696
- **GDP - per capita:** $40,200
- **GDP (purchasing power parity):** $1.336 trillion
- **Public debt:** 62.3% of GDP (ppp)
- **GDP - real growth rate:** 0.7%
- **Inflation rate:** 3%
- **Unemployment rate:** 6.1%

**Head of Government:**

Prime Minister Stephen Harper

All figures 2008 estimates

Source: CIA World Factbook (updated March 5, 2009)

“Of course the US is a huge market for Canada,” said Eisler. “We supply almost 15 percent of your imports. That’s why the economic slowdown in the US has such a big effect on Canada — because our economies are so integrated.”

Autos and auto parts are the top US exports to, and imports from, Canada, according to the Conference Board of Canada. Other major US exports to Canada include computer equipment, electrical equipment, engines, turbo engines, recorded media, optical equipment and precision instruments.

Primary US imports from Canada outside the automotive sector are energy (natural gas, petroleum products, electricity), engines, aircraft equipment, wood and paper products.

Proximity and a nearly 4000-mile common border facilitate trade. About 35,000 trucks loaded with goods cross the border daily and 340,000 people cross on wheels and on foot, noted Eisler. Most Canadians — 85 percent — live within a narrow strip (160 km wide) north of the US border.

All this back-and-forth “enhances competitiveness on both sides of the border,” said Eisler adding that since NAFTA went into effect in 1994 growth in bilateral trade between Canada and the US has averaged 6 percent annually over the past decade.

**Important relationship**

In addition to trade, the relationship between Canada and the United States has
been strengthened by a common language, culture and values. “The relationship is crucial to both nations and in the current world economy is more important than ever,” said Eisler.

“We have to focus on things that make commerce happen so we can get through this difficult economic climate.”

In the last decade, Canada has made huge progress in stabilizing its economy. “We've balanced the budget, paid down debt, reduced our taxes and turned deficits into surpluses.”

Eisler recalled that the 1996-97 budget had an operating deficit of nearly $9 billion. Nothing new about that. Canada was in what he called “a deficit debt trap” with deficit budgets in each of the 24 preceding years. “In the mid-90s, we paid more than $47 billion a year just on interest on the debt.”

It took a newspaper editorial to motivate changes in the way the country was being run.

“One of the key factors that turned opinion around in Canada in 1995, entitled Bankrupt Canada, about the debt crisis Canada was facing and the deficits we were running. That became a pivotal point in terms of public policy where collectively people said the problem had to be addressed.

“The government cut spending, raised taxes and we turned it around.”

Fortunately, it was a period of economic growth so “government revenues grew rapidly and we were able to pull ourselves out of the deficit,” said Eisler. The surpluses allowed personal taxes to be cut.

Within a few years, “Canada became an economic and business success, running surplus budgets right up to 2008,” said Eisler. Then came the recession in the US and globally. As an export-dependent country, it was only a matter of time till Canada felt the pain.

Better than in US

All of a sudden, Canada's employment rate started to drop. “We lost 129,000 jobs – most of them full time jobs – in January 2009. That's the biggest one-month increase in unemployment in Canadian history.”

The US has had similar losses, but the US is roughly 10 times larger than Canada. Therefore, Eisler explained, “using a 10:1 rule of thumb, 129,000 jobs in Canada would equate to a job loss of nearly 1.3 million in the US.”

Eisler is doubtful that the January spike in unemployment will continue. “We're doing better than the US in terms of employment.”

Canadian industries hit hardest by the recession are manufacturing in Ontario and Quebec, resources in Alberta and Saskatchewan and lumber in British Columbia. The US housing market used to be a prime market for Canadian lumber, but that market is now at a standstill. “The housing market in Canada has declined but not like it has in the US, because we didn't have the same bubble.”

According to Eisler, deficits are once again on the horizon. The difficult economic times are reflected in a new budget introduced a short time ago. “The 2009-10 deficit is now estimated to be CDN$50.2 billion which is significant for Canada. However, we're projecting that by 2012 we'll be back into a surplus situation.”

Eisler's optimism is backed by the record. “Because of that long period of surplus budgets we ran for 11 years we were able to reduce our deficit and pay down our debt. Our debt-to-GDP ratio in the mid-90s was 68 percent; in 2007-08 it was 30 percent. That puts us in a good position to withstand the current economic shocks that all countries are facing,” said Eisler, acknowledging that “these are much more difficult times.”

In the past decade, “no other country has done as well as Canada fiscally; we have the best record in the G7 by far.”

Eisler recognizes that it helps to have a strong economy when you're in the middle of a fiscal crisis, such as Canada had in the 1990s. “The challenge for the United States is you're facing a similar sort of fiscal crisis as we did in terms of debt; the difference is the economy is going down.”

Business incentives

Low taxes, affordable health care and a solid banking system are reasons Canada is attractive to US corporations. “Our corporate taxes fall below those of the United States, and the government is committed to not increasing taxes in this budget. By 2012 there will be a gap of 11.4 percent between Canada and the US,” said Eisler.

“Low taxes give Canada a competitive advantage, and the loss of revenue is offset by new businesses setting up shop here.”

Nationalized health care keeps costs down and helps businesses be more competitive. “Health care costs in Canada are 10 percent of GDP compared to the US where it's 15 percent of GDP.”

The banking system also favors a quick recovery for the country. “We have six major banks in Canada; they're big and well capitalized, two factors that create unbelievable public confidence in the system.

“Because of that, I think Canadian banks are going to be big players in the global financial markets.”

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Canada strong against rest of G7

Economic Growth - Real GDP

The Organization for Economic Co-operation and Development (OECD) projected output growth in Canada to be strong in 2007 and 2008. Productivity gains, strong business investment, technological innovation, moderate wage increases and a favorable exchange rate are keeping the economy competitive in world markets.

G-7 Countries: 2005 - 2008, GDP at Market Prices (Percentage)

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*2007, 2008 figures are projections.