

Economic determinants of Canada's trade patterns

This sub-section examines the impact of two economic determinants on Canada's patterns of international trade and foreign investment. First we consider labour cost determinants. Then we consider transportation cost determinants and their specific impacts on the location of inputs in relation to domestic production processes, as well as on the location of production processes in relation to market demand for final output. The impact of each determinant on the level of foreign ownership in the Canadian economy is also briefly summarized.

Canadian labour costs are a major determinant of our international trade patterns. In the Canadian economy labour is a scarce resource relative to some of our other inputs such as land and natural resources. This relative scarcity implies that labour is a high priced or costly input into production processes. Consequently, our exports incorporate relatively small amounts of labour inputs while our imports incorporate relatively larger labour inputs.

This pattern of labour endowments and resultant labour costs influences the type of foreign ownership flows into the Canadian economy. Economic interdependence between foreign owners and domestic inputs that causes MNEs follows from their distinctive production techniques and input choices. Since production techniques are relatively fixed over the medium term foreign investment decisions will be heavily influenced by input costs. High labour cost is a structural feature of the Canadian economy, so viable foreign investment is unlikely to occur in sectors requiring large amounts of labour inputs.