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Trade Balances and Jobs: Canada, the US and China

By Erin Weir

Free trade was promoted to Canadians on the famous promise of "jobs, jobs, and more jobs," and is widely defended on the basis that Canada's large trade surplus with the United States contributes to Canadian employment.[1] Meanwhile, American commentators are concerned that the U.S. trade deficit displaces American jobs.[2] While these commentators are mainly focused on China, some of them have also identified Canada as a drain on U.S. employment.[3] This note examines the effect of trade balances on North American jobs.

Conservative economists argue that, assuming full employment, free trade simply ensures an efficient allocation of production among countries. For each country, job losses in some industries will be offset by gains in others, leading to higher overall productivity. In the real world, where unemployment is possible,

The Canada-U.S. Trade Balance, 2006

Economic Sector	**Surplus (Deficit)** *Millions of dollars*	**Surplus (Deficit)** *Proportion of total*
Crude Oil, Gas, and Coal	$60,850	51%
Petroleum Products and Electricity	$12,747	11%
Ores, Minerals, and Primary Metals	$15,884	13%
Logs, Wood, and Paper	$22,170	18%
Food and Agricultural Products	$5,526	5%
Resource Industries	**$117,177**	**98%**
Motor Vehicles and Parts	$15,958	13%
Chemicals, Plastic, and Rubber	$1,836	2%
Electronics and Consumer Goods	($341)	(0%)
Machinery and Transport Equipment	($4,032)	(3%)
Services	($10,707)	(9%)
Non-Resource Industries	**$2,714**	**2%**
TOTAL	**$119,891**	**100%**

Source: The figures on goods were compiled from Industry Canada's *Strategis* database (strategis.gc.ca) on a customs basis using North American Industry Classification System codes. "Transport Equipment" includes aerospace products, rolling stock, and ships, but excludes motor vehicles. The figures on services are from Statistics Canada, *Canada's Balance of International Payments*, Table 376-0003. Due to rounding, figures may not sum exactly.

The Canada-China Trade Balance, 2006

Economic Sector	**Surplus (Deficit)** *Millions of dollars*	**Surplus (Deficit)** *Proportion of total*
Crude Oil, Gas, and Coal	$219	1%
Petroleum Products and Electricity	($50)	(0%)
Ores, Minerals, and Primary Metals	($461)	(2%)
Logs, Wood, and Paper	$544	2%
Food and Agricultural Products	$187	1%
Resource Industries	**$440**	**2%**
Motor Vehicles and Parts	($792)	(3%)
Chemicals, Plastic, and Rubber	($84)	(0%)
Electronics and Consumer Goods	($25,092)	(92%)
Machinery and Transport Equipment	($1,809)	(7%)
Services	NA	NA
Non-Resource Industries	**($27,775)**	**(102%)**
TOTAL	**($27,336)**	**(100%)**

Source: The figures on goods were compiled from Industry Canada's *Strategis* database (strategis.gc.ca) on a customs basis using North American Industry Classification System codes. "Transport Equipment" includes aerospace products, rolling stock, and ships, but excludes motor vehicles. Unfortunately, figures on services are not yet available. Due to rounding, figures may not sum exactly.

free trade can yield net losses of production and employment in particular countries.[4] Even Canadian supporters of free trade acknowledge that it failed to significantly increase Canada's productivity.[5] Their claims that Canada's trade surplus with the U.S. creates Canadian jobs implicitly accept the claims of American critics that this surplus eliminates American jobs.

The conventional wisdom that free trade and Canada's trade surplus have transferred jobs from Americans to Canadians is misleading. In fact, this surplus consists almost entirely of natural resources that the U.S. cannot produce enough of to meet its needs. However, the concern about the U.S. trade deficit relates to imports of goods and services that might otherwise have been produced by American workers. Whereas Canada's trade surplus simply reflects differing resource endowments, China's trade surplus is based on low-cost manufacturing that undermines North American employment. Rather than viewing Canada as part of the problem, Americans should work with Canadians to address the challenge of Chinese competition.

Fossil fuels and electricity account for nearly two-thirds of the Canada-U.S. trade surplus. Raw and semi-processed products from forestry, mining and agriculture comprise the remaining third. In general, these Canadian exports do not displace American jobs. To the extent that Canadian and American producers compete in forestry and agriculture, the recent Softwood Lumber Agreement and generous farm subsidies protect American jobs in these sectors. If the U.S. did not import natural resources from Canada, it would have to import them from other foreign countries. Such imports do not harm American workers, but provide inputs vital to the U.S. economy.

Of course, much resource processing is conventionally classified as "manufacturing."[6] However, to argue that oil refineries, sawmills, and steel plants in Canada eliminate American jobs is to suggest that all Canadian natural resources should be processed in the U.S. Currently, Canada exports four times the value of crude oil and natural gas as of refined petroleum products and electricity to the U.S. To the extent that some resources are processed in Canada, the associated "manufacturing" jobs clearly arise from Canada's resource endowment.

Canada-U.S. trade in non-resource industries is remarkably balanced. While Canada runs a significant surplus in automotive products and a small one in chemicals, the U.S. enjoys appreciable surpluses in machinery and equipment and in services. Canada's overall trade surplus reflects its resource endowment. Outside of the resource sector, American exports to Canada nearly equal Canadian exports to the U.S. There is no evidence of internationally mobile production being disproportionately located in Canada rather than in the U.S. In other words, Canadians have not gained jobs at the expense of American workers.

In fact, significant evidence indicates that internationally mobile activity is still concentrated in the U.S. Free trade was supposed to end Canada's status as a "branch plant" economy by allowing Canadian-based companies to access the same continental market and economies of scale as American-based companies.[7] However, the persistence of a U.S. current-account surplus with Canada in investment income reflects the disproportionate location of corporate headquarters—and the associated jobs—in the U.S. as opposed to Canada. The U.S. investment-income surplus of $18.4 billion dwarfs Canada's small surplus of $2.7 billion in non-resource output.[8]

The North American Free Trade Agreement has had many negative consequences for both Canadian and American workers,[9] but it has not transferred jobs from the U.S. to Canada. However, the recent flood of imports from China clearly implies a loss of North American employment. Even in resource industries, Canada has only a modest trade surplus with China. Canada's natural endowment is mostly offset by China's competitive advantage in resource processing, such as primary-steel production and petroleum refining. Canada exports raw commodities to China and imports processed materials from China. In non-resource industries, Canada runs a substantial trade deficit. Like the U.S., Canada has lost many manufacturing jobs in recent years.[10]

Canada's trade deficit with China is 1.9% of Gross Domestic Product (GDP), while the U.S. trade deficit with China is 1.8% of American GDP.[11] Despite anticipated Canadian gains from selling natural resources to China, Canada's trade deficit with China is proportionally larger than the U.S. trade deficit with China.

Rather than benignly increasing productivity, international trade can cause net losses of production and employment. There is no evidence, however, that North American free trade transferred internationally mobile activity from the U.S. to Canada. The Canadian trade surplus reflects natural resources that help sustain, and do not threaten, American employment. By contrast, the shift of manufacturing to China is eliminating North American jobs. Progressive forces in Canada and the U.S. should cooperate to address this shift.

(Erin Weir is an economist with the Canadian Labour Congress.)

Notes

1. Ian MacDonald, ed., *Free Trade: Risks and Rewards* (Montreal & Kingston: McGill-Queen's University Press, 2000), 104.

2. Thomas Palley, "The Troubling Economics and Politics of the U.S. Trade Deficit," *National Strategy Forum Review*, Vol. 15, No. 4 (Fall 2006): 20 – 23.

3. Robert Scott, "NAFTA's Legacy: Rising trade deficits lead to significant job displacement and declining job quality for the United States," in Robert Scott, Carlos Salas, Bruce Campbell, and Jeff Faux, *Revisiting NAFTA: Still Not Working for North America's Workers* (Washington, DC: Economic Policy Institute, September 2006).

4. Jim Stanford and Daniel Poon, *Employment Implications of Trade Liberalization with East Asia* (Toronto: Canadian Auto Workers, September 2006).

5. MacDonald, *Free Trade.*

6. Specifically, the North American Industry Classification System categorizes all forms of resource processing as "manufacturing."

7. MacDonald, *Free Trade.*

8. Investment-income data is from Statistics Canada, *Canada's Balance of International Payments*, Table 376-0003.

9. Scott et al, *Revisiting NAFTA.*

10. Erin Weir, *The Manufacturing Crisis* (Ottawa: Canadian Labour Congress, March 2007).

11. Trade deficit figures are from Industry Canada's *Strategis* database (strategis.gc.ca). GDP figures are from Statistics Canada and the US Bureau of Economic Analysis.