Textbook 17-21

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Interdependence

What did you have for breakfast this morning? A typical breakfast might include a glass of orange juice, a cup of tea, and toast with peanut butter. To enjoy this breakfast, you must rely on trade with foreign businesses—the orange juice may have come from the United States, the tea from Sri Lanka, and the peanuts from China. Without trade, you would only be eating the toast.

Other nations are equally dependent upon trade for things they need. The United States relies on Canadian energy, for example. If Canada did not send gas, oil, and hydroelectric power to the United States, Americans would be in serious trouble. Many nations rely on our wheat for their flour, our trees for their paper, and our fish for their dinner.

All nations in today's world must depend upon each other for products and services that their industries either cannot make or grow, or that industries in other nations make or grow better. The reliance of two or more nations on each other for products or services is called **interdependence**. There are three main areas of interdependence in trade: primary industries, secondary industries, and tertiary industries.

Primary Industries

Canada's export strength is still in the primary industry sector. This sector consists of the extraction and initial processing of all raw materials. There are five major **primary industries**: agriculture; fishing, hunting, and trapping; forestry and logging; energy; and mining. A sixth primary industry is often added to the list in Canada—water.

Primary industries are situated mainly in western and eastern Canada. The west produces oil and gas, metals, chemicals, and agricultural products, mainly beef and wheat. The Atlantic provinces capitalize upon their offshore oil reserves, fisheries, and mines.

Canada's export strength lies in its primary industry sector, which includes the Atlantic fisheries.

Impact: Society

Is a branch-plant economy good for Canada?

Yes: Branch plants provide products on which Canadians depend, and create jobs for Canadians.

No: Branch plants do not encourage innovation, creativity, and new product development, which are crucial for economic growth. It is difficult for Canadian businesses to compete with large foreign-owned corporations. Money spent by Canadian consumers leaves the country and goes

Primary industries add value to products by extracting them from the earth or sea and beginning to process them. For example, you wouldn't want to wear a raw diamond on your finger or use it in high tech equipment. However, having a raw diamond is more valuable than having no diamond at all. Diamond mines use heavy equipment to dig out the diamond-bearing ore and separate the diamonds from the waste rock. The rock only has value because it contains diamonds; therefore, the diamond mine creates value out of the rock as it extracts the diamonds from it. All primary industries add value in this way.

The United States depends upon Canadian resources. Our greatest number of exports, both to the U.S. and other trading partners, come from businesses in the primary sectors. Canada is the largest exporter of oil and petroleum to the United States. We consistently sell more oil and petroleum to the U.S. than any other country (over two million barrels per day), including the countries of the Middle East (although Saudi Arabia occasionally surpasses us). Many countries depend upon our wheat for their food and use our minerals, chemicals, and petroleum products to make countless items in factories across the world. Only a to the owner of the branch plants, rather than staying in the country and supporting Canadian businesses.

few of our manufactured products, however, have made a global impact.

Secondary Industries

Secondary industries are made up of primary manufacturing (called processing) and secondary manufacturing. Secondary manufacturing produces both capital goods (products used by businesses such as machinery, trucks, and heavy equipment) and consumer goods (for example, clothing, packaged food, and television sets). Canada has a strong primary manufacturing sector, but a weak secondary manufacturing sector. The world knows Canada for its oil, pulp and paper, and diamonds, but not for its soft drinks, cereal, or running shoes.

Canada relies on foreign companies to invest in businesses in Canada, provide jobs for Canadians, and make the products we use. Over 50 percent of all of the processing and manufacturing businesses in Canada are owned by foreign companies, including Kellogg's, Procter and Gamble, and Kraft Foods.

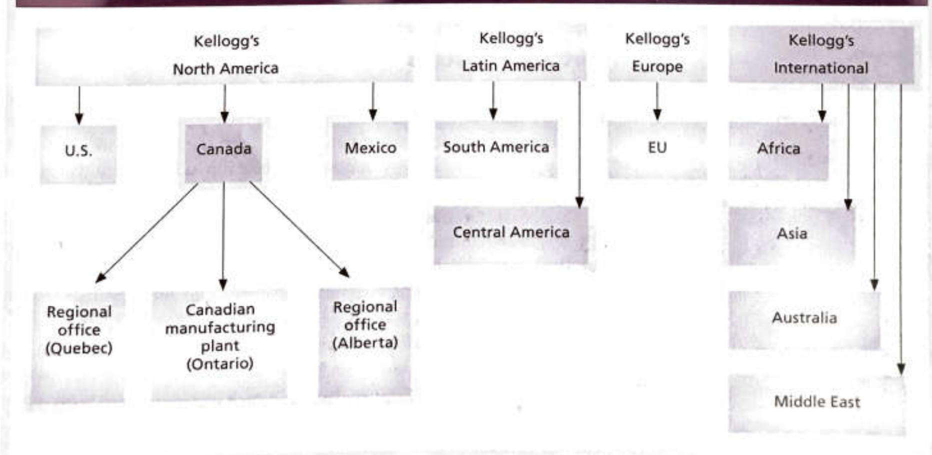
This computer manufacturer in Germany is part of the secondary industry sector.

A number of foreign automotive manufacturers have established Canadian branch plants, making the automotive industry a significant secondary industry here.

An economy such as Canada's, based on businesses owned by foreign interests, is called a branch-plant economy. A **branch plant** is a factory operated from a country outside of a host country. An example is Kellogg's, which is based in Battle Creek, Michigan. Its Canadian head office is in Mississauga and its main Canadian manufacturing plant (or branch plant) is in London, Ontario.

The Canadian government initiated this situation in 1879 through the National Policy, which stated that businesses wanting to reach Canadian markets needed to build factories in Canada. The new law certainly brought direct investment to Canada (primarily from the United States), but also resulted in the branch-plant economy Canada has today.

Figure 1.1: W. K. Kellogg Institute for Food and Nutrition Research Battle Creek, Michigan, Head Office



Global Gaffes

In December 2000, Roly Morris bought the rights to franchise Krispy Kreme Doughnuts in Canada. The U.S. parent company owned a 39 percent interest in Morris's private venture, and required his company to open forty Canadian stores in seven years.

The first international Krispy Kreme franchise opened in Mississauga in December 2001. It had record sales in its first week ($465,000) and appeared ready to take on the Canadian doughnut market. By 2003, Morris had built eighteen stores and hired approximately a thousand employees.

Then people's eating habits changed and carbohydrates landed high on the list of "don't eat" foods. Customers disappeared. In 2005, the parent company forced the Canadian venture into bankruptcy. As of 2009, only five Krispy Kreme stores, owned by the U.S. corporation, remained in Canada.

Although branch plants employ Canadian workers and pay Canadian taxes, there are some disadvantages to relying on foreign ownership of the manufacturing sector, as this list shows.

- **Business functions.** The functions of the subsidiary operations are often reduced from those functions performed at head office, notably the research and development and upper management functions.
- **Innovation.** There is very little innovation in divisional operations, as the branch plant follows the lead of the parent company and works to its specifications.
- **Use of non-Canadian materials.** Often, the satellite factories rely on imports from the country where the parent company is located to supply components and materials, and do not use Canadian materials or products.
- **Exports.** Branch plants rarely export, as they have been located in Canada specifically to service the Canadian market.

We do, however, use both foreign-owned and domestic secondary industries to add other layers of value to the raw materials extracted in the primary industries, creating processed or manufactured goods from them. The diamond mine that you read about earlier sells its raw diamonds to diamond companies that create value by cutting and polishing the raw diamonds into gemstones. Other secondary industries add even more value to the diamonds by creating jewellery that is sold to stores. Each time more value is added to a product in Canada, more jobs are created here, and Canadians become less reliant on foreign businesses.

Much secondary manufacturing, however, is done in other countries, where labour is cheaper than it is in Canada. Companies such as Roots, Mountain Equipment Co-Op, and lululemon use foreign manufacturing companies in China, India, and other cost-effective locations. around the world.

Tertiary Industries

Tertiary industries do not make anything or extract anything from the earth, but provide necessary services to other businesses and consumers. Banking, construction, communications, and transportation are major tertiary industries. Tertiary industries make up what is known as the **service sector**.

One of the largest service industries is retail sales. Retailers traditionally buy merchandise from a manufacturer or a distributor and sell it to the final user. The diamond companies that create the gems out of raw diamonds sell their products to retail jewellers who add the final value to the product by making it available to the consumer.

Canadian retailers are major importers, either directly or indirectly, of foreign products. A quick survey of shelves in shoe stores, clothing stores, and even grocery stores reveals how dependent retailers are upon imports.

Foreign retailers dominate the Canadian retail service sector. There are very few major chain stores that are not owned by corporations with head offices in another country. The reverse is not true, however. Only a few Canadian-based retailers have had success in other markets (Aritzia and Roots are two examples). Most Canadians spend their retail dollars in foreign-owned stores. Without foreign retailers, we would have few places to shop.

Table 1.8: Popular Canadian Retailers that are Foreign Owned

Walmart	Costco	Hudson's Bay Co.
Future Shop	Sears	Home Depot
H&M	IKEA	HMV
Zellers	Hollister	Old Navy
Foot Locker	Forever 21	The Body Shop

Table 1.9: Major Foreign-Owned Businesses in Canada

General Motors	Ford	Toyota
IBM	McDonald's	Imperial Oil
Shell	ING Bank	Subway

Table 1.10: Recent Foreign Takeovers of Canadian Businesses

Molson	■ owned by Coors (U.S.)
CCM	■ owned by Reebok (Germany)
Bauer	■ owned by Nike (U.S.)
Dofasco Steel	■ owned by Arcelor (Luxembourg)
Alcan Aluminum	■ owned by Rio Tinto (United Kingdom)
Stelco	■ owned by United States Steel (U.S.)
Corel	■ owned by Vector Capital (U.S.)
Noranda Mines	■ owned by Xstrata (Switzerland)

Think About It!

1.18. What is globalization?

1.19. What is a primary industry? Provide an example.

1.20. Does Canada have a strong secondary industry sector?

1.21. What is another name for tertiary industries? Provide two examples of tertiary industries.

1.22. What is a branch-plant economy?

1.23. Why is Canada considered to have a branch-plant economy?

1.24. How do secondary industries add value to a product?

1.25. How do tertiary industries add value to a product?

An example of a popular Canadian retailer that uses foreign manufacturers to produce the clothing it sells is lululemon.

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