TRADE IN THE MODERN WORLD

By the time you finish this chapter you should be able to:

- Identify the types of international businesses
- Describe, drawing on information from a variety of sources, including the Internet, the impact technology has had on the international business environment
- Identify the factors that affect foreign exchange rates
- Explain how changes in the value of the Canadian dollar can affect business opportunities
- Identify the types of products that trade freely into and out of Canada and those that are restricted in their movement
- Identify and locate on a map Canada's major trading partners

Key Terms

- importing
- global sourcing
- exporting
- value added
- licensing agreement
- exclusive distribution rights
- franchise
- joint venture
- foreign subsidiary
- protectionism
- trade quotas
- trade embargo
- trade sanctions
- exchange rate
- floating rate
- currency revaluation
- currency devaluation
- terms of trade
- hard currencies
- soft currencies
- currency speculating

International Business Practices

International trade has played a critical role in Canada's development. It contributed significantly to the way that Canada was settled. However, international business now looks dramatically different from the way it did when the French and the British sailed up the St. Lawrence River. Today, Canada trades for a variety of reasons. These include:

- Company growth
- Entry into new markets
- Expanded customer base
- Increased profits
- Access to inexpensive supplies
- Lower labour costs
- Access to financing

You are affected by international trade many times a day without even realizing it. There are many types of international business. Some are very simple. In Chapter 1, you learned that many Canadians invest in other countries through foreign portfolio investment. Other kinds of international business are more complex. Companies may enter international markets through importing, exporting, licensing agreements, or franchising.

The riskiest types of international business are joint ventures and foreign subsidiaries. They involve a high degree of risk because the parent company shares ownership or allows the subsidiary to be run by foreign nationals with little interference from the home country.

Foreign Portfolio Investment

Many Canadians invest in businesses by purchasing stocks, bonds, and financial instruments. Canadians do this to increase their wealth or save for retirement. Some of these investments are made outside of Canada. Foreign portfolio investments are made because investors are looking for dividends, or the interest that can be gained. These investments can take many forms. One way to invest is through money markets, which are short-term investments that are considered safe and liquid (meaning they

Frank and Ernest

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can be easily converted into cash). Major corporations invest in money markets to make interest on their current cash. Another form of foreign portfolio investment is through capital markets. Individuals can invest in capital markets by directly purchasing stocks on international stock markets, such as the New York or Tokyo stock exchanges (NYSE and TSE). Some Canadians invest in capital markets through mutual funds, in which contributions from many people are combined and invested in various assets.

One reason that Canadians invest outside of Canada is because this allows them to diversify, or spread out, their investments, which is less risky than investing in just one area. Another reason is that many foreign investments provide greater rates of return. Canada accounts for only 2 percent of the world's stock and bond markets. Ignoring investments outside of Canada dramatically limits investment opportunities. Great returns can be found in emerging markets such as China, Peru, and India, which are experiencing strong economic growth. However, investing in these countries can also be risky.

Because the world's money markets, capital markets, and global banks are interrelated, a major change in one country is felt around the world. For example, the financial crisis that began in the United States in 2008 rippled across the globe. Banks in many countries failed or faltered because they were unable to collect on loans. Stocks plummeted in Brazil, Japan, and other major markets following the news that the U.S. stock market had dropped.

Canadians can invest in businesses by directly purchasing stocks on international stock markets. Here, a man stands in front of the Toronto Stock Exchange (TSX).

Importing

Importing means bringing products or services into a country. These goods and/or services may be intended for use by another business or for resale. Business-to-business (B2B) importing is common in Canada. Many Canadian manufacturers import products to use in their factories, while other companies purchase finished goods. This is referred to as **global sourcing**, which is the process of buying equipment, capital goods, raw materials, or services from around the world. For example, many companies purchase computers from Dell, a company with its headquarters in the United States; however, the computers are manufactured in India. Companies use global sourcing because it keeps costs down, improves quality, and allows access to new technologies.

Companies may also import products that they want to resell. For example, Canadian Tire imports barbeques made in the United States, The Bay imports clothing from Italy, and Future Shop imports televisions from Japan.

Services can also be imported. Call centres located throughout the world answer calls from Canadians who have questions about their computers and appliances. It is not uncommon to interact with people in other countries when phoning for tech support for your new computer. For example, Sykes Assistance Services Corporation—a Canadian company that provides roadside assistance and health management systems—has operations in more than eighteen countries on five continents.

Canada imports a variety of products, primarily from the United States, Japan, and Europe. According to the CIA World Factbook, Canada's top imports include machinery and equipment, motor vehicles and parts, oil, chemicals, electricity, and consumer goods. In 2008, Canada's imports were approximately $490 billion.

Canadian stores import finished goods from around the world to sell to customers.

Table 2.1: Canada's Top Ten Import Markets by Country, 2008

Country	% Share of Total Imports
United States	52.4
China	9.8
Mexico	4.1
Japan	3.5
Germany	2.9
United Kingdom	2.9
Algeria	1.8
France	1.4
Norway	1.4
South Korea	1.4
Total of Top Ten	81.6

Source: Industry Canada

President Barack Obama is one of many Americans who uses the Canadian-made BlackBerry.

Exporting

Exporting occurs when companies outside of Canada purchase Canadian goods and services. Just like imports, exports may be B2B or for resale. For example, Research In Motion, the Canadian manufacturer of the BlackBerry, exports its products both to other businesses and to end consumers throughout the world. When President Barack Obama won the presidential election, he had to convince the Secret Service that he should be allowed to keep his BlackBerry. Eventually, he was able to do so with the restriction that he would only be able to use it to contact a limited group of people.

Canada also exports services. For example, TeleTech is a multinational company based in Colorado with a call centre in London, Ontario. This call centre answers questions about software and tech support from people across North America. The London branch also liaises with a centre in the Philippines and with American centres to support the same clients.

Canada exports a variety of goods and services, primarily to the United States, Japan, and the United Kingdom (see **Table 2.2**). According to the CIA World Factbook, Canada's top exports include motor vehicles and parts, industrial machinery, aircraft, telecommunications equipment, chemicals, plastics, fertilizers, wood pulp, timber, crude petroleum, natural gas, electricity, and aluminum. In 2008, Canada's exports reached approximately $443 billion. Exporting is critical to Canada's economic success. More than 40 percent of our gross domestic product is exported. Our largest trading partner, the United States, accounts for more than 80 percent of our exported goods and services.

Table 2.2: Canada's Top Ten Export Markets by Country, 2008

Country	% Share of Total Exports
United States	77.7
United Kingdom	2.7
Japan	2.3
China	2.2
Mexico	1.2
Germany	0.9
Netherlands	0.8
South Korea	0.8
Belgium	0.7
France	0.7
Total of Top Ten	90.0

Source: Industry Canada

Where Do We Get

Oil

Canada imports approximately 1 million barrels of oil a day. These imports have tripled since 1985.

At the same time, one of Canada's major exports is oil. There are vast resources of Canadian oil in Alberta's tar sands. In 2007, Canada produced 3.4 million barrels of oil a day. It has the second-largest oil reserves in the world, next to Saudi Arabia. Much of the oil Canada produces is exported to the United States. In 2007, Canadian exports accounted for 18 percent of imports into the United States—2.5 million barrels per day.

Why does Canada import oil? Canada imports oil for use in the eastern provinces. One reason that eastern Canada does not use oil produced in Alberta is that there is no pipeline that goes from the west to the east. Current pipelines run from the north to the south—into the United States. So where does Canada get oil? Canada imports oil from Algeria, Columbia, Peru, Russia, Norway, the United Kingdom, and the United States. It is easier to import oil to the eastern provinces from the United States and western Europe than to have it piped in from Alberta.

Though Canada is a major producer of oil, it is more economical to import oil for the provinces that are located far from the country's pipelines.

Global Gaffes

A company exporting software to Jakarta, Indonesia, hired an exchange student from Indonesia to translate its manual. Unfortunately, the student had limited knowledge of computer terminology and translated the word "software" as "underwear," creating a lot of confusion—and a few laughs.

Value Added

One problem with Canada's imports and exports is the lack of **value added** inherent in the products. Value added is the amount of worth that is added to a product as it is processed. It is the difference between the cost of the raw materials and the cost of the finished goods. Companies that focus on extraction of primary goods do not make as much money as companies that process these goods.

For example, consider the production of a dining room table. The lumber needed comes from a company in British Columbia. To build the table, $50 worth of lumber is required. An American company buys the wood and creates a beautifully crafted dining room table that it sells back to a Canadian retailer for $3,000. The Canadian retailer sells it to a customer for $4,500. Who makes the greatest profit from this transaction? The American furniture company because it applies the most value added. This is common in Canadian businesses. Most of our exports are from primary industries. Other countries process our goods into finished products, therefore gaining most of the profit from the processed good.

Figure 2.1: How Value Is Added

	Canadian Lumber Mill	American Furniture Maker	Canadian Retailer
Product Sells For	$50	$3,000	$4,500
Value Added	$0	$2,950	$1,500

Newsworthy: Unexpected Exports

Toxic E-waste Pouring into the Third World

By Craig and Marc Kielburger, Toronto Star, April 21, 2008

Have you ever wondered what became of your VHS player? How about that old computer with the black and green monitor, or your first cellphone that was the size of a loaf of bread?

With people constantly upgrading their computers, TVs, and cellphones, electronic waste, or e-waste, has quickly become the fastest-growing component of solid waste. Compounding the problem, e-waste is often extremely toxic.

Despite international agreements that prohibit the import and export of hazardous waste, shipments of broken electronic devices continue to pour into the harbours of Kenya, India, and China.

The reason is strictly financial. The U.S. Environmental Protection Agency estimates it's up to ten times cheaper to export e-waste than to dispose of it domestically.

Mercury, barium, lead, and cadmium are just a few of the dangerous elements that can be found in discarded devices. Many more toxic materials are used in the salvaging process that recovers the gold, silver, copper, and other valuable metals found in computers, cellphones, and TVs.

Acid baths and open fires are typical of the inefficient and dangerous methods used in the recovery of these precious metals. Toxic fumes and acid spillage contribute to an unsafe working environment. The hazardous elements accumulate in landfills and can leech into the groundwater, leaving it undrinkable.

The Basel Convention, which the United States has yet to sign, is an international treaty that addresses e-waste. While it has helped to slow the transfer of toxic waste between nations, it lacks accountability.

The individual parties of the convention are left to police themselves. So while China, for example, has signed and ratified the convention, there is no international enforcement—and so the practice of importing e-waste continues unabated.

Solving the E-Waste Problem (StEP) in Bonn, Germany, is an initiative of several United Nations organizations. Despite their efforts to stop the flow of e-waste into developing nations, executive director Ruediger Kuehr can understand why China continues to accept shipments.

"China, like India and many other countries, is really hungry for resources, so they let e-waste into their country to support their production chain," he says. "They have many people making their living off of e-waste, so they cannot easily say, 'Let's stop all of these imports.'"

About 150,000 people are employed by the e-waste industry in Guiyu, China, and 25,000 more work in the scrap yards of New Delhi, India. The gold, silver, copper, aluminum, and other metals salvaged become a vital resource for the manufacturing of new items. A typical wage for the arduous, dangerous work is $2 to $4 a day.

Consumer awareness on the issue of e-waste is still low, but on the rise. People have begun to demand "greener" technology, and companies are starting to listen.

In March 2008, Greenpeace released the seventh edition of its "Guide to Greener Electronics," providing environmental impact rankings for the industry. Toshiba and Samsung were at the head of the class, improving their recycling programs and using alternative, non-toxic material. According to the report, Microsoft, Phillips, and Nintendo were at the bottom of the group.

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Questions

1. Why is e-waste exported?
2. To which countries is it exported?
3. How does e-waste provide employment?
4. How can consumers help prevent the export of e-waste?

Shipments of broken electronics are sent to countries such as China and Kenya, despite agreements that prohibit the import and export of hazardous waste.

Licensing Agreements

A **licensing agreement** gives a company permission to use a product, service, brand name, or patent in exchange for a fee or royalty. Often the license is applicable only in a specific region. For example, Virgin Mobile, a British company, has a licensing agreement with Bell Canada, Canada's largest communications company. This agreement allows Bell Mobility to use the Virgin Mobile brand in Canada. Richard Branson, chairman of the Virgin Group, states that the licensing agreement will allow both companies to experience faster growth, flexibility, and operating efficiencies. Canadians benefit from this agreement by having access to Virgin's extensive wireless service options. Virgin Mobile Canada is the number one mobile network used by young people and achieved the highest customer satisfaction ratings by J. D. Power and Associates. Virgin Mobile benefits from this licensing arrangement with Bell Canada through increased profits.

Another example of a licensing agreement is between Cott Beverages and Twentieth Century Fox. Cott Beverages is a Canadian soft drink company that produces RC Cola and Clear Choice, and is the world's largest producer of private brands for stores such as Walmart and Tesco. Through the licensing agreement, Cott produces the energy drink 24-CTU for the U.K. market. This citrus-flavoured drink is a spinoff product of *24*, the successful Fox network television show. Cott is hoping that the television show's high-intensity, adrenaline-rushing image will translate into sales of the 24-CTU beverage.

A licensing agreement allows communications company Bell Mobility to use the Virgin Mobile brand in Canada.

Rogers Communications had the exclusive distribution rights for the iPhone when it launched in Canada in 2008.

Exclusive distribution rights are another form of licensing agreement. These rights allow a company to be the only distributor of a product in a geographic area or in a specific country. This strategy is often used as an initial entry into a foreign market. (For more information, see Chapter 7.) An example of exclusive distribution rights occurred when the iPhone entered Canada. Rogers Communications had the only technology that would support the iPhone, and they had exclusive Canadian rights to sell it. Subscribers had to use a Rogers plan if they wanted to use an iPhone. Eventually, Bell and Telus obtained the necessary technology, and entered the market as well.

Licensing is most frequently used for manufacturing processes. Often, management expertise will accompany the licensing agreement. It is common for the parent company to send senior management to the foreign country to help with the implementation of the license. Once the foreign company is comfortable with the new technology or manufacturing process, the managers return to their home country, and employees in the foreign country manage the manufacturing using the protocol learned from head office. Licensing agreements have little risk, but the monetary gain is also limited.

Think About It!

2.1. What is importing? Give an example of an import item.

2.2. State five of Canada's major imports.

2.3. What is exporting? State an example of an export product.

2.4. State five of Canada's major exports.

2.5. Explain the concept of value added.

2.6. Define licensing agreement. Give an example.

Wendy's is an American company with many franchise locations in Canada. Many Canadian Wendy's locations are co-branded with Tim Hortons, another hugely popular franchise in Canada.

Franchising

A **franchise** is an agreement to use a company's name, services, products, and marketing. The franchisee signs a contract and agrees to follow all of the franchisor's (the parent company's) rules. For a fee, the franchisor provides service support in financing, operations, human resources, marketing, advertising, quality control, and many other areas.

Examples of foreign-owned franchises commonly found in Canada are McDonald's, Wendy's, Subway, Little Caesars, Pak Mail, and Maaco Collision Repair and Auto Painting. Canadian-owned franchises include Casey's Bar and Grill, Boston Pizza, Mr. Sub, Second Cup, Great Canadian Dollar Store, Kumon, Tim Hortons, and Kernels Popcorn.

The advantages for the franchisee (who buys and runs the franchise) are less risk, access to expert knowledge and research, and financial aid. The disadvantages are less profit, stringent guidelines, and loss of control.

Joint Ventures

A common type of international business used to establish a presence in a foreign country is a **joint venture**. A joint venture occurs when two businesses, one of which is usually located in the foreign country, form a new company with shared ownership. In fact, 25 percent to 40 percent of all foreign investment is in the form of joint ventures.

One main reason companies create a joint venture is to be allowed into a country. For example, many Canadian businesses are able to enter the communist countries of China and Cuba because they are willing to enter a joint venture with the governments of these countries. For example, Trade Winds Ventures Inc., a Canadian mining company, has established a joint venture in China to explore and develop property believed to contain lead and zinc. Pizza Nova, a Toronto-based company, now delivers pizza in Cuba as a result of a joint venture. Joint ventures allow companies to gain access to markets, products, and customers that were not previously accessible. Other advantages of joint ventures include sharing financing, managerial expertise, technology, cultural information, economies of scale, and risk reduction.

However, 50 percent of all joint ventures fail. For example, at the beginning of 2010, Toyota closed a plant for the first time in its history. Its joint venture with General Motors in California was negatively affected by slumping U.S. auto sales. Joint ventures that do succeed often take years to generate a profit. Joint ventures take longer to negotiate and establish because the needs and wants of two companies must be taken into consideration.

Some ways to overcome problems in a joint venture include clearly defining each company's roles, establishing formal contracts, and paying close attention to detail. Companies need to research the cultural differences and business methodologies of each company and the country in which it is located.

An example of a Canadian company that has successfully navigated a joint venture is Sun Life Financial. Sun Life Everbright is a joint venture in China between Sun Life and the China Everbright Group, a government-owned entity. The new company sells insurance products throughout China. One reason for its success is the clear delineation of duties for each company. Sun Life is accountable for the day-to-day operations of the new company, while Everbright takes care of distribution networks and local management expertise.

New United Motor Manufacturing, Inc., or NUMMI, was a General Motors joint venture with Toyota Motor Corp., in Fremont, California.

Think About It!

2.7. Define franchise.

2.8. What is included in a franchising agreement?

2.9. Name five Canadian-owned franchises.

2.10. Give an example of a Canadian joint venture.

2.11. What is a foreign subsidiary? Give two examples of Canadian-owned foreign subsidiaries.

Foreign Subsidiaries

The most comprehensive type of international business is called a **foreign subsidiary**. A foreign subsidiary, often referred to as a wholly owned subsidiary, exists when a parent company allows a branch of its company, in another country, to be run as an independent entity. The parent company often sets financial targets, such as sales, profits, or growth. As long as those targets are being met, the parent company generally leaves the subsidiary to run its own day-to-day operations. This decentralized decision-making process allows the local management to incorporate the host country's culture and customs.

Toyota has traditionally been a successful foreign subsidiary in Canada through its Toyota Motor Manufacturing Canada (TMMC), which operates in Cambridge and Woodstock, Ontario. These plants produce several Toyota models and assemble the Lexus RX 350, the only Lexus produced outside of Japan. This subsidiary has many advantages for Toyota. It saves on distribution costs because the plant is closer to Toyota's North American customers, and it provides access to a well-educated workforce. These factors help to increase profitability. Canada also gains from this subsidiary. Toyota has invested CAD$56 billion into the subsidiary and employs over 5,600 people.

Canadian companies also have subsidiaries around the world. Bombardier, the Quebec-based producer of snowmobiles, Sea-Doos, and airplanes, has three subsidiaries in China. TD Bank Financial Group, which operates TD Canada Trust throughout Canada, has a subsidiary in the United States. TD Banknorth operates in the northeastern United States, providing services such as online banking, commercial banking, investments, and insurance. As a result of Canada's strong banking expertise, the TD Bank Financial Group was able to expand its company into an area that had historically experienced major upheaval and financial difficulty.

Manufacturing cars through its foreign subsidiary in Canada saves Toyota money on distribution costs by reducing shipping distances to North American buyers.

Trade Barriers

Although trade is beneficial for all countries, it is not always easy. Governments set up rules and regulations to protect local businesses, generate revenue, and protect citizens from harmful products; however, many of these regulations discourage international trade.

Tariffs

The most common type of trade barrier is a tariff. Tariffs are taxes or duties put on imported products or services. A tariff raises the cost of imported goods so that consumers will purchase locally manufactured products instead of less expensive imports. This shielding against foreign competition is called **protectionism**. The other advantage of tariffs for domestic governments is an increase in revenue. The government imposing the tariff collects the money that it generates.

Table 2.3: Tariff Winners and Losers

Winners	Losers
Domestic governments—they collect the additional taxes	Foreign producers—their goods are now more expensive
Local producers—their goods are more competitively priced	Consumers—the price of the products go up and consumers are forced to pay higher prices
Local employees—the people working in local companies keep their jobs	Foreign employees—the people working in companies overseas lose out on opportunities

Canada generally favours the reduction or eradication of tariffs. This is because when one country implements a tariff, its trading partner will retaliate with a tariff of its own. The North American Free Trade Agreement (NAFTA) is a trade agreement that eliminates trade barriers, such as tariffs, between Canada, the United States, and Mexico.

Table 2.4: Example of How Tariffs Work: Canada's Smartphone Production and Imports

Before Tariff

	Canada	Import
Raw materials	100	100
Labour	50	10
Shipping	5	10
Total	155	120
Markup (100%)	155	120
Selling price	310	240

After Tariff

	Canada	Import
Raw materials	100	100
Labour	50	10
Total	150	110
Tariff (50%)	—	55
Shipping	5	10
Total	155	175
Markup (100%)	155	175
Selling price	310	350

The imported product is now more expensive than the Canadian product.

Impact: Society

Is protectionism good for Canada?

- Yes: Protectionism retains domestic jobs.
- No: Protectionist policies cause other countries to limit their imports of Canadian goods.

Trade Quotas

Trade quotas are another form of protectionism. A trade quota is a government-imposed limit on the amount of product that can be imported in a certain period of time. This protects domestic producers by limiting the amount of product imported and decreasing foreign competition. Canadian exporters are faced with trade quotas in the United States. For example, under its World Trade Organization (WTO) commitments, Canada has a quota of 14.5 million kilograms of peanut butter it can export to the United States. Exports under that amount are subject to lower tariff rates, while exports over that amount have substantially higher tariffs imposed on them. Exporters must fill in an application each year to qualify for their portion of the quota. Other Canadian products subject to U.S. quotas include chicken, pork, dairy products, firearms, softwood lumber, and textiles. Canada holds quotas on many products it imports. These include agricultural products, firearms, steel, textiles, and clothing.

Both tariffs and quotas provide protection for domestic producers. The imposition of a tariff or quota causes prices to rise; however, the difference between the two is that the extra revenue generated by a tariff goes to the domestic government, whereas, with a quota, the increase in revenue is kept by the producers.

Trade Embargoes

When a government imposes a **trade embargo**, it is banning trade on a specific product or with a specific country. Often, trade embargoes are declared to pressure foreign governments to change their policies or to protest human rights violations.

A trade embargo declared by Canada affects Canadians by increasing the need for domestic products that become unavailable as imports. A trade embargo may cause the price of a product to increase, because the supply has decreased. When another country imposes a trade embargo on Canadian products, there is a surplus domestic supply. Canadian companies must find alternate markets that will buy their products, or decrease production and close factories.

In 2003, Canada suffered a major economic blow when thirty countries issued a trade embargo on Canadian beef exports. This occurred when a case of bovine spongiform encephalopathy (BSE), or mad cow disease as it is most commonly known, was discovered in a cow in Alberta. The cattle industry suffered billions of dollars in lost sales. Governments had to implement assistance programs to help cattle ranchers.

Other Trade Barriers

Canada also imposes **trade sanctions** on other countries. For example, no Canadian is allowed to trade arms with anyone from Iraq. Historically, Canada limited trade with South Africa, with the intention of pressuring the country into dismantling its apartheid system. Canada lifted all non-military sanctions against South Africa in 1993 as apartheid came to an end. Another well-known example of trade sanctions are the strict guidelines the United States has for doing business in Cuba. The ban includes finance, trade, and travel. The U.S. embargo will exist until Cuba begins to change to a democracy.

Thirty countries issued a trade embargo on Canada's beef exports when mad cow disease was discovered in an Alberta cow in 2003.

Foreign Investment Restrictions

Many countries have directly invested in Canada. You can see this when you walk down the street. You may have purchased a coffee at Starbucks, eaten lunch at McDonald's, driven a Ford truck to work, or purchased soap at The Body Shop. This foreign investment provides new products, technology, and employment, and increases productivity for Canadians. Foreign investors have input into the management and running of a domestic corporation, and also receive a return on their investment.

Many laws in Canada influence foreign investment. The law with the greatest impact is the *Investments Canada Act*. Its purpose is to ensure that all foreign investments are reviewed to determine how they will benefit Canada. Among the restrictions included in the legislation are a review of benefits to Canada of any direct investments over $5 million from non-WTO countries, and of any direct investments over $312 million from WTO countries. These are 2009 numbers; the limits themselves are reviewed every year. Foreign investments in the uranium, financial, transportation, and cultural industries are automatically reviewed.

Other laws restrict foreign investment in Canada. The *Bank Act*, the *Transportation Act*, the *Broadcasting Act*, and the *Telecommunications Act* limit the amount of foreign ownership in each of these sectors. For example, the *Transportation Act* limits foreign ownership of a Canadian airline to 25 percent. It also allows only Canadian-owned airlines to provide domestic flights (flights within Canada).

Canadians face foreign investment rules when they are purchasing businesses in other countries. For example, if a Canadian wants to make an investment in Australia and is purchasing commercial real estate worth over AUD$5 million, the investment is reviewed under Australia's Foreign Investment Review Board (FIRB).

Standards

Trade barriers exist when countries have different standards for the way products are used or how they perform. Countries have different standards in areas such as environmental protection, voltage in electronic devices, and health and safety.

Countries have different standards for voltage in electronic devices, which means that small appliances made in one market must be modified for other markets. For example, hair dryers in Canada operate on different electrical current and use different wall sockets than in Europe. Manufacturers must take these modifications into account, not only when producing items, but when they are deciding whether or not to produce them at all.

Table 2.5: Electrical Outlets Around the World

Country	Voltage/Frequency	Outlet
Canada	120V 60Hz	Type B
Hong Kong	220V 50Hz	Type G
U.K.	230V 50Hz	Type G
Cuba	110/220V 60Hz	Types A, B, & C
Japan	100V 50/60Hz	Types A & B
Argentina	220V 50Hz	Types C & I
Morocco	127/220V 50Hz	Types C & E

Outlet Types—Visual Reference

Type A	Type B	Type C	Type E	Type G	Type I

If the American government passes a law to make cars in the United States more fuel efficient, there will be a decrease in the amount of fuel consumed and lower carbon-dioxide emissions. Car manufacturers producing automobiles in Canada and exporting them will have to improve their vehicles' fuel efficiency to sell them across the border.

Different health and safety standards can also impede trade. It is difficult for a Canadian manufacturer to import goods from another country if the manufacturing process is not up to Canadian standards. Canadians will not be able to take advantage of lower-priced raw materials if the Canadian health and safety standards have not been achieved.

One way of overcoming standardization problems is to implement an ISO 9001 or 14001 program. The ISO, or International Organization for Standardization, is a network of standardization groups from over 170 countries. It is a non-governmental organization (NGO) established to set quality regulations. Over one million companies conform to the ISO 9001 quality standards. The ISO 14001 certification assesses a company's environmental standards. (For more information, see Chapter 6, page 177.)

Currency Fluctuations

Would you pay 24,000 Japanese yen for an iPod? How about 170 euros? Currency fluctuations are a barrier to international trade because of the uncertainty they create in trying to price goods and services accurately. The **exchange rate** is the amount of currency in relation to the currency of another country. The Canadian dollar is often quoted with respect to the U.S. dollar, the euro, or the British pound. For example, if CAD$1.00 (Canadian dollar) = USD$0.89 (United States dollar), then USD$1.00 would give you CAD$1.12.

The Canadian dollar is most often quoted against the U.S. dollar because the two countries are the largest trading partners in the world. The exchange rate is important to the Canadian economy because Canada relies heavily on imports and exports. Historically, our dollar has been worth less than the U.S. dollar. It reached a low of USD$0.637 in 2002. However, in 2007, the Canadian dollar surpassed the U.S. dollar for four months. Since then it has remained fairly high in comparison to the U.S. dollar. On average, 100 billion dollars worth of Canadian currency is purchased or sold on the foreign exchange markets every day. The Canadian dollar is the seventh-most traded currency in the world.

Figure 2.2: The Canadian Dollar versus the U.S. Dollar