

Auto industry in canada

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To fully understand why Canada is one of the wealthiest nations in the world, we need to pay particular attention to Canada's economic history. The economic history of our country has been marked by many important events that have paved the way for a successful economic future. A brief economic history of Canada would pay particular attention to important events such as the economic boom of the 1920s, the dark times of the 1930s; the Second World War during the 1940s and to also not forget the important trade agreements such as the auto pact and the NAFTA. Despite the above mentioned important events, Canadian economy has also been greatly influenced by its own economic sectors.

Our economy has undergone through major changes during the past 3 decades. One of the factors that had an enormous impact on the economy of Canada has been that of the automotive industry. The automotive industry was born in the early years of the 20th century and it has since then, expanded very quickly. (White, 2007, p. 3) The expansion has proved to be economically profitable and also unsuccessful at times. This essay will examine the economical and political impacts of the auto industry in Canada during the past years, by paying special attention to the economic regional imbalance, the auto pact, the North American Free Trade Agreement and also the shift in the Canadian auto market, from American automakers to the Japanese automakers during the past three decades. The automotive industry expanded Canada's economy by increasing the employment levels, the improvement of roads and contributed to an increase in revenues due to licences and gasoline fees.

It also strengthened the economical relationship with our neighbours to the south and has also improved the economy of the southern provinces as it is heavily concentrated in the province of Ontario with major assembly plants in Windsor and Oshawa. The first car was produced in 1888 by Karl Benz in Germany, where as in Canada “ commercial production did not begin until after 1900” (White, 2007, p. 5) Many Canadian automakers tried their luck but only some succeeded, as the automobile market in Canada was overtaken by the United States in the early stages of its production. It is very important to understand that the beginning of the automobile industry is closely connected to that of the United States. Many people link the creation of the automobile industry in Canada with the American automaker Ford. The design of the American automakers is entirely different from that of the Europeans and this was set early in the history of the car production. The Germans and the French build quality and modern cars which could only be afforded by the rich, where as the Americans were faced by an economic dilemma therefore they build cars that the public at large could afford, at a cheaper quality than the Europeans.

As White states in the 1920s the industry hit its stride, expanding such that Canada became the second-largest producer of automobiles in the world. ” (2007, p. v) The automobile changed many aspects of the lives of Canadians. The car gave Canadians the leisure they didn’t have before the 1920s. Now they were able to travel long distances comfortably, to find jobs far away from home as now it was easier to get to work. The automobile also allowed for the construction of the hard surface roads. Norrie at all states that by the

1928, there were 8600 km of concrete or macadamized roads in the province (2008, pg.

89) As the number of cars per person increased so did the number of licensed vehicles in Canada. Norrie et al states that by 1923 the number of automobiles in Canada had risen to nearly 1.2 million (2008, p. 288) Employment rates were steadily rising with the rise in the number of manufactured cars in Canada. The opening of big plants throughout Canada in cities such as Windsor and Oshawa closely contributed to higher employment rates. In 1920 the average number of employees in the automobile manufacturing industry was 8,281 where as 6 years later it increased to 11,905. The sun life assurance company, 1956, p.

3 table 1) Even to this day almost 90 years later, these cities are heavily depended on the employment by the automakers. The increase in employment contributed to an increase in the lifestyles of Canadians. Also government revenues increased with the expansion of the automobile industry. They had to find a way to maintain the roads therefore licensing and gas fees were introduced. The automakers did not only increase the lifestyle of the people in the southern provinces but they had a big impact on the western provinces also. Agriculture was one of the many industrial sectors that benefited from the automakers. With cars being built it was now easier for the farmers to sell their products in the market.

They now had a more comfortable way to travel and this made their jobs easier. Also the introduction of the farm tractors was a big help in the agriculture industry. The farm tractors increased crop quantities and

livestock volume. The tractor was a great invention as it was more efficient and less time consuming. One of the negative impacts of the automobile industry in Canada is that of the regional economic imbalances between the provinces. With the manufacturing being heavily concentrated in Ontario, the other provinces of Canada do not get the same economic output as Ontario does. “ Ontario is considered by far the wealthiest province.

The province generates almost 50 percent of Canada’s GDP which translates into a staggering 675 billion dollars. Many analysts describe Ontario as the powerhouse of Canada and a serious contender in North America as well as globally” (Ohmae, 73) The manufacturing plants are situated in the southern province so they could be closer to their parent American companies. The export of the manufactured cars has also increased the GDP of the country. This also shows that with the most jobs being in Ontario, Canada’s population is heavily concentrated in Ontario as the province offers more employment opportunities. “ Between the years of 1981 to 1995, Ontario’s exports, primarily in the United States, almost quadrupled from \$38 billion to \$140 billion. Exports to the other provinces doubled but when we compare exports to the rest of the world in contrast to the rest of Canada the exports dropped from 28 per cent to less than 20 per cent “(Courchene, 278). The above figures show that Ontario is exporting more to the rest of the world than the other provinces.

When it comes to exporting to other countries, Ontario exports more to the United States than any other country in the world. Ontario is better off economically because other important industries are located in the

provinces. Industries such as the telecommunication industry are also located in Ontario. Therefore with this being said, Ontario is mostly depended on the United States rather than on the other provinces. The auto industry expanded during the 1920s as already mentioned in this essay. A good reason for this was the fact that Canadians themselves were buying cars, since they were a hot commodity during those years. The auto industry was always dominated by the United States and never by the Canadians and this is why many people wonder if the auto industry in Canada is actually Canadian.

The second economic boom for the auto makers were the years after the Second World War. After the war production increased as demand was able to meet supply. The industry moved into a period of growth and prosperity after the war. White states: the number of passenger cars produced rose from almost none at the end of the war to 193, 000 in 1949. (2007, p. 71) However during the 1950s the European auto makers took the upper hand as they had established good production technology. With this technology they were able to produce cheaper and smaller cars, therefore demand for the American auto market started going down.

Anything that affected the United States, affected Canada as we were their biggest car manufacturer. If the American auto market was to go down, the Canadian economy would crash with them. To better the economic situation and to help the auto industry at home and to save jobs and the livelihood of many Canadians, Canada and the United States signed the auto pact in 1968. The Automotive Products Trade Agreement was not based on free

trade but it did however remove tariffs on cars and automotive parts between Canada and the United States. It made exports between the two countries cheaper, therefore by raising Canadian exports into the United States. The auto pact helped both countries in dealing with the economic situation at the time. Analysts say that Canada reaped the most benefits from the auto pact as the big 3 Ford, General Motors and Chrysler ensured that auto production remained and expanded in Canada.

Employment increased in Canada during the years that the auto pact was still in power. Wallace states that the auto pact was phased out in 2001 as its provisions were ruled to contravene WTO regulations by favouring particular corporations (2002, p. 114). The auto pact is also one of the best examples that shows the government's intervention in the market place. The auto pact shows that it was necessary for the government to intervene in helping the economy out and making sure that employment levels did not go down. The economy also expanded because of the North American Free Trade Agreement signed in 1994 between USA, Canada and Mexico. The North American Free Trade Agreement opened the doors to free trade between the 3 countries to ensure economic prosperity for North America. Considering that the United States is our biggest exporter and we export 80% of our goods to our neighbours in the south, it was economically wise to make such an important step.

The country's GDP has steadily grown since the implementation of the trade agreement. According to the Organization for Economic Co-operation and Development, Canada's Gross Domestic Product has steadily increased at a

rate of 3.42 percent annually. (OECD, 2010) Since Canada has joined the North American Free Trade Agreement and has eliminated tariffs on auto parts used for manufacturing purposes in Canada, our automotive surplus and sales have increased and so have the employment rates. According to Industry Canada employment growth has been highest in the auto parts manufacturing sector, as output rose to supply North American vehicle production. Also Canada is integrated in the North American Market with annual sales of 20 million vehicles and has an overall automotive trade surplus of \$4.6 billion on flows totalling % 159.

1 billion. (Industry Canada, 2009). As we can see Canada has economically benefited from free trade with the United States, this however does not go without saying that throughout the years, the North American Free Trade agreement has intervened on our political matters and disputes between Canada and the United States have increased throughout the years. A good example of one of the biggest disputes would be that of the Softwood lumber. However, despite all the negative impacts of the North American Free Trade agreement we can generally say that Canada has greatly benefited from this agreement. The auto industry has gone through major changes since the auto pact in 1965 and the implementation of the North American Free Trade agreement in 1994. The American auto makers had a financial downturn in 2009 and the big 3 was very close to filing for bankruptcy if the Canadian and American government would have not bailed them out.

Many blame the American financial crisis for the financial meltdown of the automotive industry, where as others blame their profit driven practices. The automakers asked the government for loans and also went through restructuring plans and downsized their plants. They let go a lot of employees and shut down many plants across North America but not in Canada. They went through a process of restructuring as it was necessary for their survival. The Bush government implemented a set of conditions for the automakers, if they were to receive loans from the United States government. These conditions were geared towards the employees as they would be the ones to suffer the most. The global financial meltdown crisis did not only affect the American automakers but also European and Asian automakers.

It is generally known that the only way to get out of the recession is to spend, but people cannot afford to spend in times of crisis. Many were laid off and had a hard time surviving the economy as they had no means of support. Once again government intervention was necessary from the Canadians. Considering that the economy in the southern Canadian provinces would go down in ruins, if they American plants decided to show down, the Harper government announced that they would offer \$3.5 billion to the automakers. With the help from the Canadian and American government, the big 3 seem to have recuperated from the melt down as they want to rehire their employees in Canada. General Motors announced that they will be rehiring people in Oshawa for the production of cars in 2011.

Jones states that Friday's recall announcement is in addition to another 600 workers GM said will be back at work to produce the Buick Regal.

Approximately 1200 GM workers are now on lay off" (2010, p. 1). Many were against the bail out of the American automakers from the Canadian government as they said it would be a waste, where as others were concerned about the live hood of thousands of Canadians. The above quote clearly shows that the Canadian government took the right economic decision to benefit its people in the future. As we can see the big American auto makers are recuperating from the financial meltdown. What they have to worry about now is competition from the Asian automakers, as they have been taking the lead in the automotive industry since the 1980s.

There has been a shift in the Canadian auto market from the Americans to the Japanese auto makers. The Americans still manufacture cars in Canada but the Japanese automakers seem to be dominating the automotive market in the recent years. The Japanese made vehicles are leading the automotive market because of various reasons. The first reason is attributed to the increase in oil prices in the beginning of the 1980s. With oil prices going up, people could not afford American made cars anymore as they are known to spend a lot of gas, thus making them economically inefficient. That being one of the main reasons, people turned to Japanese made cars as they are smaller and have fuel efficient engines. White states that the share of the Canadian market supplied by Japanese imports jumped from 6.

6 percent in 1979, the lowest it had been in a decade, to 22.9 percent in 1982. (2007, p. 89) As we can see the Japanese auto makers were taking big

steps in the automotive industry. The recession of the 1980s and the increase in oil prices is what mainly contributed for the turn of events in the favour of the Japanese auto makers. The Canadian government ready to protect the country from the recession of the 1980s put in place policies that required “ motor vehicle manufactures selling significant numbers of vehicles in Canada to invest in Canadian production facilities. ” (White, 2007, p.

90). The Japanese auto makers responded to the call of the Canadian government and invested in creating auto plants in Canada. Once again the southern part of Canada profited from this as the plants were located around south central Ontario. The Japanese auto makers had other advantages that the American auto makers did not have at the time. The Japanese had a non unionized work force which worked for lower wages and tougher conditions. More than half of the workforce was made up of young people therefore they did not ask for much other than to be able to support their families. With the share of the Japanese auto makers rising, the American automakers market started dropping rapidly.

Another good reason for the Japanese to invest in Canada was the desire to gain free access to the American auto market through the creation of the FTA. Another very important reason why the Japanese cars have a high market share in Canada is because they are responding to the concerns of the general public and especially those of environmental issues. The Japanese auto makers pay attention to the new trends and the problems that face the public at large. They are very flexible and are able to respond to

public concerns quickly. They have shown this by producing eco friendly cars such as the Toyota prius and the hybrid camrys. Lately environmental concerns have become a major issue and these concerns are related to the use of cars as the toxins that they release pollute the air that we breathe. Most environmental damage is caused by driving, therefore big auto makers are asked to change their production practices and produce environmentally friendly cars.

Japanese auto makers such as Toyota have answered this call and they have come out with the Toyota hybrid car. A good example of an environmentally friendly car that has swept the market is the Toyota prius that is gasoline electric hybrid. These types of cars use two types of energy sources, gasoline and electricity. The hybrid is a dream come true for the environmentalists as it is as fast as any other car out there and it does not pollute the environment. The automobile technology has changed and as we are shifting towards eco friendly cars the American auto makers are trying to keep up. " GM cancelled production on its Hummer H1 and ford cancelled production on its Excursion SUV" (Automobile Industry Introduction, 2010) They are also trying to outperform the Japanese auto makers and move towards newer trends such as the plug in rechargeable cars. GM is working towards a gasoline- powered generator capable of charging up the batteries for those occasions when it is not convenient to plug in".

(Automobile Industry Introduction, 2010) As we can see the auto industry has come a long way since the 1920s and it is moving towards newer better trends. It is my personal opinion that the leading auto makers will be those

companies that are able to understand and respond to the public's needs and concerns. In conclusion to this essay it is important to note that the automotive industry in has had an enormous economic impact in Canada and especially on the southern provinces. Created by the big American auto makers, the assembly plants in Canada have raised employment levels and have kept a steady lively hood for Canadians. They have also contributed to a change in Canadian industries such as the agriculture industry, by making farming easier and more efficient. The auto industry in Canada did however create a regional economic imbalance between the provinces in Canada. Ontario is the southern province that has enormously benefited from the auto industry as it is located closer to the parent companies.

The location makes manufacturing and exporting of the auto parts easier for both countries. Trade agreements such as the auto pact and the North American Free Trade agreement implemented in 1994 between the United States, Mexico and Canada have also increased employment levels in Canada and maintained a steady economic balance by removing tariffs on importing and exporting goods between the three countries. During the 1980s we saw a major shift from the American auto makers to the Japanese producers of cars. This shift was mainly due to increasing oil prices and the ability of the Japanese to provide more affordable and fuel efficient cars. The global economic meltdown also contributed to the downturn of the American auto makers. With the Americans not being able to meet consumer needs, the general public turned towards the Asian auto makers. The Japanese saw a great opportunity and benefited from this shift.

They were able to respond to public concerns regarding eco friendly cars and put in place the production of hybrid cars. These cars have swept the general North American market as they seem to be the perfect solutions for people that cannot afford to spend a lot on fuel and also at the same time want to be environmentally friendly. The Canadian auto industry has had its ups and downs but in general it can be said that it has been a great contribution to the Canadian economy by changing the lives of Canadians and by keeping a steady employment rate.