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# Introduction

This report explores the potential risks and opportunities to a consumer goods organisation operating within Canada. The framework utilised by this report is a PESTEL analysis, with a more pronounced focus on the political, economic and social aspects, with technological and other aspects out with this framework found within the report. Information and raw data have been gathered from a number of references such as the World Economic Forum and the IMF.

# Methods and Findings

Using a PESTEL Analysis framework, the table below is a repeat of the key findings from the report. Following the table is the source of the data and a discussion that allowed the findings to be summarised more clearly in the table and at the end. The following sections will go into further detail, to convey the methodology.

|  |  |  |
| --- | --- | --- |
| Category | Opportunities | Risks |
| Economic | * Stable economic growth * New trade deals with two largest trading partners EU and US resulting in increased ease of trade and opportunity to grow. * Manufacturing can operate more efficiently across borders * Financial markets and institutions incredibly resilient. | * Global trade tensions having an effect on the global economy, which is negatively impacting Canada’s economy. * Largest trading partner is becoming more protectionist and introducing tariffs on key allies. |
| Politics | * Scores high on transparency indexes * Very low corruption making it easier to do business. * Pro-immigration policies and parties, with financial programmes to encourage 500,000 skilled workers to set up permanent residence in next 3 years. | * Government lost majority, making it harder for legislation to pass. |
| Social | * Two official languages can utilise French speakers to expand into French market under CETA. * Large population of 36 million with access to international markets such as the US, both of which are graded as high income populations. * Well educated and most diverse workforce in world. This combination can help provide future skills and increase innovation in organisations. | * Ageing population, however pro-immigration policies introduced to counter this. |

## Economic

Firstly, this section will look at the current economic indicators underpinning Canada. Canada’s GDP amounts to 1.713 trillion US dollars meaning that Canada has the 10th largest GDP in the world (Data.worldbank.org, 2019) In addition, real growth is currently at 1.5% in 2019 down from 3% in 2017 (Imf.org, 2019). This could be related to escalating global trade tensions (see Geopolitical Risks). From the raw data provided, it can be seen that Canadas economy is currently experiencing relatively stable growth, this is also forecasted to remain at roughly 1.5% for the next 3 years (Alexander, 2019).

### 2.1.1 International Trading Conditions

Canada is an exporting nation, the 12th largest in the world to be exact and is part of two key trade agreements (Oec.world, 2017).  The first of which is the Comprehensive Economic and Trade Agreement (CETA). This is a free trade agreement that took more than 10 years to negotiate and means that businesses operating in Canada will be able to export or import to and from the EU, which is Canada’s second largest trading partner, with 98% of tariff lines being duty free (Canada, 2019). This is important for multinational consumer goods businesses operating in Canada who rely on imports from the EU or ones who export their goods to the EU. It is even more beneficial for businesses that trade in machinery or use machinery to add value to their product. This is because machinery accounted for 24% of imports (Ec.europa.eu, 2019; The OEC, 2019). In 2017 exports to the European Union were worth 10% of total exports, 16% of total imports and the value of trade between the two, in 2018 now amounts to 72.3 billion euros (ibid.). CETA gives businesses the opportunity to grow in this market and find it relatively easy to trade with the EU from Canada. However, of this 10%, it is important to note that the UK accounts for 4%, in 2017 (The OEC, 2019). If Brexit occurs this could mean trade with the UK would be done under world trade organisation rules, resulting in more difficulty trading with the UK through possible tariffs. Overall, trading conditions in regard to Europe appear to be relatively frictionless because of this agreement and increases product market competition through reducing/removing trading barriers. The OECD forecasts that this will improve productivity that has been causing a slowdown in GDP growth (OECD, 2019).

Canada’s largest and closest trading partner however is the US. Exports accounted for 73% of total trade in 2017 valued at $275 billion (The OEC, 2019). Total imports from the country amounted to 46%. The President of the US, Donald Trump has recently ratified the previous North American Free Trade agreement (NAFTA) and has replaced it with the United States-Mexico-Canada Agreement (USMCA). One of the major changes is that any member of the agreement can pull out of the agreement with 6 months’ notice. This is a potential uncertainty that lingers over businesses who trade within North America. One of Canada’s largest exports is cars worth 12% of its total exports (The OEC, 2019). Previously with NAFTA to claim no tariffs on cars 62.5% of parts must be produced in one of the 3 nations, however that has now increased to 75%., which may incentivise business to source more parts from one of the three nations, however as labour conditions and wages are higher in North America, this could lead to increase of prices for businesses in this industry (Kiley, 2019). This ratification has also meant that previous tariffs threatened by Trump will, for the moment, not take place. However, 25% worth of tariffs do remain on aluminium and steel (ibid.). Trump’s solution to the US trade deficit is to rip up or ratify trade agreements and increase tariffs on any industry or country that the US has a trade deficit with. Due to this, businesses operating in Canada need to remain vigilant. As previously stated, a nation can pull out of the agreement with just 6 months’ notice. Canada’s economy, much like the rest of the worlds has been shook by the US’s new trade policies in particular the mounting trade war between Canada and China, as well as other rising trade tensions across the globe, in particular the movement away from frictionless trade and one towards tariffs (World Economic Forum, 2019).

In spite of this Canada is in a relatively good position in terms of trade. It has agreements with both of its two largest trading partners the US and the EU, making it easier for multinational organisations to do business there and gives them the opportunity to grow in these markets and increase exports/imports. No tariffs may also allow businesses to trade more and reduce prices on products. Another opportunity is with no tariffs manufacturing goods may be able to improve efficiency by operating Just in Time policies across borders. The deal with the EU is long term and expected to remain with little to not ratification in the foreseeable future. On the other hand, the deal with the US and Mexico, is slightly more uncertain, but not much. It is advised that Multinationals listen to the rhetoric from the US president in the run up to the 2020 election, in order to assess future trade risks between the US and Canada.

### 2.1.2 Geopolitical Risks to Canada’s Economy

There are 2 key geopolitical events that are posing risk to the Canadian, and global economy, briefly described earlier. First, is the mounting trade tensions between the US and China, and the second is a disorderly departure of the UK from Europe. Both of which could damage the global economy and could potentially result in Canada entering a recession (Alexander, 2019). Thus, raising the question: how resilient is Canadas financial services?

### 2.1.3 Resilience of Financial Markets

The Financial crisis of 2008-2009 resulted Canada going into recession, but it managed to recover relatively quickly. This is because Canada, at the time, had the most financially sound banking system in the world. Little has changed, in 2017-2018 Canada has been ranked 2nd in the world only to Finland (Global Competitiveness Index, 2018).  Canada’s the 3rd largest oil exporter in the world and was hit greatly by the 2014 oil price shock, forcing Canada into a recession in 2015. The IMF states that through “accommodative monetary policy” Canada quickly recovered and had the strongest growth rates out of the G7 nations in 2017 (IMF, 2019). Businesses operating here will be able to be fairly certain and confident in the financial resilience of the country.

## Politics

### 2.2.1 Current Political Scenario

Canada operates as a federal parliamentary democracy under a constitutional monarchy. The parliamentary terms are 5 years with no term limits, and the government can remain so long as it has the confidence of parliament (Cia.gov, 2019). This is important because it means business can understand that decisions are more likely to be planned for the term of government so within a 5-year term limit or if they are fairly confident, longer. The most recent election held in Canada took place on the 21st October 2019 (Enr.elections.ca, 2019). Justin Trudeau, leader of the liberal party, has retained his position as the Prime Minister of Canada. The most prominent parties that could be voted for across all 10 provinces are Justin Trudeau’s centre left Liberal party and the centre right Conservative party (centre right). This last election saw the Liberal Party lose its majority and saw their total seats drop to 157 out of 358. The Conservatives came second with 121 seats (Enr.elections.ca, 2019). Thus, more co-operation will be needed across the parliament in order for the Canadian government to advance its policies. This is important for organisations to know as it means government policy will be harder to implement over the next 5 years.

In general, Canadian politics are relatively stable, with governments being formed either by the Conservatives or the Liberal Party. One important social fragmentation to consider is that the 3rd largest party is now the Bloc Quebecois, a party who argues for Quebec to be independent (Enr.elections.ca, 2019). The government may rely on their votes to pass policies, which might involve financial benefits for Quebec or more political power than the province currently holds. Dependent on the government of Quebec, opportunities may arise for businesses operating in the province. However, in terms of risk, it does not look likely that the province of Quebec will separate from Canada based on the fact there has been no specific big event or change, similar to Brexit, that could increase support for an independent Quebec.

In terms of policies, Canada does tend to be pro-business and has banks for business development and a bank that helps business looking to export (BDC, 2019). Each of which provides opportunities in themselves. In recent years, emphasis has been put on education as well as infrastructure, with the government setting up a bank for infrastructure, which has a resulted in deals that will result in the port in Montreal to be expanded and a hydroelectricity expansion project (Canada Infrastructure Bank, 2019).

### 2.2.2 Transparency and Corruption

According to a report published by Transparency International (2018), Canada has “one of the most well-established and robust lobbying regulations worldwide”. One of the acts passed by the Canadian parliament in 1985 and last amended in 2008, is The Lobbying Act (Laws.justice.gc.ca, 2019). This act in effect means that organisations who do lobby in Canada, will be published openly online. Breaching this act can result in “fines of up to CA$200,000 and/or imprisonment” (Transparency International, 2018). This is of course important for business to understand the risks surrounding lobbying and transparency in general. It also shows that corruption in Canada is minimal compared to other countries, making the ease of doing business relatively simple so long as transparency is upheld.

### 2.2.3 Legislation

Current legislation is based off English common law on a federal level (Cia.gov, 2019). Based on current legislation, organisations in Canada find it relatively easy to pay taxes, with Canada being ranked 19th in the world in terms of ease of paying taxes, above that of the US (World Bank Group, 2019).

## 2.3 Social

### 2.3.1 Demographic overview

Internally, Canada has an estimated population in 2018 of 35,881,659 (Cia.gov, 2019). The northern area of Canada is largely unhabitable, for this reason the vast number of the population are spread across the largest land border in the world with the US (ibid.). This is a very large market and is graded as one with a high income and highly educated people (World Bank Group, 2019).

### 2.3.2 Importance of Language/ Mind your Language

Canada has two official languages English (58.7%) and French (22%) (Cia.gov, 2019). The languages spoken have of course implications on organisations operating in Canada. First of all, with the CETA agreement previously discussed, businesses have the opportunity to hire French speakers to help increase market share in France or to make doing trading with the country easier. Quebec’s official language is French and has strict legislation and regulation to encourage the French language to be used. This poses risks such as internal trade barriers, with marketing needing to be in French to operate or sell goods in this province. The most recent case involved Air Canada, in which the court ruled that the airline violated a French couples linguistic rights. One of the reasons given was that the French word for ‘exit’ was written smaller than that of the English one (BBC News, 2019).

### 2.3.3 Workforce

The unemployment rate hit a record low this year and currently sits at 5.5%. (Ceicdata.com. 2019). This is relatively healthy giving organisations the opportunity to recruit from a reasonable sized pool of labour and little risk of a decrease in customer spending from this number. Risks to Canada’s economy and workforce is, like in many western nations, an ageing population with less women giving birth to children, and more placing value on their future career (Whiting, 2018) Canada understands this and the current government announced in 2018 to increase migration to the country by just over one million people over a three-year basis. With that said, 48% of the total admitted will be skilled workers facilitated by economic programmes (Whiting, 2018). This gives business the opportunity to fill their own skill gaps that may have persisted in the past, in addition given the open political situation discussed above, this report forecasts more immigration in the future. Through this increase in worker population through migration, the risk of corporate or individual income tax hikes remains low. It is also important to note that Canada has the most diverse workforce in the world (WEF, 2019), which has been leading to new ideas and supporting Canada as an innovative and outward looking nation. The new ideas from such a diverse workforce can lead to opportunity of innovation within organisations operating in Canada. Another factor is that Canada’s is highly educated, and this is set to increase as the Liberal Party promises further spending increases in higher education institutions (WEF, 2019). This also plays a positive role in innovation and developing skilled roles within organisations operating there.

# Concluding Summary

This report has highlighted key opportunities and risks for businesses operating in Canada. Most of which can be found in the table at the beginning of this report. Canada’s political system is transparent and for the foreseeable future easy to predict, providing business with certainty towards future legislation and therefore is in its nature low in risk. Government policy makes it easy to do business in this country through the introduction of specific banks for specific economic challenges facing businesses. This includes banks that provide advice for businesses looking to export and banks that are set up specifically to improve infrastructure. In terms of economic outlook, GDP is set to grow at a sustainable level of 1.5 percent for the next 3 years. In addition, international trade is a great opportunity for organisations operating in this market through trade deals with Canada’s two largest trading partners. This provides businesses with the opportunity to improve efficiency in manufacturing, which will have a positive effect on supply chains. In addition, organisations have access to large markets beyond Canada, allowing a number of opportunities from sourcing high quality materials at lower costs or grow markets internally and externally. There are key geopolitical risks, that have been highlighted: mounting global trade tensions and a disorderly Brexit, that could cause Canada’s economy to suffer. However as pointed out, financial institutions in Canada are some of the strongest in the world and have previously provided much needed resilience to previous economic shocks. Finally, the report placed emphasis on the demographics, focusing on the workforce. The workforce is highly educated and the most diverse in the world, this has resulted in opportunities in terms of new creative ideas which could further encourage innovation within organisations operating there. There are risks, for example, an ageing population, but government policy has countered the risks through economic programmes that will allow immigration of more than 1 million over the next three years, 48% of which will be skilled workers specific to skill gaps faced by industry in the country.

Based on the concluding ideas Canada has risks, however they are very low and organisations in Canada have more opportunities than not.

## 3.1 Limitations

The limitations of this report are that the framework used, and the analysis does tend to overlap with one another. Political decisions mentioned do have an impact on the social aspects of the workforce as mentioned above. That is the reason behind the table at the start and the long summary at the end to bring the ideas spoken about into a coherent and clear structure that leads to the concluding ideas.

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