**II. Analysis of the international business situation**

1. **Economic, political and legal analysis of the trading country**
	1. **Describe the trading country’s economic system, economic information important to your**

**proposed business/ product/ service, the level of foreign investment in that country**

Canada is predominantly a market-oriented economy governed by a socialistic society. This means that the Canadian government regulates most of the economy instead of having consumers regulate the economy like in a completely market oriented economy. Because of this socialistic society, the corporate tax rate is low. A corporate tax rate is the tax imposed on a company based on the amount of profit generated in that company. The corporate tax rate in Canada is 26.5%. Companies located in countries with low corporate tax rates don’t have to pay as many taxes, therefore, allowing them to have more income. Although Canada has a low corporate tax rate, it does have a slightly larger inflation rate of 1.9% compared to the United States’ inflation rate of 1.6%. This slight increase of inflation will have a slight impact on our company because it means that we will have to price our soda’s slightly more expensive compared to the sodas in the United States. Canada’s GDP per capita, $44,800 is ranked #29 in the world compared to the United States’ GDP per capita of $54,600, #19 in the world. Canada’s GDP per capita shows that it is a hardworking country. Although not as good as the United States’, the GDP per capita tells our company that Canada is a strong economy with a productive workforce. Canada’s strong economy will help our company grow in it’s new economic environment.

 From 1993 to 2007, Canada experienced economic growth that halted during the final months of 2008 during the global economic crisis. However, Canada’s major banks came out as some of the strongest in the world after the crisis and plan to balance their budget in 2015. This strong banking system allows Canada to invest a lot within itself and the companies located in Canada. Canada’s foreign direct investment at home is around $1.065 trillion and #9 in the world. This is compared to the United States’ foreign investment at home is around $3.258 trillion and #1 in the world. Although Canada does not invest as much money within itself as the United States does, the strong banking systems will allow Canada to continue to financially support those companies located in it. The strong foreign direct investment at home has allowed Canada to have a moderately low unemployment rate of 6.9%.

* 1. **Describe the trading country’s governmental structure and stability, how the government**

**controls trade and private business**

Canada is a parliamentary democracy with strong socialistic programs. This means that Canada is primarily a democracy, a political system where the power lies in the people, with a parliament, a representative body that has legislative powers. Canada will be governed by the Prime Minister Justin Trudeau of the Liberal Party beginning November of 2015. To be Prime Minister, one has to be the leader of the majority party in the House of Commons and be chosen by the governor general. The governor general is chosen by the monarch, who gets his/her power hereditarily, for a 5 year term.

 Canada's government, similar to that of the United States, is divided into 3 parts; Legislative, Judicial, and Executive branch. The head of the Executive branch is Prime Minister Trudeau. The Legislative branch is made up of Parliament and the House of Commons. Parliament has 105 members, all of which are appointed by the governor general with the help of the prime minister and can serve till the age of 75. The House of Commons, however, is made up of 338 members, all of which are directly voted in by the majority of the people and hold a 4 year term each, The Judicial branch contains the Supreme Court of Canada and also several subordinate courts dealing with federal and provincial problems. The Supreme Court of Canada contains a chief justice and 8 other judges, all chosen by the prime minister, and have a mandatory retirement age of 75.

 Over the past 50 years, Canada has become one of the world’s most attractive places to invest in due to it’s stable business climate. Although around 2008 Canada suffered a rough patch due to the global recession, it came out of the recession with a stronger, more efficient banking system. Canada is the 6th freest economy in the world. This high rating means that Canada limits government spending effectively, has low corruption, and enables free trade. Canada has a very low corruption rating of 81.0 because it’s judicial system works extremely effectively in fighting off and keeping corruption low. Compared to the world average, Canada is well above other countries when it comes to corruption and is ranked number 6 out of 178 countries in corruption. This means that, compared to the rest of the world, Canada is one of the least corrupt countries.

Canada has an extremely high political risk score of 93 as of April 2015. This high score means that there is very little political risk in the country. Canada is ranked number 1 out of 14 countries within North and Central America. The United States’ risk score is 84, therefore, making Canada to be better to invest in than the United States because it’s score is higher. Political risk is measured by financial transfer, direct investment, export markets, and turmoil. Because Canada has such a low political risk, there is no need to get political risk insurance if one choosing to invest in Canada.

Canada is very active in international organization participation. They participate in 50+ organizations that are active and supportive of free trade. One organizations that Canada participates in is the Financial Action Task Force (FATF), which aims to protect free trade by combating money laundering and terrorist funding. This helps ensure our product, Cheerwine is protected under all of the FTA’s Canada is associated with. In 2014, Canada’s political globalization was a 94.12 on a scale of 0-100, meaning that Canada is associated with a high number of international organizations and has signed many treaties with other countries. Canada is very open to negotiations in free trade in all areas except dairy imports. The average tariff rate is 0.8 percent, meaning that most products importing the country are part of a free trade agreement with another country. According to Heritage.org, Canada’s trade freedom is at a high rating of 88.4, meaning there are very few restrictions and very little government regulation on imported and exported products. A large part of Canada’s economy is international trade. 45% of its GDP is exports, in which 79% of the exports are to the United States making the country Canada's largest trading partner.

In Canada, there is no minimum capital requirement to start up a business. To establish a business, it only takes five short days, but a licensing requirement may take up to 200 days. According to heritage.org, business freedom is rated 89.0 on a scale of 100 meaning that private business start up in Canada is relatively simple compared to other countries. Canada’s government encourages privately owned businesses and assists with the start up of many businesses within its borders. Most of Canada’s resources are collected from privately owned businesses. State owned enterprises are prevalent in Canada, but over the last 30 years these SOE’s, which are also known as Crown Corporations, have been privatized and are more frequently being sold to private businesses.

* 1. **Describe laws and/or government agencies that affect your business / product / service:**

Canada is a country that is very trade oriented and have limited foreign trade restrictions. Goods can be easily imported into Canada with an exception of agricultural products, textiles, and steel goods under the Export and Import Permits Act. Canada is a relatively lenient country when it comes to trade laws and regulations and have opened up further international trade by participating in international trade organizations. This is a benefit to our company, because we want to get our product into the market the most efficient and least costly route.

In 1994 Canada joined NAFTA, the North American Free Trade agreement, which has become the largest free trade zone in the world. The North American Free Trade Agreement is an organization consisting of The United States of America, Canada, and Mexico. The agreement has eliminated tariffs and barriers, opening free trade between the three countries of North America. This allows our company to trade our product over international borders with Canada, free of tariffs or barriers, creating a cheaper transaction. The benefit of bringing our product to Canada is that it is more cost effective and beneficial to the profit of our company. The North American Free Trade Agreement has increased trade and investment levels in Canada, which makes it a prime area to send our product to.

In 1995 Canada joined the WTO, The World Trade Organization, which promote fair trade by handling trade disputes, overviewing trade policies and providing forums for international trade negotiations. One principle of the World Trade Organization is the National Treatment Principle, which ensures that a country's exports are treated fairly in another countries market. This would help ensure that our American product, Cheerwine, is treated fairly under the regulations of the Canadian market. As long as Canada remains under these two associations, any product that an American company wanted to bring into Canada would be treated fairly and in turn, be more profitable.

Each province and territory in Canada has its own legislation over employment standards and labor laws. However, most of the basics are constant throughout the country. Employees are recognized as having the right to sick days, hours of work, vacation and minimum wages. As an American company, we would have to take in consideration the employee's rights for anyone working with Cheerwine within Canadian borders. Federally regulated businesses are governed by the Canada Labor code which consists of mostly the same standards. Acts such as the Canadian Human Rights Act (CHRA) and the Employment Equity Act (EEA), have been instituted to prevent discrimination based on gender, race, disabilities and the protection of aboriginals. There goals are to create a much more efficient and fair workplace which in return, can help us maximize our profits while following the regulations of the labor laws. Most Canadian labor laws are based off of those in effect in the United States of America. While many companies try to avoid them, labor unions are prevalent mainly in the private sector of Canada. Labor unions represent 20% of all workers and are being pushed further into the service sector. As a company in Canada, we would have to negotiate with labor unions to make sure that our employee’s are content with the working environment and happy with their current conditions.

**B. Trade area and cultural analysis**

* + - 1. **Geographic and demographic information, important customs and traditions, other**

**pertinent cultural information, competitive advantages and disadvantages of the**

**proposed product and/or service.**

Canada is located in the northern part of North America and is the second largest country in the world. The terrain of Canada consists of mountains in the west and lowlands in the north, but is mostly plains. Most transportation would be most easily done near the border, where factories would be located to decrease transportation costs. Transportation would be done by trucks, as it is the cheapest mode of getting goods into Canada. Some important natural resources include petroleum and hydropower. The petroleum is used in the packaging and would be cheap to obtain. Hydropower is a very common form of energy and could be used to decrease power costs and reduce greenhouse gas emissions in our factories in Canada.

 The most populous age groups in Canada are people varying in ages 20-29 and 50-54 of both females and males . These two age groups would be the groups that our company tries to target our product to. The median age of males in Canada is 40.6 years while the median age of females is 43.1 years. The infant mortality rate is 4.65 deaths/ 1,000 live births, which is a low rate due to Canada's high development level. The birth rate is 10.28 births/ 1,000 population and the death rate is 8.42 deaths/ 1,000 population. This means that there is a growing population in Canada, which has a population growth rate of .75%. Taking a product to a company with a positive population growth rate is beneficial to the future success of our product. The three most populous ethnic groups in Canada are Canadian (32.2%), English (19.8%), and French (15.5%). A majority of advertisements and promotion must be geared toward these three ethnic groups because of their high percentages. The adult literacy rate is a high 99%, which means our whole market can be easily communicated with. In most provinces, there are typically 12 years of standard education which is a sign of a high income country. More education leads to better jobs which results in more money. 5.5% of Canada’s expenditures go towards education. Just like America, there are no specific economic classes besides the understood low, middle, and high class. 9.4% of Canada’s population lies below the poverty line.

When communicating in business, shaking hands is usually the only means of physical interaction and is seen as a sign of respect. Maintaining eye contact while shaking someone's hand is important because it yours confidence. However, French Canadians are more expressive and do a formal greeting of kissing both cheeks. It is important to remember when going into meetings, the customs of which group you are meeting with. When arriving to meetings it is seen as polite to bring a present which can consist of chocolate or wine. Bribery is not common and is seen as insulting in Canada. Canada’s corruption score is 8.9/10 points, placing them as the sixth least corrupt country to conduct business in. This benefits our company, as there is a very small chance for any bribery or corruption. When conducting business, it is common that both men and women can be seen wearing dark business suits. Women can also wear more conservative dresses. Older, classic clothing is more valued and shows experience. The official languages of Canada are English (56.9%) and French (21.3%). Other common languages in Canada include, German, Italian and many forms of aboriginal. A majority of market promotions would be done in the two official languages. Christianity is the most prevalent religion in the country with 67% of the population as followers. The second most prevalent religion is Islam with 3.2%.

 

 The Hofstede’s model from Canada shows that there is a high score of individualism. This means that people are very self reliant and tend to look after only themselves and their friends and family. Canada also exhibits a low long term orientation score. This means that they are a very normative country and value traditions while avoiding abrupt changes in society. The graph shows that Canada is moderately high in indulgence. This means that Canadians like to have fun and go after their desires.

A competitive advantage that our company has, taking our product into Canada is low costs. One of the low costs is transportation. Taking Cheerwine in trucks, over the border is the most efficient and cost effective way to transport our product. Another competitive advantage is Cheers Wines absence of aspartame. Aspartame is an artificial sweetener that can lead to many negative health effects including depression, headaches, and even cancer. We would be competing against soda companies that use this chemical and the more health conscious consumers would side with our product.

* + - 1. **Market segment analysis target market (age, income level, population estimate, other**

**specific demographic and economic information) customer buying behavior related to the**

**proposed product and or service.**

The market that our product is targeting is professional females ages 25 to 45. We are targeting this market because these women are most likely to be attracted to our product due to the fact that it contains 0% aspartame. The mean years of schooling for this market is 12.3 years and the literacy rate is 99% which means that our population is fairly educated. There are also 102% of Canadians who have completed secondary school which leads to more educated citizens. Canadian females ages 25-45 make up around 13.57% of the total population. Females make up around 50.42% of the total population and both males and females ages 25-45 make up 27.12%. This large population will allow us to sell our product in mass amounts all around Canada. Canada has a GNI per capita of 42,610 PPP dollars. Around 25% of people in Canada make at or above this GNI per capita. Canada is ranked number 8 in the world for HDI. Canada’s HDI was 0.92 in 2013 which means that Canada’s life expectancy, education, and standard of living are very high which coincides with the fact that Canada is a very developed country.

* + - 1. **Analysis of the potential location- importance and requirements of each trade documents**

**required by the U.S.A. and/or Canada and the country of choice.**

Analysis of the potential location—importance and requirements of each trade document required by the U.S.A. and/or Canada and the country of choice (Export & Import Documentation (GE))
Canada is the prime country to take our product, Cheerwine, to for many reasons. One of the main reasons is that it is geographically in a good region for transportation. Canada shares a border with the United States that is roughly 4,000 miles long. This allows the cheapest possible transportation costs for getting our product to Canada. According to doingbusiness.org, Canada is ranked as the 14th best country to do business with. Starting up a business in Canada is a very easy process, as they are ranked number three in the world in that category. Other benefits of doing business there include easily obtaining credit, protecting minority investors and lenient taxes. American techniques can be effectively used to reach Canadian markets, just like they do in America. Overall, trade and business between Canada and the United States is easy and encouraged.

Our product, Cheerwine, is made with flavored syrup. To sell our product in Canada, we will ship the flavored syrup to Canada and have it developed into Cheerwine there. According to NAFTA, if our syrup is worth more than $2,500, it must be accompanied by a NAFTA Certificate of Origin in order to be imported duty free. If the import is worth less than $2,500, then it only requires a statement of origin from the export state to verify that it’s from a NAFTA state. We will also need a business invoice if we want to import the syrup into Canada. In a business invoice, companies indicate the amount customers pay for the product in US or Canadian dollars. If their products are shipped on a no-charge basis, such as samples or demos, companies just have to indicate the retail value of that shipment. Finally, in order to import the syrup into Canada, our company would need to be aware of Canada Border Services Agency (CBSA)’s changing eManifest. The eManifest is the third phase of the Advance Commercial Information program. This phase will require carriers, freight forwarders, and importers of all transportation to transmit cargo, conveyance, etc. to the CBSA before loading in the marine mode or any other alternative modes.