



Determining Where Value Is Created in Canadian Trade

International Trade and Investment Centre
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Michael Burt
Associate Director, Industrial Economic Trends
burt@conferenceboard.ca



Outline

- Introducing value added trade
- Changing our understanding of Canadian trade
- How Canada compares to our peers



What Is Value Added Trade?

- Conventional trade simply measures cross border flows
- Value added trade attempts to record only the amount of value created in each country
- Same concept as GDP; it removes the double counting associated with an input moving through the supply chain



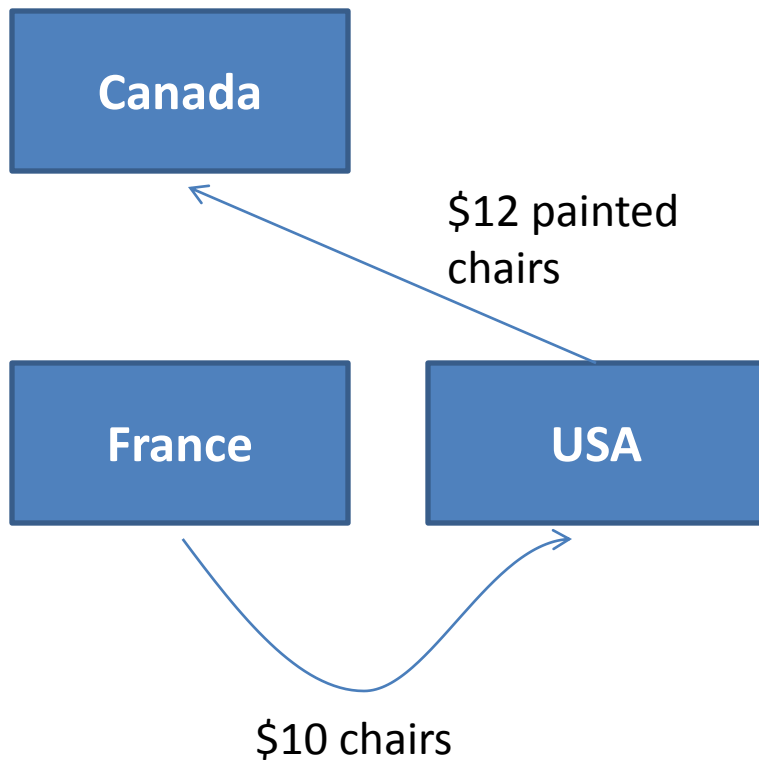
Why Is Value Added Trade Important?

- Traditional measures overstate the value of trade figures
- Traditional measures may misrepresent the importance of trade for specific industries
- Value added measures provide a better representation of who a country's trading partners are
- These biases are likely growing over time

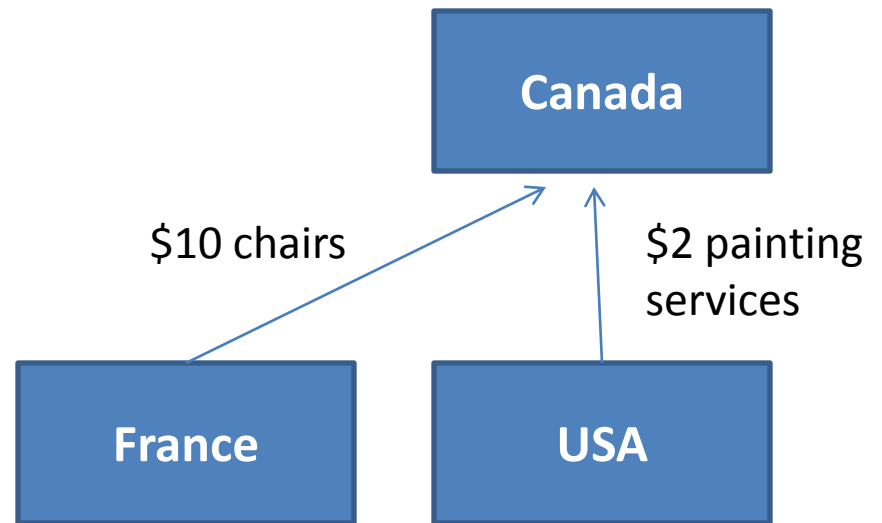


Comparing Conventional and Value-Added Trade

Conventional Trade



Value Added Trade



How to Measure Value Added Trade?

- Use Purdue University's Global Trade Analysis Project (GTAP) databases
- Combine input-output tables with conventional trade data to build estimates of value added trade
- Covers 57 sectors and 113 countries

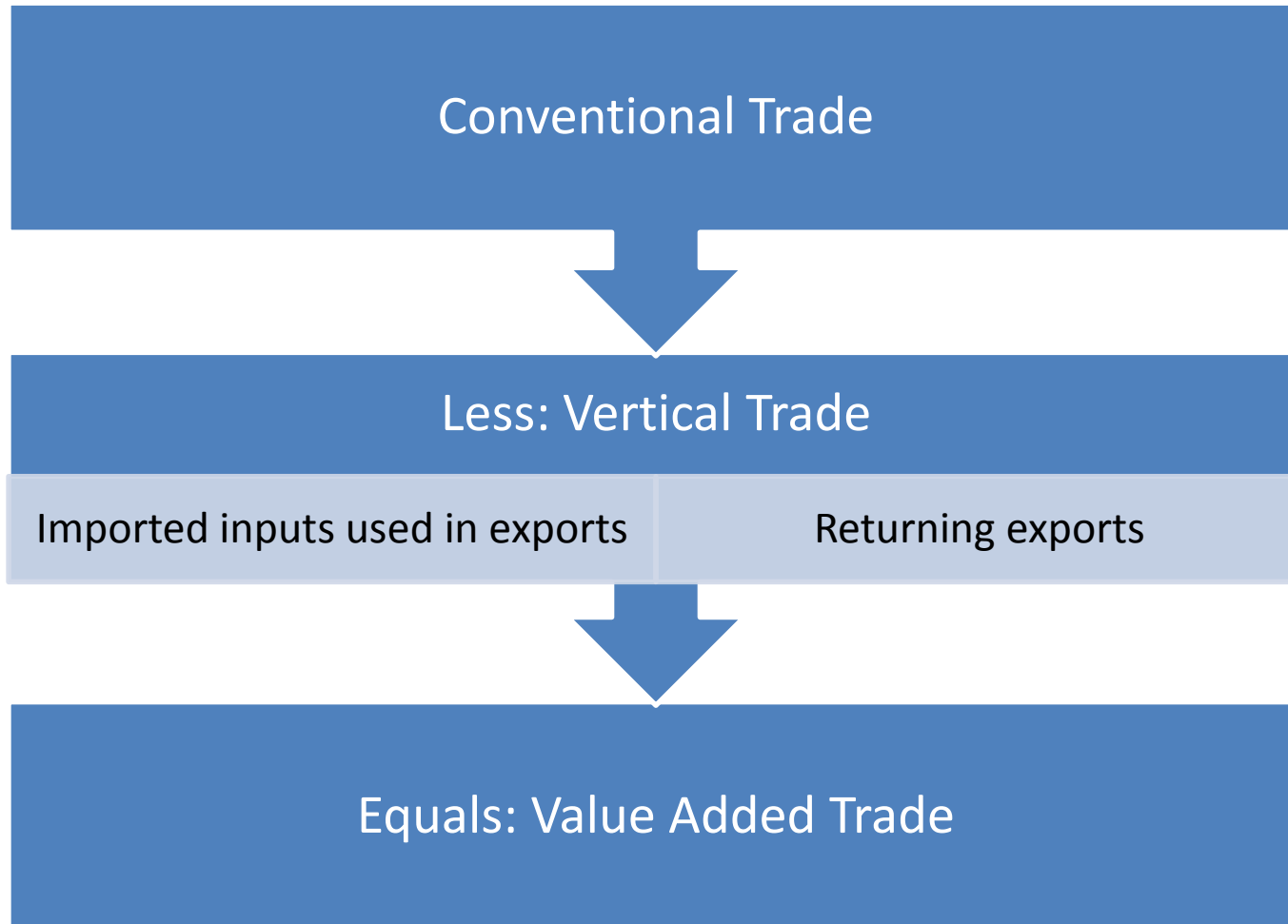


Limitations of the Data

- Results are for a fixed point in time, it is hard to assess how things are changing
- Results based on somewhat older data (2004)
- Difficulty in distinguishing between intermediate and finished goods for specific industries
- Some strong assumptions regarding input origins



Important Concepts



Domestic exports used in foreign exports

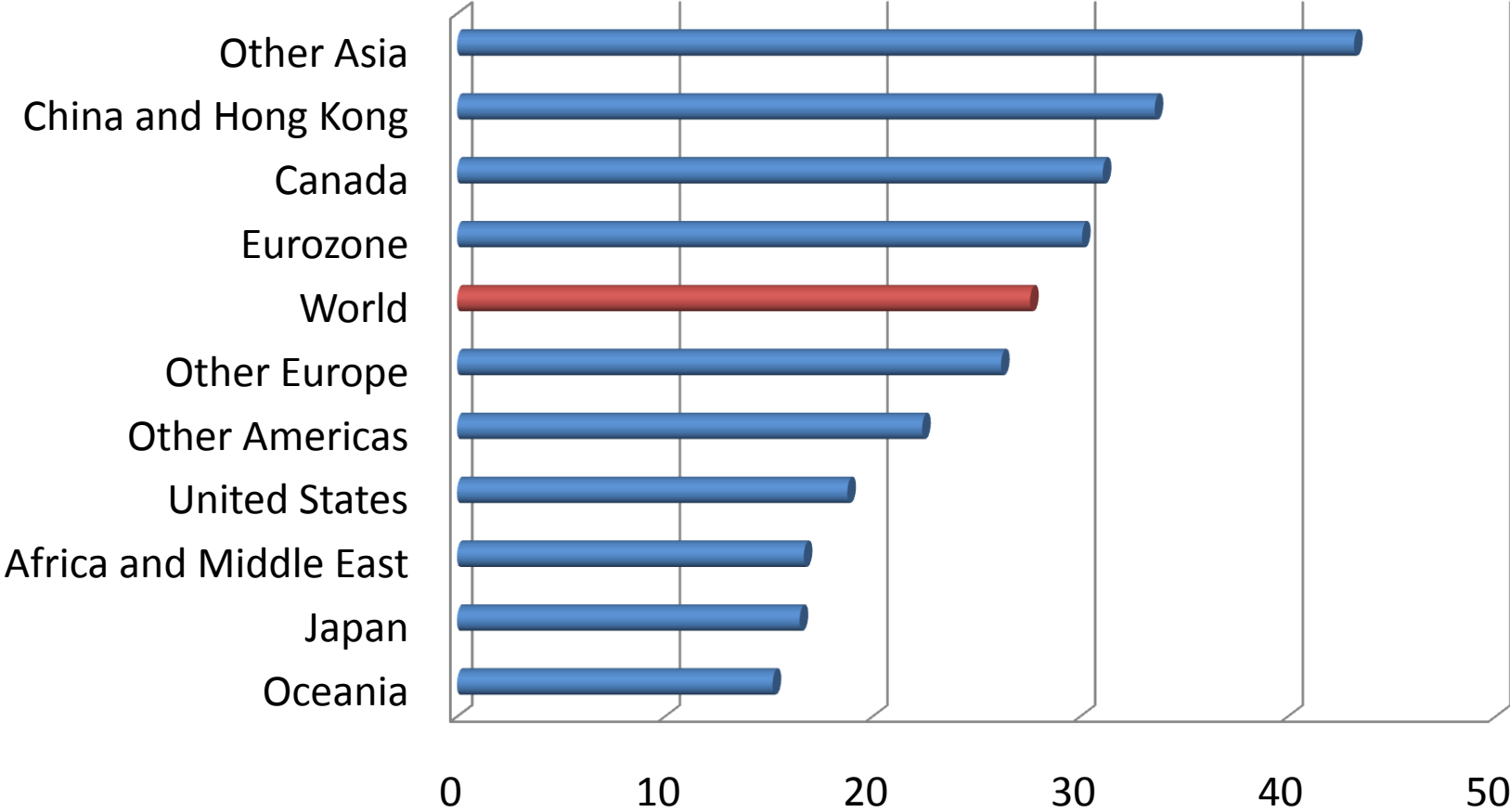


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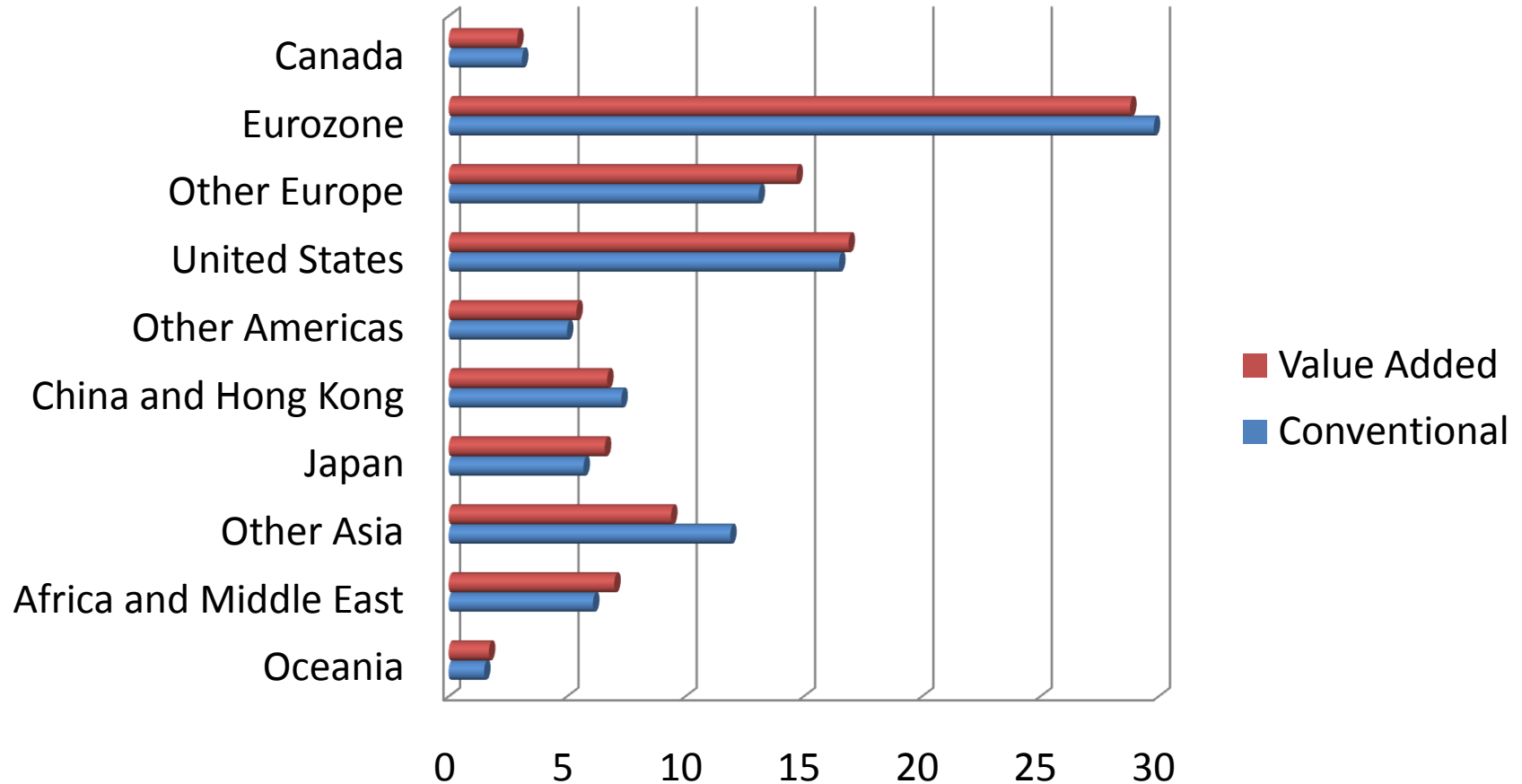
- Introducing the concepts
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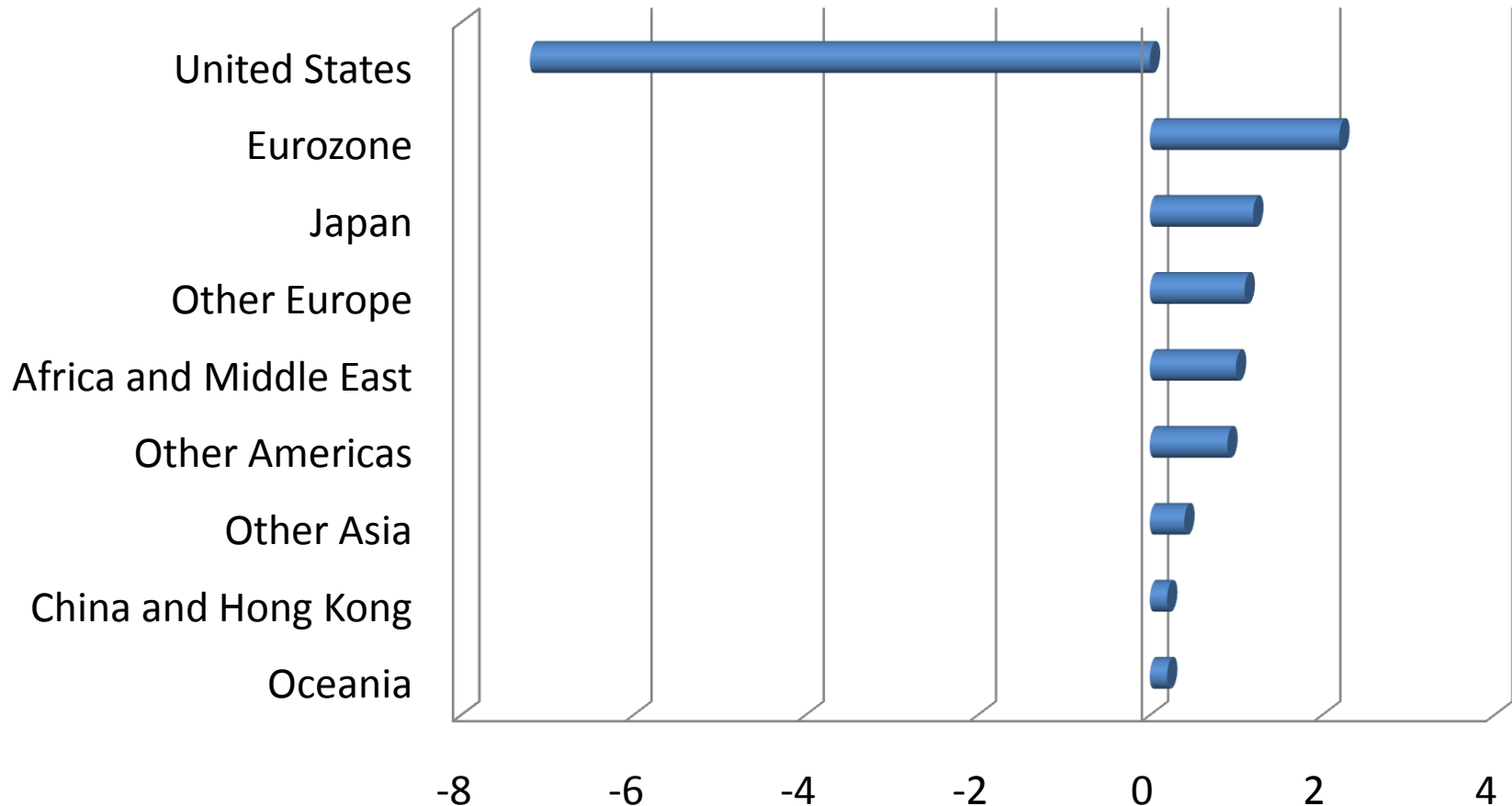
Canada Makes Above Average Use of Vertical Trade (ratio of vertical trade to conventional trade, per cent)



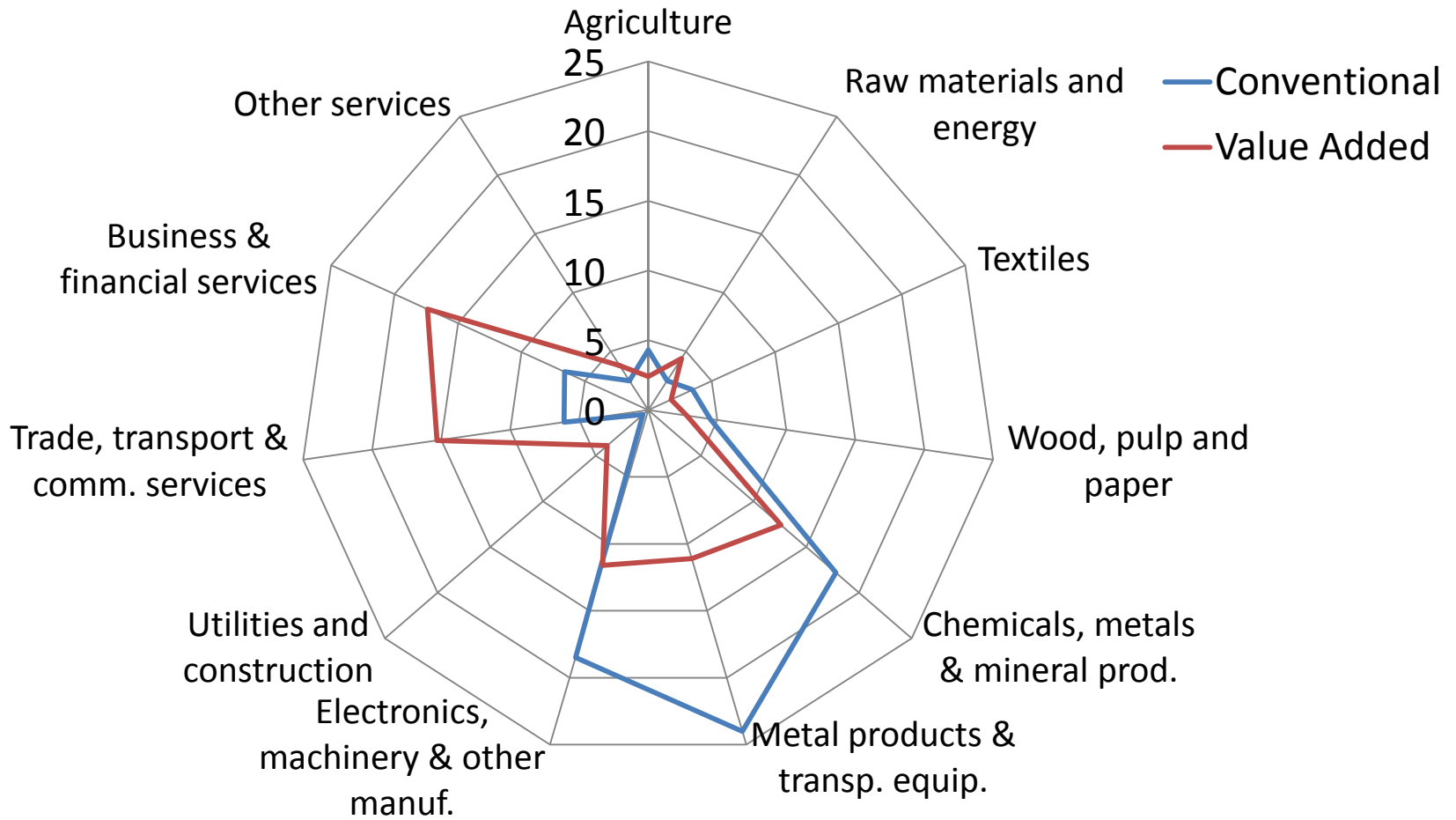
Canada's Share of World Trade Is Reduced (share of world trade, per cent)



Canada's Trade Relationships Change (change in share of Canadian trade, difference)

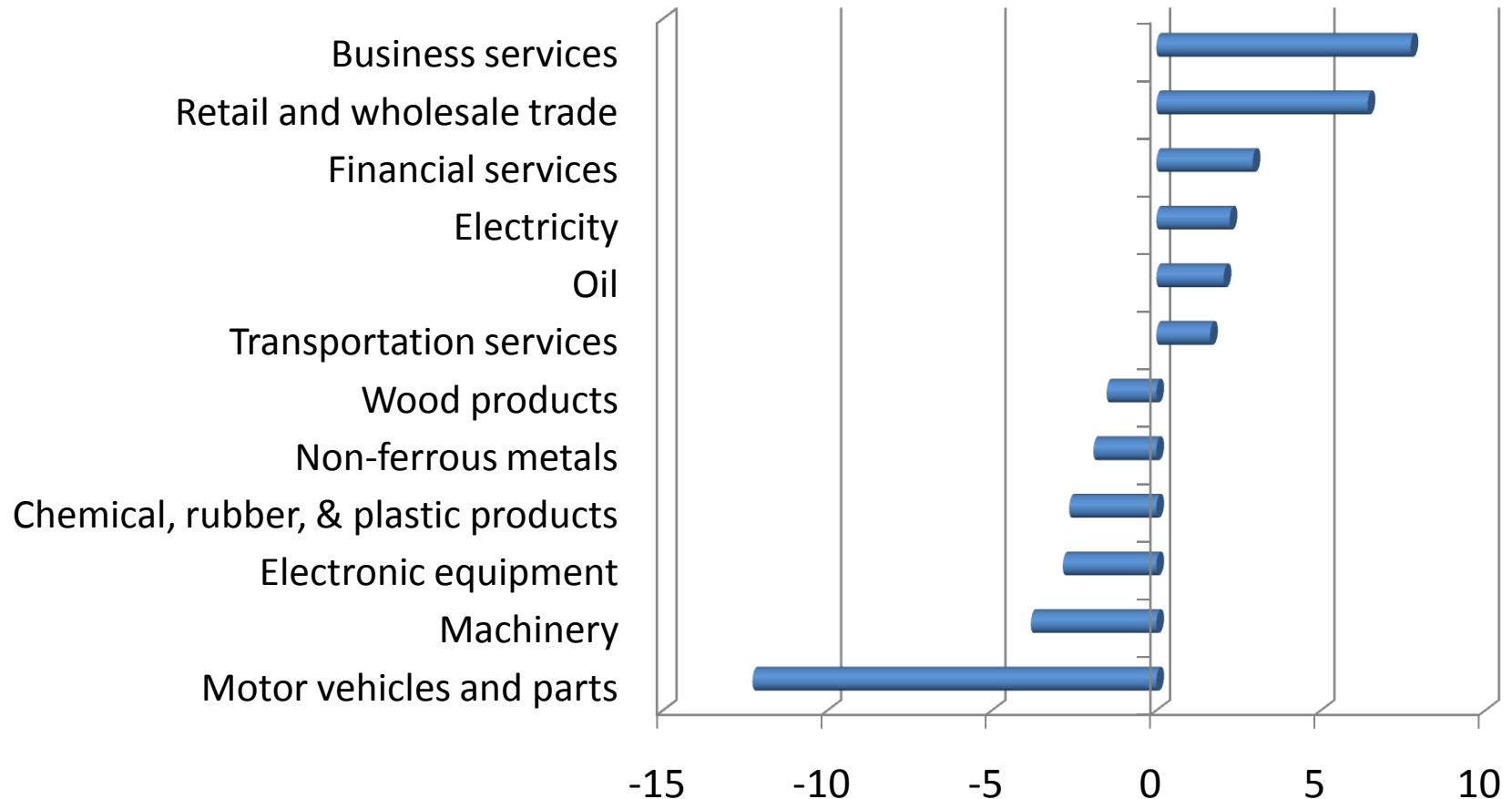


Industrial Mix of Trade Is More Service Oriented (share of Canadian trade, per cent)

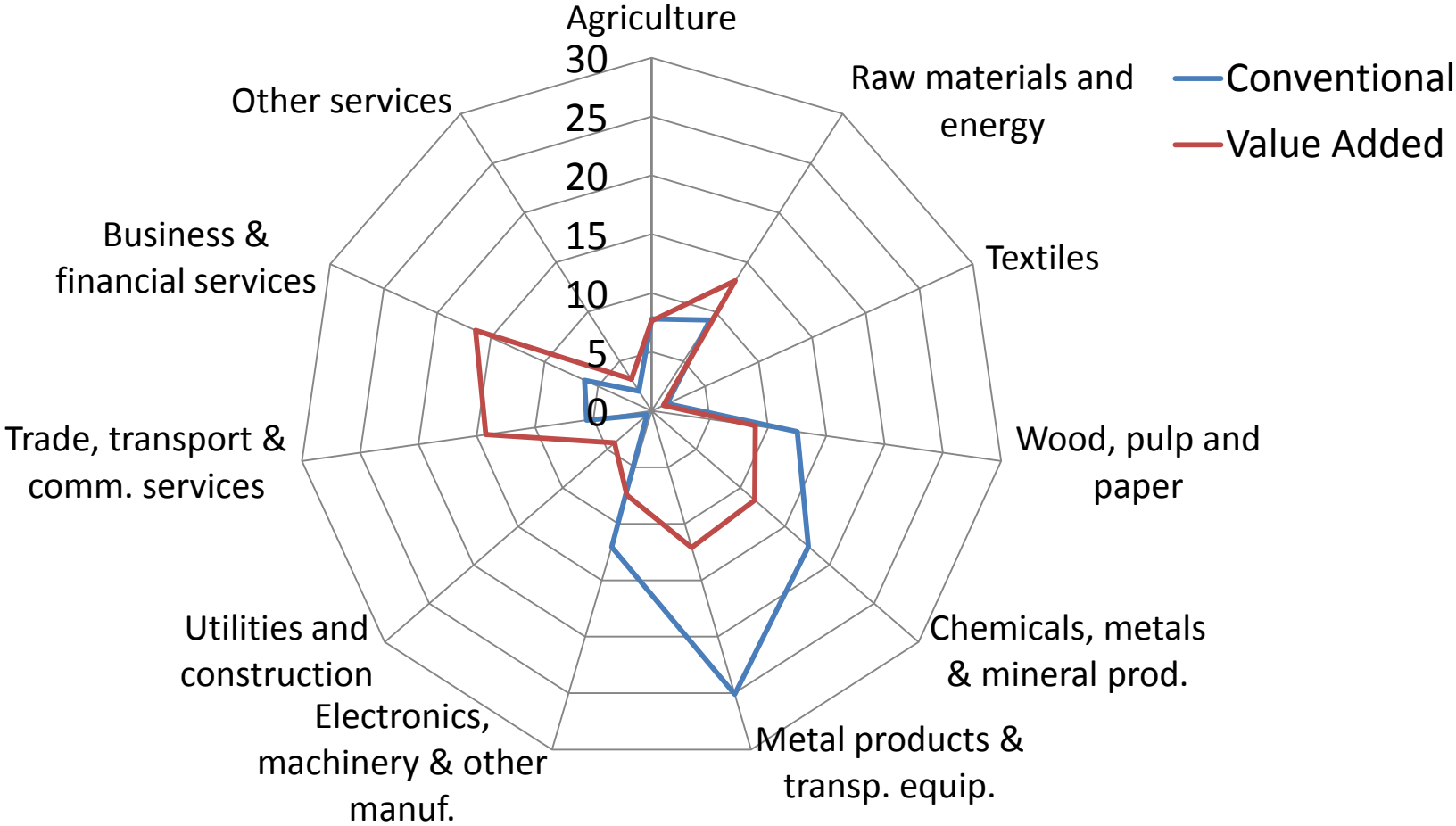


Largest Trade Movers by Industry

(change in share of Canadian trade, difference)

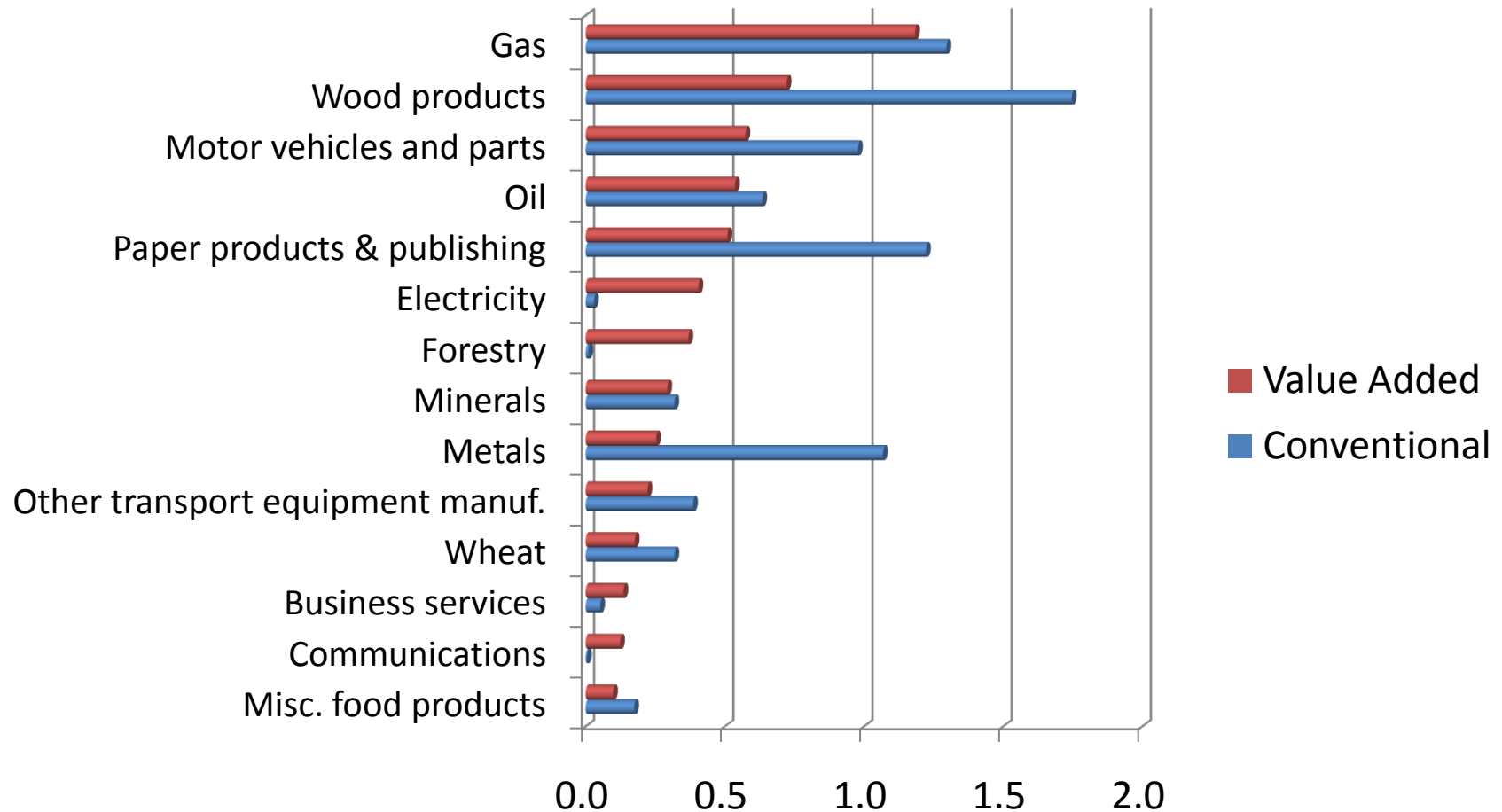


Industrial Mix of Exports Is More Service Oriented (share of Canadian exports, per cent)



Sources of Export Strength Remain Similar

(net exports as a share of GDP, per cent)

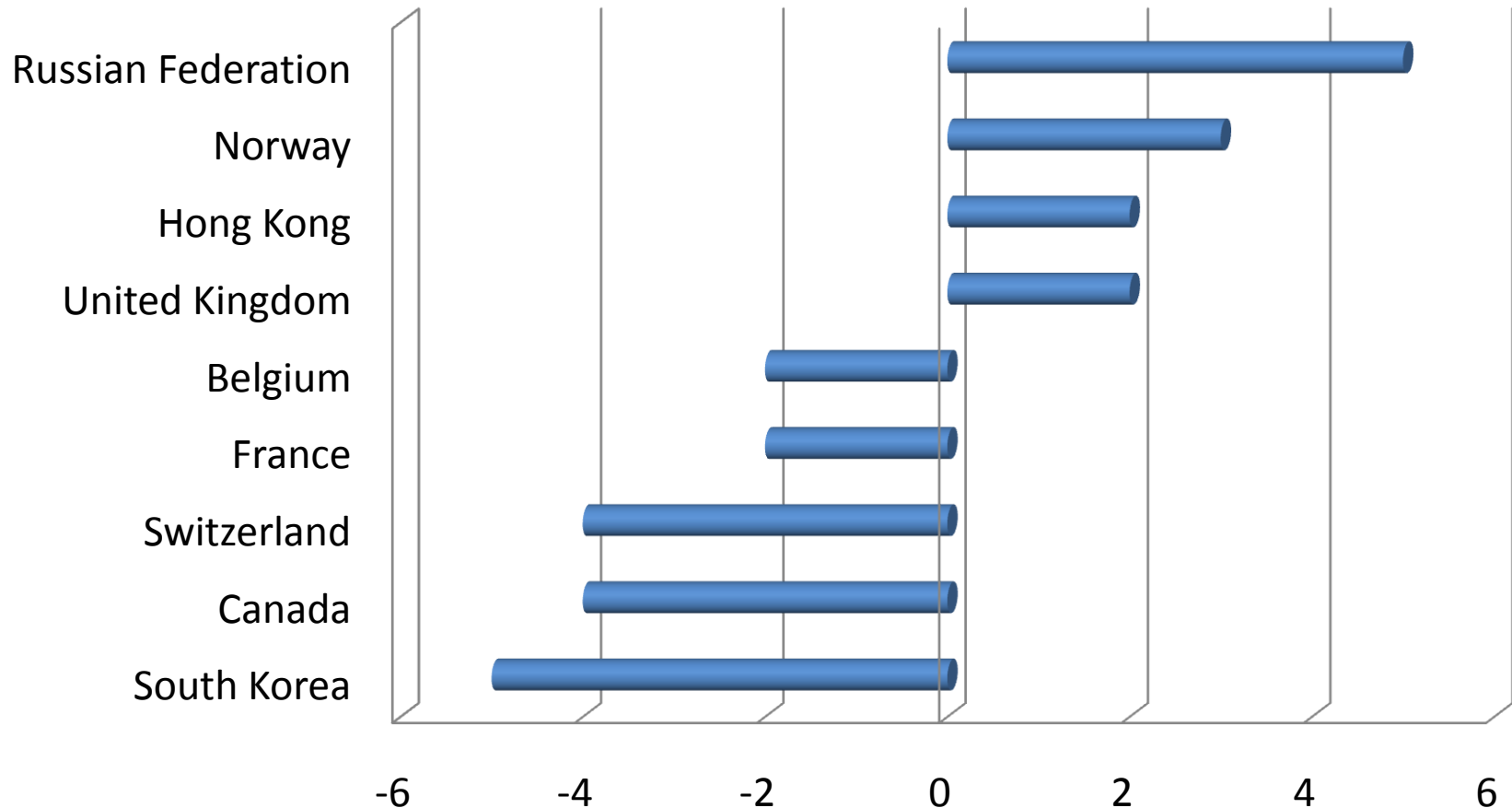


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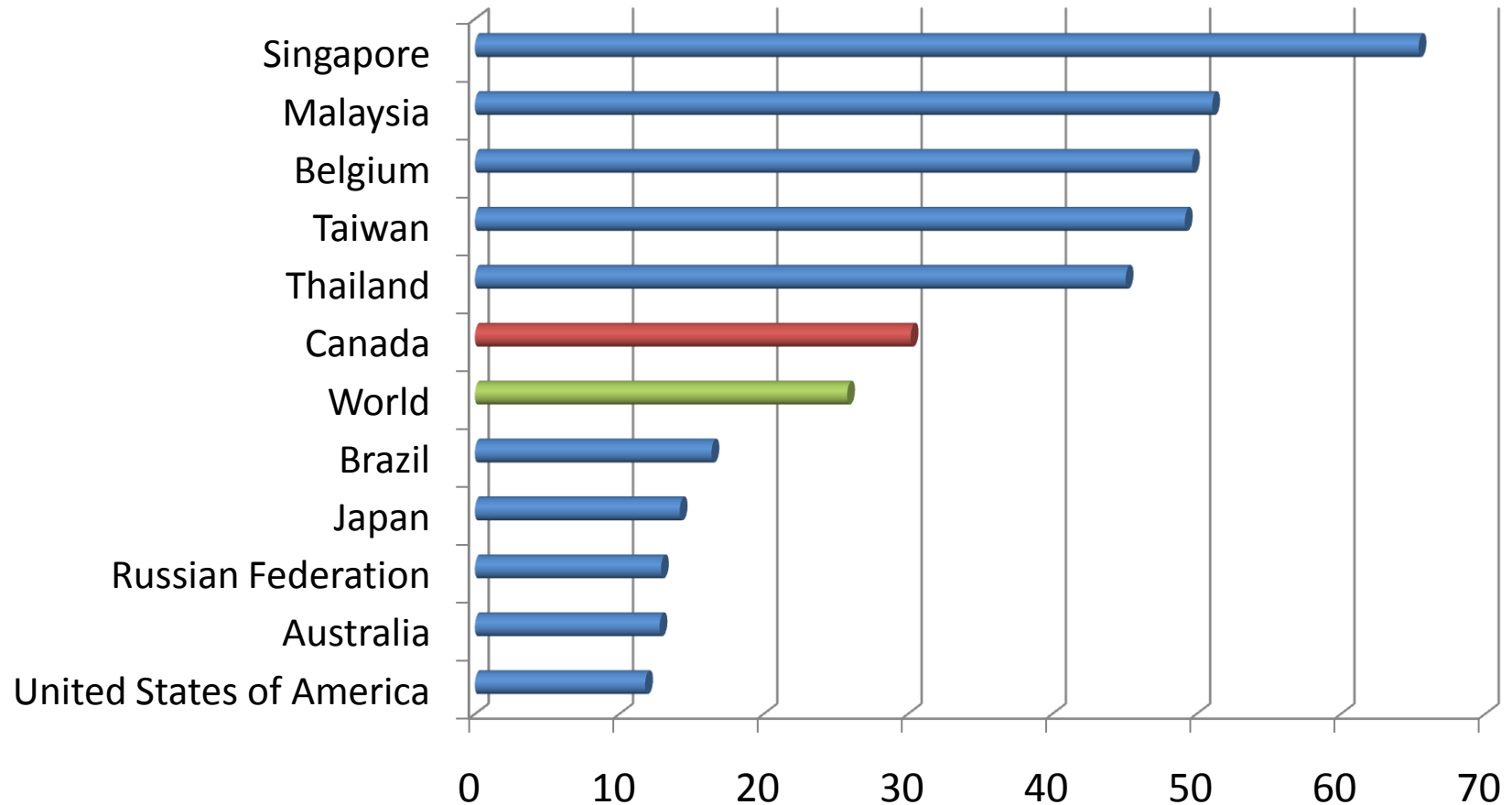


Canada Is Less Trade Dependent than we Think (change in rank of trade dependence, difference)



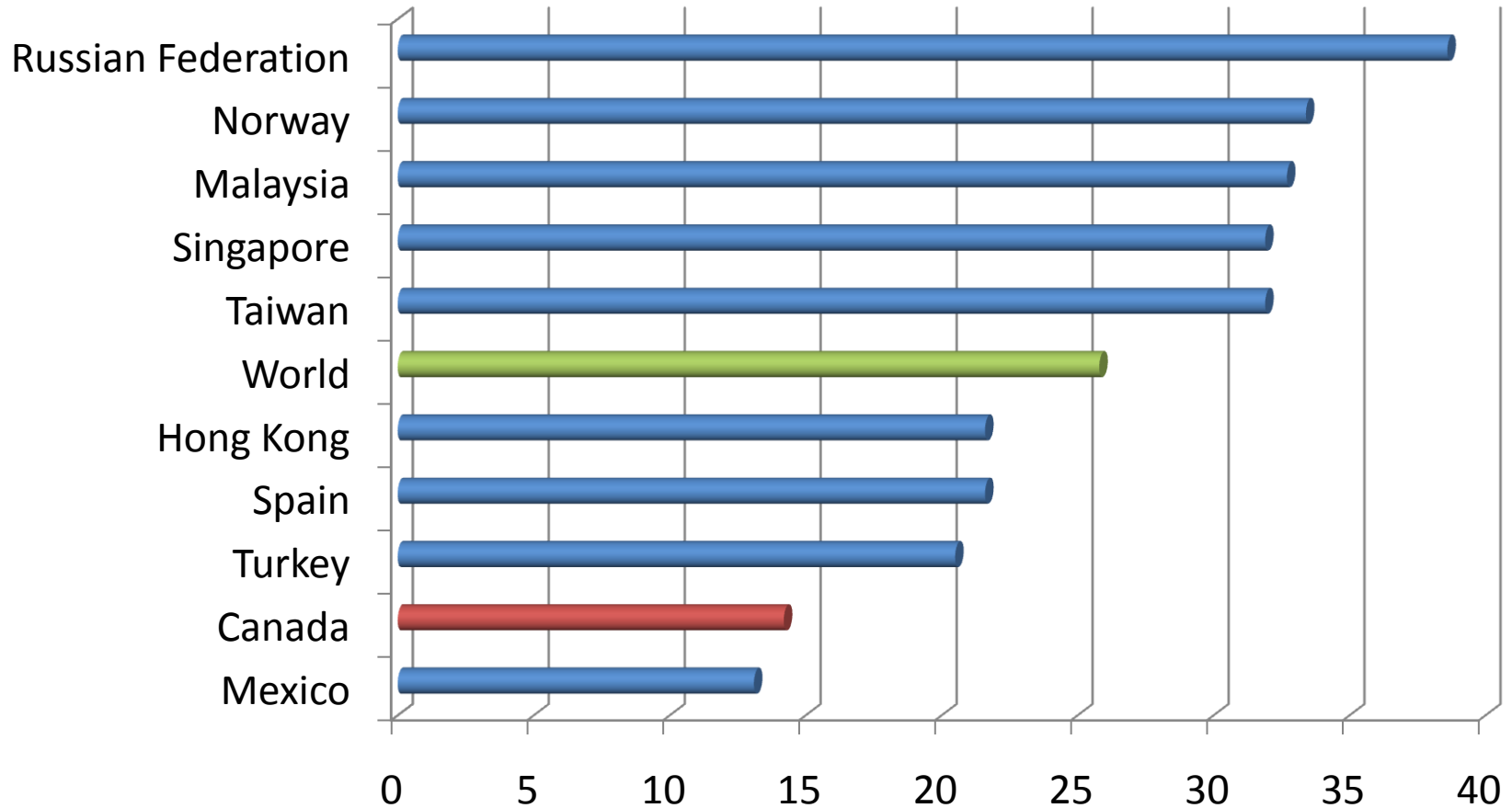
Canada is an Above Average User of Imported Content in Exports

(import content of exports as a share of conventional trade, per cent)



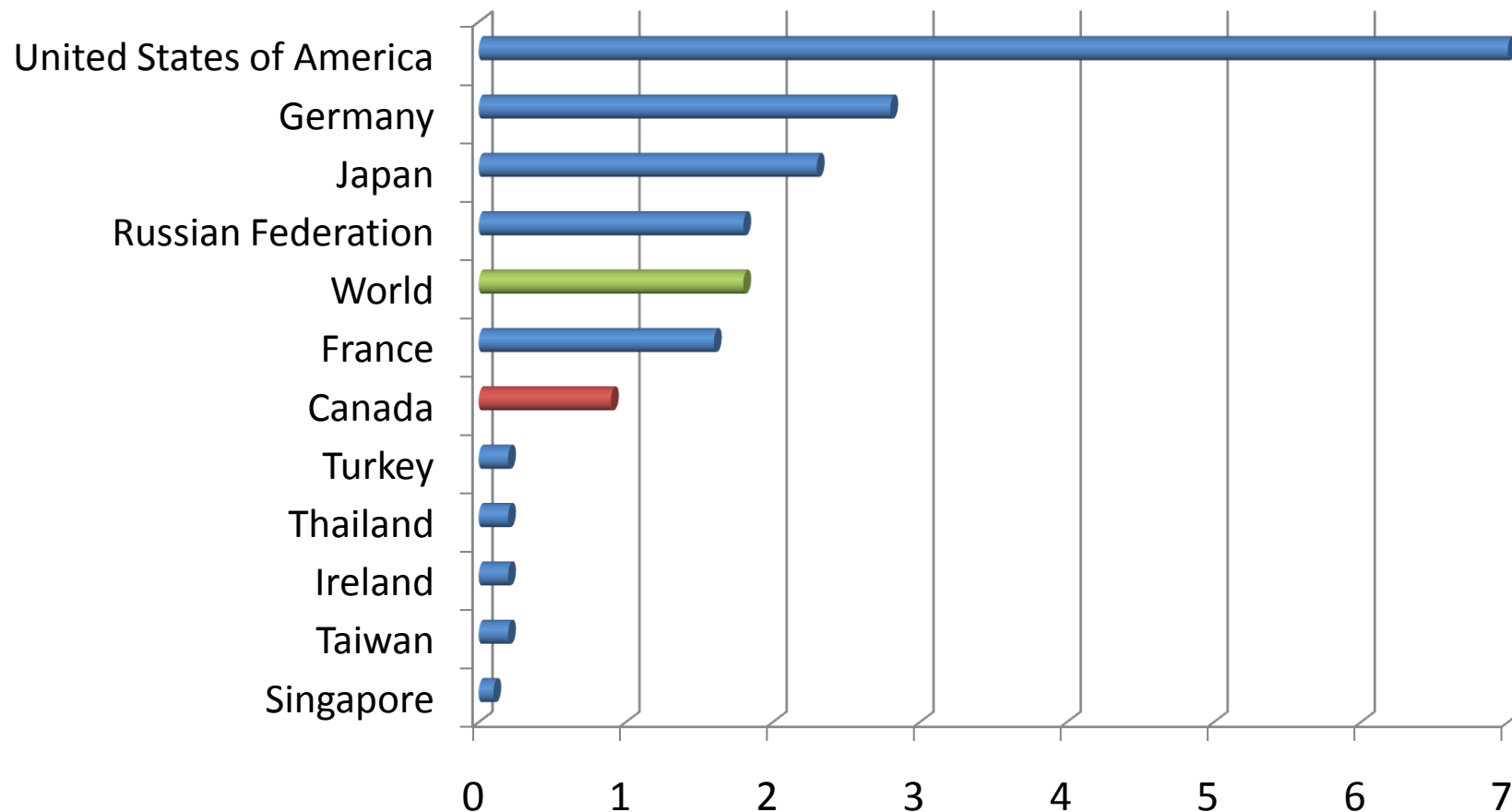
Canadian Exports Are Seldom Re-Exported

(domestic exports in foreign exports as a share of conventional trade, per cent)

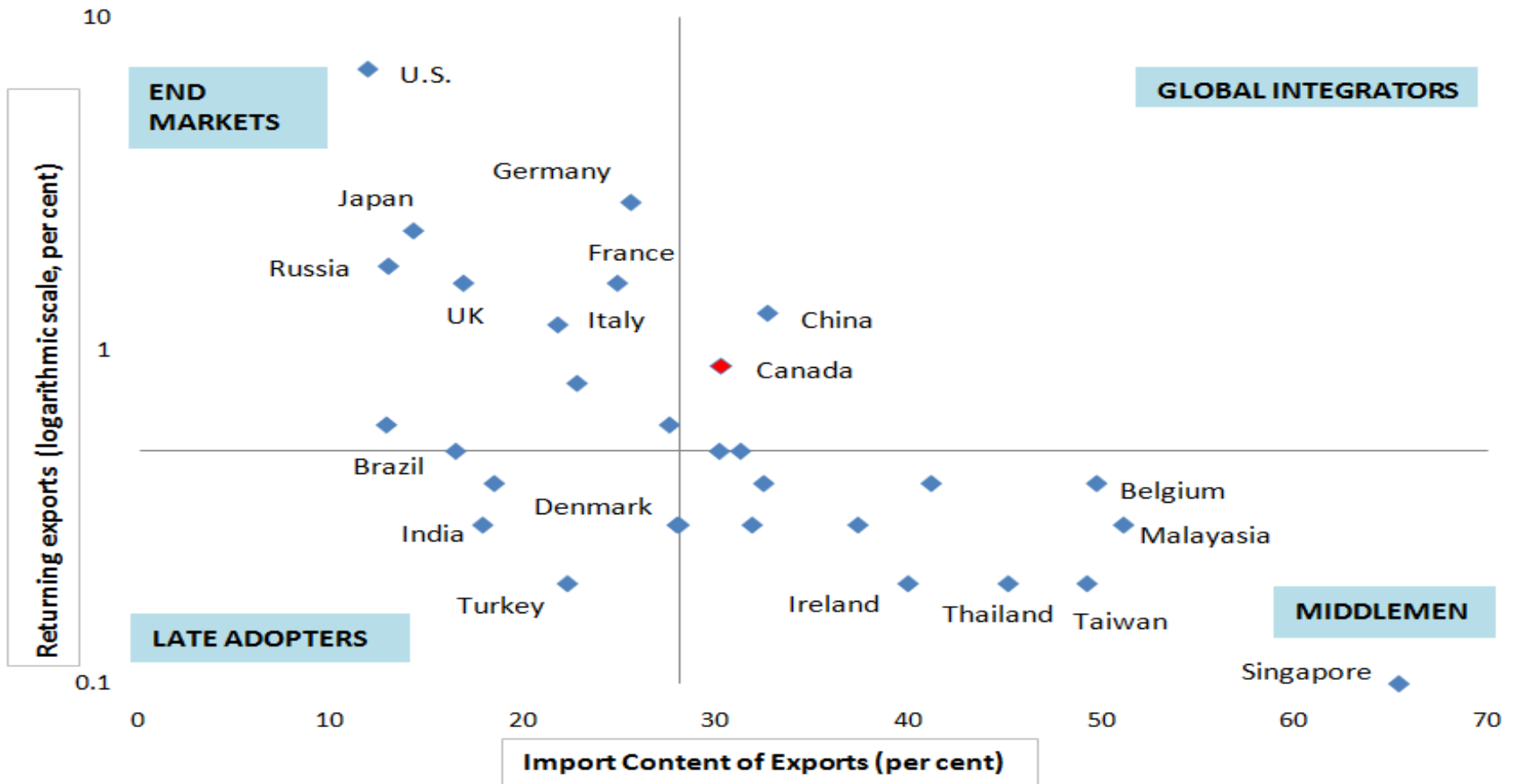


Returning Exports Are Small in Most Countries

(returning exports as a share of conventional trade, per cent)



Top Trading Countries by Type of Market



Canada's Comparative Advantage Versus the World

| Sector | Score* | Sector | Score* |
|-----------------------------|--------|-------------------------|--------|
| Gas | 4.9 | Metals | 1.5 |
| Forestry | 3.7 | Electricity | 1.5 |
| Wheat | 3.6 | Fishing | 1.5 |
| Wood products | 3.5 | Insurance | 1.4 |
| Beef | 2.8 | Oil seeds | 1.4 |
| Other meat products | 2.3 | Misc. food products | 1.4 |
| Paper products & publishing | 2.2 | Communication | 1.2 |
| Motor vehicles and parts | 2.0 | Trade | 1.1 |
| Other transport equipment | 1.5 | Vegetable oils and fats | 1.1 |
| Minerals | 1.5 | Metal products | 1.0 |

*share of Canadian trade/share of global trade



Canada's Comparative Advantage Versus Advanced Countries

| Sector | Score* | Sector | Score* |
|-------------------------|--------|-----------------------------|--------|
| Gas | 8.1 | Metals | 1.9 |
| Forestry | 5.3 | Paper products & publishing | 1.8 |
| Wheat | 3.8 | Electricity | 1.7 |
| Wood products | 3.7 | Motor vehicles and parts | 1.6 |
| Oil | 3.3 | Animal products | 1.4 |
| Beef | 2.7 | Misc. food products | 1.3 |
| Vegetable oils and fats | 2.7 | Other transport equipment | 1.3 |
| Minerals | 2.6 | Coal | 1.3 |
| Oil seeds | 2.5 | Insurance | 1.3 |
| Other meat products | 2.4 | Gas distribution | 1.2 |
| Fishing | 2.1 | Trade | 1.1 |

*share of Canadian trade/share of advanced country trade



Next Steps

- Three reports based on this work are in progress
- They are expected to be published in the Autumn
- Potential to explore this issue in more detail in future research



Summary

- Value added trade provides new insights regarding Canada's trading relationships
- The importance of the U.S. shrinks in deference to increased ties with Europe and Asia
- Services and other inputs such as energy and transportation are key components of trade
- Canada's comparative advantages remain largely focused on commodities



A hand is shown holding a crystal ball. The background is a blue geometric pattern of overlapping triangles. The text is overlaid on the crystal ball.

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