Mapping Canada-Asia
“Integrative Trade”

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The Apple iPod and Trade Statistics

How do US trade statistics record a $299 iPod?

$150 import from China

Sources: Linden et al, 2007; The Conference Board of Canada
The Apple iPod and Trade Statistics
Where is value actually created?

- U.S., 50%
- Rest of Asia, 49%
- China, 1%

Sources: Linden et al, 2007; The Conference Board of Canada.
The Reality

• Acceleration of global and regional supply chains

• Driven by FDI, facilitated by services links

• Can buy each *activity* from best location
  – Instead of locating each *industry* in the best location
The Data Gap

• But official statistics do not represent realities
  – Do not capture globally integrated activity
  – Underrepresent linkages
  – Do not represent where value is created

• And public discussions focus on goods exports
  – Rather than a range of relevant measures

• Good data are the basis for informed policy
Canada-Asia Integrative Trade Measures

- We adjusted official statistics
  - To better reflect integrative trade
  - For undercounts – err on conservative side
  - To present visually a range of measures
Canada-Asia Integrative Trade Measures

• Our aims are to
  – Raise awareness of data gap
  – Understand relative trade magnitudes
  – Gain a more complete picture of activities
  – Provide a starting point
Measuring Services Trade

- 8000 codes for goods, 28 for services (Sturgeon)
- Set up for tariff system
- Shifted research and policy towards goods
- Tariffs
  - no longer used for industrial policy
  - not important revenue source
- Services trade growing—esp. with digitization
Measuring Services Trade

• Difficult to measure

• Line blurred between good and service
  – E.g., “Manufacturing” includes research, product design, sales
  – Capabilities or activities are more important
Measuring Services Trade

- Services trade likely undercounted
- Foreign affiliate sales neglected
- Imported services inputs overlooked
Measuring Goods Trade

• Canada-Asia exports understated
  – Relative to Can-US

• Canada-China export figures misleading
  – Canada-Asia better captures regional integration

• Imports from Asia relatively accurate but
  – Rarely mentioned as performance metric
  – Treated separately from exports
Measuring Goods Trade

• Imported parts from Asia
  – Play a large and growing role (Conf. Board)
  – Associated with increased efficiency (StatsCan)

• Foreign affiliate sales overlooked
Foreign Direct Investment: The Enabler

- Dramatic growth in global FDI, esp. Asia
- Underestimating FDI with Asia?
  - If $ transits through US or tax conduit
    - Does not get recorded as going to Asia
- FDI adjustments for future research

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Integrative Trade Statistics Methodology

• Goods
  – Canadian exports to Asia adjusted using Asia’s imports
  – Canadian imports from Asia are unadjusted
  – Sales by Canadian companies in Asia estimated using share of CDIA to Asia applied on total sales broken down by goods and services

• Services
  – Canadian exports to Asia adjusted using ratio of G7 exports over G7 CDIA and ratio of exports over CDIA
  – Canadian imports from Asia are unadjusted
  – Sales by Asian companies in Canada estimated using share of inward FDI from Asia applied on operating revenues of foreign companies in Canada broken down by industry

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Canada-Asia Integrative Trade Methodology
($ CND billions)

- Foreign affiliate sales estimate
- Adjustment for Undercount
- Statistics Canada measure

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Integrative Trade Trends: Canadian Sales to Asia
($ CND billions)

Source: The Conference Board of Canada, Statistics Canada, UN Comtrade.
Integrative Trade Trends: Canadian Purchases from Asia
($ CND billions)

Source: The Conference Board of Canada, Statistics Canada, UN Comtrade.
What Can-Asia Integrative Trade Stats Show?

• Trade *levels* more robust than official stats
  – For both goods and services
  – Estimate is conservative
  – Base level is still low

• But sales *growth* not as strong as official stats

  *cont. …*
What Can-Asia Integrative Trade Stats Show?

- Foreign affiliate sales matter
  - Particularly for Asian companies operating in Canada
  - Both for goods and services
  - Undercount rising over time (in both directions)

- Integrative services trade larger than official statistics
  - Particularly for purchases from Asia
Stage of Entry into Importer Supply Chain

- Entry: 60%
- Middle: 20%
- End: 20%
Not Tightly Integrated into Asian Supply Chains
2006

Canada-Asia

Canada-North America

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Recommendations: Better Data

• Statscan is working on some improvements but this will take time

• In meantime, our integrative trade statistics may
  – Improve understanding of global interlinkages
  – Better inform integrative trade policies

• Analysts should use regional not bilateral data
  – To better account for regional supply chains
Recommendations: Integrative Trade Policies and Strategies

• Since foreign affiliate sales matter
  – Federal and provincial governments should promote FDI

• Governments and business should
  – Invest in border, port, transport, and technological infrastructure
  – Focus on value creating activities within global supply chains

• Government should reduce barriers to services competition
Extending the Analysis

• What will future Canada-Asia integrative trade look like?

• What would happen to Canada-Asia integrative trade if:
  – Canada doubled its port capacity
  – There is a safety scare in the supply chain
  – Federal government introduced a carbon tax

• What does Canada’s integrative trade look like:
  – with other regions
  – Compared with peers

• What activities carry value in global supply chains?
  – Where does Canada fit in?
  – How do leaders stimulate value creating activities?
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