

Patterns of Diversification in Canadian Exports 1999-2008

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Executive summary

Traditionally, Canadian exports have relied heavily on demand from the U.S., but this has begun to change as exports gained momentum from expansion into international markets. The process of diversification of our exports away from the U.S. is now well advanced and pervasive across most sectors. This paper assesses which sectors are leading the pack in contributing to this diversification process, and which destinations are at the forefront of it – with a particular focus on emerging markets.

The degree of diversification is important in determining the exposure of different sectors to unfavourable short-term events (like economic crises) or long-term demand stagnation. Sectors that are more internationally diversified are likely to be more resilient to shocks, and their penetration of new markets may be an indication of their flexibility and potential for future growth. Emerging markets are particularly important in that respect as they account for an increasingly large share of global demand. Last but not least, sectors with greater international exposure are likely to profit from foreign investment opportunities and other associated benefits like innovation and competitiveness.

The sectors that have diversified most in the last decade are metals and minerals, aerospace and machinery and electrical equipment. These products have seen their export share to non-U.S. destinations increase by 15 percentage points or more. In value terms, the top ranking sectors are metals and minerals, accounting for over one-third of the increase, followed by agri-food and machinery and electrical equipment (led by gas turbines, parts for construction machinery, computers, and integrated circuits). Together, they are responsible for more than two-thirds of the nominal increase in exports to non-U.S. markets over the decade.

In terms of regional patterns, other advanced countries (non-U.S.) have contributed significantly to the diversification of metals and minerals, aerospace and machinery, while Asia-Pacific is responsible for the increased diversification in many resource-based sectors, including chemicals, metals and minerals, agri-food and wood and paper, and also made an important contribution to the diversification of machinery and electrical equipment. Latin America and the Caribbean (LAC), emerging Europe, and the Middle East and North Africa (MENA) have contributed to international diversification in higher manufacturing products like aerospace and machinery, with LAC leading the diversification in automotives.