

## Diversification of Canada's Exports - What and Where to

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### Summary

Canadian exports have been following a pronounced diversification trend away from the U.S. and to emerging and developing countries over the last decade. The regions driving this shift are Asia-Pacific and, to a lesser extent, Latin America and the Caribbean (LAC) which together account for over 70% of our exports to emerging and developing markets. In general, resource-based sectors have been leading the diversification (agri-food, metals and minerals, and chemicals) – particularly to Asia. However, the same trend was observed in higher value-added products like machinery and electrical equipment, aerospace and automotives. These exports were growing the fastest in LAC. We can expect this trend to continue, as the growth of private consumption and import demand from emerging regions continue to outpace that of traditionally advanced economies, offering tremendous opportunities for Canadian exporters.

### Diversification Trends

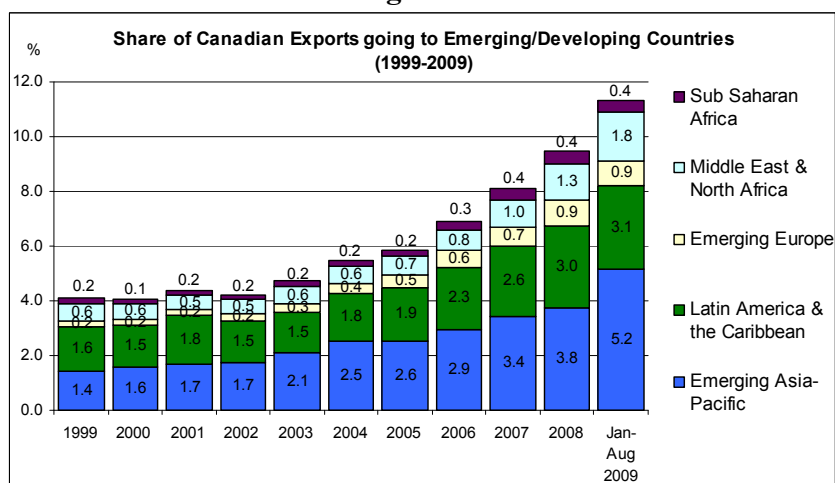
Since 1999, the share of Canadian merchandise exports destined to the U.S. has fallen sharply, from 86.7% to 77.6% in 2008, and reaching a low of 74.9% over January-August 2009 (for goods and services, the share is even lower at 70% for the first half of the year). The share of our exports destined to emerging and developing countries went from 4.1% in 1999 to 9.4% in 2008, and reaching a record 11.3% year-to-date (January-August). The export shares of most regions increased by a factor of two or more between 1999 and 2008 (Asia: 2.6, LAC: 1.9), with the export share of Emerging Europe increasing the most by more than quadrupling (Figure 1). The diversification trend has been amplified by the crisis as exports to the U.S. have fallen more sharply than to the emerging and developing markets. As a result emerging countries in Asia now have a share of 5.2% of our exports so far in 2009 relative to 3.8% in 2008, and in the Middle East & North Africa (MENA) region the share has reached 1.8% (up from 1.3% last year). While the U.S. share may recoup somewhat post-crisis, we can expect the diversification trend to continue in the long term.

### Regional Patterns

In the last ten years, significant export diversification away from the U.S. occurred in all sectors, with the exception of the energy and automotive sectors.

Emerging Asian markets have claimed a larger share of our resource-based commodities – e.g. in metals and minerals, their share has more than quadrupled, to 5.3% in 2008, and they now receive 8.5% of our chemicals exports. Meanwhile, Latin America is

Figure 1



the destination for a growing share of higher value-added products: machinery and electrical equipment (5.2% of exports in that sector go to that region, up 3.1 percentage points), aerospace (4.1%, up 3.5 p.p.), automotives (2.3%, up 1.6 p.p.). In the aerospace sector, the export shares of Middle East & North Africa and Emerging Europe have also increased significantly, to 3.4% and 2.6%, respectively.

**Sectors Leading Diversification**

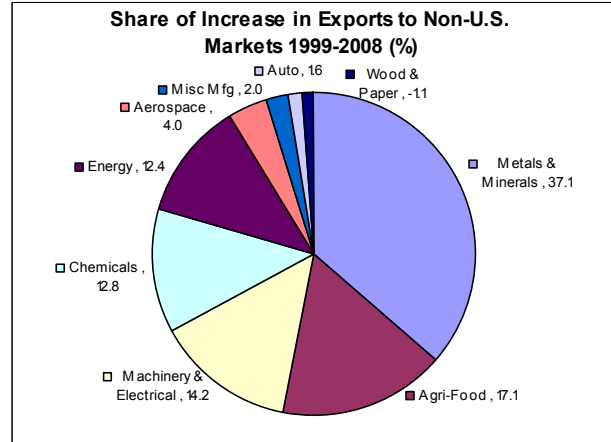
In value terms, the sectors leading the increase in exports to non-U.S. markets are metals and minerals (accounting for 37.1% of the gain), followed by agri-food (17.1%) and machinery and electrical equipment (14.2%) – led by gas turbines and construction-related equipment (Figure 2). The aerospace sector, though smaller in value terms, saw a large increase in the export share going to non-U.S. markets.

Year-to-date in 2009 (January-August) aerospace is the only sector posting an increase in global exports (up 46.1% to non-U.S. destinations). 2009 saw increased exports of higher manufacturing products to MENA, energy to Asia, and machinery and electrical equipment to LAC. Table 1 shows that diversification has deepened in all sectors except for wood and paper, agri-food, and chemicals so far this year.

**Diversification in Asia**

Within emerging markets, the share of Canadian exports going to Asia has been increasing, on the strong performance of the Canadian resource-based sectors in that region. The bulk of the increase in exports is attributable to metals and minerals and chemicals, which together are responsible for more than half of the gain. Agri-food and machinery and electrical equipment are also contributing. Figure 3 shows that the increase in exports to Emerging Asia over the last decade has been leading diversification to emerging markets in several sectors, responsible for over two-thirds of the gain in chemicals exports, and more than half of the gain in metals and minerals.

**Figure 2**



**Table 1**

Non-US share of exports, by Sector (%)			
Sector	1999	2008	YTD 09
Agri-Food	37.7	47.0	46.8
Metals & Minerals	18.8	41.1	41.9
Energy	6.5	7.1	8.7
Chemicals	15.3	24.3	22.1
Wood & Paper	21.0	28.6	27.5
Machinery & Electrical	13.5	28.5	31.5
Automotive	2.2	5.2	5.8
Aerospace	22.2	42.0	49.0
Misc Manufacturing	10.4	15.9	17.9

**Figure 3**

