8.5 I-O Lessons for the Industrial Targeting of Canadian Export Initiatives

Canada's resource industries account for about 15% of exports and, as a group, score the highest using the criteria set out in the I-O framework to select the ideal export industries. The drawbacks concerning resource industries are that some are clearly producers of intermediate inputs for other domestic export industries and some do not generate as much employment as the average export industry. Although the promotion of resource industry exports needs to be conducted in a different manner than the promotion of manufacturing industries, which can take advantage of trade fairs to display their products to selected foreign buyers, the domestic economic benefits of resource industry exports implies that they should not be ignored.

In addition to the industries that export resources, the industries that export processed resources are also identified by the I-O as excellent export industries. Together, the food, tobacco, wood and paper industries account for nearly 17% of Canada's exports. Due to their heavy reliance on domestic resource inputs, their reliance on imported inputs is well below average for export industries. This type of chain reaction effect on domestic production is one of the keys to maximizing the positive domestic economic impact of exports.

For all the attention that high-tech industries attract, they do not perform much better than manufacturing industries in general with respect to their desirable export characteristics. They appear to operate in relative isolation from other domestic industries since their output is largely exported and their intermediate inputs are often imported. In a small, open economy such as Canada, the quantifiable spill-overs of high-tech export production may thus be smaller than the business economics literature might otherwise suggest.

As a result, in order to justify focusing on high-tech exports, the nonquantifiable spill-overs of their production must be quite large. High-tech exports must transfer technology and know-how to other domestic industries and there must be a distinct positive dynamic economic effect associated with their production.

Findings on the relative attractiveness of resource industry exports, and the relative unattractiveness of high-tech exports, are not unique to this Paper. In a study of Canada's international competitiveness, A. Rugman and J D'Cruz state:

> ... Industrial policy should not focus on a relatively uncompetitive and small sector of Canada's industrial base. Instead, it should build upon the existing current success of Canada's resource industries. This is not to say that high-