



## BOX B: THE EXTENT AND SIGNIFICANCE OF INTRA-INDUSTRY TRADE IN CANADA-US MERCHANDISE TRADE

### Background

International trade is traditionally thought to consist of each country exporting the goods most suited to its factor endowments, technology, and climate while importing the goods least suited to its national characteristics. Such trade is called inter-industry trade because countries export and import the products of different industries. However, as Table B1 shows, among the top 10 Canadian exports to and imports from the U.S., many are actually similar items, such as motor cars and vehicles for transporting persons, parts and accessories for motor vehicles, and motor vehicles for the transport of goods, and energy products. In fact, international trade is largely comprised of trade within broad industrial classifications. Intra-industry trade (IIT) occurs when a country exports and imports goods in the same industry.

**Table B1: Canada-US Main Merchandise Exports and Imports in 2005 at the HS-04 Level**

HS-04	Canadian Exports to the United States	Exports in 2005 (\$ in billions)	Share of Total Exports in 2005
	Total	365.7	83.9
8703	Motor cars & vehicles for transporting persons	44.2	12.1
2711	Petroleum gases & other gaseous hydrocarbons	38.8	10.6
2709	Crude oil from petroleum and bituminous minerals	29.9	8.2
8708	Parts & accessories for motor vehicles	14.9	4.1
8704	Motor vehicles for transport of goods	11.7	3.2
2710	Oil (not crude)	11.0	3.0
4407	Wood sawn or chipped length, sliced	8.8	2.4
8802	Aircraft, powered; spacecraft & launch vehicles	5.7	1.6
7601	Aluminium, unwrought	4.6	1.3
9403	Furniture and parts	4.1	1.1

  

HS-04	Canadian Imports from the United States	Imports in 2005 (\$ in billions)	Share of Total Exports in 2005
	Total	215.1	56.5
8708	Parts & accessories for motor vehicles	20.5	9.6
8703	Motor cars & vehicles for transporting persons	14.9	6.9
8704	Motor vehicles for transport of goods	8.0	3.7
8407	Spark-ignition & internal combustion piston engine	5.0	2.3
2711	Petroleum gases & other gaseous hydrocarbons	3.9	1.8
8471	Automatic data process machines; magnetic reader	3.5	1.6
3004	Medicaments, mixed or not, in dosage	2.5	1.2
8409	Parts for engines	2.4	1.1
2710	Oil (not crude)	2.4	1.1
8701	Tractors	2.4	1.1

Source: Statistics Canada

The significance of intra-industry trade arises from the characteristics of the product itself and need not be based on comparative advantage. To a large extent, IIT arises from the fact that products are differentiated and the production of any particular product requires some fixed costs. For example, the more cars a firm makes, the lower the unit cost. Differentiation means that the products of one firm are not identical to the products of other