Canadian Share of U.S. Manufacturing Affiliate Assts

Data: U.S. BEA

chains as well as the increasing importance of global value chains for the Canadian economy.[26]

It has also been argued that the reliance of Canadian exports, especially manufacturing, on the U.S. market is overstated due to Canadian exporters selling to a U.S. multinational which in-turn exports to many more destinations. There is no data available on what share of Canadian exports to the U.S. are sales to U.S. multinationals which may then be shipped back to Canada or to overseas markets. However, we do know that 34% of Canada-U.S. trade is intra-firm – between parts of the same company operating on both sides of the border. Also, US$58.9 billion worth of U.S. goods imports are from U.S. foreign affiliates operating in Canada selling to their parent company. Applying the same ratio of purchases by U.S. parents from their affiliates in Canada to their total purchases (i.e., including non-affiliated purchases) suggests that another US$70 billion of U.S. goods imports from Canada are purchases by U.S. multinationals sourcing from unaffiliated companies in Canada – basically half of U.S. imports from Canada are either U.S. affiliates operating in Canada shipping goods back to their parent company (accounts for 45.6%) or unaffiliated Canadian companies shipping goods to a U.S. multinational (54.4%).[27]

Canada as an Internationally Competitive Location for Manufacturing

As will be argued throughout this report, the greatest impact of the rise of global value chains for Canada will be the challenge of attracting and retaining high valued activities in Canada. As functions become more internationally mobile, competition from others to attract them will increase and small differences in economic environment may become increasingly important.

For the manufacturing sector the story is mixed. As noted already, Canada continues to have a higher share of the economy in manufacturing than most other advanced countries but not as much as some, such as Germany. And while the Canadian manufacturing sector grew as a share of the economy of the 1990s based on the impact of the Canada-U.S. FTA, NAFTA and a declining dollar, the sector has been struggling in recent years.

Trade surpluses or deficits can provide an indication of where a country possesses a comparative advantage. Canada has generally maintained a small deficit in manufacturing over the 1990s and into 2000, posting surpluses only in 1995 and 1996. Since 2002, as the Canadian dollar began to appreciate, Canada's trade deficit in manufacturing has generally been increasing. In 2006 it reached a recent peak of $27.8 billion or just under 9% of manufacturing exports. But this hides a lot of detail. Canada possesses sizable trade surpluses in a large number of industries within manufacturing, some related to the processing of resources but others in high-tech manufacturing.

Canada has traditionally been very successful in attracting manufacturing facilities from abroad.

26 "The Extent and Significance of Intra-Industry Trade in Canada-U.S. Merchandise Trade", Box B, Seventh Annual Report on Canada's State of Trade, trade update 2007. Foreign Affairs and International Trade Canada

27 These are very rough calculations and should be used with caution.