

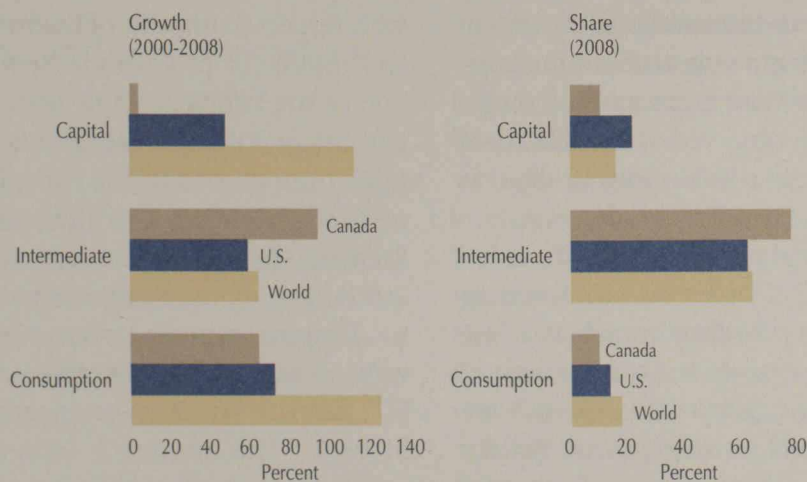
increased importance of international markets to Canada's economy. Trade in commercial services increased even faster, which likewise illustrates their growing importance. Inward and outward FDI stocks also increased faster than goods trade which supports the idea that international commerce is replacing the increasingly-dated concept that international transactions are mostly about trade. The growing importance of "intellectual" trade is reflected in the burgeoning international flow of royalties, licence fees and R&D innovation. In this regard, Canada is preeminent, an important harbinger for its continued economic success.

The United Nations Broad Economic Classification (BEC) system<sup>11</sup> can be used to evaluate broad trends in global value chains. The data are readily available for a wide range of countries but provide only a simple breakdown of capital and goods (intermediate and final). Because it is limited to goods, using the BEC data will miss the more dynamic changes occurring in services trade. That said, goods still account for the bulk of Canada's international trade.

A simple measure of comparative advantage is to compare the level of exports and imports in a given year with a net surplus representing a sign of comparative advantage. Based on the BEC classification system, by this measure Canada is a large net exporter of intermediate goods and net importer of both capital goods and consumer goods, the latter being the stronger. Furthermore, Canadian exports of intermediaries are growing faster than imports while the reverse is true for both consumption and capital goods, implying that the demonstrated comparative advantage in intermediaries is getting stronger. Comparing Canada to the world supports the view that Canada specializes in intermediates. By contrast, the United States, with its large overall deficit in merchandise trade shows a deficit in all three goods categories (services trade, for which the United States posts a surplus, is not included). But, the smallest deficit is in capital equipment. Capital equipment also accounts for a larger share of U.S. exports than the world average, potentially suggesting an advantage in that category.

11 Available at <http://comtrade.un.org/db>.

### Exports by Type



Data: UN Comtrade.