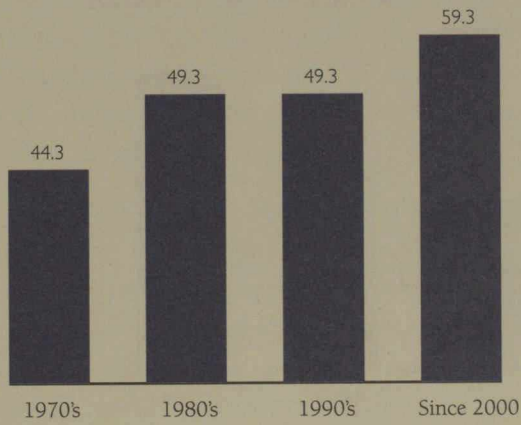


Stage of Canadian Trade from the Importer's Perspective* (per cent)



* top 25 traded goods in 2005, excludes price effects
 Source: "Canada's Changing Role in Global Supply Chains",
 Conference Board of Canada, March 2007.

Average Share of Vertically integrated Trade with the U.S.



Source: "The Extent and Significance of Intra-Industry Trade in
 Canada-U.S. Merchandise Trade" Seventh Annual Report on
 Canada's State of Trade: Trade Update 2006.

and 2003, the foreign component of material inputs in Canada almost doubled. One may conclude then, that while Canadian-based companies are taking advantage of international sourcing opportunities in order to remain competitive, smaller firms may not be participating as much as larger Canadian and foreign owned companies operating in Canada.

Where do Canadian Manufacturers Fit in Global Value Chains?

One way to answer this question is to look at what Canada is importing and exporting from the point of view of the other country. Not surprisingly, a high share of Canada's exports are in entry-level goods; unprocessed goods such as resources and resources-based goods. If entry level goods are excluded, Canada has a somewhat higher proportion of the remaining exports in finished products as opposed to intermediate goods. For imports, entry level goods account for a relatively small share of imports while finished goods account for only a slightly higher share of imports than intermediate goods. With about half of Canada's non-entry level trade (exports and imports) in finished products it is difficult to know whether this is high compared to

other countries and thus potentially signifying that Canada is, or is not, participating in global value chains. Also, the interpretation of this evidence is unclear as an increasing share of world trade is in differentiated products meaning that it is not unexpected that Canada might import car parts and then export cars, but also import cars of other brands. It is also difficult to tell from this information if Canada is specializing in the production of intermediate inputs or in the assembly of finished products.

A possibly more revealing measure of this same trend is to look at vertically integrated trade, trade that occurs within the same industry but is at different stages of production such as the importation of automotive parts and the exportation of completed vehicles. The proportion of Canada's trade with the U.S. that is of the vertically integrated type has been on the rise for the past two decades and now accounts for more than half of Canada's trade, meaning that Canada is either importing intermediate goods and then exporting something more finished or vice-versa. This provides strong support for Canada actively participating in global value

25 OECD "Draft Synthesis Report on Global Value Chains" (2006)