

exports. To achieve these gains and more, it is important to establish an early foothold for Canadian goods and services in the emerging world. Canada's geographical position in this regard is not thought to be the most advantageous. Yet in spite of that, a gravity model of Canadian exports produces a surprising result: Canada exports 42 percent more on average to emerging and developing economies than to the developed countries, after adjusting for the main variables that explain trade flows (economic size, distance, price levels, language and trade agreements). Over and above this, some countries and regions show surprisingly high results—merchandise exports to the crucial East Asian market are more than double the expected exports, and nearly 50 percent higher to Africa. On the other hand, Canada under-exports to Eastern Europe, South Asia and Latin America. Among the BRIC countries, Canada over-exports to China but under-exports to the other three, particularly to India.

Applying the concept of comparative advantage creates a framework for the evaluation of Canadian export performance vis-à-vis our global competitiveness in specific sectors. This is of particular interest with regard to emerging markets as sustained growth usually leads to a movement up the value chain, and hence implies ongoing changes in the mix of traded merchandise.

The data show that in the U.S. market our comparative advantage pattern is characterized primarily by advantages in the automotive, wood and paper, and energy sectors. Outside the U.S. market our advantage in the agri-food, metals and minerals and aerospace sectors is significantly stronger, but we are at a disadvantage in the energy and automotive sectors. Our exports of machinery and electrical equipment and miscellaneous manufactured products are revealed to be at a relative disadvantage in both the world and the non-U.S. markets.

However, we find that the majority of the advanced manufacturing sectors are over-exporting to the largest emerging-market destinations relative to our global benchmark. The miscellaneous manufacturing and automotive products sectors do markedly better in these markets, and in most cases the machinery and electrical equipment sector does as well. Aerospace is the only sector that generally under-exports to these destinations, due to our strong performance in advanced economies (Western Europe) and consequently higher global benchmark in this area; among commodities, this is also the case for power-generating machinery. Thus while resource-related sectors (agri-food, wood and paper and metals and minerals) account for most of our exports to emerging markets, Canadian manufacturing exports to these destinations are performing above par. This suggests that the emerging markets will play an important role in the future of the Canadian manufacturing sector.

The analysis also suggests insights and hypotheses of interest at the country level. For example, we learn that our chemicals sector is doing unusually well in China (mainly due to organic chemicals and fertilizers), and that while India seems to prefer to get its metals and minerals elsewhere, Canadian agri-food is extremely competitive there. Going more deeply, an unusually large Canadian disadvantage in machinery and electrical equipment in Malaysia reminds us that Malaysia is a large assembly hub for this equipment, and highlights Canada's limited participation in this trade. A conspicuous weakness of our agri-food exports to Brazil, on the other hand, may imply local self-sufficiency, or perhaps better-placed alternative suppliers such as Argentina. Finally, examining the time patterns of Canadian sectoral competitiveness in China, we can reflect upon our decreasing competitiveness in the aerospace and automotive sectors vis-à-vis our