



<sup>3</sup> We regroup merchandise trade statistics into three groups — homogeneous, which refers to products traded on organized exchanges; differentiated, which refers to products that are “branded” (industries associated with differentiated products are often characterized as having increasing returns); and referenced products, which refers to those that are “in-between”, whose prices are often quoted in trade publications, based on Rauch’s classification (Rauch, James E. 1996 “Networks versus Markets in International Trade”, NBER Working paper no. 5617).

<sup>4</sup> Canadian manufacturers sometimes sell directly to foreign buyers. Direct sales mean that manufacturers rely on their own social and business networks, rather than on wholesale distribution channels, for accessing information, overcoming informal trade barriers, and implementing international contract enforcement.

<sup>5</sup> See Rauch James, E. (1996) “Networks versus Markets in International Trade”, NBER Working Paper no. 5617.

<sup>6</sup> Since import duties collected by Canada’s major trading partners on Canadian exports based on the IO classification are not available, this study will use Canada’s import duties as a proxy for foreign tariffs charged on Canada’s merchandise exports.

<sup>7</sup> The detailed description of estimation procedures is available upon request to shenjie.chen@dfait-maeci.gc.ca.

### Services trade by region

As is the case for goods, the United States is Canada’s principal trading partner for services. Through the 1990s, the U.S. share of Canadian services exports rose from 55.8 per cent in 1991 to a peak of 60.6 per cent in the year 2000. For both the years 2001 and last year, the U.S. share has remained at 59.2 per cent. In contrast, the U.S. share in Canadian imports of services has fallen from a peak of 66.0 per cent, also in 1991, to 61.2 per cent last year.

#### *Services trade with the United States*

In 2002, Canadian services exports to the United States rose \$942 million, resulting in a 2.8 per cent rise in the share of these exports in that country. Exports of travel services led the way, accounting for almost half the increase, or \$463 million. Exports of commercial and government services were next in importance, rising \$255 million while exports of transportation services contributed the remaining \$223 million. Total exports of services to the U.S. amounted to \$34.4 billion for the year.

On the import side, a \$718 million increase in commercial and government services imports from the U.S. was more than enough to offset declines in travel services imports (down \$272 million) and transportation services imports (down \$78 million), as total services imports from the United States increased 0.9 per cent, or \$367 million, to \$40.5 billion.

#### *Services trade with the European Union*

Exports of services to the European Union also increased by 2.8 per cent in 2002, leaving the share of services exports to this region unchanged from the previous year at 17.0 per cent. Increases of \$552 million and \$74 million for commercial and government services and transportation services, respectively, were partly offset by falling exports of travel services to the EU (down \$361 million). For the year as a whole, Canadian services exports to the EU rose \$266 million to \$9.9 billion.

Services imports from the EU in 2002 fell \$138 million to \$10.6 billion, or 16.0 per cent of total services imports from all sources. Declines in commercial and government services imports (down \$145 million) and transportation services imports (down \$152 million) pulled services imports from the EU down. Travel services imports from the EU managed a \$161 million increase for the year.

#### *Services trade with Japan*

Japan holds a 3.0 per cent share of Canada’s services exports and a 3.1 per cent share of Canada’s services imports. This import share held steady over 2001 to 2002 as imports of services from Japan grew at a slightly faster pace than total services imports — 2.8 per cent vs. 1.8 per cent; the overall change was not enough to increase Japan’s share in total services imports. The pace of services exports to Japan did not