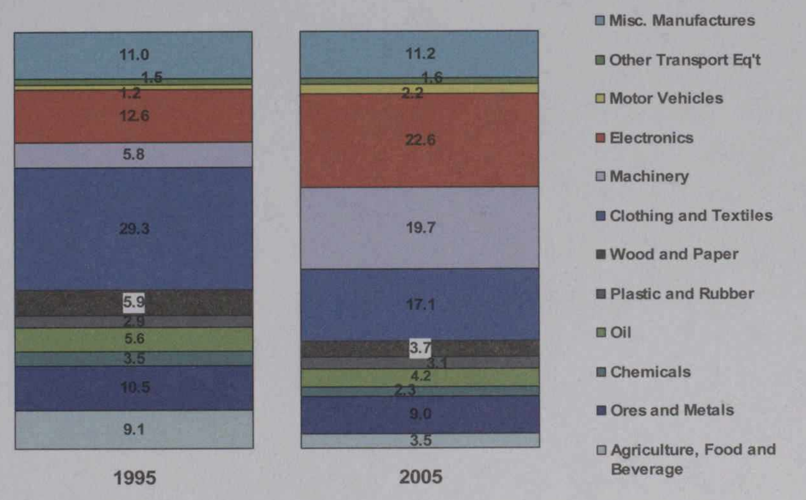
is facing competition from China, especially in machinery, electrical and motor vehicles. This is an important distinction because the RCA measure identifies areas where China and Canada currently have strengths in the U.S. market, whereas it could be argued that the constant market share analysis is more forward looking. For example, although China might not currently have a large amount of automotive exports to the U.S., its share is increasing dramatically (from 0.4 per cent in 95 to 2.1 per cent in 2005) and thus will increasingly pose a threat to Canada in this section of the U.S. market. Currently, RCA analysis reveals that Canada has a comparative advantage in automotive exports to the U.S. while China does not. If China continues its growth in this area, however, the constant market share analysis suggests that China might one day be a significant competitor.

Figure C2
China's Exports to the World (Share of Total)



Source: Statistics Canada

This possible outcome can be seen in the quickly changing composition of China's exports (see Figure C2). China is evolving from an exporter of low cost, labour intensive, manufacturing to more high-tech, capital intensive sectors. A recent paper by Dani Rodrik (2006) identifies China as having a much more sophisticated basket of exports than would be normally expected for a country of its income level.[7]

As China's exports continue to become more sophisticated, Canada will feel increased pressure from China's growing export competitiveness. If Canada does not adjust to the competitive reality of China, we will not be making the most of the opportunity of being next door to the largest market in the world.

[7] Rodrik, Dani (2006), What's so special about China's exports? NBER Working Paper Series, working paper 11947.