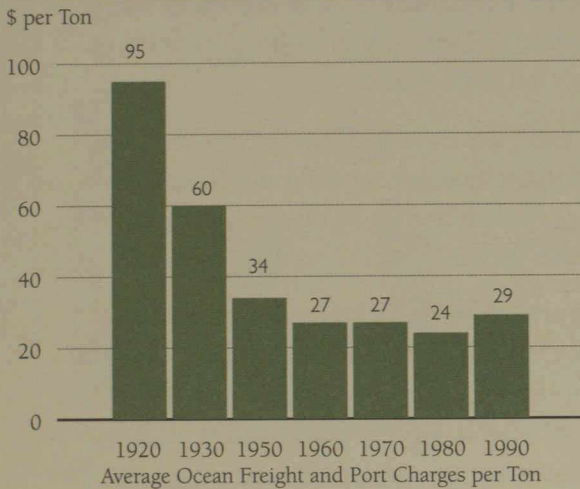
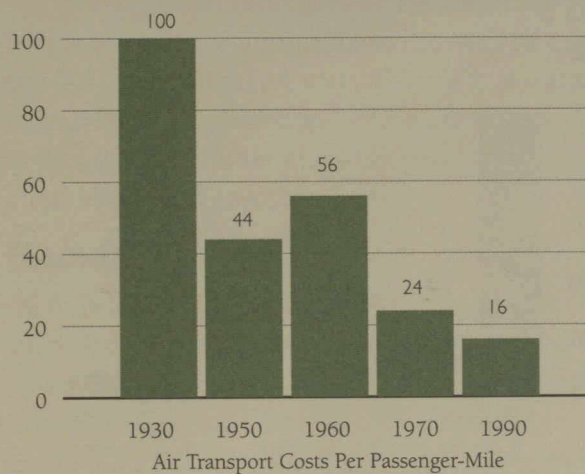


## Sea Freight Costs



Source: IMF (1997)

## Air Transport Cost



Source: IMF (1997) in Acocella (2005).

make the goods and services that are produced in Canada. This is down from 10.3% in 1963.<sup>13</sup> For goods, the size and weight of the product relative to its price impacts on the cost of transporting it and thus how far away from the customer it makes economic sense to produce the good. Small and light weight products can travel greater distances for the same cost of transportation than bulkier and heavier products. The electronics industry, for example, is one of the most globalized industries, in part, for this reason. But also important is the cost of transportation in terms of time. It costs money to stockpile and store products. Many products are also perishable, such as food which can spoil, but also electronic goods which are quickly overtaken by technological advances or clothing that is subject to rapidly changing fashion trends.<sup>14</sup>

Reduced costs of transportation is also important for the movement of people for the delivery of services, the management of distant business units, the meeting of R&D collaborators and the monitoring of suppliers or scouting for investments. When it comes to

the movement of people, the over-all cost is important which includes the actual cost of the ticket, the time spent traveling, both in the air and on the ground, and the availability to travel when the need arises (the frequency of flights, for example).

Containerization is the most often cited advancement in international transportation of goods, but the evidence that this has led to a sustained reduction in the real cost of transportation is mixed. Direct measures of the cost of ocean transport show a rapid decline up to the 1960s but little movement, possibly even a slight increase, since then. The fact remains, however, that containerization has become the dominant form of marine trade and there must be a reason for this. As recently as 1980 containerized shipping accounted for only 21% of all marine shipping, but by 2000, this had increased to 70%.<sup>15</sup> The answer appears not to be direct cost savings, but savings in terms of time of both the journey itself and the loading-unloading process. It is estimated that the average trip time of the ocean leg of an international journey has decreased by about half

13 Author's calculations based on Canadian input-output tables at the S-level of aggregation and exclude taxes, subsidies and labour input from the value of total inputs.

14 For more on time as a trade barrier see Hummels (2001)

15 Rodrigue, J-P et al. (2006) *The Geography of Transport Systems*, Hofstra University, Department of Economics & Geography, <http://people.hofstra.edu/geotrans>.