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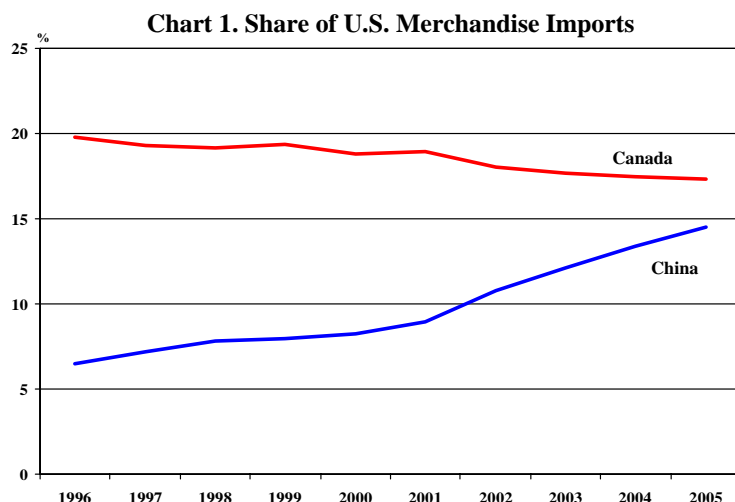
Executive Summary

Canada's share of U.S. merchandise imports experienced a steady decline over the past decade, while China's share of U.S. merchandise imports increased rapidly. However, this does not necessarily imply that China's gain in share was at the expense of U.S. imports from Canada. This paper decomposes Canada's drop in share of U.S. imports into sectors, and reveals that the sectors which contributed the most to Canada's loss in share were not sectors in which China made significant gains. In fact, more than half of the loss in Canada's share came from the motor vehicles and ores and metals sectors alone, sectors in which China is currently of little competition to Canada. This paper does not attempt to answer why Canada has lost share of U.S. merchandise imports, but eliminates competition from China as being the main contributor to Canada's decline in share.

Competition from China is not largely responsible for Canada's decline in share of U.S. imports

1. Introduction

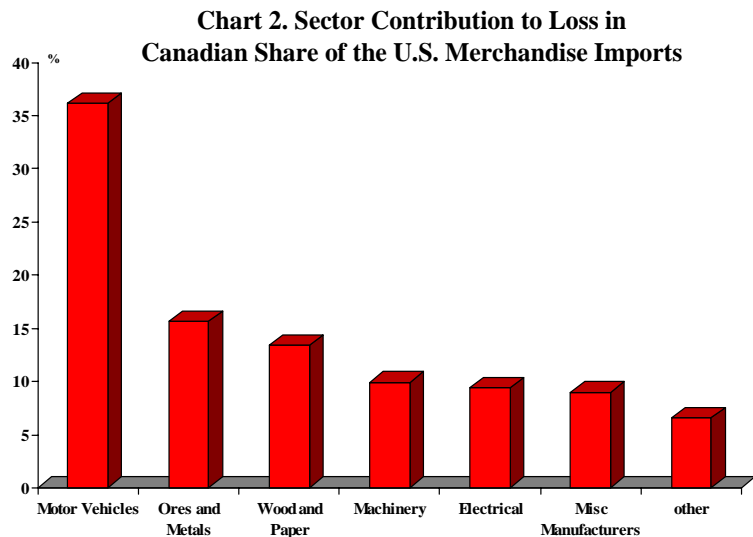
In 1996, Canada's share of U.S. merchandise imports reached a high of 19.8%; it has been falling steadily ever since, reaching 17.4% in 2005. Over this period China has seen its share of U.S. merchandise imports rise from 6.5% in 1996 to 14.5% in 2005 (see chart 1). Based on these simple trends, one might be tempted to conclude that China's gain in share has come at the expense of U.S. imports from Canada; however, a closer look reveals that this is not in fact the case.



Source: World Trade Atlas, U.S. Dept. of Commerce, Bureau of Census



By sector, the largest contributors to the decline in Canada's share of U.S. imports were motor vehicles, followed by ores and metals, wood and paper, machinery, electrical machinery and miscellaneous manufactures (see chart 2)¹. In all of these sectors, U.S. imports from Canada increased in dollar terms, but Canada's share decreased since total U.S. imports grew faster than imports from Canada.



Data: World Trade Atlas, U.S. Dept. of Commerce, Bureau of Census

2. Motor Vehicles

Of the 2.4 percentage point drop in share of total U.S. imports, 0.9 points (or 36%) was due to Canada's loss of market share in motor vehicles. Although Canada's exports in the motor vehicle sector² grew from \$56.5 billion in 1996 to \$74.5 billion in 2005, total U.S. imports in this sector grew faster, reducing Canada's share from 39.2% in 1996 to 30.8% in 2005, a decline of 8.4 percentage points.

While Canada's share has decreased, Korea and Germany have seen large increases in their share. Korea's share increased from 1.9% in 1996 to 5.1% in 2005, Germany's share increased from 8.4% to 12.2% over the same period. In both cases the majority of the increase came from passenger vehicles, although both countries have also seen increases in auto parts and other vehicles (trucks, tractors, etc). China's share of the U.S. motor vehicle market is still minor, but has been increasing, going from 0.5% in 1996 to 2.1% in 2005. Thus, China accounted for a relatively small share among those countries that gained share.

It should be noted that throughout this analysis we will conduct an examination of those countries that have gained share over the period in which Canada has lost share. This does not necessarily suggest that these countries gained at Canada's expense. The purpose is to simply illustrate that Canada's lost share is not, for the most part, a result of competition from China.

¹ For methodology on the calculation of sector contribution to loss in share of U.S. imports see annex 1.

² Motor vehicle sector includes all items in HS 87.

3. Ores and Metals

After motor vehicles the next largest contributor to Canada's loss in U.S. market share came from the ores and metals sector. Ores and metals accounted for 15.6% of Canada's overall loss (0.4 percentage points of the overall 2.4 point loss). This sector includes a wide range of natural and mineral resources³, but a closer look at Canada's loss in this sector reveals that the majority of the loss (79.5 %) comes from only four main commodity areas; precious stones and metals (HS 71), aluminum (HS 76), iron and steel products (HS 73) and copper (HS 74).

Canada experienced a decline in share of U.S. imports of precious stones and metals from 12.3% in 1996 to 6.1% in 2005. A portion of this decline was a result of Canada being only a small player in two particularly fast growing sub-sectors, diamonds (HS 7102) and jewellery (HS 7113)⁴. Growth in these sub-sectors caused India, Belgium and South Africa to surpass Canada's share of U.S. imports of precious stones and metals⁵. A second sub-sector, gold, accounted for the remainder of the decline, Canada's share of U.S. gold imports decreased from 63.3% in 1996 to 34.2% in 2005, while Peru's share climbed from 2.1% to 37.0%.

Canada's share of U.S. aluminum imports decreased from 56% in 1996 to 45% in 2005. Although over this period U.S. imports of Canadian aluminum increased from \$4.9 billion to \$8.4 billion. Over the same period both Russia and China saw an increase, Russia increased its share from 9.5% to 11.6% over this period and China increased its share from 1.1% to 8.1%. About 20% of Canada's loss in ores and metals comes from the aluminum sector.

In Iron and Steel products Canada's loss has occurred while the U.S. drastically increased imports of iron and steel products from China. While Canada's share of the U.S. import market declined from 23.6% in 1996 to 18.2% in 2005, China has gained, increasing from 3.9% to 11.6% over the same period. But the industries which have contributed most to China's gain in share are not the same as the industries which contributed to Canada's loss of share. Specifically, China gained in consumer products such as kitchen and household products (HS 7321 and HS 7323) increasing its share from 8.0% in 1996 to 57.9% in 2005 in HS 7321, and 27.2% to 68.8% in HS 7323 over the same period. Canada does not have a large presence in this part of the Iron and Steel products sector.

Canada's loss of share has been mainly in industrial inputs (HS 7306, HS 7308, and HS 7320) with shares dropping from 50.8% to 31.4% in HS 7306, 70.8% to 43.3% in HS 7308 and 55.4% to 28.6% in HS 7320. In these industries China has gained market share along with many other countries such as Mexico, South Korea, Germany, and India.

³ Ores and metals is defined as HS 25, 26, and 68 to 81.

⁴ Canada is an exporter of diamonds, but only a small portion goes to the U.S. (8%). Belgium and U.K are the largest destinations for Canadian diamond exports with 47% and 42% respectively.

⁵ Israel, a large diamond exporter, has retained the largest share of U.S. imports of precious stones and metals.



In copper, Canada has seen its market share eroded by an assortment of emerging markets, specifically Chile, Peru, China, Russia and Brazil who have each increased their share by about three percentage points between 1996 to 2005. Over this same period Canada's share fell from 38.4% to 26.0%.

4. Wood and Paper

The wood and paper sector⁶ accounts for 13.4% of Canada's overall loss in market share of U.S. imports. In this sector Canada's loss is split between two industries, wood and wood articles (HS 44) and paper and paper board (HS 48). In the wood and wood articles sector, Canada's loss has been in softwood lumber, likely attributable to the recently resolved trade dispute with the U.S. Canada's share of U.S. lumber imports (HS 4407) dropped from 93% to 77%. A number of smaller lumber exporters have gained, including Germany, Brazil, Chile and Sweden. In the paper and paperboard sector, Canada's loss came from an assortment of paper and paper related products. Canada's share slipped from 72.1% in 1996 to 58.8% in 2005, China was the primary country to exhibit gains, climbing from 2.3% in 1996 to 8.8% in 2005.

5. Machinery

Although comprising only one HS category (HS 84), machinery accounted for the second largest share of U.S. imports, totalling \$269 billion in 2005 behind oil (HS 27) at \$350 billion. Although Canada's share of this sector is small, falling from 10.8% in 1996 to 8.7% in 2005, it still contributed 10% of Canada's overall market share drop due to its absolute size. More than half of Canada's loss came from a decline in imports of office machines and automatic data processing machines (HS 8473), in 1996 this was Canada's largest export to the U.S. in the machinery sector, worth \$3.3 billion, as of 2005 it only accounted for \$945 million. Canada went from 4th largest supplier to the U.S. in 1996 (after Japan, Taiwan, and Singapore) to 8th in 2005. Over this period China advanced from sixth place with U.S. imports of \$1.8 billion in 1996 to 1st place with \$12.2 billion in 2005. Apart from China, Canada has also been overtaken by Malaysia, Korea, and Mexico.

The other large area for Canada's loss in U.S. machinery imports comes from computers and computer components. Canada's share of this large and growing sector dropped from 2.6% to 1.1%. As with office machines, Canada's drop corresponds to a large gain by China. U.S. imports of computers from China increased from \$1.9 billion in 1996 to \$36.1 billion in 2005, increasing China's share from 3.6% to 47.1%.

6. Electrical Machinery

Like machinery, electrical machinery (HS 85) accounts for a large share of U.S. imports, worth \$250 billion in 2005. The decline in Canada's share of electrical machinery imports were focused in two industries; telecommunication equipment (HS 8517) and television and radio transmission equipment (HS 8525). In telecommunications, Canada

⁶ Wood and paper includes HS 44 to 49.

went from being the largest supplier to the U.S. in 1996 with a share of 23.7% to 5th largest in 2005 with a share of 9.1%. In this sector, the majority (75%) of U.S. imports from Canada are in HS 851790 (parts). In this sub-sector Canada has seen its share decrease from 39.3% in 1996 to 16.0% in 2005 while Malaysia gained market share from 3.7% to 35.7% over the same period. Mexico also saw its share increase from 3.1% to 12.2% over this period, as did China, growing from 1.9% to 9.23%. Canada’s loss in television and radio equipment (8.5% to 4.4%) coincided with a large gain from China (increasing its share from 4.3% to 35.1%) but also Korea (4.7% to 17.9%) and Malaysia (2.5% to 5.8%).

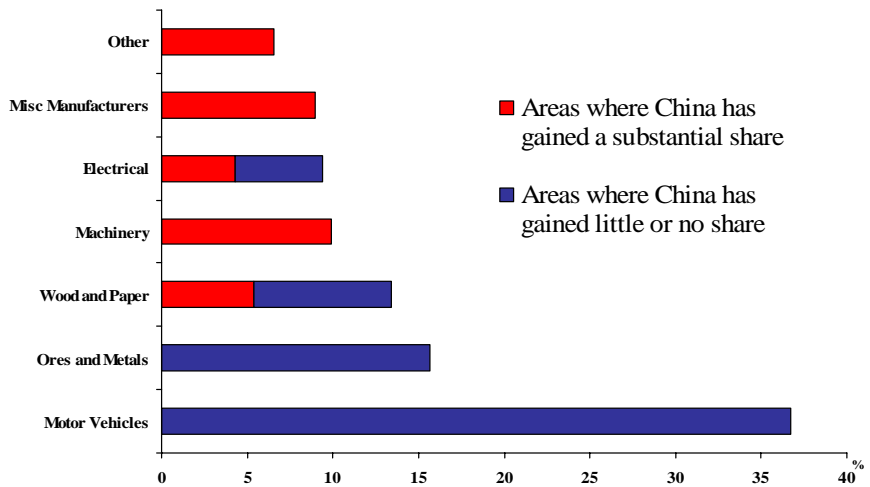
7. Miscellaneous Manufactures

The final large contribution to Canada’s overall market share loss came in miscellaneous manufactures⁷. This sector contributed 8.9% to Canada’s overall decline in share of U.S. imports. In this sector, Canada’s fall in market share can be attributed to large drop in share of U.S. imports of furniture (HS 94). Canada’s share of U.S. furniture imports fell from 25.7% in 1996 to 15.6% in 2005. Over the same period China increased its share of U.S. furniture imports from 6.5% in 1996 to 14.54% in 2005. It should also be noted that a large portion of U.S. furniture imports from Canada are in wooden furniture, this is where Canada has been losing share and is also one of the areas China has been gaining share.

8. Conclusion

Two thirds of Canada’s loss in market share of U.S. merchandise imports occurred in sectors or sub-sectors where there has been no substantial increase from China. Motor vehicles and ores and metals alone account for 53% of the loss in Canada’s market share and these losses have little if anything to do with competition from China. Only one third of Canada’s loss is in areas where China has gained substantial market share⁸.

Chart 3. Loss in Share of U.S. Merchandise Imports



Data: World trade Atlas, U.S. Dept. of Commerce, Bureau of Census

⁷ Miscellaneous manufactures includes HS 82, 83 and 90 to 99.

⁸ This is most likely an over estimate since it includes the category “other” which has not been looked at, China may or may not have made gains in these sectors.

And even here, one cannot presume that competition from China is directly responsible for Canada's decline. These findings are consistent with earlier findings that Canada does not currently compete with China in most markets in the U.S.⁹

Finally, it is important to note that trade is not a zero-sum game: one country's gain does not have to come at another country's expense. As growing economies export more to wealthy markets, other countries must lose share, but it does not necessarily make them any worse off. Between 1996 and 2005, Canada's share of U.S. imports declined, as noted, from 19.8% to 17.4%. However, Canadian exports to the U.S. still grew at a compound annual rate of 5.7%. Over the same period, The EU(15) also witnessed a minor decline in share from 18.0% to 17.9%. Japan's share fell by even more; from 14.6% to 8.3%. Thus, market share alone does not give a complete indication of export performance. Export growth, sector mix, and other factors need to be taken into consideration when assessing a country's export performance.

Annex 1

The following formula was used to calculate the sector contribution to loss in Canadian share of U.S. merchandise imports:

$$C^k = \frac{(M_{2005}^k) * (\Delta S_{2005-1996}^k)}{(M_{2005}) * (\Delta S_{2005-1996})}$$

Where C^k is the contribution of sector k to the loss in Canadian share of U.S. merchandise imports. M_{2005}^k is U.S. imports of sector k in 2005. $\Delta S_{2005-1996}^k$ is the change in Canada's share of U.S. imports of sector k between 2005 and 1996. M_{2005} is total U.S. imports in 2005 and $\Delta S_{2005-1996}$ is the change in Canada's share of total U.S. imports from 1996 to 2005.

⁹ Boileau David, 2006. "China-Canada competition in the U.S. market", Office of the Chief Economist: Analytical Report. http://www.international.gc.ca/eet/pdf/analytic_report2_boileau-en.pdf

