

## Trade reality gap

The real stats show Canada is underperforming in Asia

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Published: Friday, February 15, 2008



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Canada's trade numbers, cited regularly in media and by politicians, are out of step with global

realities -- especially when it comes to trade with Asia.

The Apple iPod illustrates how the trade numbers cited by media, politicians and analysts may artificially inflate the value of imports from China. The iPod appears in trade statistics to be yet another import from China, but U.S. researchers who took one apart and looked at its components found that only a few dollars, or a mere 1%, of a \$300 iPod is produced in China. (See table.)

The iPod is but one example of how out of touch our official measures are with the reality of how businesses operate globally today. This is not a criticism of Statistics Canada, which is doing a good job at measuring traditional trade: cross-border trade in goods that go from one country to another and stop there. Rather, this is a call to rethink the relevance of the measures that form the basis of our decision-making, both here and globally.

In reality, trade takes place between multiple partners, and at different stages of an overall process. Instead of determining the best place to create an entire product or service, companies ask where is the best place in the region or world to locate specific activities, such as design, engineering, manufacturing and marketing. Increasingly, Canadian companies also trade in non-traditional ways, especially with more geographically distant partners, such as Asia. For example, Canadian insurance companies sell through branches in Asia, but do their risk analysis through computing systems in Canada. And the Internet has made it attractive to sell services, such as design and engineering, globally.

The Conference Board has estimated the amount of "missing" or overlooked trade with Asia that is not included in the outdated numbers. Our measure includes a broader range of business transactions, including the role of services, such as music downloads. The picture is different from the official one.

First, despite the almost exclusive fixation on goods trade by policymakers, statisticians and academics, Asians sold more services in Canada than Canada sold goods to Asia over the first five years of this century. Second, the numbers cited regularly on trade with Asia are way too low. By our conservative count, sales and purchases to and from Asia are at least double official exports and imports, at \$58-billion and \$156-billion, respectively, in 2005. The bad news is that, by our enhanced trade measures,

Canada's performance is far weaker than we thought. Services sales to Asia actually fell over 2000-05, during a period in which that region and the opportunities there were accelerating.

This information-reality gap is not just an academic issue. Leaders are forced to make policy and business decisions based on outdated information, which undermines the development of sound policies to promote Canadian living standards.

Governments need to devote some of the attention that has been historically focused on goods trade to services. Rather than, for example, requiring importers of woven fibres to declare in which of over 100 statistical categories their fibres fall (yes, this is an actual rule), officials might better spend their time removing barriers within Canada and elsewhere to services competition and trade.

And both government and business leaders need to move away from narrow measures of trade to a language more aligned with the acceleration of global and regional supply chains, the sale of goods and services through Canadian affiliates abroad, and the growing role of services trade. With our broader measures indicating Canada's underperformance in Asia is even worse than we thought -- and slipping -- future Canadian living standards are at stake.

--- - Danielle Goldfarb is associate director of the Conference Board of Canada's International Trade and Investment Centre. The publication Canada's Missing Trade with Asia is available at [www.conferenceboard.ca/ITIC](http://www.conferenceboard.ca/ITIC).

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The iPod by Apple is the perfect example of a globally innovated product, combining technologies through supply chains from the U.S., Japan and a number of Asian countries.

At the apex is the lead firm -- Apple Inc. of Cupertino, Calif. -- which contributes its market knowledge, intellectual property, system-integration and cost-management skills, and brand name. As lead firm, Apple creates value by transforming the innovations of others into products.

The 30GB iPod went on sale in 2005 at US\$299. The most costly input is the \$73.39 hard drive from Toshiba, based on a tear-down and estimates by the Personal Computing Industry Center at the University of California. The hard drive might have been made in the Philippines. Other companies and countries served as the base for other components and inputs.

The iPods are labelled "assembled in China" and are valued as made-in-China products in trade statistics. "The value added to the product through assembly in China is probably a few dollars at most," according to Who Captures Value in a Global Innovation Network? The Case of Apple's iPod. Even if direct Chinese labour costs were included, it would only add marginally to China's share of the value.

Source: Personal Computing Industry Center, Paul Merage School Of Business, UC Irvine.