

The Growth Potential of the 'Next-11': The Importance of Emerging Markets for Canadian Agrifood Trade.

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Alex Cairns, Graduate Researcher
& Karl Meilke, Professor

OAC

Food
Agriculture
Communities
Environment

Background

- Canada exports large amounts of agricultural and food products
 - \$39.3 billion in 2008 (4th largest)
- The U.S. is our dominant export market
 - 1990-2009 – consumed 56% of our agrifood exports
- CAPI (2011) – “Double Canadian dollar value of exports...” by 2025.
- Engel’s law – Developing countries as a source of increased import demand?

Background

- Next-11 – a group of 11 heterogeneous emerging economies, identified by Goldman-Sachs in 2005
 - 2000-2006 accounted for approx. 9% of world growth
 - Could grow at 4% annually over the next 20 years
 - By 2009, N-11 agrifood imports from Canada were ten times their 1990 value
- Main Selection Criteria:
 - Population size
 - 2009 – S. Korea (48.8 mil.) – Indonesia (231 mil.)
 - Non-BRIC

Research Question

- Do the N-11 differ from other developing nations in terms of their import demand for agrifood products?
- Can income growth in the N-11 provide rapidly growing export markets for Canadian agrifood products?



Hypotheses

- H₁: Income elasticities for the N-11 differ from other low and middle income countries
- H₂: Income elasticities for the N-11 differ from the BRICs
- H₃: Income elasticities in the N-11 will be higher for Canadian agrifood imports

Model

- Gravity model - Hallak (2008)
 - Dixit-Stiglitz preferences
 - Imported agrifood products are separable from domestic products
- Two Part Model (or subsample OLS)
 - Drops all zero trade flows
- Heckman Selection Model
 - Accounts for the presence of zero trade flow

Data

- Dependent variable – Value of annual agrifood imports between 1990-2009 (25 600 observations)
 - Trade flows from the 20 largest agrifood exporters to 67 food importers
- Explanatory Variables were obtained from the World Bank, WTO or CEPII
- Interaction terms – identify the different effect of income on each group

Table 1: Expenditure on Agrifood imports by group

Variable	Hypothesis	Heckman - ML	TPM - OLS
LnDistance	-	-1.1535***	-1.1533***
Adjacent	+	0.2758***	0.2758***
Common Language	+	0.5681***	0.5693***
Colony	+	0.3543***	0.3542***
PTA	+	0.2933*	0.2934*
Income_BRIC	+	0.8220***	0.8268***
Income_N-11	+	0.8965***	0.9073***
Income_Low-Income	+	0.7142***	0.7129***
Income_Middle-Income	+	0.7468***	0.7487***
Income_High-Income	+	0.7393***	0.7411***

Note: *, **, *** indicated rejection of the null at the 0.10, 0.05, 0.01 significant levels.

Findings

- Statistically different income effects across group
 - Wald Test
 - F Test
- All variables have the hypothesized signs
- BRIC and N-11 have higher income elasticities for agrifood imports relative to other income groups

Table 2: Expenditure on Canadian Agrifood Imports by Country Group

Variable	Hypothesis	Heckman - ML	TPM - OLS
Ln Distance	-	-1.1408***	-1.1406***
Adjacent	+	0.2956***	0.2957***
Common Language	+	0.59***	0.5911***
Colony	+	0.3713***	0.3712***
PTA	+	0.3195**	0.3196**
Income_Can-BRIC	+	0.5341***	0.5373***
Income_Can-N11	+	0.6109***	0.6198***
Income_Can-LI	+	0.4549***	0.4528***
Income_Can-MI	+	0.4917***	0.4926***
Income_Can-HI	+	0.4134***	0.4142***
Income_ROW-BRIC	+	0.8388***	0.8433***
Income_ROW-N11	+	0.9147***	0.9247***
Income_ROW-LI	+	0.7258***	0.7246***
Income_ROW-MI	+	0.761***	0.7628***
Income_ROW-HI	+	0.7572***	0.7589***

Note: *, **, *** represents rejection of the null at the 0.10, 0.05, and 0.01 level

Findings

- The N-11 appear to have more elastic demand than the BRICs
 - BRIC's have a higher avg. per capita income (\$9,920) compared to the N-11 (\$2,910)
- ...Demand for Can agrifood exports is more inelastic (for all groups)
 - Composition of our exports
 - Primary goods vs. Value-added

Conclusions

- As a group the N-11 income influences food imports more than BRICs, LI, MI & HI countries
- N-11 spend less on CAN imports as income grew relative to the ROW
- Extend research to:
 - distinguish between N-11 members
 - examine the effect of PTAs

