Column 8: Direct GDP Effect/Exports

The direct GDP effect as a share of each industry's exports is value-added by that industry as a share of total export value. Included in GDP are wages, salaries and supplementary labour income, net income of unincorporated business, and "other surplus". This is GDP at factor cost. To reach GDP at market prices, one must add commodity and other indirect taxes and import duties, and subtract subsidies.[13]

The direct GDP effect/exports ratio is less than one since the GDP figures are at factor cost while exports are at market prices.[14] In addition, a particular industry's exports might contain value-added from a number of other domestic industries engaged in earlier stages of production. The direct GDP effect/exports ratio only measures the value-added of the last industry in the chain of domestic production.

The direct GDP/export ratio is not a measure of total Canadian content. A ratio of 60% for a particular industry implies that 40% of the value of its exports include the supply of intermediate inputs, both domestic and imported, and indirect taxes less subsidies. Thus, even though the domestic inputs supplied to an industry will nearly always contain some imports, the total Canadian content of a particular industry's exports (i.e., the total Canadian value-added by all Canadian industries involved in the production process) is probably somewhat higher (and, in some industries, considerably higher) than the direct GDP/export ratio indicates.

Direct GDP is used rather than total GDP because direct GDP measures production for export, not for intermediate inputs. A total GDP/export ratio would be misleading since total GDP encompasses all production, including that of intermediate inputs. To associate an industry's indirect GDP with its own exports is incorrect. The construction industry, for example, has a high total GDP but no exports.

In terms of maximizing the positive domestic economic impact of exports, one could argue that export initiatives should be directed exclusively towards industries with a high ratio of direct GDP effect to exports. That way, without knowing whether

[13] The difference between GDP at factor cost and GDP at market prices is not insignificant. In 1990 (the year for which we ran the model), GDP at factor cost (in millions) was $592,805, while GDP at market prices was $669,467. GDP at factor cost was only 88.5% of GDP at market prices. See Statistics Canada, *National Income and Expenditure Accounts*, No. 13-001, First Quarter 1994, Table 1, p.3.

[14] See footnote 6 for details on the relationship between exports and direct GDP effects.