The remainder of this Paper is organized as follows. Section 2 reviews the importance of trade to the Canadian economy and, by accounting for the import content of exports, calculates a new domestic value-added figure for exports as a share of GDP. In Section 3, some of the shortcomings of available export data are noted. Next, Section 4 provides details on the Statistics Canada National Input-Output model and its application in this Paper. The limitations of the model are clearly stated, as is the model's treatment of exports from service industries. In Section 5, the I-O model output tables that are generated in this Paper are explained and relationships between certain variables are explored intuitively and statistically. Section 6 uses the I-O tables to develop a number of criteria that can assist in identifying particular industries from which the domestic gains from trade are highest. Some of these are service industries that benefit considerably from, and facilitate, merchandise exports. The employment effects of exports are explored in some detail. Since the model was run for a number of different export destinations, Section 7 provides some regional comparisons. Finally, Section 8 lists conclusions and trade policy implications that are drawn from the analysis.

2. The Importance of Trade to the Canadian Economy

Being a small open economy, international trade is often held up as an important contributing factor to Canada's economic well-being. A simple international comparison reveals that merchandise exports are indeed a significant share of our GDP, but not extraordinarily so. Although Canada's merchandise exports are nearly four times higher than the U.S. share relative to GDP, European shares are closer to our own.

Although Table 2.1 is of interest in its comparison of the relative importance of exports in national income, it also raises a number of questions. Since the export share of GDP will be higher for economies that are more internationally integrated, it could inadvertently overstate the importance of trade to those economies in terms of the weight of exports in national income. An example illustrates the point. Consider France and the U.K., each with exports of about one-fifth of GDP. If French industries are quite integrated with those of France's international trading partners, then imported inputs could account for a significant share of some French exports. If, on the other hand, U.K. industries are not internationally integrated, then U.K. exports are likely to contain fewer imported inputs that are domestically transformed and re-exported by U.K. firms. In this case, the 19% of GDP that is accounted for by U.K.