

Executive Summary

Trade development centres on the identification of domestic industries that will provide domestic economic gains from trade and the identification of expanding, or potentially expanding, export markets. This Paper uses the 1990 version of the Statistics Canada National Input-Output (I-O) model to analyze Canadian exports by industry so as to assist in identifying the industries that are "best suited" to export. The industries considered best suited to export are those that provide the maximum domestic gains from trade through increased GDP, increased employment at relatively high average wages and increased economic activity in a number of domestic intermediate input industries in a chain reaction effect on production.

For Canada, international trade represents a significant share of national income, and is often held up as an important source of economic growth and well-being. Trade data suggest that merchandise exports represent about 26% of Canadian GDP, higher than any other G-7 country. The I-O model is able to identify the share of imported intermediate inputs used in the production of Canadian exports. By extracting that import share, which represents about 16% of the value of exports, one can determine the Canadian content -- or Canadian value-added -- of exports. When imported inputs are removed, the Canadian content of merchandise exports represents about 22% of GDP.

A similar exercise can determine the Canadian value-added of exports to particular markets. By extracting the import content of intermediate inputs used in the production of Canadian exports and extracting the Canadian content of intermediate inputs used by other countries in the production of their exports to Canada, a type of "Canadian value-added balance" can be calculated. Following this approach, this Paper estimates that Canada's 1993 trade surplus of \$19.7 billion with the U.S. can be transformed into a value-added deficit of approximately \$4 billion. The Canadian export sector relies much more on imported intermediate inputs than that of the U.S., indicating that trade statistics can be misleading in terms of the contribution of trade to the domestic economy.

In terms of employment, the I-O reveals that in 1990, 1,708,580 Canadian workers were engaged either directly or indirectly in the production of exports. In other words, in 1990 \$1 billion worth of exports supported 11,658 total jobs in Canada. Nearly 10% of all export related jobs are in the Transportation Equipment Industries, which include aircraft industries and motor vehicles and parts industries.

In analyzing the I-O model's industry results in some detail, and keeping in mind the fundamental economic objectives of international trade (being higher national