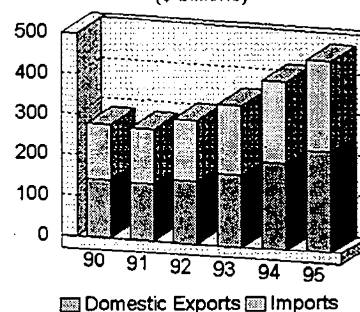
As part of the trade balance, both exports and imports contribute to the calculation of Canada's gross domestic product (GDP). It is often (mistakenly) assumed that exports are "good" and imports are "bad" because exports add to GDP and imports are entered as a negative in the calculation of GDP.[10] Just as increased exports reflect increased foreign income (foreign demand) so do increased imports reflect increased domestic income (domestic demand). Imports must be either consumed, invested, or embodied in exports. If consumed, they contribute positively to the domestic standard of living by making more and cheaper products available to consumers. If embodied in investment, imports contribute to capital formation and long-term growth. If imports are embodied in products that are then exported, it is unlikely that these exports would have occurred without the imported inputs. In an economy such as Canada's, it would be highly costly to promote autarky in productive inputs. In addition, large flows of both imports and exports within the same industry reflect international integration in that industry, integration which is necessary for Canada's small, open economy. In this context, it is important to note that both exports and imports have been growing in tandem over the 1990s and that the commodity categories which dominate domestic exports also dominate imports (Table 1).

With high rates of growth in both domestic exports and imports in the 1990s, it follows that total merchandise trade has also increased dramatically over this time period (Fig. 3). Here, total merchandise trade is calculated by adding together domestic exports and imports, measured on a customs basis. Total merchandise trade has grown at an average annual rate of 10

Fig. 3
Total Canadian Merchandise Trade
($ billions)



Source: Statistics Canada

[10]In reality, both merchandise and non-merchandise trade are used to calculate GDP. GDP is calculated, on an expenditure basis, using the following identity:

$$GDP = C + I + G + (X - M)$$

where:

C = Personal expenditure on consumer goods and services
I = Business Investment
G = Government current and investment expenditures
X = Exports of goods and services
M = Imports of goods and services