

INTRODUCTION

The following pages contain a detailed compilation of Canadian and American economic and industrial statistics. This data was organized by Data Resources of Canada (DRI) for the Department of External Affairs with the intention of revealing the cost-competitiveness between the two countries for major industry groupings. The selection of industries and related data was predicated on the overall objective of having the report serve as one input into the Canadian government's current review of Canada-U.S. trade policy. In particular, if this policy review encompasses plans for reduced trade barriers, there will be a critical need to distinguish which sectors will be more severely impacted by increased competition. These contemplated policy issues helped to reduce the choice of industries under evaluation to goods-producing sectors.

Before work began on the project, it was agreed that no interpretation, analysis of causality or behavioural hypotheses testing would be included in the report. The emphasis is, rather, on a graphical/numerical comparison of cost measures. As such, most of the work concentrated on building the underlying data base and checking the comparability of different concepts and sources of information.

Section II of the report, "Methodology — A General Overview", provides an outline of the approach taken to create comparable cost data for the two countries. The subsequent "Industry Analysis" section presents comparisons of material and labour costs, indirect taxes, and capital-related measures for each industry in question. Numerical detail and documentation and an in-depth review of data sources and methodology is contained in the appendices.

Throughout the report, the reader should bear in mind that many difficult trade-offs and approximations are involved when making both international and inter-industry cost comparisons. Perhaps first among these is the aggregation problem that not only affects this report, but will also affect the whole process of building a new national trade policy. There is also the issue of data definitions and comparability between countries. For these and other reasons, the interpretation of the numbers must necessarily be partial and limited. The following discussion of methodology is intended to review these matters carefully, but as briefly as possible so as to