

studies released by DFAIT⁹ have shown that Canada stands to gain by eliminating tariffs and increasing trade liberalization.

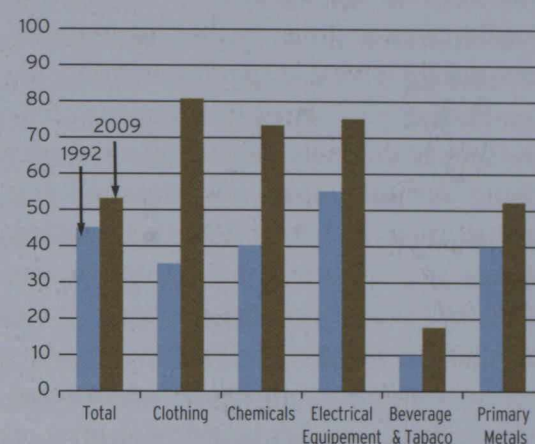
A discussion of the positive impacts of specialization must also take into account the effects of technology on specialization. Indeed, countries specializing in the export of goods with higher technological contents experience elevated growth rates. By exporting products with higher technological intensity, countries have typically experienced higher growth rates (Lee 2011). Industries defined as having high technological content include aircraft, pharmaceuticals, and electronics. In this regard, Canada, with its highly educated workforce, is well positioned for higher growth, provided it focuses on producing innovative, technology-intensive exports.

Trade and domestic competition in Canada

An often overlooked aspect of open trade is the added competition imports create in the domestic market. If not for imports, domestic producers would have a higher degree of market power. This lack of competition could allow them to set higher prices, give them less incentive to innovate, and result in lower quality goods and services being supplied to the market place. Imports thus become an important source of added competition, requiring domestic firms to compete with companies from around the world. Foreign exporting companies are usually world-class producers, offering leading-edge, high-quality, or innovative goods and services, while others offer lower-cost goods from countries with more abundant labour. The very presence of foreign competitors compels domestic firms to seek out efficiencies and cost savings and to offer higher-quality goods at the same

FIGURE 1

Imports as a Share of the Total Canadian Domestic Market* for Selected Manufacturing Industries



* Domestic market = domestic shipments + total imports - domestic exports
Source: Office of the Chief Economist, DFAIT
Data: Statistics Canada

or lower prices. This, in turn, makes domestic firms leaner, more efficient, and more competitive, thus benefiting consumers. Although additional competition may force some domestic firms to exit the marketplace, this is more than offset from the productivity growth as more efficient producers take over, and the resulting gains are passed on to consumers.

In reality, Canadian firms do face increasing competition from imports. As a percentage of the total domestic manufacturing market, imports have risen from 45 percent in 1992 to 53 percent in 2009 (latest data available). In some manufacturing sectors, such as clothing, chemicals and electrical equipment, this trend has been even more pronounced, while in others, such as beverages and tobacco, import penetration is less striking. Research indicates that the increased influence of imports has raised the competitiveness of Canadian manufacturers.

9 In alphabetical order, the joint studies were conducted with China, the European Union, India, and Japan.