

productivity gain of 0.6 percent per year within the manufacturing sector and 3.2 percent per year for those sectors most affected (Those that experienced a drop in average tariff rates of more the 8 percentage points) for the years examined. It is these gains that improve the standard of living of Canadians and allow for Canadian-based businesses to compete successfully in the global marketplace.

Through his analysis, Harris also identifies areas for further work. One such area is the impact of trade agreements on the access to increased variety of products. Trade theory predicts that, through the creation of a larger market and with greater competition, the number of varieties of goods and services available to consumers increases. This greater variety of products allows producers to meet individual tastes and thus improve the standard of living for those involved. Difficulties in measuring product varieties, however, have led to few quantitative estimates of the impact of free trade agreements on the variety of goods available. In chapter 2, using data on trademarks, Chen finds that not only did the Canada-U.S. FTA increase the variety of products available to Canadians by 60 percent per year, but also because of the size difference and a positive relation between the size of a market and the number of varieties available in that market, Canada benefited more in terms of number of new products available as a result of trade, gaining access to three times as many new varieties as did the U.S. This finding has important implications for smaller countries entering into trade agreements with larger partners.

In his analysis, Chen argues that scale effects from the Canada-U.S. FTA have been surprisingly small. As a result, much of the gains from trade, in his opinion, have come from the increase in the variety of products traded. In chapter 3, Acharya evaluates the various theoretical motivators for trade, including scale effects, in the context of the NAFTA. According to his findings, for most industries, a number of factors play a role in determining the composition of trade. He finds that economies of scale play the most important role in industries that require significant capital expenditures and also involve product differentiation, and are therefore limited to only a few industries such as the Aerospace and Automotive industries. Relative abundance of either capital or labour (as per the Heckscher-Ohlin theory) and technological advantage (as per Ricardian theory), on the other hand, were important for most industries to some degree. These results are useful for policy-makers evaluating the potential benefits and adjustment costs of trade liberalization

Gu and Rennison examine, in the subsequent chapter, the impact of trade on skills and wages within Canada. The authors find that, somewhat surprisingly, despite Canada having one of the highest rates of post-secondary educational attainment among the OECD, this does not appear to be a source of comparative advantage for Canada as one might expect. Canada's skill content of exports was not substantially different from that of imports and only somewhat higher than the business sector average. Further, they find that there has not been a significant change over time. The authors provide a number of possible explanations for this result including that our primary trading partner, the U.S., has an even higher skills profile, particularly in university education.

Capital intensity, on the other hand, does appear to be a source of comparative advantage for Canada, with the capital intensity of exports exceeding