

As firms narrow production lines, concentrate on differentiated products, extend production-run lengths and face new entrants in their markets, they are induced to compete in prices as well. Evidence suggests that trade liberalization also brought about reduced mark-ups over costs—to the benefit of consumers.

Liberalized trade is also expected to have an impact on productivity levels. Between 1984 and 1996, following the CUS-FTA, Canadian manufacturing productivity rose by an estimated 13.8 percent. The expansion of exports and realignment from less-efficient to more-efficient producers following that agreement accounted for about 60 percent of the overall increase in productivity, or 8.4 percentage points. Better access to intermediate products combined with increased productivity from new and existing exporters contributed the remaining 5.4 percentage points in improvement of productivity.

Empirical evidence strongly supports the observation that firms that export pay higher wages. Higher wages (wage premiums) are induced by increased productivity, and Canadian exporters are indeed productive, paying wage premiums compared to non-exporters.

Overall, an open trade policy leads to higher wages for employees, lower prices and greater variety for consumers, and greater productivity in business operations through less costly inputs and more efficient and longer production runs. The increased level of competition also creates an environment in which firms are facing incentives to innovate and control costs—to the benefit of all Canadians.

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