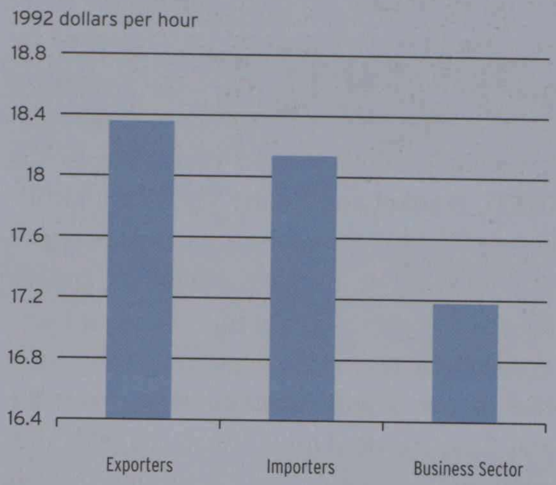
FIGURE 3

Real Wage Rates*



*1997
Data: Gu and Rennison

and Jensen (1999) estimated that U.S. exporters pay, on average, wages that were 9.3 percent higher than those paid by non-exporters. Similarly, a 25-percent export wage premium was found by Arnold and Hussinger (2005) for German manufacturers. However, other factors, such as manufacturing plant size, capital intensity, degree of foreign-control, and multi-unit firm status, as well as certain individual worker characteristics, are also factors positively associated with higher wages. A recent paper by Breau and Brown (2011) performed plant-level regressions controlling for such factors. Canadian exporters paid wages that were, on average, about 14 percent higher than those paid by non-exporters; however, this wage premium fell to slightly over 6 percent, once plant characteristics were taken into account and was further reduced to slightly under 6 percent once controls for indivual worker characteristics were included.

Conclusions

International trade is driven by the search for goods and services produced at relatively lower prices than the opportunity cost to produce them domestically. As trade is liberalized, competition for markets heats up. Except for those firms (and their employees) that are the least productive, the increased competition is beneficial. Competition from imports prevents firms that hold power in domestic markets from over-charging, or under-producing, for the market. More importantly, competition from imports causes domestic firms to realign their resources, to drop less-profitable lines of production, and to specialize in one variety (or on a "differentiated" product) for which the firm has a comparative advantage. The outcome is an international division of labour and increased economic welfare.

This was the case following the CUSFTA and NAFTA. Economic evidence suggests that increased competition from imports induced a number of smaller and less-efficient firms to close and allowed more efficient firms to expand. At the plant level, Canadian plant sizes increased and production runs lengthened due to gains accruing from greater exports to the United States.

Moreover, following both agreements, Canadian consumers were introduced to a greater variety of products than before. One estimate found that the agreements increased the annual variety of products available to Canadians by 60 percent, which was about three times as great as the new varieties introduced into the United States from Canada. A separate study found that roughly 10 percent of the increase in U.S. exports to Canada represented trade in new goods.