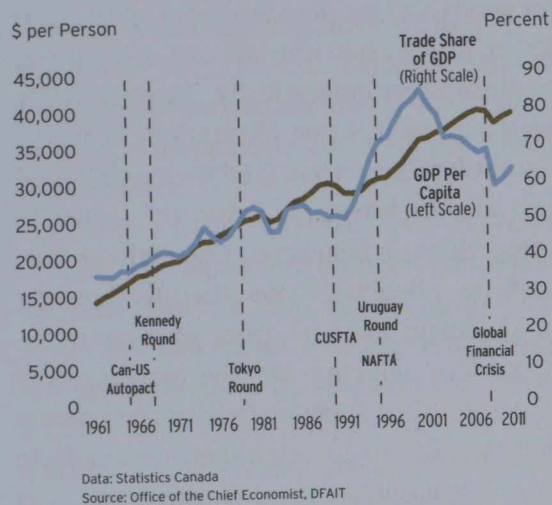


FIGURE 2
Trade and Standards of Living in Canada



Through higher wages, trade puts more money in the pockets of Canadians to spend on necessities like food, shelter, and government services like education and healthcare or on discretionary items like flat-screen TVs and the occasional vacation. Because trade encourages companies and workers to specialize in what they do best, to innovate, and to grow large by serving global markets, the productivity of firms improves, which in turn drives up wages for workers and increases Canada's prosperity. The end result is increased standards of living.

It is hardly coincidental that the Canadian standard of living and Canada's openness to international trade (both exports and imports) are closely linked. Each incremental opening to international trade has been linked to further improvements in the Canadian standards of living (see Figure 2). This relationship between trade and improved standards of living has been formally tested in a large project on understanding economic growth undertaken by the OECD. Using the

data from 21 advanced countries over nearly 30 years, the OECD reported that, controlling for other factors, every 10-percentage point increase in trade exposure (as measured by trade share of GDP) contributes a 4-percent increase in GDP per capita. Employing a different methodology than that used in the OECD, Frankel and Romer (1999) found further evidence supporting the link between international trade and economic growth for developing countries in particular. Here, a 1-percent rise in trade share produced a rise in per capita incomes of between 0.8 and 2.0-percent. This finding suggests that openness to trade is a key factor in economic development.

Trade and wages

Trade has a significant impact on workers through its effect on wages. While some firms may shrink or exit when faced with the additional competition that trade brings, others will meet the challenge. Research shows that the latter will be the most productive firms. In addition, as these firms grow and expand abroad they will become even more productive and innovative, allowing them to pay higher wages while also increasing their employment. This was the case in Canada following the implementation of both the Canada-U.S. Free Trade Agreement and NAFTA. Gu and Rennison (2006), for example, find a significant and growing wage premium in traded sectors (both exports and imports) compared to the economy overall once the public sector is removed from consideration.

Because exporting firms are more productive, they are thought to pay their employees higher wages. Indeed, Bernard

14 Ross Perot, the independent U.S. presidential candidate in 1992, coined the term.