

TABLE 1:
The Effect of the CUSFTA on Canadian Manufacturing Productivity

Allocative efficiency gains (between firms)	
Growth of most productive exporters	4.1
Contraction and exit of least productive exporters	4.3
Productive efficiency gains (within firms)	
New exporters invest in raising productivity	3.5
Existing exporters invest in raising productivity	1.4
Improved access to U.S. intermediate inputs	0.5
Total	13.8

Sources: Trefler (2004) and Lileeva and Trefler (2010)

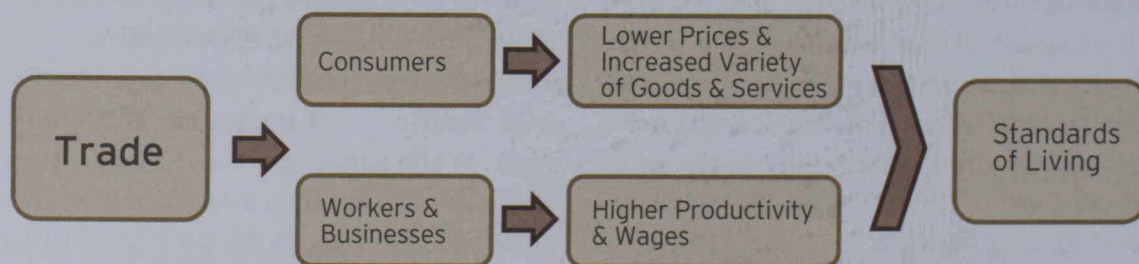
For evidence on within-firm productivity gains, Lileeva and Trefler (2010) divided 5,000 firms that had not exported prior to the CUSFTA into two groups: those that started exporting in the CUSFTA implementation period and those that did not. The study found that the CUSFTA raised the productivity of new exporters by 15.3 percent, and furthermore that these new exporters accounted for 23 percent of Canadian manufacturing output, and were therefore responsible for raising Canada’s overall manufacturing productivity by 3.5 percent (i.e. 15.3 percent multiplied by 0.23). In addition to these new

exporters, existing exporters, or firms that had already been exporting to the United States prior to the CUSFTA, also responded to improved market access by increasing their exports: this contributed to an overall 1.4-percent productivity growth for Canadian manufacturing. Finally, productivity gains came from increased imports of intermediate inputs imported from the United States under the CUSFTA, which contributed an additional 0.5-percent increase in total productivity to Canada’s manufacturing industry.

The gain from the CUSFTA on overall Canadian manufacturing productivity is therefore 13.8 percent—the sum of the allocative gains (between firms) and the productive gains (within firms)—a remarkable trade-related achievement (See Table 1).

Trade and prosperity in Canada

Trade and prosperity go hand-in-hand. Trade allows consumers to buy products and services to which they would not otherwise have access. It is as a result of international trade that Canadians are able to eat fresh fruit and vegetables in the winter, have access to coffee and chocolate, and to the choice of more than 300 models of cars¹² and 197 models of cell phone¹³. Because of trade, almost everything that Canadians consume daily is cheaper than it otherwise would be, stretching Canadian incomes even further.



12 *Consumer Reports* magazine estimates that 34 brands and 305 models of automobile are available in Canada.

13 Office of the Chief Economist, DFAIT.