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NEWS RELEASE

Doing business abroad enhances productivity at home

Montreal – New research in two studies from the IRPP finds evidence of a strong link between increased trade and better economic performance in Canada, and demonstrates that trade-enhancing policies have improved the productivity of Canada's manufacturing sector. Using theoretical and practical approaches, these findings apply broadly to exporting and importing, and to international and interprovincial trade.

Productivity experts [John Baldwin and Beiling Yan](#) (Statistics Canada) find that exporters make an oversized contribution to economic activity in Canada — for example, over 1974 to 2010 their productivity was on average 13 percent higher than that of nonexporters. And between 2000 and 2007, a surprising two-thirds of Canada's effective productivity growth came from imports of intermediate goods, largely those produced in the United States.

"While the productivity benefits that come from accessing new markets are impressive they don't happen automatically," they note. "Businesses that succeed invest in advanced technologies, research and development and training — all activities that develop their capacity to learn from and adopt international best practices," they say.

According to Baldwin and Yan, Canadian data suggest that the most important way that trade policies have improved productivity is through industrial restructuring, which shifts production from less productive to more productive businesses.

Tariff cuts have also raised Canada's productivity. However, they find that the effects associated with exchange rate movements were larger than those attributed to tariff cuts. In fact, in the 2000-06 period — when the Canadian dollar appreciated and the Canada-US border thickened after 9/11 — the productivity benefits typically enjoyed by new Canadian exporters effectively disappeared.

In her chapter, [Beverly Lapham](#) (Queen's University) explores recent developments in trade theory. "The idea that trade can boost productivity is not new," she says, "but new research is uncovering how this plays out in practice in response to changes in policy and the overall economy." This work is also beginning to highlight the important distributional impacts of trade on firms and workers.

The advances in trade theory offer Canadian governments the chance to improve their economic performance, but this requires a new policy approach that focuses on lowering the costs for firms to participate in international markets and also facilitates imports and exports. Lapham says an essential component of this approach is the use of firm-level data to better understand the important features of the economy and guide policy-making.

In these advance releases from the volume [Redesigning Canadian Trade Policies for New Global Realities](#) (forthcoming), John Baldwin and Beiling Yan, and Beverly Lapham, provide new insights on the links between trade and productivity in Canada. The documents can be downloaded from the Institute's website (irpp.org).

Redesigning Canadian Trade Policies for New Global Realities, edited by Stephen Tapp, Ari Van Assche and Robert Wolfe, will be the sixth volume of *The Art of the State*. Thirty leading academics, government researchers, practitioners and stakeholders, from Canada and abroad, analyze how changes in global commerce, technology, and economic and geopolitical power are affecting Canada and its policy.