



*Centre for the Study of Living Standards
Centre d'étude des niveaux de vie*

The Employment Effects of Increased Import Competition from China

Press Release – Ottawa, July 13, 2017

The Centre for the Study of Living Standards today released a study done for Global Affairs Canada entitled “The Effect of Import Competition on Employment in Canada: Evidence from the China Shock.”

The Government of Canada has called for a “progressive trade agenda” for Canada, an agenda which responds to the concerns of those harmed by the liberalization of international trade and ensures that trade contributes to broad-based prosperity for all Canadians. The objective of the report is to contribute to the development of this agenda by measuring the impact on Canadian employment of a recent shock to Canada’s import supply: the rapid rise of China as a manufacturing export superpower in the 2000s.

The key findings of the report are highlighted below.

- By 2015, China had become Canada's second-largest trading partner after the United States, accounting for 12.3 per cent of Canada's total imports, up from 3.2 per cent in 2000.
- The exposure of Canadian manufacturing to import competition increased over the 1992-2015 period. The import penetration ratio (i.e. the ratio of imports to total domestic absorption) rose by 18.8 percentage points from 45.7 per cent in 1992 to 64.5 per cent in 2015. Of this 18.8 percentage-point increase in import penetration, 8.1 percentage points (or 43 per cent of the total increase) were attributable to rising imports from China.
- The direct effect of rising Chinese import competition in Canadian manufacturing was a net loss of 105 thousand manufacturing jobs over the 2001-2011 period. This amounts to 21 per cent of the actual observed decline in manufacturing employment over that period (508 thousand jobs).

- Accounting for labour reallocation and aggregate demand effects within local labour markets yields somewhat larger employment effects; the total decline in employment over the 2001-2011 period attributable to the rise of Chinese import competition is on the order of 150 to 170 thousand jobs. The China shock led to substantial employment losses in the industries most exposed to Chinese import competition (i.e. manufacturing), with these losses partly offset by employment gains in non-exposed non-tradable industries.
- A comprehensive assessment of the impact of increased trade with China requires that the cost in terms of employment be set against the benefits to Canadians from lower prices of consumer products and increased product variety, expanded export opportunities for Canadian firms, and the productivity gains associated with enhanced foreign competition.

The report concludes that a progressive trade agenda should seek to take advantage of the gains from trade while helping those who suffer economic dislocation to adjust

The report is posted at <http://www.csls.ca/reports/csls2017-03.pdf>

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The Centre for the Study of Living Standards (CSLS) is a national, independent, Ottawa-based not-for-profit research organization. Its primary objective is to contribute to a better understanding of trends and determinants of productivity, living standards, and economic well-being in Canada through research.