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Canadians Gained as well as Lost from the China Shock

Press Release - Ottawa, June 9, 2020

The Centre for the Study of Living Standards (CSLS) today released a study prepared for Global Affairs Canada entitled “*The Price Effect of Trade: Evidence from the China Shock and Canadian Consumer Prices*”.

There have been benefits as well as costs to Canadians from a surge of Chinese imports after China joined the World Trade Organisation in 2001. There is no shortage of research on the costs, which include job losses in manufacturing. This study is the first to take a detailed look at the benefits, which include lower prices for some products and lower inflation overall.

This study by Myeongwan Kim, an economist at Centre for the Study of Living Standards, focuses on the period between 2001 and 2011, a time when Chinese-made goods were occupying more and more space in the shopping baskets of Canadians.

The key findings from this study are highlighted below:

- Imports from China caused prices to drop or rise more slowly on a range of goods, most notably consumer products related to textiles, clothing, furniture and electronics. Advances in technology, some related to the import influx, played a role in depressing prices. Rising imports from China meant that the price of digital computing equipment and devices was almost five per-cent lower than it would have been in 2011 if Chinese imports had remained at their 2001 level. The price of bedding and household textiles was just over four-per-cent less and upholstered furniture cost almost four per-cent less.
- The higher the Chinese share in total imports of a given product, the larger the price decrease. On average, a one-percentage-point increase in the Chinese share in total imports of a given product

led to a 0.221-percentage-point decrease per year in its consumer price. For the total consumer price index, which includes services as well as goods, cumulative inflation would have been higher by 1.17 percentage points in 2011 had the Chinese share in total goods imports in Canada remained at the 2001 level.

- A previous study by Mr Kim indicated that the influx of Chinese goods likely led to the loss of 113,500 manufacturing jobs during this period. This study estimates that lower inflation rates over the period translate into a cumulative gain of \$546 per Canadian worker or \$76,996 (in 2002 dollars) for every job lost. The average annual wage for a manufacturing worker during the period was \$42,868 (in 2002 dollars).

The report is posted at <http://www.csls.ca/reports/csls2020-02.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 wellbeing in Canada through research.