

Empirical Project 4: The Effects of Regional Free Trade Agreements

In the past decade the U.S. has signed historic free trade agreements with Canada (1989), Mexico and Canada – North American Free Trade Agreement or NAFTA (1995) and just recently (2006) with Costa Rica, Dominican Republic, El Salvador, Guatemala, Panama, and Nicaragua – Central American Free Trade Agreement or CAFTA. Each time, there is lots of public debate and significant concern about what will happen to people's jobs and wages, and the health of the economy.

Here's an excerpt from the *Globe and Mail* newspaper in Canada (Dec. 31, 1998, p. B1) that revisited what has occurred in Canada in the 10 years since the free trade agreement with the U.S. was signed in 1989:

Ernie Smith spent 36 years of his life earning his living by -- as he puts it -- "slugging chesterfields around" at a furniture plant here. But in 1992, the 100-year-old Kroehler Furniture operation shut down, throwing Mr. Smith and more than 200 other people out of work. Kroehler, like many furniture makers in Canada in the early 1990s, was sideswiped by cheaper production from the United States and the end of the protective 15-per-cent tariff wall, which was phased out under the Canada-U.S. free-trade agreement (FTA).

The trade deal is a decade old tomorrow. But while many point to the FTA and its five-year-old successor, the North American free-trade agreement (NAFTA), for much of the job loss and restructuring of the 1990s, the Canadian economy -- including Stratford and the former furniture workers -- seems to have landed on its feet. Mr. Smith quickly found a job as a custodian for the City of Stratford -- a job that makes him happier than working the upholstery line at Kroehler. "It's the best thing that ever happened," he said from his Stratford home. "Otherwise, I'd be 62 and still slugging chesterfields." Stratford has come out ahead, too.

A committee set up to find jobs for displaced Kroehler workers quickly placed 175 of 220 of them, said Gary Goulding, himself a former Kroehler employee and now a union activist and part-time worker at an A&P supermarket. The city's auto parts and manufacturing industries have boomed over the past decade, picking up any slack left by the fading furniture industry. And like companies across Canada, many companies in Stratford have increased their exports to the United States to take advantage of new markets and expanding international networks exposed by the FTA and NAFTA.

While the jury is still out on whether a decade of free trade has been good for Canadians, one fact is clear: The past 10 years under the FTA and then NAFTA have radically changed the Canadian economy, prompting industrial restructuring and a major change in focus and strategy for most Canadian businesses. "Canadian industry across the whole range was forced to become competitive on a large scale," said Ottawa-based trade consultant Peter Clark. "They've had to become more specialized." Exports have exploded as Canadian companies rushed to take advantage of a growing, healthy U.S. market. Since NAFTA was implemented with the United States and Mexico five years ago, Canada's total trade has grown more than 80 per cent. Foreign investment, too, is on the rise. Canada's economic future is increasingly tied to that of the United States and Mexico.

The surge of Canadian exports has swept Gordon Steed's transport truck up with it. Before the FTA came into effect, the company founded by his grandfather in Stratford in 1912 was geared mainly to hauling furniture around Ontario. But now, "my little transport company is running daily to the U.S., which we never did before," he said. And most of his cargo is auto parts, not furniture. "The industry in Stratford definitely is more export-oriented, and I'm positive it's because of free trade," Mr. Steed said.

When the Canada-U.S. trade deal went into effect on Jan. 1, 1989, it was far from clear what its impact would be. The debate a decade ago reached a feverish pitch as then prime minister Brian Mulroney sought re-election in 1988. Free trade with the United States became almost the sole focus of the campaign. "The truth is that Mr. Mulroney signed a trade deal that goes way beyond the exchange of commodities between Canada and the United States. . . . It affects virtually every aspect of Canadian life," then NDP leader Ed Broadbent said in the emotional televised leaders' debate in November, 1988. "This deal must be stopped because it takes away our right to make our own decisions about our own country in our own way."

The Liberals under John Turner and Mr. Broadbent's New Democrats said the FTA would kill social programs and medicare. Canada would lose its ability to enforce environmental and cultural protections. And subsidies, equalization payments and tax breaks would become vulnerable to trade challenges. But Mr. Mulroney's Tories responded that the FTA would bring prosperity for all. Canadian voters sided with Mr. Mulroney, giving him a majority government in November, 1988, but they did not give him a majority of the popular vote. Since then, however, free trade with the United States, and then with Mexico, has gradually become acceptable in the eyes of most Canadians. Goldfarb Consultants have tracked public opinions on NAFTA since it came into effect on Jan. 1, 1994, and support for the pact climbed every year, to 67 per cent support in 1998 from 37 per cent support in 1993 when the deal was being debated in Parliament.

ASSIGNMENT: Address the following questions with data analysis, media quotes, and /or other evidence to back up your answers. As with all of these assignments, make sure to appropriately document your sources of information.

- A)** What do our trade model's say about what will happen when a country opens up to (freer) trade. Will there be job losses? Will there be job gains? Will this vary across production sectors and why? Will there be net job losses or gains? Will overall welfare (utility) be lower or higher? Relate this back to the details in the article above.
- B)** What happened to the unemployment rate, GDP, and other indicators of economic health in the U.S. after NAFTA? What happened to similar indicators in Canada and Mexico after NAFTA? (One good source for this type of information is the World Development Indicators Database listed below)
- C)** Find and discuss recent article or web-based group that is still quite negative on the effects of NAFTA. Explain how their views fit (or can be reconciled) with the article above and your answers in parts A and B, if at all.

WEBSOURCES FOR DATA AND ARTICLES:

- 1)** GDP and other economic data for most countries across many years can be obtained from the World Development Indicators site from the UO Library site under "W" of the "Articles, Databases and Indexes" link.
- 2)** Article searches can be done on "Lexis-Nexis Academic" which is available from the UO Library site (<http://libweb.uoregon.edu>) under "L" of the "Articles, Databases and Indexes" link.

RESTRICTIONS: Can have a maximum of three students handing in a joint project. Report cannot be longer than 4 pages of text (double-spaced) with an extra page allowed for charts and graphs.