
The Economic Impact of the Canada-U.S. FTA and NAFTA Agreements for Canada: A Review of the Evidence

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Introduction

Canada entered into a free trade agreement with the United States on January 1, 1989 after a lengthy debate and considerable dispute as to its ultimate effects. That agreement, the Canada-US Free Trade Agreement, was extended in 1994 to include Mexico with the North American Free Trade Agreement (NAFTA). For Canada these trade agreements represented both a substantial opening of Canadian markets to foreign competition, together with a number of provisions on services and investment which generally increased the importance of markets and international competition within the Canadian economy. One of the principal reasons that countries enter into regional free trade agreements is to secure long-term economic benefits and to provide a business environment in which investment and commerce can effectively contribute to the well-being of its citizens. While there may be exceptions to this, such as when countries enter trade agreements for humanitarian or national security reasons, in the absence of significant expected economic benefits it would be unlikely that governments would willingly give up instruments of national economic control. The history of the free trade debate is that the benefits of trade far outweigh any presumed loss of control over the national economy by forgoing protectionism.

The world is an imperfect place, however, and regional trade agreements are not perfect arrangements. In a world of complex overlapping jurisdictions, different national histories, and the realistic political constraints on governments' ability to change domestic laws and institutions, all trade agreements are a complex set of rules reflecting compromise. The NAFTA and the Canada-U.S. FTA moved all three countries some way towards free trade but, as all are aware, protectionism and departures from the general principle of national treatment are still common. Not surprisingly, therefore, these agreements are routinely criticized on a range of criteria from economic to political to social. The purpose of this paper is not to review those complaints but to step back and ask what can be said after more than 15 years (more than 10 years for the NAFTA) about the impact of these agreements on the economy and economic outcomes in Canada. Did these agreements deliver substantial economic benefits to Canadians? The impact of international trade agreements does not take hold overnight. Generally their impact is only felt after a number of years. However, after 15 years we have a fairly good idea what the impact has been. There are a large number of studies covering a range of economic outcomes on the ex post impact of the FTA and then NAFTA. While there are gaps in the research, the overall picture is clear. These agreements had a major positive economic impact on Canada.