
Editors' Overview

John M. Curtis & Aaron Sydor
Foreign Affairs and International Trade Canada

Introduction

It has been more than ten years since the implementation of the North American Free Trade Agreement (NAFTA) and fifteen years since its precursor, the Canada-U.S. Free Trade Agreement (Canada-U.S. FTA), came into force. For Canada, those two agreements were important, and hotly debated, turning points in its trade and in its economic policy more generally.

The Canada-U.S. FTA was the first major bilateral trade agreement for two countries that were founding members of the post-war multilateral system and regarded it as the cornerstone of their respective trade policies. The expansion of that agreement to include Mexico, five years later, was significant in that it was the first major free trade agreement between the "rich north" and "poor south", a highly innovative initiative at the time and still controversial in several sectors of society in each of the countries involved.

Part 1: A Look Back

A considerable amount of analysis has taken place evaluating the effects of the Canada-U.S. FTA and the NAFTA from a Canadian perspective. Harris, in the opening chapter, provides an overview of this work. In economic terms, Canada is a small open economy, therefore free trade agreements, he argues, must be primarily seen as economic agreements with the goal of improving the standard of living for Canadians. Although the popular press often engage in job counting exercises in order to evaluate the impact of a trade agreement, this is a fool's errand. As Harris points out, trade agreements, although potentially shifting the composition of production and employment and thus temporarily dislocating workers, have no impact on employment levels in the long run. Rather, trade agreements improve economic efficiency through a better allocation of resources; they contribute to increased competition; they provide access to a greater variety of goods and services; and they improve productivity through greater innovation and economies of scale.

Evaluating the Canada-U.S. FTA and NAFTA in this context, Harris provides a review of the literature. He finds that the two agreements did result in an adjustment in employment and output for the sectors most affected. While domestic macro-economic policies, including the Bank of Canada's move to a low inflation environment and the government's fiscal tightening, were primarily responsible for the protracted downturn of the early 1990s, the Canada-U.S. FTA did play a role in the downturn and provides a cautionary tale for policy coordination. The lasting impacts of the agreement, however, are of greater interest. Harris argues that the Canada-U.S. FTA and NAFTA did indeed have a significant and positive impact on the Canadian economy. The estimates of the direct impact on Canadian exports range from a low of 10 percent to a high of over 50 percent. Increasing trade, however, is not the goal of a trade agreement. Citing work by Trefler (1999) Harris shows that the Canada-U.S. FTA produced a