



POWELL CENTER FOR  
ECONOMIC LITERACY

## *Lesson Plan*

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# International Trade: Look North

## Time Required

5 days

## Grade Level and Subject

High School, Social Studies

## Keystone Principles

Principle #1 – We all make choices.

Principle #3 – All choices have consequences.

Principle #4 – Economic systems influence choices.

Principle #6 – Do what you do best, trade for the rest.

Principle #8 – Quantity and quality of available resources impact living standards.

## Voluntary National Content Standards in Economics

Standard #1 - [Scarcity](#)

Standard #5 - [Gain from Trade](#)

Standard #6 - [Specialization and Trade](#)

## Economic Concepts

**Absolute Advantage** - *The ability to produce more units of a good or service than some other producer, using the same quantity of resources.*

**Comparative Advantage** - *The ability of a country to produce a good at a lower opportunity cost than another country.*

**Economic Growth** - *An increase in a country's production so there are more goods for each person (a relationship between goods produced and population).*

**Exchange Rate** - *The number of units of one nation's currency that equals one unit of another nation's currency.*

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**Exports** – *Goods and services produced domestically which are sold to or traded with other countries.*

**Free Trade** – *The flow of goods between countries without restrictions or special taxes.*

**Imports** – *Goods and services produced in other countries which are consumed domestically by consumers, businesses or governments.*

**NAFTA** – *North American Free Trade Agreement*

**Opportunity Cost** – *The NEXT BEST alternative that must be sacrificed as a result of choosing one thing over another. ALL choices bear an opportunity cost.*

**Protectionism** – *A government's use of embargoes, tariffs, quotas, and other restrictions to protect domestic producers from foreign competition.*

**Quota** – *A limit set by the government on the quantity of a good that may be imported within a given time period.*

**Tariff** – *A tax imposed by governments on imports*

**Trade Barriers** – *Impediments to the voluntary exchange of goods and services between people. The barriers can be naturally occurring (language barriers, geographical barriers), or artificial (quotas, tariffs)*

## Overview

Early in this new century, American talk of international trade elicits immediate thoughts of emerging markets in Latin America, the economic powerhouse of the European Economic Community, and the seemingly limitless market potential of Asia. What many do not realize is that the United States' most developed and longstanding international-trade relationship is with Canada. Throughout the 20th century, Canada has been the top trading partner of the United States. The 1989 Free Trade Agreement, which later was blended into the North American Free Trade Agreement (NAFTA), further cemented this close trading relationship. So for high school students, perhaps the best starting point to study foreign trade is to look north to neighboring Canada.

A teaching unit on Canada will familiarize students with a nation close to yet not well known by most Americans. Because the Canadian-U.S. partnership is easy for students to grasp, this unit provides a good introduction for the wider topic of world trade and shows that trade does indeed increase standards of living, although not necessarily uniformly.

## Objectives

- Students examine international trade through the Canadian-U.S. trade relationship.
- Students learn the importance of the interdependent roles that culture, politics, and economics play in international trade.
- Students learn the economic implications of free trade by identifying with interest groups and businesses affected by Canadian-U.S. free trade.
- Students realize that, although countries as a whole gain from trade, some individuals within a country can be harmed. (This insight can help to explain public policies toward international trade.)
- Students learn economic concepts related to international trade with an emphasis on comparative advantage.

## Materials and Handouts

- **Introductory Lecture**—“Overview of Canada and Its Economic Policies” (appended)
- **Handout 1**--Group Assignments (appended)
- Computer with Internet access
- Student-produced visual aids: Encourage students to support their group presentations with visual aids such as overheads, presentation software, or foam boards.

## Teaching Activity

### Day 1

Using the information provided in the **Introductory Lecture** and other related trade information, give a 20 to 30 minute overview lecture on Canada, its relations with the United States, and NAFTA. Use a map to illustrate Canada's close geographical relationship with the United States. (Since 80 percent of Canadians live within 200 miles of the U.S. border, a U.S. map showing southern Canada should be adequate.)

After the lecture, divide students into four groups. Assign each group a Canadian or U.S. interest group or business that is affected by NAFTA. (See Group Assignments, **Handout 1**.) Ask students to conduct research and analyze the economic implications of free trade for their interest group, formalize arguments, and present findings to the class.

### Day 2

Student teams conduct research on the Internet or in the library. The Internet is a good source of information on Canadian-U.S. trade, as well as Canada itself. Have students use an Internet search engine to access more sites on the Web, including the official sites of Canadian provinces as well as political and advocacy groups. Here are some sites to begin student research:

- Official Canadian Government Site [www.canada.gc.ca](http://www.canada.gc.ca)
- Canadian Foreign Affairs: [www.dfait-maeci.gc.ca](http://www.dfait-maeci.gc.ca)
- Statistics Canada: <http://www.statcan.gc.ca/>
- Canadian Imperial Bank Of Commerce: [www.cibc.com](http://www.cibc.com)
- Industry Canada: [www.ic.gc.ca](http://www.ic.gc.ca)

If computers are not available, have students use the library or any supplemental material you have obtained, such as literature from a Canadian Consulate or the Canadian Embassy in Washington, D.C.

### Day 3

Students continue research and begin to prepare for their presentations. At this point, each group should have developed a position regarding the approval of free trade policies, with a list of the benefits and costs associated with free trade.

### Day 4

Each group presents its findings. The presentation should last no longer than five minutes. In addition, each team will field questions asked by representatives from other teams. Provide the

groups with a short list of questions to get students moving in the right direction. Once all the teams have presented, conduct a discussion on the pros and cons of free trade as it applies to each particular interest group.

### **Day 5**

Use this class to wrap up what was learned and to reinforce the main issues and economic concepts involved in the unit. In particular, stress that although certain individuals and groups may be harmed or helped by free trade, the overall impact of increased globalization is undeniably positive.

The primary objective is to help students think more strategically when analyzing international trade and international trade policy. By placing them in the shoes of parties directly influenced by NAFTA, they are better able to understand the individual arguments for and against increased trade liberalization. Combined with an understanding of comparative advantage, students then understand that although each group is motivated by self-interest, public policy must consider the overall positive impact of free trade on a country's standard of living. Only then will there be a more productive discussion on international economic policy on both sides of the border.

## **Introductory Lecture Overview of Canada and Its Economic Policies**

Prior to understanding trade relations, students must learn more about Canada. Whenever Americans study Canada, similarities between the two nations tend to be emphasized. Well-known Canadians, such as entertainers Jim Carrey, William Shatner, Shania Twain, news anchor Peter Jennings, and popular economist John Kenneth Gailbraith may sound American and have found success in the United States, but they come from a nation that is distinctly different. These differences are cultural, linguistic, political, and economic.

Canada and the United States are truly distinct countries and cultures. As Canadian Prime Minister Jean Chretien said about Canada and Canadians: "We are North Americans but not Americans. We are different because of history and geography, but basically we have built a different society."<sup>1</sup>

Indeed, Canada is different, and it is important for students to understand this. The bicultural, bilingual Canada we know today traces its origins to the era of the American Revolution, when British-held, French-speaking Canada became a refuge for American Loyalists (Americans who rejected independence). In many ways, one can look upon the American Revolution as the creator of two nations: the United States and Canada.

In some ways, Canada can be seen as an alternative to the United States. Whereas Americans seem wary of government, and prefer to keep it small and lacking in power, Canadians view government in a more deferential way. Government to a Canadian is essentially good, as it not only sees to the protection of individual rights but to the protection of the nation's welfare. This is best exemplified in Canada's tradition of government-managed social services, such as health care.

Unlike privatized health care in the United States, Canada has a fully subsidized health care system that is a great source of pride for its citizens. As compared to the United States, Canada's government participates more in the economy through regulations and, in some cases, direct involvement. An example of this would be the oil company Petro Canada. Petro Canada was formerly a nationalized operation, and the Canadian federal government still owns an 18 percent share of the company.<sup>2</sup>

In short, the United States relies more heavily on the free market system to allocate scarce resources. Canada's economy is mixed and marked by more actively involved and interventionist federal and provincial governments.

Canada's reliance on government intervention in its domestic economy has marked its trade relations with the United States. Except for the years 1854-1864, when reciprocal free trade existed between the two nations, Canada has been committed to protectionism and high tariffs. When Canada became an independent dominion within the British Empire in 1867, its government was fiercely protectionist. American corporations could only invest and do business in Canada as fully incorporated American branch offices, subject to Canadian laws, regulation, and taxation. This was Canada's national economic

policy from 1867 until NAFTA's adoption in 1989. A proposal for free trade with the United States early in the 20th century was soundly rejected. Despite erecting a tariff wall at the U.S. border, Canada's economy for most of the 19th and 20th century prospered without any direct competition from the economic behemoth to the south. While Canada lagged behind the United States in almost all economic categories, it still created an economically strong nation with a relatively high standard of living.

With protectionism fixed firmly in its history, it was somewhat surprising that Canada opted for free trade in the 1980s, despite an acrimonious national debate. The inception of the North American Free Trade Agreement (NAFTA) in 1989 inaugurated a major change in economic policy for Canada. In opening its trade borders to the United States, Canada brought its 30 million citizens into a North American market dominated by the United States, with 260 million people, and Mexico, with 80 million people. But the concept of comparative advantage won the day, and Canada has seen considerable growth since NAFTA's inception.

With NAFTA, Canada tied itself more closely to the U.S. economy, and the results have been impressive. In 1989, Canada's exports to the United States were 15 percent of GDP, and in 1998, they were 30 percent of GDP. Canada still ranks behind the United States in many economic categories, but from a global perspective it is doing very well and has continued to maintain a very livable and economically stable society.<sup>3</sup>

NAFTA clearly illustrates the gains to be had from free trade. It also shows that comparative advantage is more significant today than ever before.

Despite the success of NAFTA, Canada still faces many questions. First and foremost is the issue of Quebec. The possibility of the French-speaking province opting out of the Canada confederation would spell doom for the nation. Some Canadians believe that Canada has paid a price in cultural sovereignty for free trade, as evidenced by the flow of American cultural goods, such as books, magazines, and videos into the country. For decades Canadians, 80 percent of whom live within 200 miles of the U.S. border, have been saturated with American television and radio broadcast waves.<sup>4</sup>

In the economic sphere, the appearance of Wal-Marts and other "big box" American retail competitors are being felt. So free trade has been a mixed experience for Canadians despite the positive economic data.

For the economics teacher, the example of Canada works well for teaching secondary school students about the social and cultural impact that economic policy can make on a society. Furthermore, Canada is a recognizable subject for American students as its proximity allows for a basic familiarity.

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#### Footnotes

1. "Holding its Own: A Survey of Canada," *The Economist*, July 24, 1999.

2. Ibid.
3. Ibid.
4. Ibid.

## **Handout 1 Group Assignments**

### **Group 1 Canadian Mom and Pop Retail Store Owners**

Due to NAFTA, major U.S. retailers such as Wal-Mart can now operate businesses in Canada. You are a Canadian trade association representing small, independent retailers. What views would you have toward NAFTA as an advocate for small retailers? Are Wal-Mart and other American "big box" stores threatening the livelihood of your member companies? Has NAFTA been good for the businesses you represent?

### **Group 2 U.S. and Canadian Autoworkers**

You are a branch of the United Autoworkers Union (UAW) in Detroit. In part, because the Canadian dollar has depreciated by as much as 25 to 30 percent against the U.S. dollar, Ford, GM, and Chrysler are moving an increasing amount of work to their Canadian factories, where the costs are lower. How do you view increased globalization in comparison to Canadian autoworkers?

### **Group 3 The Timber Industry**

Canada is a major supplier of wood products and newsprint. After years of being shut out of Canada's protected market, southern U.S. soft pine is now flooding into Canada. What is your reaction if you are a Canadian whose livelihood depends on supplying timber?

### **Group 4 U.S. Homebuilders Association**

With the opportunity to secure building materials from Canadian suppliers, U.S. homebuilders will be able to lower their production costs and increase their profitability. What type of interest does the U.S. Homebuilders Association have in maintaining free and open trade between the United States and Canada?

### **Group 5 (optional) Quebec Separatism and NAFTA**

As the rest of Canada, Quebec has benefited from NAFTA. Since Quebec is Canada's second largest province and a major economic player in the country, what would the implications be for NAFTA if Quebec seceded from the Canadian federation? Have the economic benefits of NAFTA drowned out the emotional appeal of French Canadian nationalism?

*Students who are taking French can get an interdisciplinary look at economics by accessing French-language Internet sites. All Canadian government sites are bilingual*

