

Economic Globalization



Chapter

10

Figure 10-1

What factors may have influenced this student's thoughts and feelings about economic globalization? ▼



Chapter Focus

Take a moment to think about the term *economic globalization*. You first explored this topic in Chapter 1. In your notebook, write down your thoughts and feelings in response to the term. Don't worry about whether your ideas are "right" or "wrong"—just write down as much as you can. (You are really just brainstorming in your notebook!)

Next, compare your notes with those of a classmate. How similar are they? What factors might have influenced your notes? Are you and your classmate around the same age? Of the same gender? From the same cultural background? These are all factors that can have an impact on your initial feelings about economic globalization. Your ideas can also be affected by personal experience, family background, socio-economic status, and knowledge about the topic.

Chapter Issue

In this chapter, you will have the opportunity to examine some of the events and ideas that created the foundations of contemporary economic globalization. You will also explore freer trade and its impact on Canada. Throughout this exploration, you will consider several positions on these topics in order to respond to the Chapter Issue: ***Which economic ideas have most influenced the development of contemporary economic globalization?*** Your response will help you begin to consider the Main Issue for Part 3: ***To what extent does globalization contribute to sustainable prosperity for all people?***



SKILL PATH

Assess Change in Human and Physical Geography

Geographers are interested in questions about the physical and human features of our world—how people, places, and environments interact. Geographers also explore how economic issues affect our physical world. They view economic issues differently than historians, economists, or business people do. By following the steps in this Skill Path, you can assess the impact of economic globalization on both people and places from the perspective of a geographer. This understanding will help you respond to the Chapter Issue: ***Which economic ideas have most influenced the development of contemporary economic globalization?***

Step Identify the Location of a Place

1

You can establish the location of a place in several ways:

- by using absolute terms such as *latitude* and *longitude*
- by describing resources and physical features
- by defining the location in relative terms, in relation to other locations
- by identifying significant cultural features of the location (for example, a famous person who lived there, a significant event that took place there, a particular cultural landmark).

Consider how different people’s or groups’ descriptions of a location can represent different understandings of economic globalization.

Step Define the Place

2

Both physical and human attributes help define a place.

- What physical attributes—for example, mild climate, natural resources, beautiful vistas, or ample space—does the place have that might have drawn people to settle there or nearby?
- What human attributes—for example, settlement patterns, ethnic composition, or affluence—does the place have that might have drawn people to settle there or nearby?

Consider which physical and human attributes help to determine the relative wealth or poverty of the place. For example, access to water for transportation of people and goods was a crucial factor in early settlements.

Step Explain Human–Environmental Interaction

3

People depend on, adapt to, modify, and transform their environment.

- What changes have people made to the place?
- What have been the consequences of these changes over time?

Consider whether or not these changes have improved the economic prospects for the place.

Fast Facts

With 114 wind turbines, the McBride Lake Wind Farm, south of Fort McLeod, Alberta, generates enough energy to power 32 500 homes. Wind farms do not produce emissions and can be set up without disturbing the ecosystem. However, they use up a relatively large amount of land and are considered by some people to be unsightly and noisy.

How do wind farms illustrate the impact of economic globalization on the geography of a place?

Step Assess Infrastructure

4

Basic facilities and services are needed in a community so that its residents can function.

- What systems have been developed to provide energy, water, and sewers?
- How do people and goods move about this place, and to and from it (for example, roads, bridges, and airports)?
- What communication technologies have been put in place to spread ideas (for example, cable and wireless antennas)?
- What public institutions serve the community (for example, schools, post offices, and hospitals)?

Consider the impact of this infrastructure on the local economy.



Step

Describe the Region

5

Places that share similar physical or human attributes are identified as regions. Geographers find it useful to think in terms of regions to observe, analyze, and explain physical and human events.

- What features does a particular place have in common with other places?
- Consider the ways that different places within a region are linked economically.

Figure 10-2

Resolute Bay, Nunavut. How might the geographic reality of Nunavut make this area more or less prone to the impacts of globalization?

Step

Practise Your Skill!

6

Apply It. What is the relationship between economic globalization and geographic factors?

- 1 Divide the class into four groups to explore this issue. Each group will examine one of the following places in Canada: Iqualuit, Vancouver Island, Montréal, and Halifax.
- 2 Following Steps 1 through 5, prepare a brief presentation that demonstrates your findings about the physical and human geography of your locale. Ensure that your presentation includes two or three charts or graphs and at least one map to show how you organized the data you collected. Provide an informed analysis of the impact of economic globalization on your locale's geography. Share your presentation with the class.

Foundations of Economic Globalization

Question for Inquiry

- What events led to the development of economic globalization?

Economic globalization is a reality. Most of us take it for granted that goods from all over the world are available for purchase in local stores. Many people do not even question the fact that we can eat fresh fruits and vegetables year round. But the integration of the world's economies and the freer flow of goods are relatively new phenomena. Before we can understand contemporary economic globalization, we need to consider how economic globalization developed.

A number of events led to the development of economic globalization as we know it today:

- the establishment of a new international monetary system
- the creation of the World Bank and the International Monetary Fund
- the expansion of the free market economy into former Soviet-bloc countries at the end of the Cold War
- the impact of new technologies on the movement of money around the world.

As you will discover in this section, these events had an impact on one another and played a major role in the process of economic globalization. By exploring these events, you will be able to begin to form an opinion about the Chapter Issue: *Which economic ideas have most influenced the development of contemporary economic globalization?*

A New International Monetary System

As the Second World War dragged on, the democratic Allied countries, led by the United States, became concerned about rebuilding the global economy after the war. In 1944, delegates from 44 Allied countries met in the United States at Bretton Woods, New Hampshire, to discuss the postwar economic order. The end result was the signing of the **Bretton Woods Agreement**. This agreement established a system of rules, institutions, and procedures for the postwar global economy. The Bretton Woods Agreement effectively established a new **international monetary system**—a global network of institutions to promote international trade and the regulation of currency (money) among Western countries.

The Gold Standard

During the Bretton Woods conference, the 44 countries agreed to a common monetary system where each country would maintain a fixed

Fast Facts

The **exchange rate** is the price at which one national currency can be purchased for another. The exchange rate of the Canadian dollar is usually expressed in terms of US dollars. For example, in 1948, when the Bretton Woods Agreement was concluded, the exchange rate for a Canadian dollar was US\$0.99. On January 2, 2007, it was US\$0.86.

How does the exchange rate affect your purchasing power?

Fast Facts

In 1946, the price of gold was set at US\$35 an ounce (28.3 grams).

What do you think might have happened to a bank if many people decided to exchange their paper money for gold at the same time?



Figure 10-3

All currencies need a standard in order to set their value. Sometimes countries agree to use the gold standard, but the standard is usually set by the currency of the most powerful world economy. In the 19th century, Britain was the world's major superpower and the British pound was the strongest currency. It set the standard for all other currencies until the end of the Second World War. Based on what you have read so far in this chapter, which currency do you think replaced the British pound as the standard for all currencies?

exchange rate for its currency. In a **fixed exchange rate**, the value of a country's currency is set by the government. Each of the countries also agreed that the fixed exchange rate for its currency would be based on the **gold standard**. This meant that all printed money, such as a paper dollar, would be convertible to gold and could be cashed in at any time for that gold. Thus, any money printed by the countries' governments had to be backed by gold reserves.

Historically, the gold standard gave people confidence in the value of paper money because they could always exchange their money for something of real value, such as gold. However, the system never worked properly in modern economies. The problem is that countries are limited to printing money up to the value of their gold reserves. A country with a billion dollars' worth of gold can print only a billion dollars' worth of currency.

However, in times of crisis such as war, famine, drought, or simply the need for huge investments to build dams or highways, a country may need to borrow money. In the same way that a person can use a credit card to purchase something now and pay for it later, a country can go into debt simply by printing more money. This is a key difference between people and governments: people have to borrow money, but a government can simply print more money as needed. Nevertheless, in both cases, a debt is still a debt, and it must be paid. When people cannot pay their credit card debt, they have to declare bankruptcy and may possibly go to jail. However, when a government has too much debt, the value of the country's currency drops. The result is **inflation**—where the country ends up with more currency but each unit of currency buys less.

Floating Exchange Rates

By the 1960s, the United States was facing high inflation resulting from the costs of the Vietnam War and massive new social programs. On August 15, 1971, President Richard Nixon "closed the gold window" by "making the dollar inconvertible to gold directly, except on the open market" (the foreign exchange market). This meant that the US dollar was no longer redeemable for gold by the US government.

By 1976, all the world's major currencies had **floating exchange rates**. This means that the exchange rate of a country's currency was no longer fixed by government, but found its own value on the foreign exchange market. In other words, a currency's value was decided by supply and demand—the number of people looking to buy and sell it in the foreign exchange market.

The Value of Money

You might think that the real value of the Canadian dollar is determined by the amount of gold held by the Bank of Canada. In fact, the

real value of the dollar lies in the wealth of the country and in what the dollar can buy here and in other parts of the world. However, its value on the international markets constantly changes.

The most powerful regions of the world—such as Japan, the European Union, and the United States—have the strongest economies and currencies. Therefore, their currencies are worth more than the Canadian dollar. In spite of occasional ups and downs, the US dollar has been the world standard for all currencies since the end of the Second World War and remains so today. Around the world, many businesses use and accept the US dollar in addition to or instead of their own countries' currencies.

The World Bank and the International Monetary Fund

The Bretton Woods Agreement created the International Bank for Reconstruction and Development, which was later divided into the World Bank Group and the Bank for International Settlements. In theory, the **World Bank** is an agency of the United Nations, but in practice it is independent and controlled by its 184 member countries.

The World Bank provides loans to less developed countries that are in financial difficulty. However, in order to get these loans, the countries are usually required to meet certain political and economic conditions. Some of these conditions might include reducing corruption, increasing democracy, and adopting Western-style free market conditions. A common requirement, for example, is to reduce government spending on social programs. This practice has been criticized by opponents of globalization, who argue that free market reform policies are often harmful for the receiving countries. You will learn more about these criticisms later in the chapter.

Like the World Bank, the **International Monetary Fund (IMF)** came out of the Bretton Woods Agreement. Its purpose was to work together with the World Bank to bring stability to international monetary affairs and to help expand world trade. The World Bank is in charge of long-term financial assistance for countries in need, while the IMF is in charge of monitoring exchange rates and providing short-term financial assistance. Like the World Bank, the IMF is an agency of the United Nations.

The IMF is funded primarily through **quotas** (proportional shares) that member countries pay. A country's quota is based on its relative size in the world economy. For example, as the world's largest economy, the United States contributes most to the IMF—17.5 per cent of total quotas, while Palau, the world's smallest economy, contributes 0.001 per cent. The annual expenses of running the IMF are met mainly by interest payments on loans and deposits. How do you think the IMF determines how much money is available for lending?



Figure 10-4

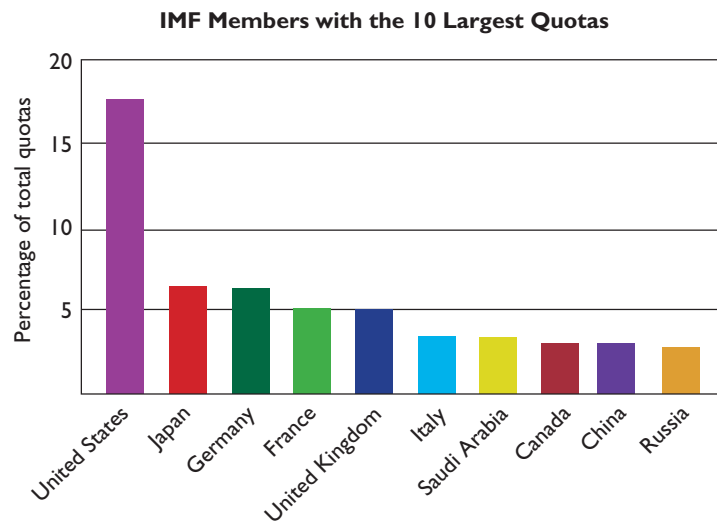
The institutions in the World Bank Group are run by a board of 24 executive directors, with each director representing either one country (for the largest countries) or a group of countries. Directors are appointed by their respective governments or group of countries. By convention, the World Bank president has always been from the United States. Why do you think this is so? What impact might this fact have on the World Bank's policies?

Fast Facts

Current membership of the IMF: 184 countries; staff: approximately 2680 from 139 countries; total quotas: \$312 billion (as of August 31, 2005); loans outstanding: \$71 billion to 82 countries. Check the IMF website for an update of these figures (follow the links on the *Perspectives on Globalization* website). Have the IMF's outstanding loans increased or decreased? What might be some reasons for this?

Figure 10-5

Member countries of the IMF with the 10 largest quotas, 2004. What do you notice about most of the countries on this graph? What do you think determines a country's voting power in the IMF? Is this a fair system of voting? Explain.



Source: International Monetary Fund, July 2004, <http://www.imf.org>.

Ideas and Opinions

“China is a threat, China is a customer, and China is an opportunity.”

—Kenichi Ohmae,
Japanese business consultant.

What do you think this statement means from the perspective of a business person producing bicycles or other consumer goods in Canada?

The Expansion of the Free Market Economy

The end of the **Cold War** in 1989 was another driving force behind economic globalization. The Cold War began in 1946, after the end of the Second World War. For over 40 years, the world was divided between the communist world, led by the Soviet Union, and the Western capitalist democracies, led by the United States. The Cold War was mostly an economic struggle between capitalist and communist countries.

During the Cold War, communist countries—under the leadership of the Soviet Union—operated under a **centrally planned economic system**. This means that government planners decided what goods to produce, and how much. With the end of the Cold War, most Soviet-bloc countries such as Russia, Poland, and East Germany quickly embraced the **free market economy** and looked to the United States for leadership and financial investment.

The free market economy expanded even further when communist China opened its doors to Western business. (You read about this on pages 141–142). China's leader, Deng Xiaoping, had decided to put China on the road to capitalism after declaring that “to get rich is glorious.” By 2001, China had decided to join the World Trade Organization. This move made China a full partner with other major world economies such as the European Union, Japan, and the United States. It also added more than a billion people to world markets. Joining the World Trade Organization bound China to international rules and regulations for foreign investment, which led to even more growth in international trade and investment.

Meanwhile, India—the second largest country in the world—also began to enter the new global economy in a big way. For example, India quickly became the world leader in providing outsourcing

services for Western companies. While China became the world's foremost country in manufacturing goods for the Western world, India offered cheap and efficient outsourcing through the use of telephone and computer technology.

As a result, an additional three billion people were participating in the global market economy by the turn of the millennium in 2000. During the Cold War, there were only three major trading blocs: North America, Western Europe, and Japan. Today, the entire world is part of the global economy.

Technology and Communications

We know that developments in technology and communications have transformed our society. Not surprisingly, they have also played a role in economic globalization.

Since the mid-1900s, the growth of television, computers, the Internet, cellphones, and satellites has made borders seem irrelevant and the world seem smaller. These new technologies decentralized **international money markets**. (These are markets in which funds that are loaned for a short time to businesses or governments are bought and sold. Short-term bonds and certificates of deposit are examples of instruments traded in money markets.) Instead of going through an investment dealer, people could use their personal computers to invest in companies and governments around the world.

The Electronic Herd

By the 1990s, the new technologies had changed international investments and money markets. Anyone with access to a computer—and looking for a profit—could now buy stocks and bonds. From small investors using home computers to mutual fund managers, billions of dollars were being transferred around the world at the stroke of a computer key. (A **mutual fund** is a company that combines its clients' money and invests it in a collection of stocks, bonds, and other securities.) Mutual fund managers in particular had huge pools of money available from investments by ordinary people. They invested these funds where they hoped to make the most profit for their investors and, of course, for their companies. This created a herd-like effect: profitable investments attracted more money, while funds that lost money lost even more investors.

In his book, *The Lexus and the Olive Tree*, economist Thomas Friedman calls this kind of international investment the “electronic herd.” Like a herd of cattle, these investors can easily be spooked by rumours that can cause a huge flow of money in and out of countries. The movement of this money can have a big impact on the currency and economy of a country, especially smaller ones.

Ideas and Opinions

“The Internet will change everything. The Industrial Revolution brought people together with machines in factories, and the Internet revolution will bring together people with knowledge and information in virtual companies. And it will have as much impact on society as the Industrial Revolution. It will promote globalization at an incredible pace. But instead of happening over a hundred years, like the Industrial Revolution, it will happen over seven years.”

—John Chambers,
president of
Cisco Systems, 1998.

Explain whether or not Chambers's 1998 prediction has turned out to be true.



READING STRATEGY

Before reading this information, visualize the term **electronic herd**. What images come to your mind? After reading, consider if and how your visual picture needs to be modified.

Explore the Issues

1 Consider a Variety of Perspectives.

- Research change in the human and physical geography of the Philippines. **SKILLS**
- Consider how these events might be seen by a tenant farmer in the Philippines, an agribusiness manager in the Philippines, or an individual of your choosing.
- Assume the role of this person and write a summary statement of your position on this issue: *What events have most affected the development of economic globalization?* **SKILLS**

2 Be a Global Citizen.

According to the Investment Funds Institute of Canada, in 2004 Canadians invested \$14.7 billion in mutual funds. **Socially responsible investing (SRI)** is an approach that considers social, environmental, and ethical criteria in choosing investments. Before investing in a company, an SRI mutual fund looks at the company's track record as a

corporate global citizen, examining criteria such as environmental practices, human and labour rights, animal testing, or the goods and services it provides (for example, weapons, gambling facilities, alcohol, and tobacco). There is a wide range of opinions on SRI mutual funds—from those who believe that a company's first priority should be sound business practice to those who believe that a company's primary consideration should be its impact on the environment and the communities in which it operates.

- Identify at least two socially responsible mutual funds and record how the funds meet the definition of SRI.
- What criteria would you consider before investing in a company?
- Do you think investors have any responsibility to question a company's track record as a corporate global citizen? Explain.

READING STRATEGY

Create a two-column organizer in your notebook to record the economic ideas of Keynes and Hayek as you read. When you have completed your organizer, compare and contrast the ideas you recorded.

People of Economic Influence

Question for Inquiry

- What ideas led to the development of economic globalization?

In the first section of this chapter, you learned how a number of historical events contributed to the development of economic globalization. Economic globalization is also the result of ideas. Ideas influence government policy and world events, and also contribute to various understandings of economic globalization.

In this section, you will have a chance to examine the ideas of two influential economists: John Maynard Keynes and Friedrich Hayek. Both these economists had distinct ideas about economic freedom—ideas that were very clearly in opposition. Considering their ideas will help you explore the Chapter Issue: *Which economic ideas have most influenced the development of contemporary economic globalization?*

John Maynard Keynes

Following the Second World War, one major economic question being debated was, *What is the appropriate role for government in the economy?* John Maynard Keynes, a British economist, developed theories that called for a large role for government in the economy. Keynes argued that falling wages resulted in decreased spending. He believed that direct government intervention in the economy was necessary to increase total spending and prevent—or lift the economy out of—**recession**. A recession is a period of reduced economic activity lasting longer than two business quarters (six months).

Today, Keynes's arguments form the basis of the rationale for government spending and taxation to stabilize the economy. Governments spend and decrease taxes when consumer spending is too low and threatens a recession. Governments reduce spending and increase taxes when consumer spending is too great and inflation becomes a problem.

Friedrich Hayek

Friedrich Hayek believed that when governments try to plan or control societies, those societies are doomed to failure. He argued that human societies are simply too complex to be planned, and can never match the natural evolutionary wisdom that comes from a free society. Hayek's theories were based on his analysis of **totalitarian** regimes such as the Soviet Union and Nazi Germany, where governments had enormous control over every aspect of society, including the economy. The Soviets and the Nazis claimed they were creating an ideal state for their people while stripping them of their basic rights and freedoms.

Since both Nazi Germany and the Soviet Union eventually collapsed, does this suggest that Hayek's views were accurate? His idea that the role of government must be limited in any society became generally accepted in the Western world.

The Influence of Ideas

Economic theories go in and out of fashion. In the early postwar period, the economic policies of many Western countries, with their focus on high employment, were based on Keynesian theory. In fact, in most Western economies, Keynesian theory laid the foundations for a managed and welfare-oriented form of capitalism. By the late 1960s, however, inflation and weak productivity caused many economists to question the wisdom of government intervention in the economy.



▲
Figure 10-6

John Maynard Keynes (the speaker in this photograph) was a representative at the Bretton Woods conference, where he argued for a system of fixed exchange rates. Keynes believed that government should play a significant role in managing the economy. Do you think that the government of your province follows Keynesian theory? Explain your reasons.

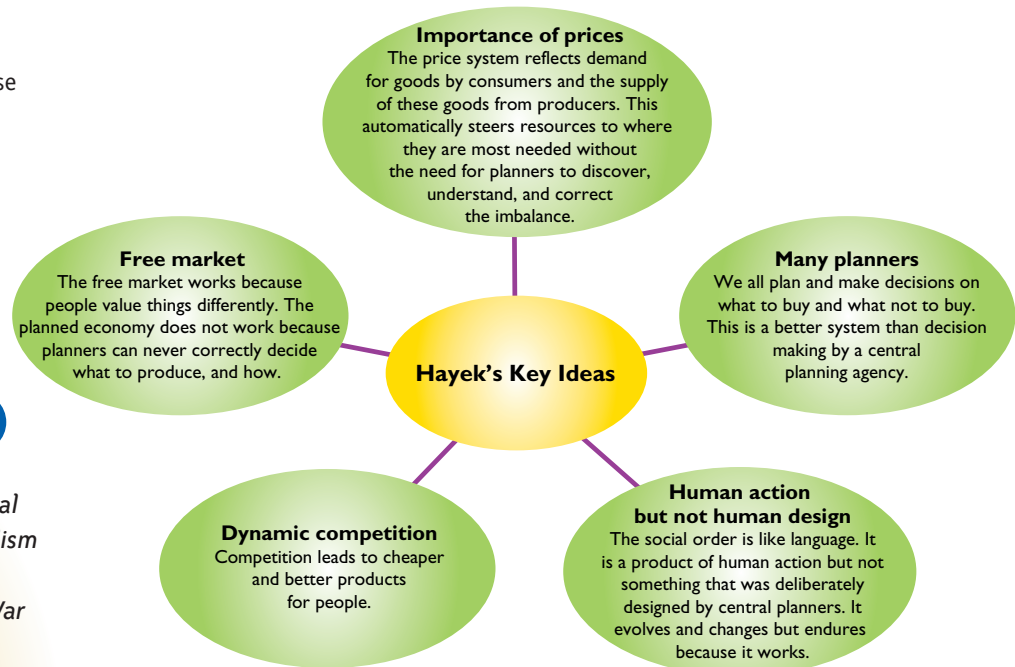


▲
Figure 10-7

The ideas of Friedrich Hayek conflicted with those of Keynes. Hayek argued that less government involvement in the economy meant greater economic freedom and prosperity. In what ways might government intervention limit economic freedom?

Figure 10-8

Explain your position on each of these ideas.



Ideas and Opinions

“The decadent international but individualistic capitalism in the hands of which we found ourselves after the [First World] War is not a success.”

—John Maynard Keynes,
“National Self-Sufficiency,”
New Statesman and Nation,
July 15, 1933.

When a government makes decisions about economic policy, what ends does it serve? When a business or corporation makes such a decision, what ends does it serve?

Source: Adapted from Adam Smith Institute Heroes, <http://www.adamsmith.org/economy/index.php/main/heroes/select/Friedrich%20Hayek>.

Hayek influenced the British economic system, particularly when Margaret Thatcher became prime minister of Britain in 1979. Thatcher was an outspoken supporter of Hayek's ideas. Her Conservative government reduced government spending, taxes, and government regulation, and privatized many government-owned industries. It also reduced the power of trade unions, cut back on welfare, and encouraged the growth of small businesses.

Explore the Issues

- Analyze It.** In what ways have the ideas of Friedrich Hayek and John Maynard Keynes led to the development of economic globalization?
- Apply It.** Conduct research on a social program in Canada—for example, employment insurance. Write a paragraph explaining how a Keynesian theorist would view the program compared with a supporter of Hayek. Your explanation should focus on the role of government in providing or supporting the program.
- Conduct Research.** Where do Canada's major political parties stand in terms of the role of government in the economy?
 - Using the health care system as an example of a social program in Canada, conduct research on the position of one of the three major federal political parties: the Conservatives, Liberals, or NDP. What does the political party say about the importance of the health care system and the role of government in providing it? Has the party's position on health care changed over the years? Does the party seem to reflect the views of Keynes, Hayek, or both?
 - Present your findings in a graphic organizer.

Contemporary Economic Globalization

Question for Inquiry

- What is the link between freer trade and economic globalization?

When most people think about economic globalization, they think of free trade. To a large extent, this understanding is accurate. The economies of countries throughout the world have become more integrated over the past 20 years. Of the 193 countries in the world, 190 have signed at least one trade agreement.

In this section, you will have an opportunity to investigate how freer trade has been promoted and regulated through agencies of the United Nations. You will also explore the development and impact of freer trade in Canada. Understanding the link between freer trade and economic globalization will help you reach some conclusions about the Chapter Issue: *Which economic ideas have most influenced the development of contemporary economic globalization?*

Regulation of Freer Trade

At the end of the Second World War, 50 countries around the world created the United Nations. They looked for ways to encourage peaceful relations and help the global economy by opening up trade between countries. The **General Agreement on Tariffs and Trade (GATT)** was established in 1947 as an agency of the UN. It began with a membership of 23 countries and operated according to four principles:

- *Conducting trade in a non-discriminatory manner.* No member country could be given special trading advantages or deny equal treatment to another member.
- *Treating imported goods from a member country in the same manner as similar domestic goods.* For example, the imported goods could not be taxed at a higher rate.
- *Protecting domestic industries (where this applied) through tariffs and not through measures such as import quotas or fees.* (A **tariff** is a tax imposed on imports to increase their price and thus reduce competition with domestic products.)
- *Requiring any country that applied for membership to present a list of tariffs and other trade restrictions imposed on member countries.* Once that country became a GATT member, it could only negotiate reductions to all trade restrictions.

Ideas and Opinions

“...[I]f we could get a freer flow of trade ... freer in the sense of fewer discriminations and obstructions ... so that one country would not be deadly jealous of another and the living standards of all countries might rise, thereby eliminating the economic dissatisfaction that breeds war, we might have a reasonable chance of lasting peace.”

—Cordell Hull, former
US Secretary of State, 1944.

According to Hull, what is the relationship between freer trade and peace? Explain why you think this idea is or is not overstating the importance of freer trade.



▲
Figure 10-9

The final round of GATT negotiations transformed GATT into the **World Trade Organization (WTO)** on January 1, 1995. Like GATT, the WTO follows the four principles outlined on page 217, working to improve trade relations among the countries, especially by removing tariffs and other barriers to trade. How do the principles of the WTO further economic globalization?

In eight rounds of negotiations between 1946 and 1995, GATT members agreed to substantial reductions in trade barriers. By 1995, GATT had a membership of 131 countries, accounting for more than 90 per cent of international trade.

Freer Trade between Canada and the United States

Canada took a giant step toward freer trade with the United States in 1989. That year, the **Free Trade Agreement (FTA)** between the two countries came into effect. While the FTA did much to open up trade—removing most remaining tariffs—each country had reasons other than tariffs for signing the agreement. Since Canada had a much smaller population than the United States, it wanted access to the large US market in order to export its goods and services. In turn, the United States wanted access to Canada's vast natural resources, such as oil, gas, minerals, and lumber, and to Canada's cultural industries, such as the media and publishing industries. However, in the negotiations, Canada kept the right to protect its cultural industries and other sectors, such as education and health care. Also, the agreement excluded certain resources, such as water.

Once the treaty was announced, it became a source of great controversy in Canada. A wide-ranging group of Canadians, led by the Council of Canadians, opposed the treaty. They argued that the deal would undermine Canada's sovereignty and that Canada would gradually lose its political independence to the United States.

In 1994, the FTA was extended to include Mexico. This new agreement was called the **North American Free Trade Agreement (NAFTA)**. It created the largest free trade area in the world, with a population in 1994 of 360 million people. Basically, the agreement extended most of the provisions of the FTA to include Mexico. Although Mexico has never been one of Canada's major trading partners, Mexican exports to Canada increased by 200 per cent between 1993 and 2003. On the other hand, during the same period, Canadian exports to Mexico increased by 25 per cent. After Canada and Japan, Mexico has traditionally been the United States' third-largest trading partner. What might this suggest about the significance of NAFTA for the United States?

Perspectives on Freer Trade

Like most complex issues, there are various understandings of freer trade. One position holds that freer trade provides countries around the world with great opportunities and benefits. Another position maintains that freer trade actually results in a number of negative impacts for countries and their citizens. There can be bias when issues

such as the effects of free trade are analyzed, summarized, and interpreted. Even when you are using reliable sources of information, you need to assess the credibility of sources by checking for bias, stereotyping, or a lack of substantiation for arguments and opinions. Sometimes the biases are obvious; at other times, they may be more subtle.

The Voices features that follow present two perspectives on freer trade. Exploring these perspectives will help you to formulate your own ideas about freer trade. As you read each feature, consider whether or not it might be biased.



Two Citizens' Groups on NAFTA

The Council of Canadians (COC) is Canada's largest citizens' organization and does not receive any funding from government. It works to "protect


Canadian independence by promoting progressive policies on fair trade, clean water, safe food, public health care, and other issues of social and economic concern to Canadians." Public Citizen is "a national, non-profit consumer advocacy organization that represents consumer interests" in the US government and courts.

On its website, COC provides a link to the following information, which outlines Public Citizen's perspective on freer trade. As you read, consider your own views on how we should manage our country's natural resources.

NAFTA includes an outrageous "proportional sharing" provision that grants other NAFTA signatory nations rights in perpetuity to a share of another signatory country's natural resources. Thus, if Canada were to suffer a natural gas shortage (if a pipeline blew, for example), it could not cease or substantially cut back exports to the United States in order to give priority to domestic needs—but would have to reduce domestic use and other exports so that the US would maintain its share of the smaller remaining volume.

Giant water corporations are ravenously eyeing Canada's massive freshwater supply held in its lakes, rivers, and underground reserves, because if any Canadian province "opens the spigot" by agreeing to sell bulk water to a foreign country, then all Canadian water is automatically considered a traded good, not a natural resource over which Canada has sovereign control.

—Council of Canadians website (www.canadians.org),
NAFTA at Ten Series: Undermining Sovereignty and Democracy,
http://www.publiccitizen.org/documents/NAFTA_10_democracy.pdf.

- 1 According to Public Citizen, how does freer trade with the United States erode Canada's sovereignty and independence?
- 2 Browse the websites of the Council of Canadians and Public Citizen to find out about their perspectives and activities.
 Check the *Perspectives on Globalization* website for links. In small groups, discuss
 - why you think the COC provides a link to this information on NAFTA
 - what these organizations might have in common
 - whether or not you think these organizations might be biased.
- 3 How would you feel if Canada actually lost control of its natural resources, such as oil or fresh water, in the future? Write a paragraph to explain your point of view.



International Trade Canada on NAFTA

International Trade Canada is a department of the federal government. Its goal is to help Canadian businesses—both large and small—grow and thrive in the global market. It does so by promoting Canada “as a dynamic place to do business” and by negotiating and administering trade agreements.

The North American Free Trade Agreement (NAFTA) has generated economic growth and rising standards of living for the people of all three member countries since 1994. By strengthening the rules and procedures governing trade and investment throughout the continent, NAFTA has proved to be a solid foundation for building Canada’s future prosperity.

Canada’s merchandise trade with its NAFTA partners has increased 122% since 1993, reaching \$598.7 billion in 2005. Canadian merchandise exports to the United States grew at a compounded annual rate of 6.0% between 1994 and 2005. ... Our NAFTA partners account for 84.7% of Canada’s total merchandise exports.

Trade in services has also increased under NAFTA. Canada’s trade in services with the United States and Mexico grew at an average annual compounded rate of 5.4% to reach \$82.7 billion in 2004, up from \$46.4 billion in 1994. ... Approximately 57% of Canada’s services exports go to our NAFTA partners....

In turn, the enhanced economic activity and production in the region have contributed to the creation of more and better paying jobs for Canadians. Close to 3.1 million net new jobs have been created in Canada since 1994, representing an increase of 126.6% over pre-NAFTA employment levels.

For Canadians, it is important that trade and investment liberalization proceed hand in hand with efforts to protect the environment and improve working conditions. Under NAFTA, our three countries have been able to introduce the successful approach of parallel environmental and labour cooperation agreements.

—International Trade Canada, *The North American Free Trade Agreement*, <http://www.dfait-maeci.gc.ca/nafta-alena/over-en.asp>.

- 1 Browse the website of International Trade Canada and find out about its perspective and activities.



Check the *Perspectives on Globalization* website for a link. In small groups, discuss whether or not you think this federal department might be biased.

- 2 It is important to be aware of bias so that you can get a truer picture of cause and effect and draw well-founded conclusions on your own. Bias is not necessarily a bad thing, but it may point to why a person or organization holds a particular position on an issue. For example, while the points listed in this report may be accurate, they all identify positive effects of freer trade. Write a paragraph to explain why it is important to consider a source from a variety of angles.

The Impact of Freer Trade on Canada

Because the FTA and NAFTA regulate trade in so many areas of the economy, it is difficult to assess their direct effects on Canada. However, one way to assess the impact of these agreements is to explore a particular industry before and after free trade. As you will see in the following Investigation, the problem surrounding Canada–US trade has always been the huge difference in population size. The United States has 10 times Canada’s population and is the world’s largest economy. Many American industries can easily swamp Canada’s smaller market with their products or services, forcing local industries to adapt and compete or face closure. On the other hand, smaller Canadian industries can adapt and grow by selling their goods or services in the huge US market.

The Canadian Wine Industry Before and After Free Trade

INVESTIGATION

Something to Think About: How has free trade affected Canadian industries?

An Example: Prior to the Free Trade Agreement, imported wines were marked up as much as 66 per cent. This encouraged the sale of Canadian wine. While Canada agreed with European countries that this practice was unfair, grape growers and vintners wanted a gradual phase-out to allow time to adjust.

Following the FTA, the federal government and the governments of British Columbia and Ontario provided funds for major Canadian wine makers in these provinces to replace their vineyards with better-quality grapes. The industry set new quality standards for its wines and developed new and unique wines such as icewine, which is made from frozen grapes. The 1990s was a decade of rapid growth for the Canadian wine industry. The number of commercial wineries grew from about 30 in 1990 to approximately 170 in 2006.

News Clip About the Industry Before Free Trade:

The late 1980s are a turning point for the Canadian grape and wine industries. The looming threat of free trade has many in the industry fearing ruin. [In 1987,] Parliament has just accepted a GATT ruling that condemns Canadian restrictions on imported beer and wine. Many believe the Canadian market will be flooded by cheaper, better quality US wine, forcing domestic vineyards out of business. Fred Langan of The Journal looks at what free trade will mean for Canadian vintners and grape growers:

“New trade agreements mean that Canadian wineries will soon be able to purchase grapes from other countries for less than half the price of comparable local fruit. Tariffs that had previously protected domestic wineries have been declared unfair and are slated for elimination. In an attempt to remain competitive by improving quality, the government is implementing pullout schemes. Incentives encourage Canadian grape growers to replace native grapes with European varieties and hybrids. ...”

—Source: Canadian Broadcasting Corporation,
http://archives.cbc.ca/IDC-1-69-1041-5825/life_society/canada_wine/clip4.

Article About the Industry After Free Trade:

Today, Canada's wine sector is characterized by new investments in world-class wineries in both Ontario and British Columbia, aggressive new plantings of vinifera varieties [European grape varieties], diversified wine



Figure 10-10

A farm worker crushes grapes at a winery in the Okanagan region of British Columbia. After the FTA, Canadian wine producers were concerned that they would not be able to compete against American wineries because the American industry was so much larger. For example, it would take the American wine giant Gallo only 10 extra days of production, or an extra hour each day, to match the production of the entire Canadian wine industry. How does the information in this Investigation demonstrate that free trade can work even when an industry differs in size from country to country?

- 1 In what ways can the Canadian wine industry be seen as a freer trade success story?
- 2 Do you think the Canadian wine industry would have made these kinds of changes without competition from American wines? Explain your view.
- 3 What industries in Alberta might benefit from greater competition?

offerings, new technology, expanding exports and greater recognition of its ability to produce fine wines at competitive prices. New access for Canadian wines, especially icewine, in the European market, and expanding market opportunities in the USA and Asia are giving Canadian wines greater market exposure. In Canada, despite increasing import competition, sales of Canadian quality wines are increasing as consumers move up the quality/price scale.

In spite of a world glut of wine and aggressive competition in Canada and internationally, Canada's small wine sector is enjoying considerable success and facing these challenges with a degree of optimism.

—Source: Canadian Vintners Association, Wines of Canada, <http://www.canadianvintners.com/woc/modernhistory.html>.



The Canadian wine sector is heavily concentrated in Ontario, British Columbia, Québec, and Nova Scotia. About 82 per cent of manufacturing shipments come from Ontario and 18 per cent from British Columbia, while the industry in Québec is primarily focused on the bottling of bulk foreign wine products. There is no wine production in the Prairie region, but there are two blended-wine bottling facilities in Alberta, each operated by one of the two major Canadian wine enterprises.

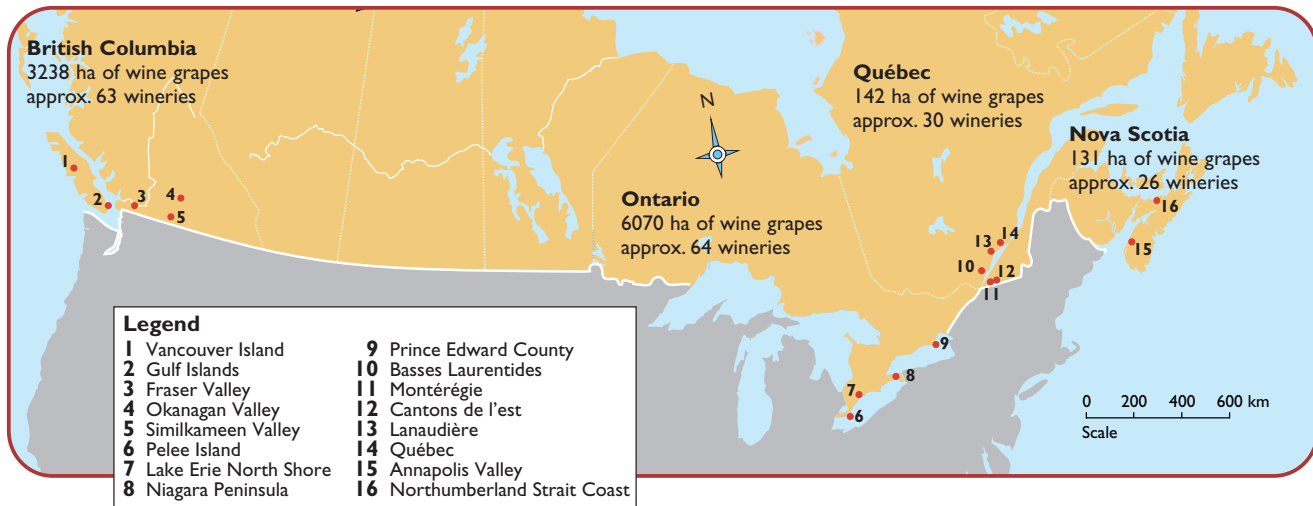


Figure 10-11

Why do you think wine-growing regions are not more equally distributed throughout Canada?

1. In what ways does physical geography affect employment opportunities within a province? **SKILLS**
2. What industries does Alberta's unique geography support? **SKILLS**



Figure 10-12

The Peace Arch border crossing in BC. A tariff is also called a customs duty. As of 2006, Canadians who travel to other countries for seven days or more are allowed to bring back up to \$750 worth of goods without paying duties. Should people be limited as to the value of goods they can bring back after a holiday trip? Explain.

Explore the Issues

- 1 **Consider Multiple Points of View.** Your point of view on freer trade is influenced by many factors, including age, gender, culture, and socio-economic status (an individual's position within a community based on social and economic factors).
 - a) Think about how people of different backgrounds might view the issue of freer trade. Take on the role of one of these people, for example, a 50-year-old male factory worker.
 - b) Write a one- or two-paragraph statement on your character's opinion of freer trade. Be sure to support your character's arguments.
 - c) Working in a small group, role-play your character. Describe your background and explain why you support or oppose freer trade. When others in your group present their role plays, take notes on their characters' backgrounds and opinions on freer trade.
 - d) When the role play is concluded, write a short summary statement describing the impact of age, gender, culture, and socio-economic status on point of view.
- 2 **Research and Analyze.** Work with a partner to determine whether or not NAFTA has been successful for Canada.
 - a) Locate one resource that is pro-NAFTA and one that is anti-NAFTA from a Canadian standpoint. (You might choose to use the organizations and individuals mentioned in this section as resources.)
 - b) Review and discuss the information in the resources.
 - c) Create a comparison organizer that lists the arguments for and against NAFTA.
 - d) Assess the arguments and come to a decision about whether or not NAFTA has been a success for Canada.
 - e) Create a poster to capture your main ideas and influence others.



Reflect and Analyze

In this chapter, you explored some events and ideas that led to the development of economic globalization. You also looked at the connection between freer trade and economic globalization—and the steps Canada has taken toward freer trade, particularly with the United States. You now have a good foundation for responding to the Chapter Issue: *Which economic ideas have most influenced the development of contemporary economic globalization?* Discuss this issue in class. Consider the various economic ideas that have been explored in this chapter. Think about how these ideas have had both positive and negative impacts for people and countries throughout the world.

Respond to Ideas

- 1 At the beginning of this chapter, you recorded in your notebook your initial thoughts and feelings about economic globalization.
 - a) Review these notes. Below them, write a new heading titled “Upon Reflection.” Update your notes based on your expanded understanding of economic globalization.
 - b) Write a short summary statement that describes the personal factors that influenced (and may continue to influence) your initial thoughts and feelings.

Recognize Relationships between Content and Issues

- 2 Create a concept web to explore relationships among the events and ideas that led to the development of economic globalization. Refer to the Skill Path “Brainstorm and

Create a Concept Web” in Chapter 1 (pages 7–8) to develop your organizer. Highlight the most important ideas.

3 *Research, Analyze, and Report.*

- a) Search a variety of Internet news sources for articles that examine multiple contemporary perspectives on economic globalization that exist in China. In particular, pay attention to the economic ideas and events that have most influenced perspectives in China.
- b) Collect data from the articles and interpret and analyze these data.
- c) Write your own brief news report that relates these contemporary Chinese perspectives to the values associated with historical economic globalization that were explored in this chapter.
- d) Present your report as a video or an audio recording.

Focus on Research and Inquiry

- 4 How has economic globalization affected the physical structures of your region and the people in your community (human geography)? Prepare an “impact analysis” for your community.
 - a) Follow Steps 1 through 5 as outlined in this chapter’s Skill Path (pages 207–208).
SKILLS:
 - b) Consider the following in your analysis:
 - growth or decrease in trade
 - growth or decrease in employment
 - impact on sovereignty
 - c) Create a computer slide show or a photo essay to present your findings. Include captions.

- d) Consult with your teacher to establish criteria for your research process and product, and a final marking scheme. Establish deadlines for completion and presentation of your work.
- e) **Reflect on the Process.** Consider your work during the *retrieval* phase of the

project. Did you have any trouble locating and collecting resources? Was it easy to distinguish between relevant and irrelevant information? How did you evaluate the relevance of the information? What new retrieval skills did you learn during this process?



◀ **Figure 10-13**

Construction on the twinning of Highway 63 to improve access to Fort McMurray, Alberta. The rapid pace of oil sands development in Fort McMurray has resulted in a booming population. In May 2006, Premier Ralph Klein described the challenges of this boom: “Northern Alberta’s economic future is incredibly bright, but what does that success really mean if the area is unable to offer the infrastructure, amenities, and quality of life its residents are working so hard to enjoy?” How does this photograph illustrate the impact of development on Fort McMurray’s infrastructure? **SKILLS**