The Human Face of Poverty: Exploring Causes and Solutions
Lesson 3: Free Trade

Standards Addressed by Lesson: **CIVICS** Standard 3.3 Students understand the domestic and foreign policy influence the United States has on other nations and how the actions of other nations influence politics and society of the United States. **ECONOMICS** Standard 2.3 Students understand that government actions and policies, including taxes, spending, and regulations influence the operation of economies. (d) Standard 3.1 Students understand that the exchange of goods and services creates economic interdependence and change (a – d). (a,e) **HISTORY** Standard 4.2 Students understand how economic factors have influenced historical events. (d,e) Standard 4.3 Students understand the historical development and know the characteristics of various economic systems (b,c,d).

Objectives of Lesson: To introduce the concept of free trade by making students familiar with trade restrictions along with trade agreements.

Instructional Strategies: Discussion, skit, group activity, film

Preliminary Lesson Preparation: Students should have a basic understanding of neoliberalism and its components, one of which is free trade. This lesson should be preceded by the neoliberalism workshop.

Vocabulary: Free Trade, North American Free Trade Agreement (NAFTA), tariffs, quotas, subsidies

Suggested Time: Between 50 and 60 minutes

Materials Needed:
-Newsprint, markers
-Film: *Trade Secrets: The Hidden Costs of the FTAA* (Progressive Films)
-Props (props that symbolize corn, flags, tariffs, quotas, environmental / labor legislation, GAP, subsidies)
-Copies of "NAFTA's Vicious Cycle" (see Activity 2 for website)

Attachments: A. 10-minute Globalization Activity

Lesson Outline

Introduction to Lesson:

This workshop focuses on the concept of free trade. If students have prior background on global economics and free trade from previous classes, allow them to speak about what they already know to assess the level of understanding of the class. Express to them that their participation is a necessary ingredient for the success of the lesson. Remind them that they should feel free to ask questions and make comments at anytime.

Icebreaker / Quick Activity to Assess Prior Learning:

Make sure students are familiar with the concepts of globalization and neoliberalism prior to the workshop. If not, a 10-minute activity on globalization (see Attachment A) can be done with the free trade props. Also, the activity can be used as a refresher for classes that already have prior knowledge of the concept.

Activities

Activity 1: Defining Free Trade

What do people know about free trade? Have you heard anything about free trade in the news? If so, from which country's perspective is the news presented? Have the definition written on newsprint and read it to the class.

> Definition: *Free Trade is the gradual elimination of trade barriers such as import tariffs and quotas along with other government restrictions. This elimination allows goods and capital to flow freely across borders.* (Note: Free trade does not allow for the free movement of labor across borders.)

To elicit discussion and create a greater understanding of free trade, students will participate in activity that looks at free trade in a basic form.

Ask for three volunteers, to represent Guatemala, Mexico, and the U.S. Hand out Mexican, Guatemalan, and U.S. flags to the volunteers. Explain that as a country, each will decide what products, agricultural or other, will be produced. (Hand out the corn to all three countries as this will be a product used as an example.) Each can also decide whether or not they are going to sell (export) their products to other countries and how much they are going to charge other countries for selling their goods to their citizens (import tax, hold up the prop) and the amount of goods they are going to accept from another country (quotas, hold up the prop). They can also decide how much support (subsidies, hold up the props) they are going to give to farmers.

Using the props and the example of corn, define for the students, tariff, quota and subsidies.

Tariffs

For example, the U.S. sells corn to Mexico but Mexico charges a tax for giving the U.S. access to its market. This import tax is called a **tariff**.

(Give the U.S. the tariff prop). This inhibits trade or makes it harder to trade because it restricts how much corn the U.S. is willing to sell to Mexico due to the costs. Mexico wants to impose tariffs to protect its own farmers.

Quotas

Another restriction on trade is a **quota**. Mexico restricts the amount of corn the U.S. can export, say only 300 lbs a month. (Give the U.S. the quota prop.) This is another means of protecting Mexican farmers.

Government Regulation

Other restrictions to trade are **rules** that affect a company's decision to invest in a country. For example, a country like Mexico may have certain **labor and environmental legislation** that must be followed by a company like the GAP that wants to open up a factory in Mexico. (Hold up the GAP prop).

(Give Mexico the following props as you talk about them)
Ask the class, "What do I mean by labor legislation or labor laws?"

- Livable wage
- Respecting the right to organize a union
- Minimum number of hours needed to work a week
- Environmental laws to protect workers' health

All of these **rules** may make it more expensive for the GAP to open up a factory in Mexico. So if Mexico lifts these **restrictions,** the GAP might be more likely to open up a factory there. However, if you don't eliminate these **barriers**, the GAP might go to Guatemala, China or any other country where it would be cheaper for them to invest because these governments are more willing to reduce labor and environmental standards.

Subsidies

Another component of the economy that may change due to free trade are **subsidies. Subsidies** are basically support the government gives to certain sectors of the economy. For example, farmers often receive money from the government to pay for damaged crops, to buy seeds, or in the form of loans. (Give the subsidies to the farmers.)

Ask the group, "What would a neoliberalist say about the government giving farmers this money?" A free trader or a neoliberal economist would say there should be less government involvement in the economy therefore farmers should not be receiving these resources.

Free trade would encourage the countries to get rid of the restrictions to trade. (Walk over and take **quotas** and **tariffs** and **subsidies** and **labor and environmental regulations** away from students.) Now it will be much easier for goods to flow into Mexico and vice versa, and it will be easier for factories to move to Mexico now that there aren't any **barriers** to trade. This is the basic premise of free trade. (The flow of corn into Mexico from the U.S. further enhanced by the subsidies U.S. farmers receive.)

There are many free trade agreements currently in place or being negotiated in the Americas. Put up on newsprint:

NAFTA (North American Free Trade Agreement) – Between Canada, Mexico, the U.S. Went into place in 1994 to be completed (i.e. all tariffs eliminated) by 2008, although many have been terminated earlier than scheduled.

CAFTA (Central American Free Trade Agreement) – Between Central American countries and the U.S.) Began negotiating in October 2002, signed in December 2003; sent to all governments for ratification in 2004. Because of civil society's resistance to the agreement, ratification has been delayed. The U.S. Congress is supposed to vote on the agreement in February 2005.

FTAA (Free Trade Area of the Americas) – Scheduled to be finalized by 2005 and to include all countries but Cuba; its ratification has been delayed and is contingent upon CAFTA being approved.

Activity 2: Video

Let the students know that they will be watching a video about NAFTA and the FTAA, entitled, *Trade Secrets: Hidden Costs of the FTAA.* Follow up the video with a brainstorm on positives and negatives about free trade in Mexico. (Video developed by the Center for Labor Research and Education at the University of California – Berkeley. See http://henningcenter.berkeley.edu/projects/tradesecrets.html for additional information.)

Some things to point out during the brainstorm:

Positives

Increased employment for Mexico in factories from 500,000 in 1994 to 1,200,000 in 2001
Increased exports to the U.S. from 50 billion in 1994 to 135 billion in 2000
Increased foreign investment from 4.4 billion in 1993 to 11.8 billion in 1999

NAFTA has created a lot of growth for the economy and has increased import earnings and foreign investment. However, increasing the size of the economic pie does not necessarily mean that everyone gets a bigger slice. Since there is a decrease in the role and power of the state, it is less capable of dispensing economic earnings more equitably. Instead those who are rich get richer and the poor get poorer.

Negatives

Salaries have decreased in Mexico between 18 – 21%.
Subsidies to farmers have decreased.
U.S. now sells 6 million tons of corn as opposed to 1 million.

To conclude the exercise, you may want to make a copy of the handout, "NAFTA's Vicious Cycle," for the students so they can see how everyone is affected by free trade agreements such as NAFTA. Available at: www.ips-dc.org/global_econ/rethinking_nafta_oct_2004.pdf.

Activity 3: Group Poster Activity

Break up into groups of 5 and give each group a large piece of newsprint. Explain that they are going to make a poster about free trade incorporating some of the concepts we've been talking about as well as what they saw in the video.

In the middle of the newsprint they should draw something that symbolizes free trade, around this symbol draw something that symbolizes the policies we've talked about that impact free trade, and finally around these policies draw something that symbolizes the human impact of these policies.

Allow 15 minutes to create the posters then have each group go around and share.

DJPC 2004

Attachment A: 10-minute Globalization Activity

I'd like to start out with a brainstorm on the concept of *globalization*. What does it mean to you when you hear that word?

After the brainstorm provide students with a definition:

> *A global economy is a shift from a world economy that was made up of <u>national economies quite varied in their regulatory and redistributive principles</u> to a <u>global market economy governed by a uniformed set of rules not all established by governments</u>.*

Ask students if this makes sense? This is a dictionary definition and I'd like for us to make sense out of this as a group by breaking up the definition and using some props to help us understand it.

Ask for three volunteers, to represent Guatemala, Mexico, and the U.S. We are going to look at what happens in the global economy by taking it down to a smaller level to see how this definition applies to individual countries. We'll take a look at the first section of this definition. (reread the first underlined section of the definition)

Hand out a Mexican, Guatemalan, and US flags to the volunteers.

Looking at each of your separate economies, your governments are going to decide how much money to spend on health care, education, how much to pay workers. (Give each volunteer the money which represent health care, education, workers salaries.) As a country you will also decide:

What to produce
How much to produce
The price of you product or service.

So for example, (pass out the props while explaining this) Guatemala produces corn, oil, clothing, and also has cheap labor. Mexico produces corn, oil, and cheap labor. And the US produces corn, beef and automobiles.

You can also decide whether or not you are going to sell (export) your products to other countries and how much you are going to charge other countries for selling their goods to your citizens (import tax, hand out the prop) and the amount of goods you are going to accept from another country (quotas, hand out prop). You can also decide how much support (subsidies, hand out the props) you are going to give to farmers. Historically this is how the global economy worked, as the definition states; each country is deciding their own rules.

Now lets move to the second part of this definition. (Reread it to the group.) Can anyone guess what happens when all the world economy becomes more globalized according to the definition? (If they are having a hard time answering ask them what the definition says about the rules?)

As the definition says, becoming more globalized means a more uniform set of rules regarding:

What to produce
How much to produce
The price of your product or service
Whether or not subsidies are given and for how much
Tariffs and Quotas

Does anyone know who decides these rules? (If they are having trouble answering, ask them which of the three countries do they think is most powerful?)

Based on our discussion, how would the class define globalization?