Alabama Forest Products and the Potential Impacts of FTAA Price Changes

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Abstract  

The Free Trade Area of the Americas FTAA will increase import competition for some forest product industries in Alabama but create export opportunities for others. Forest products loom large in the Alabama economy, both in terms of income and pollution. The present paper gauges the potential impacts of a range of price changes for forest products in an applied specific factors model of production. Pollution adjusts with forest product outputs. The potential impacts on outputs, capital returns, and pollution are substantial. Anticipated price changes also raise the wage and lower energy demand.

- JEL Classification:
- Key Words:

I. Introduction

The forest product industries in the Southeastern US and Alabama will be affected by the pending Free Trade Area of the Americas or FTAA. Alabama...
accounts for 11% of US paper products and the industry for 3% of state output. The present paper offers perspective on the potential economic impact of FTAA on production and income distribution with a simulated specific factors model of Alabama focused on forest products. Simulations examine the effects of a range of exogenous price changes on wages, capital returns, industrial outputs, and pollution from the forest product industries.

Paperboard and paper mill products are both net imports at present but FTAA will change their prices. The growing economies of Latin America will offer expanding export opportunities but there will be increased import competition for some forest products. Prestemon (1998b) predicts increased forest product exports to the Caribbean and the USDA Economic Research Service (1998a) predicts increased forest product trade.

Gains and losses will vary across industries similar to the effects of NAFTA. Boyd, Krutilla, and McKinney (1993) use a detailed computable general equilibrium model to predict NAFTA would have noticeable effects on particular US industries and regions. Hanson (1994) predicts NAFTA will hurt the Southeast but benefit states along the US border and in the Midwest. Marchant and Rupel (1993) predict little pressure on US agricultural prices in NAFTA. Thompson (1996) predicts substantial adjustment in Alabama manufacturing industries with a slight wage increase in an applied specific factors model similar to the present one. Wall (2000) shows that NAFTA has benefited manufacturing and services industries in Alabama.

Batyabal and Beladi (2001) conclude fears of unfair foreign advantage due to lax pollution laws are exaggerated. Tobey (2001) finds no evidence that environmental policies have affected patterns of production and trade in manufactures. Husted and Logsdon (2001) provide evidence that NAFTA has improved environmental policy and raised production cost in Mexico. The present model of forest products provides a detailed look at a link between trade policy and pollution.