

Nafta: opportunities and challenges essay examples

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The adoption of NAFTA created the largest free-trade market in the world. The agreement is between three countries namely; the United States, Mexico and Canada. These countries have a population of about 450 million people. NAFTA has a number of benefits to the American economy. To begin with, it eliminates most of the trade tariffs for exporting goods to Canada and Mexico. More fundamentally, it reduces inflation by significantly reducing the cost of imported goods from these two countries. The American economy relies to a great extent on the success of SMEs. NAFTA has created a set of international agreements which provide incentives to investors. This is because of the reduced costs of trading and investing in the new markets. As a result, new investments spur the economy by providing numerous employment opportunities. Additionally, NAFTA has made it easy and possible for the United States to increase its trade relations with NAFTA member states. Exports to Mexico have shot up exponentially to \$1.6 trillion in 2009 from a mere \$297 billion in 1993. It has also boosted farm exports by at least 30% and created more than 40% trade surplus in the services industry.

On the other hand, NAFTA has posed a number of challenges to the United States' economy. Apart from causing manufacturers to design measures to reduce the cost of production for goods and services produced in the American economy, it has also assisted other manufacturers from the United States to move their production factories to lower-cost areas like Mexico. This has reduced employment opportunities for American citizens leading to high levels of unemployment. Since the labor market in Mexico is cheaper and has surplus products, most manufacturers take advantage of the trade

agreement to cut jobs in the America while hiring more workers for lower costs in Mexico. Additionally, those who retain their jobs are forced to take salary and wage cuts so as to retain their jobs in light of the reduced salaries. Workers have been faced with the conundrum of either joining a union to fight for their salaries and wages as they previous earned or sit back and observe as the factories are relocated to Mexico. Workers have chosen to ignore unions so as to win over employer loyalty.

The Mexican economy has a lot of potential. Its economic growth provides the United States with enormous opportunities made possible by the signing of NAFTA. The high population in Mexico provides a ready market for American goods and services. American exports are in high demand in the Mexican economy. This is because of the influence of the American culture on the Mexican population. In addition, American produced goods are of a higher quality as compared to the quality of goods produced in Mexico. In fact, the imports of agricultural products from Mexico have reduced significantly while exports from the US have increased. This is because of the subsidized agricultural products produced by American industries, which have superior technologies and tend to be more efficient. This significantly reduces the cost of production for US companies in turn giving them a comparative advantage over Mexican industries. However, the implementation of NAFTA has to be done within a framework that seeks to support mutual benefits to all the three economies. This will serve as an essential milestone towards the achievement of the objectives of this trade agreement.

References

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