Fundamentals of international business

Business

Fundamentals of International Business Ever since the North American Free Trade Agreement (NAFTA) came into effect in 1994, economists and politicians are divided as to the real effects of the agreement on the economies of member nations as well as the other countries not included in the trade agreement. Proponents of free trade assert that the agreement has fostered heightened growth in the economies of the United States, Canada and Mexico. Others, however, contend that this has resulted in job losses in the United States and unfair disadvantage to Caribbean nations such as Jamaica and Trinidad. After more than 10 years in operation, NAFTA certainly has resulted in major changes in the trade and overall economic system, but the overall impact, whether positive or negative, needs to be evaluated in a perspective that is broader than the immediate repercussions.

NAFTA was created to ease trade restrictions and tariffs among its three member nations. However, a number of economists and politicians think that the trade agreement resulted in an economic downturn in the United States. In a report for the Economic Policy Institute (EPI), for instance, Scott (2003) stated that there have been false promises on the part of NAFTA with regards to improvements in the economy. This is because the agreement caused an imbalance in the trade system, resulting in job losses, company closures and a shift of investments to Mexico, which offered lower capital outlays and better profitability. Most of the jobs lost were in the manufacturing sector, as more factories were transferred to Mexico for cost-efficiency purposes. The EPI evaluation showed that the number of jobs lost, predominantly in the motor vehicle, textile and apparel, and computer and electrical appliance industries, greatly outnumber the jobs created as a result of NAFTA (Scott, 2003).

While Mexico benefited much from the NAFTA deal, other exporters such as those in the Caribbean region suffered, as it became more difficult for them to compete with Mexican companies offering cheaper alternatives. According to a report by Rother (1997), a few years after the implementation of the trade agreement, several factories and agricultural operations in Trinidad and Jamaica have lost business to the more competitive exporters of Mexico.

Weintraub (2000) disapproved of the method by which critics of NAFTA are assessing the results of the trade agreement. He stressed that the ultimate driving force for job creation in the U. S. is the booming economy, and that even when jobs were lost, new jobs were created in other sectors. So while the U. S. was losing jobs and opportunities in the manufacturing sector, new opportunities are being created in other industries. Despite the job cuts the economy still became sturdier because of the cost benefits brought about by trading with a country that can offer cheaper labor. This could give the economy more advantages in creating new opportunities for investments into new industries and new markets.

Free trade almost always faces strong opposition and criticism from some economists and politicians. However, its ultimate effects should not be solely measured by the short-term effects, but by the long-term results. As Weintraub (2000) did put it, " as Americans, it is far better to have prosperous than struggling neighbors, and NAFTA contributes to this objective." This is not sheer altruism at all, but is based on the notion that in the long run, uplifting the economies of its neighbors would benefit the United States as well, since this will give it more and better markets to explore.

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