ILLITERATE FRATERNITY: FUTURE PERSPECTIVES

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ABSTRACT

A limited study of student's knowledge about international trade policies revealed that few students are aware of the scope of international trade in general and in the western hemisphere specifically. This ignorance is reinforced by differing special interest groups who seek protectionist measures for their own industries. These same groups campaign on the immediate negative effects of free trade agreements as opposed to the greater positive long run benefits of international trade and cooperation. Mercosur (trade union in South America representing 200 million consumers and a one trillion dollar market) has recently experienced economic difficulties but is expanding its trade relations with other countries. Mercosur is preparing to make an important decision about which international trade organization to join. Although there is building pressure to formalize the Free Trade Agreement of the Americas (FTAA), hurdles exist. As the European Union and the North American Free Trade Agreement partners extend their reach around the world, the Mercosur partners will need to decide which will be most beneficial for them in the immediate term. Hurdles such as currency stabilization, change in governmental policies by member states, labor unions, and most importantly, the economic illiteracy of the composite populations in respective countries will need to be overcome.

INTRODUCTION

One of my daughters (and my) favorite movies is "Sleepless in Seattle" (Arch, 1993). In that movie, Tom Hanks plays the role of a widower (Sam) who has a son (Jonah) that wants Tom Hanks to remarry because of his Sam's loneliness. During the movie, Jonah makes a phone call to a radio talk show and tells about Sam's loneliness. Several hundred female listeners to the talk show feel sorry for Sam and write letters to him expressing their desire to marry him. Jonah shows him a letter they received from a woman in Oklahoma. Sam asks Jonah "Do you know where Oklahoma is?!" Jonah replies "Somewhere in the middle?" Sam says "I am afraid to even think of what they are not teaching you in school!" As academics, we the authors, often feel the same way when we desire to talk about global economic issues. Even simple questions such as "where is Uruguay?" often elicit a response similar to Jonah's "Somewhere in the middle?"

A recent survey of American college students revealed that roughly only three students out of one hundred and seventy (<2%) knew of any other trade agreements other than the North American Free Trade Agreement (NAFTA), the General Agreement on Trades and Tarriffs (GATT), and the European Union (EU). None realized that there are well over 130 trade agreements worldwide, much less the long term positive impacts of free trade among trading partners. However, what was found during the same survey was that progress has been made in these same students' understanding of the benefits of prosperous economies and the resulting stability of their respective national governments .

The general population's understanding is quite different, however, since many depend on age old ideas of market independence, isolationism or even blatant isolationism, rather than understanding the level of market interdependencies (Lee, 2001) . A quick walk through any grocer, even of modest size, and a sample reading of the labels and discovering the point of origin of many products would soon educate many to our interdependence. Many need to ask themselves the following questions; where does my fruit come from in the winter, what is the point of origin for the material in my clothes, and where is it manufactured or sewn? For many who rally around trade independence, their ethnocentric bias is often carried in a foreign car to the rally, clothed with goods from another country, while standing on a wood platform made from wood imported from a neighboring country.

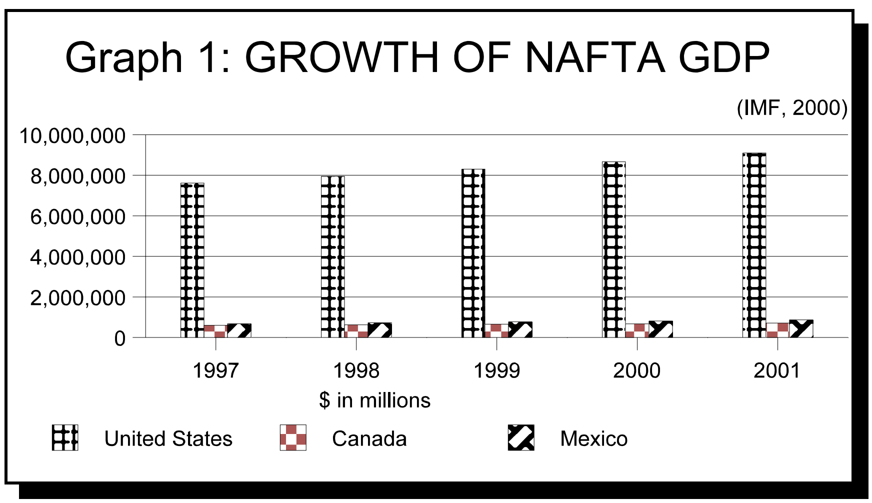
Even fewer realize how sometimes small changes in an economic policy in one country can nearly decimate a struggling industry in another country. This fact is exacerbated when a majority of the population is ignorant not only of the economic drivers in the foreign country, but are more likely than not, ignorant about the country in general. While a majority (66%) of Americans believe that NAFTA has been great for large organizations, they are ignorant that over 60% of all U.S. based foreign trade is accomplished by firms classified by the U.S. Department of Commerce as being a "small business" (Reynolds, Hay & Camp, 1999; Landers, 1998; Erramilli & D'Souza, 1993).

Compounding the ignorance of the long term benefits of foreign trade of the world's population is the turbulence created by the one or two industries that would be struggling regardless of foreign competition. Many times these struggling industries have become lethargic, non-competitive, and are not necessarily meeting the needs of the consumer. Foreign competition brings a new level of awareness to many organizations and that awareness forces them to be more responsive to the consumer. Governments continue to intervene as the U.S. did when Harley-Davidson was struggling, but since that intervention, the quality of choice and product for the consumer has gone up dramatically.

BENEFITS OF INTERDEPENDENCE

The secondary reason most of the general population resist expansion of trade agreements and the opening up of domestic markets to foreign trade, besides ignorance, is the short term perspective of people and the world market. In the short term, free foreign trade without pain in the domestic market is impossible. Nevertheless, many do not see the tenacity of labor markets, instead they only see the short term displacement of labor. Regardless of the "facts," as some would present them, labor is truly only displaced in a faltering economy (Smith, Magnusson & Wherlen, 2001). The U.S. economy is evidence of this phenomena. When foreign trade is introduced, yes, displacement occurs. Nevertheless, redeployment quickly follows as the economy expands. This is evidenced by very low unemployment rates in the United States during the 1990's after the adoption of NAFTA in 1994. Mixing two economic factors such as (1) economic cycles and (2) the impact of foreign trade to disprove the benefits of interdependence is unfair.

The unfairness in mixing economic issues and global trade effects lies in the fact that long-run implications of foreign trade increases the market strength of both partners as evidenced in the graph 1.



The continuing growth in GDP/GNP of the NAFTA members during this period, especially Mexico, illustrates clearly that free foreign trade builds markets and strengthens the overall economies for all involved (Chappell, 2000). This should be especially true of hemispheric trading partners who are at seasonal opposites to provide balance to the seasonal cycles that typically occurs in a stand alone /isolated economy. Imagine if the local grocer could only sell products grown in-season, in-country? Although obvious to grocers, importers, exporters, and exporting farmers, the benefits to our diets and economy seems to be lost on the general public.

Contributing to peoples fears of interdependent markets for resisting trade agreements and short-term thinking is not accounting for flexibility and adaptability in markets. Anecdotal evidence makes it clear that it may be okay to some for a dominant domestic market leader (such as Wal-Mart) to close domestic competitors out of a domestic market, but an international player proves fearful to the ignorant. This fear stems from the impatience of seeing balance occur after the weaker competitors have been either forced to improve or fail. The news media has reported judiciously on how unions have played this card repeatedly to protect domestic workers when in fact, even after the agreement had been signed, the volume of work performed by foreign workers is statistically insignificant (<1.5% of U.S. GDP) (Smith, Magnusson & Wherlen, 2001). Adaptation occurs over time and people seldom see the present except for the bad, or remember the past except for what was good, while at the same time refusing to see the future for what might be. If organizational change is unsettling to the members of an organization, why should it not be unsettling to the members of society? Nevertheless, international trade has brought great improvements in the standard of living for people all over the world.

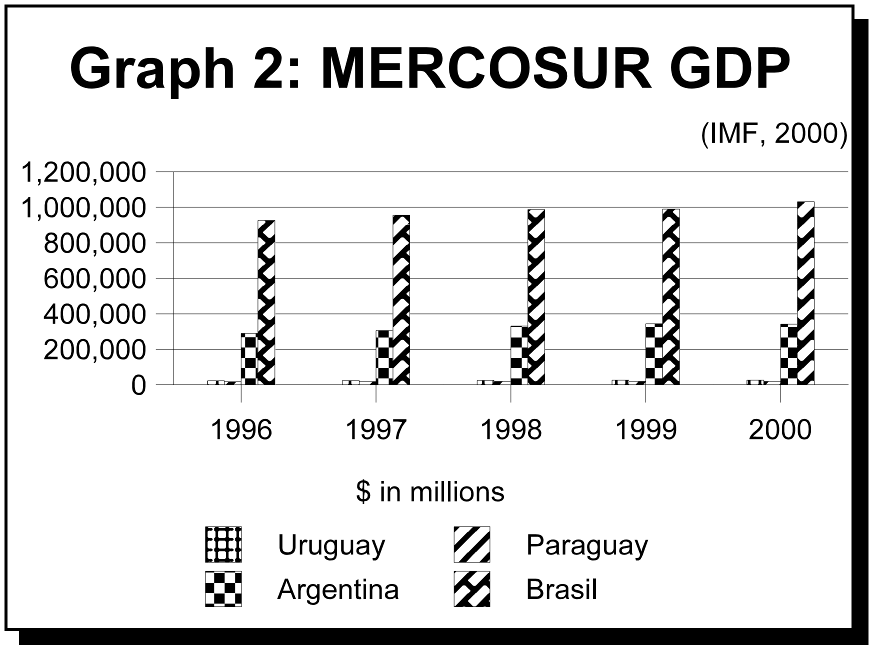
Skeptics of the benefits of trade agreements contravene the job creation activity that goes hand in hand with the entrepreneurial climate created by such agreements (Sage ,1993). In the U.S. alone, 87% of all new jobs created are by small entrepreneurial firms (employing less than 250 employees) vying to satisfy the unmet needs of the consumer (Timmons, 1999). The short term perspective again prefers to point out employment displacement over employee redeployment while the longer view looks at the benefits of a larger more stable economic engine capable of weathering downturns in business cycles. Stability in the national and global economy is the driver behind stable governments (Kleinheisterkamp, 2000). Potentially the greatest possible gains for trading countries is the creation of opportunities of entrepreneurship introduced by opening up foreign markets. Articles about management, entrepreneurship, and economics are replete with evidence of first mover advantages for entrepreneurs (Lado, Boyd & Hanlon, 1997). Are countries any different? If countries are to be entrepreneurial, they must take a first mover approach to establish themselves in the world market in areas where they are competitive.

MERCOSUR

The membership of the Mercosur nations is composed of four primary members, Uruguay, Paraguay, Brazil, and Argentina which represent 200 million consumers and a combined economy of over one trillion dollars (Mye & Patagonia, 1996). It has two associate members, Bolivia and a more aggressive international trading partner, Chile which has been leaning towards trade independence more every year. Since its inception, Mercosur has seen continued growth through expansion of joint trade treaties with other countries both near and far such as South Africa (Buscaglia & Long, 1996; WSJ, 2000). There has been many benefits of the Mercosur agreements including normalization of pricing practices and reduction of trade tariffs of the Mercosur members as well. Other benefits include the coordination of products to be traded and the development of specific industries within each of these member states (Osava, 2000).

Mercosur has not been without its problems, especially concerning the stability of the economy in some of the members (Colitt, 2001). The economic instabilities in member economies forced the member governments to dramatically devalue their currencies at different times. Chart 2 clearly illustrates how the gross domestic product has declined as each member has had their share of economic downturns (See Graph 2).

Although alternating poor economies is a hurdle to be overcome, the Mercosur partners have made progress. Changing from a controlled market economy to a free market economy takes time as well as a change in the psychology-philosophy and values of the members societies (Jelin, 2001). As more segments of the economy are privatized, there will be pockets of success as well as failure. One of the brighter spots of success in the Mercosur member countries is the digital phone systems which they now enjoy. This relatively recent change is a direct result of opening up a typical state controlled business to free market forces. Today, Mercosur members enjoy one of the best digital phone systems in the world, far surpassing large regions of the United States in phone communication quality and in data transmission.



NORTH AMERICAN FREE TRADE AGREEMENT

The North American Free Trade Agreement (NAFTA) is composed of three primary members; the United States of America, Mexico, and Canada. The outgrowth of this treaty has positive, far reaching effects on the economies of the three members economies. One of the primary differences between the NAFTA members and the Mercosur members is the often understated level of interdependence brought about by the high level of multi-national ownership enjoyed within the NAFTA membership (Bonelli, 2000). Once considered the weaker of the three NAFTA members, Mexico has made sharp economic gains and has reduced unemployment considerably since joining. The value of the Mexican Peso has continued to strengthen and move to a level of relative stability over time compared to the past when substantial swings in valuation made direct foreign investment risky for those seeking new venture creation.

NAFTA is not free from critics. Again, most criticisms come from the short term ill effects of redeployment of labor during the transition stages or environmental disparities between trading partners (Hilpold, 2001). Many still perceive that big business benefits the most, although this is patently false. Most anecdotal reporting of how big business has benefitted is the reporting of the Maquiladora influence along the border between the United States and Mexico. Few realize that many smaller businesses have opened in both the United States and Mexico to serve these new markets. Currently both Canada and Mexico are running trade deficits with the United States. However, periods of deficits can be indicative of industry growth and productivity advantages enjoyed by these members. NAFTA has been expanding its reach globally by entering into favored trading partner agreements with non-western hemisphere countries.

EUROPEAN UNION AND COMPETITION

In response to NAFTA's more aggressive moves to enter into preferred trading partner agreements either collectively or in concert, the European-Union (EU) has also started targeting countries that show great potential in adding value to the European Union (Barnard, 2000). This is of particular relevance to the Mercosur trading partners since many in South America see themselves as having stronger ties to Europe than to the NAFTA partners (Ogier, 2001). Language, like the currency, has been a problem, but the EU's recent introduction of a common currency has met mostly with favorable response by its patronage.

The EU common currency is perhaps the most important driving factor in solidifying the EU. With a common currency, the limited ability to transact business because of language barriers AND currency barriers has been greatly diminished (Eichengreen, 1998). Common currency immediately allows producers immediate access to previously limited knowledge about the efficiency of competitors in foreign countries and make appropriate competitive operational decisions. A common currency also allows consumers to readily compare products from both near and far. For national economists and direct foreign investors, a common currency provides a means of somewhat controlling the economies of all the member nations. This stability in the long term encourages investment by both internal and external companies (Cardenas & Tempesta, 2001).

FREE TRADE AGREEMENT OF THE AMERICAS

What has history shown us? Momentum is powerful, especially when the long term benefits outweigh the short term costs. The reason for Free Trade Agreement of the Americas (FTAA) is as clear as the original thinking was for Mercosur and NAFTA trade agreements: that well balanced economies provide for more stable governments which result in higher standards of living and fewer burdens on society in general. It is an inevitable fact that FTAA will come to pass in 2005 for this very reason (Anderson, 1996). However, it will not happen easily. Each member country must be willing to accept responsibility for a stable currency and minimal trade restrictions and tariffs. Free trade is working well for both the EU and NAFTA and for the benefit of all associate members.

As the economic engine of the western hemisphere continues to build, there will be continuing pressures to bring in the remaining nations into a tariff-less hemisphere. There will be problems as each country follows the applied rules of economic advantage and develop those resources of which it is best suited and has the natural advantage (Becker, 2001). American agriculture will suffer in some areas, especially in the fruit and vegetable sectors, but there should be some balancing effect attributable to the cyclic seasonal variations between the northern and southern hemispheres.

Governmental policies of member nations will have to be addressed as well as the social expectations of society (Jelin, 2001). The level of social reform and tax rates in given regions will have to change, which means many potential member nations of the FTAA will need to look at different sources of revenue for governmental operations to continue supporting social programs at their current levels. A review of rights-versus-responsibilities and the degree of society expectations will need to be reexamined by each member society as changes occurs. Many Americans are ignorant of how "welfare" and "homeless" have much different meanings in each country outside the United States.

Secondarily, special interest groups such as labor unions, student unions, and cooperatives will resist changes in economic policies in order to maintain power and control over what are sometimes artificially created economies for their products or services (Millman & Pinkston, 2001). Mexican farmers complaints about U.S. sugar and avocado quotas are but one example of how "special interest" old line companies and groups want federal protection (Thompson, 2001). However, this is not limited to agriculture (Rowley, Thorbecke & Wagner, 1995). Labor unions perceived protection of American trucking in the United States will be a major hurdle for NAFTA in the near term (Stokes, 2001; Weiner, 2001). In Uruguay, a college education is free providing you can show evidence of completion of high school. How much is that education worth if it does not have a free market in which to operate? How well will a college education, free of competition, fair in an open economy where the market dictates what is desired rather than what a protectionist ruling committee dictates? The EU, as recently as last year, refused to allow the merger of Honeywell and General Electric to occur citing that it would create an unfair advantage in the aircraft industry while at the same time the EU members subsidize Airbus(Messerlin, 2001). No one country is innocent of trying to protect one market segment or industry within their economy. All areas of each members economy will have to be reviewed with an open eye toward protectionism based on special interests rather than on what protectionism should be used for; protecting national competitors from dumping and other economic atrocities.

CONCLUSION

Global economic illiteracy is perhaps the greatest problem facing the world during this present age. Poor economies breed unstable governments which result in both the misappropriation of human capital and in protectionist policies. This misappropriation of human capital is tragic in that many highly skilled, educated workers are left with jobs that do not allow the individual to reach their full potential. Protectionist policies in the long term erode the basic tenet of business; that free markets can and do provide consumers with selection, high quality, and lower costs.

For progress to be made, both national and local governments, public and private schools and all institutions of higher learning must begin to use all resources to educate the public about the benefits of open markets and close relations with their trading neighbors. Higher standards of living including those of improved health standards, stability in governments, and lower crime because of fuller employment are but a few benefits of a global trading society.

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