RESHAPING THE REGIONAL ECONOMIC INTEGRATION: THE CASE OF NAFTA-USMCA TRANSFORMATION

ЗМІНИ В УМОВАХ РЕГІОНАЛЬНОЇ ЕКОНОМІЧНОЇ ІНТЕГРАЦІЇ: НА ПРИКЛАДІ ТРАНСФОРМАЦІЇ NAFTA-USMCA

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Global trends indicate that the activation of integration processes characterize the state-of-the-art situation of the world economy. The WTO statistics show the constant growth in the number of regional trade agreements (RTA). These RTAs are not the static entities of the global economy but dynamic actors which are reshaping all the time (Brexit, NAFTA-USMCA transformation, Ukraine’s exit from the CIS can prove this). The objective of this study is the recent change in the NAFTA agreement as one of the most influential RTA in the world. According to The World Bank data in 2019 global GDP consisted of NAFTA’s GDP on 28 %, global export consisted of NAFTA’s export on 12 %, meanwhile, NAFTA’s import was 19 % of the global one. The investigation shows that all of the NAFTA countries took the advantage of the deal and had their benefits. Separately they would never have achieved such astounding results in quite a short period of time.

Keywords: integration, regional trade agreement, NAFTA, economic integration, free trade agreement.
автовиробників та робітників. За деякими оцінками експертів впровадження USMCA забезпечить прирост ВВП Канади на 5,1 млрд. дол., або 0,49 % за 5-річний період. Інші дослідження свідчать про протилежне; тому поява Канади відстівна. Для Мексики нова угода стала чудовою новиною для малих бізнесів. Тим не менш, нова міграційна політика США та їхній високий рівень протекціонізму ставить серйозну перешкоду для трудової міграції мексиканських робітників. Тим часом у США дефіцит некваліфікованої робочої сили буде лише зростати. Поліпшення системи освіти та старіння американського населення збільшують попит на некваліфіковану робочу силу з-за кордону, наприклад, Мексики. Це питання потребує подальшого дослідження в рамках НАФТА.

**Ключові слова**: інтеграція, регіональна торгова угода, НАФТА, економічна інтеграція, угода про вільну торговлю.

Мирові тенденції указують на те, що активізація інтеграційних процесів характеризує современу ситуацію в мировій економіці. Статистика ВТО свідчить про постійне росте кількості регіональних торгових домовгнень. Цей середмісья не являється статичними акторами світової економіки, а динамічними суб'єктами, які взаємодіють між собою. Найвпливовішими серед них є США, Канада та Мексика, створені 1994 року укладенням угоди про свободу торговель. По даним Всемірного банку, в 2019 році світовий ВВП становив 66,3 трлн дол., або 28 %, який вигідно зустаровляється на НАФТА. Інші дослідження свідчать про протилежне: тому появу НАФТА є чудовою новиною для малих бізнесів. Тим часом у США дефіцит некваліфікованої робочої сили буде лише зростати. Поліпшення системи освіти та старіння американського населення збільшують попит на некваліфіковану робочу силу з-за кордону, наприклад, Мексики. Це питання потребує подальшого дослідження в рамках НАФТА.

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tive products, and later, successful cooperation led to a free trade agreement in 1987.

Canada's goals in joining the negotiations were very clear: to exclude the receipt of Mexican goods through an intermediary – the U.S., as it happened throughout the 20th century; not to cut the share of its presence in the U.S. exports, and to save the flow of American investment in the Canadian economy. The economic benefits of free trade with Mexico, Canada considered a long-term perspective. Mexico, in its relations with Canada, first of all hoped to solve the difficult issue of labor migration, as well as to use Canada as a possible mediator in relations with the U.S.

The U.S. was no less interested in cooperating with Mexico, at least because of a developing market with a population of 80 million people and relatively cheap work force. Mexico, in turn, according to the U.S. International Trade Commission (USITC) report [4] experienced economic stagnation in the first half of the 1990s, which was followed by the five percent average export growth in 1991. At the same time, FDI had a growing trend towards NAFTA. Following the study of Zilkin [5], the Mexican government followed a policy that already contributed to improving economic relations with the U.S., and NAFTA only served to solidify these relations.

The NAFTA agreement, signed on December 17, 1992, took into account the national interests of all contractual countries: to the U.S. it simplified the access to labor and investment markets in partner countries; Mexico and Canada received access to U.S. goods, services, and investments. However, Mexico and Canada initially had unequal bases for integration with the largest economy in the world. At the time of its creation, NAFTA had placed a significant disproportion in the economic weight of the three countries-parties to the agreement: Canada made 8.6% of the total GDP, Mexico – 4.4%, the U.S. – 87%.

Since that agreement came into force, this integration has had a significant impact on the world economy. According to The World Bank data [6], in 2019 global GDP consisted of NAFTA's GDP on 28%. In Fig. 1 it can be seen the rapid and consistent NAFTA's GDP growth. According to our estimates based on World Integrated Trade Solution [7] data NAFTA's export in 2018 reached the point of $2,566,113 billion, which was 12% of the world's export. Meanwhile, NAFTA's import was $3,535,566 billion and that was 19% of global import.

Throughout all these years, each of the country faced several issues and took several advantages from this agreement. According to various studies, the impact of the agreement is not the same for all countries. We can say with confidence that the agreement improved the economic relations between the countries and the economic situation in general. The reliability of the first fact can be seen from the data in table 1, which shows social-economic indicators of NAFTA countries in 1993 and 2017.

![Figure 1. Global to NAFTA GDP comparison](source: Compiled by authors based on The World Bank data [6])
All countries increased their export and import quotas. It shows the increase in the openness of NAFTA economies. Between 1993 and 2019, trade between the three countries quadrupled from $290 billion to $1.23 trillion [7].

Since NAFTA was enacted, U.S. foreign direct investment in Canada and Mexico has more than tripled to $500.9 billion. In 2017, U.S. businessmen invested $391.2 billion in Canada and $109.7 billion in Mexico [9; 10]. Prices went down, it became cheaper to import, and many opportunities arose for small businesses.

For a deeper analysis, it is better to start with the advantages and disadvantages for the countries. Based on the resources [11] and [12], we can conclude that with the implementation of NAFTA, fundamentally new conditions arose for the development of the Canadian economy. Public debt and deficits have decreased because of significant changes in the economic system, restructuring and modernization of Canadian industry, privatization of major state-owned enterprises, radical reforms of the mechanism of state regulation in the economic sphere. The economic interdependence between the United States and Canada continues to grow. Mexico plays a minor role so far. Although the share of Mexico in Canada’s foreign trade turnover in 1999 was about 0.5% for Canadian exports ($1.2 billion) and about 2% for Canadian imports ($4.3 billion), over the years of NAFTA operation in the Canadian-Mexican trade there was a marked increase. Canada relies on the support of Mexico to counter the protectionist actions of the United States. In turn, Mexico received full support from Canada in 1995 when it applied to the IMF and the IBRD when it became necessary to intervene urgently to save the Mexican peso. Due to close cooperation with the U.S., and later with Mexico, Canada expects to solve the problem of creating new jobs in knowledge-intensive industries and related services by increasing local production, as well as find partners in the person of NAFTA members to resolve environmental problems and international security issues.

Mexico’s integration has several pros and cons according to [12], [13], and [14]. The aligning of the NAFTA agreement has strengthened the already existing imbalances in the economic development of the regions, consolidated the existing structure of their economic development. Although, on the other hand, the prerequisites for creating conditions for the involvement of the least developed states in the international division of labor are also noticeable. Investments made by large foreign companies in the Mexican economy completely subordinated its regional development to the interests of foreign capital. States located in the northwest and the north-east of the country in recent decades, more and more actively integrate with the US economy, while some states of southeastern Mexico stayed away from economic data transformation, experiencing technological hunger and lack of investment. Production relocated from the U.S. has created jobs, but they are still low-paid. A big amount of manufacturers, lack of policies in terms of environmental protection has created serious problems with the ecology. Since the implementation of NAFTA, environmental degradation in Mexico has worsened as trade has increased. The number of factories in the maquiladora doubled, and by 1994, the zone was responsible for 58% of Mexican exports, as opposed to only 12% eleven years earlier. As a result, from 1985 to 1999, municipal solid waste production in Mexico grew by 108%, water pollution by 29%, and urban air pollution by 97%. Only 12% of the eight million tons of hazardous waste produced in the maquiladoras are properly treated and disposed of, and 70% of it remains within Mexico’s borders. Toxic emissions and particulate matter produced as a byproduct of the manufacturing and trans-

### Table 1: Social-economic indicators of NAFTA countries

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<tbody>
<tr>
<td>Population (millions of people)</td>
<td>92</td>
<td>129</td>
<td>29</td>
<td>37</td>
<td>263</td>
<td>327</td>
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<tr>
<td>Nominal GDP (billions US$)</td>
<td>508</td>
<td>1,148</td>
<td>548</td>
<td>1,627</td>
<td>7,309</td>
<td>19,371</td>
</tr>
<tr>
<td>Nominal GDP, PPP Basis (billions US$)</td>
<td>790</td>
<td>2,372</td>
<td>654</td>
<td>1,671</td>
<td>7,309</td>
<td>19,371</td>
</tr>
<tr>
<td>GDP per capita (US$)</td>
<td>5,499</td>
<td>8,89</td>
<td>19,914</td>
<td>44,415</td>
<td>27,777</td>
<td>59,332</td>
</tr>
<tr>
<td>GDP Per Capita, PPP</td>
<td>8,555</td>
<td>18,37</td>
<td>22,531</td>
<td>45,63</td>
<td>27,777</td>
<td>59,33</td>
</tr>
<tr>
<td>Export of goods and services (% of GDP)</td>
<td>14</td>
<td>37</td>
<td>33</td>
<td>31</td>
<td>10</td>
<td>12</td>
</tr>
<tr>
<td>Import of goods and services (% of GDP)</td>
<td>18</td>
<td>39</td>
<td>32</td>
<td>34</td>
<td>11</td>
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Source: compiled by authors based on the Economist Intelligence unit data [8]
portation industries – note that 70% of all NAFTA goods are transported by trucks whose emission standards do not meet U.S. regulations – have been connected to increased threats of cancer, asthma and respiratory diseases, as well as a number of serious birth defects near the border [13]. On the other side, Mexican economy is developing in giant leaps, having the support of two of the most influential countries in the world.

Having analyzed articles and reports [2-4], [12], [15-19], we arrived at the conclusion that NAFTA rather had positive effect on the U.S. economy. The same can be said about trade with Mexico and Canada, according to the data of the office of the U.S. Trade Representative, U.S. trade with these countries increased by 250% during the period of NAFTA’s existence, from $290 billion in 1993 to $1.14 trillion in 2017. Trading with Mexico and Canada can be described by the data in Figure 2.

Analyzing the figure 2, we can conclude that during the existence of NAFTA, the U.S. has greatly developed the automotive industry. However, there was a significant downsize in this industry due to this agreement combined with the effect of automatization, but nowadays the industry is regaining power.

The same goes for the agricultural industry, with both sectors having a negative trade balance, which means that the country consumes much more imported products than it exports. However, it is not possible to assess the impact of the agreement on the development of industries, as other factors, such as economic growth and changes in exchange rates influenced this. Oil prices went down because the U.S. could now import much of its oil from Mexico and Canada. The elimination of tariffs plus the lack of political tension makes this cheaper than importing from the Middle East.

On the other hand, there are some obvious disadvantages for the U.S. economy: unemployment, lowered wages and increased trade deficit. From 1993 to 2018, the trade balance has a negative trend, the deficit volume increased from 9 to 110 billion US dollars [17]. NAFTA has not solved the problem of mass illegal immigration from Mexico from the very beginning of building relations with the U.S. In the early 1990s Mexican authorities proposed to include in the agenda of negotiations on NAFTA the issue of liberalization of the labor market, following the example of the EU. However, the U.S. found this proposal unacceptable.

As it can be seen in figure 3 the difference between U.S. and Canadian workforce isn’t that tremendous, therefore it wouldn’t have had much impact. Meanwhile, Mexican low-skilled labor level is 5 times higher than in U.S. Such a huge gap has created many challenges for the U.S.: goods made in Mexico became cheaper than the U.S. made because of the low cost of production.
and the absence of taxation on imported goods. Prices went down, product choice expanded, competition became more intense, and U.S. wages were also lowering down. To make it through, some manufacturers decided to take advantage of cheap labor costs and start producing at Mexico. As the result, not only people who worked at the particular production did lose their jobs, but also small businesses around collapsed.

On the contrary, growth in manufacturing focused on exports to Canada and Mexico has created 5 million new jobs in the United States. About 43% of all American exporting companies (over 130 thousand enterprises) supply their products to the Mexican and Canadian markets. Even imports from these countries have boosted U.S. employment, as 40% of the goods purchased in Mexico are invented and developed in American laboratories and design centers.

When it comes to the deficit in trade, Washington's deficit with NAFTA partners increased, but its increase was much less than an increase in the negative balance in U.S. trade with the rest of the world. Secondly, a decrease in the cost of imported goods helped curb inflation and allowed the Federal Reserve System (FRS) of the United States and the Central Banks of Canada and Mexico to keep key rates at a relatively low level. For the United States, the reduction in the cost of imports of Mexican and Canadian oil was of particular importance, since the American market was critically dependent on purchases of “black gold” abroad.

Finally, the guarantee regime for private foreign investment created by the NAFTA agreement has fundamentally changed the situation in this area. If before the Mexican and Canadian authorities, fearing external control over the national economy, tried to regulate the inflow of investments by American corporations, now Mexico and Canada have eliminated almost all barriers to transnational capital. As a result, American TNCs received almost complete free hand, thanks to which the accumulated volume of their direct investments in neighboring countries in the period 1993-2016 increased by 5.3 times: from 85,1 to 451,5 billion dollars, or from 8 to 16% of the aggregate GDP of these two states for the corresponding years [7].

Overall, we can conclude that advantages of NAFTA for U.S. outcome the disadvantages. Negative influence of NAFTA on the United States turned out to be relatively small, which is not strange, given its wide geographical diversification of foreign economic relations and the level of openness of the economy.

Having not only achievements, but also seeing burning issues, the leaders of the NAFTA member countries signed USMCA on November, 30, 2018, at the G20 Summit in Buenos Aires. USMCA is a new, revised trade agreement for the United States, Canada, and Mexico. In addition to the question of the impact of the agreement on the United States, another important question arises that needs to be answered: Why did the United States decide to change NAFTA? From the very beginning, it is necessary to clarify the fact that Donald Trump expressed dissatisfaction with the agreement, while he was still a presidential candidate. In the 2016 election campaign, Donald

![Figure 3. The division of workforce when NAFTA was signed](Source: OECD (1997) [20])
Trump promised to replace NAFTA, while speaking about the agreement as to the “worst trade deal in history” appealing to all the cons, neglecting the mentioned before pros.

NAFTA countries have signed an agreement on USMCA, does this mean that the problems that arose in the United States will be resolved? USMCA changed only some of the provisions of NAFTA:

– Country of origin rules: Automobiles must have 75% of their components manufactured in Mexico, the U.S., or Canada to qualify for zero tariffs (up from 62,5% under NAFTA).
– Labor provisions: 40 to 45% of automobile parts must be made by workers who earn at least $16 an hour by 2023. Mexico agreed to pass new labor laws to give greater protections to workers, including migrants and women. Most notably, these laws are supposed to make it easier for Mexican workers to unionize.
– US farmers get more access to the Canadian dairy market: The U.S. got Canada to open up its dairy market to U.S. farmers.
– Intellectual property and digital trade: The deal extends the terms of copyright to 70 years beyond the life of the author (up from 50). It also includes new provisions to deal with the digital economy, such as prohibiting duties on things like music and ebooks, and protections for internet companies so they’re not liable for content their users produce.
– Sunset clause: The agreement adds a 16-year sunset clause – meaning the terms of the agreement expire, or “sunset,” after 16 years. The deal is also subject to a review every six years, at which point the U.S., Mexico, and Canada can decide to extend the USMCA [21].

The USITC report “United States-Mexico-Canada Agreement: Likely Impact on the U.S. Economy and Specific Industry Sectors” [2] forecasts the affect of the agreement on the U.S. economy. Report revealed the USMCA will have a positive impact on U.S. real GDP and employment. But the numbers are not going to be spectacular. The USMCA will raise real U.S. GDP by $68,2 billion. Although this is positive, it is only 0,35% of the total GDP of the country. In terms of employment, it could generate up to 176 000 jobs or 0,12% of the overall number. The biggest impact of the USMCA is going to come from new rules on international data transfers and e-commerce. These rules were not part of NAFTA. The new intellectual property rights provisions will increase protection for firms in the U.S. who rely on intellectual property. The agreement will also restructure automobile production by increasing regional value content (RVC) requirements. Additionally, 40% of each vehicle is going to be made by workers who earn $16 per hour.

Conclusions and perspectives of further research. To sum up, in the end, all of the countries took the advantage of the deal and had their benefits. Separately they would never have achieved such astounding results in quite a short period of time. It is popularly believed that success always comes along with some sacrifices and this particular deal is successful despite all of the missteps every country has had. When it comes to changes and their impact on each of the participant, for Donald Trump, the new deal with the Mexicans was a political success, at least for his constituents. He kept his promise and revised the agreement. He showed determination and firmness in his positions, being able to advance in the new version of the agreement provisions on the protection of domestic automobile producers and workers. He may also finally say that he managed to get the Mexicans to agree to protect intellectual property.

For Canada, this agreement was a real blow. Donald Trump, without concessions from Ottawa, said he could leave them out if they did not agree to join the deal soon. Canada’s exit from free trade with the United States would hit both countries, and no one wanted that. Canada had very little time, as the president intended to submit a new agreement with Mexico to Congress before the November election. The economic impact assessment released by Global Affairs Canada (GAC) [11] estimates that implementing USMCA would secure GDP gains of $5,1 billion, or 0,49% over a 5 year period. Other studies suggest the opposite; therefore, the position of Canada is still unsteady.

For Mexico, the new agreement demonstrated the flexibility of their leadership. In addition, Mexico City managed to keep the agreement, and hence all its benefits, along with the negative sides. The new agreement was great news for small businesses in both countries. Nevertheless, this was terrible news for most Mexican workers because of Trump’s new migration policy and this level of protectionism; their chances of using this agreement to their advantage are zero. Meanwhile, in the United States itself, the shortage of unskilled labor will only increase. Improving the education system and the aging American population are increasing the demand for unskilled labor from abroad, such as Mexico. It is unclear exactly how the new agreement will address this issue.
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