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NAFTA: its Recent Challenges and their Impact on International Trade Regimes

Master's Educational Program of International Marketing

Master thesis done to obtain Master's degree in Business Administration in Marketing

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Tbilisi, 2019

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Abstract

The role of economic cooperation has been taking place as a very powerful tools among countries, since 19th century a several of trade agreements were created within countries around the world. NAFTA was one of the world largest free trade Agreement. The NAFTA is a regional agreement between the Government of Canada, the Government of the United Mexican States and the Government of the United States of America, enabling the free flow of goods. The NAFTA had been in effect since January 1, 1994. Most economic analyses indicated that NAFTA had been beneficial to the North American economies and the average citizen, but harmed a small minority of workers in industries exposed to trade competition. According to the Trade Adjustment Assistance (TAA) database, more than 970,000 specific American jobs certified as lost due to NAFTA, it has also lowered U.S. wages, increased inequality, and hurt U.S. manufacturing and agriculture in all 50 states. And on 30 September 2018, it was announced that the United States, Mexico, and Canada had come to an agreement to replace NAFTA with the United States–Mexico–Canada Agreement (USMCA).

Keywords: NAFTA, TTA, United States, Mexico, Canada, USMCA

Contents

Introduction

The North American Free Trade Agreement (NAFTA), was a trade agreement signed by Canada, Mexico and the United States. According to the Balance written in its bloc, in 2018 the gross domestic product of NAFTA's three members was more than $20 trillion and it was the world largest trade union as of 2010. NAFTA was the first time when two developed nations signed a trade agreement with an emerging market country. NAFTA sought to eliminate non-tariff trade barriers and to protect the intellectual property right of the products. And the three signatories had agreed to remove trade barriers between them, by eliminating tariffs. NAFTA aimed to promote the conditions of free competition in order to increase market access and investment opportunities within the free trade area. The NAFTA agreement was involved 2,000 pages, with eight sections and 22 chapters.

According to MRUNIVERSITY (an online education platform), NAFTA had provided benefits to the North American economies, it called for the immediate removal of tariffs on 70% of US imports from Mexico and 50% of Mexican imports from the US, and all agricultural tariffs phased out by 2008. Most economist has strongly agreed that NAFTA had benefited the three signatories. At the same time it had a bit harmful of its parties like U.S. jobs were lost, putting Mexican farmer out of business, as a consequence illegal immigration from Mexican to U.S. were increased.

On May 2017, President Trump had threatened to "rip up" NAFTA and renegotiate a new agreement that better favors the United States and its workers. After more than 13 months of negotiation on 30 Sep 2018, the governments of the United States, Canada and Mexico announced they had reached a trilateral deal to replace NAFTA, the new deal is called the United States-Mexico-Canada Agreement which was signed by the three countries on 30 November 2018.

This master thesis analyses the goals, challenges and critics of the North American Free Trade Agreement (NAFTA), to assess the impact of the trade agreement between United States, Canada and Mexico, to identify the key change between NAFTA and USMCA, and to study the recent challenges of USMCA.

Methodology used:

The master thesis research is mainly conducted by using secondary data, mostly from various sources from the internet, several academic studies and web journals. Secondary research also known as desk research is a common research method that involves using information through already existing data that others have gathered through primary research.

Chapter 1: The Role of Economic Cooperation in Different Countries, Their histories & their recent Development

1.1. The Role of Economic Cooperation

According to most of the experts, economic cooperation had been strengthened during past decades and is taken as a major factor over nowadays economy world. It often includes the reduction or elimination of trade barriers, and the coordination of monetary and fiscal policies.

Economic cooperation means the coordination of economic and business process between different regions or different countries for the purposes of production, purchase and distribution of goods and services for their joint benefit. It aims to reduce costs for both consumers and producers and to increase trade between the countries involved in the agreement and the goals sought by the different countries that were relatively independent from each other.

Economic cooperation is closely related to the changes that have taken place in the world scenario in recent decades and particularly, to the processes of globalization and integration currently going on, and we can say that at present, the existence of global markets is just the result of an advanced stage of the process of internationalization of the different economies, which began with the start of industrial capitalism in the 19th Century and there were several co-operatives, some were initially successful, but most cooperatives founded in the early 19th century had failed. However, from a historical viewpoint, in economic terms, states have always maintained relations of exchange and interdependence based on trade and investment. Economic cooperation is cooperated to enable free trade that encourage and promote economic growth. And economic growth is essential for long-term sustainable and socially-inclusive development. Economic growth creates the income opportunities needed to raise living standards and lift people out of poverty. For there is no nation that can produce all its need alone, economic cooperation has been taking as a major role in today economy world.

And the role of economic cooperation could be:

- Maintaining financial growth of Member States;
- Elimination trade barrier and enabling free trade among member countries.
- Steady incorporation of the Member States' economies with the economy of the world;
- Promote economic growth and raise living standards.
- Encouraging trade and enable global market.
- Growth of transportation and interactions infrastructure connecting the Member States with each other and with the outer globe.
- Equally useful collaboration with local and global organizations.

According to AGCI Economic Cooperation book that released on December1999, in the second half of the 20th Century, foreign trade became increasingly important as a share of G.D.P. and of the socioeconomic development of countries. Specifically, foreign trade has grown at a rate higher than G.D.P. since the 1950s. There were several building of cooperatives organization what are still playing on the important role in nowadays world economy like The World Trade Organization (WTO), Preferential Trading Area (PTA), North American Free Trade Agreement (NAFTA), Mercosur (South American trade bloc), The Association of Southeast Asian Nations (ASIAN), The European Union (EU), Gulf Cooperation Council, The Southern African Development Community (SADC), and The Black Sea Economic Cooperation (BSEC).

1.2. The World Trade Organization and GATT

The World Trade Organization (WTO) is the only global international organization that deals with the global rules of trade between nations. It is an umbrella organization established to promote trade liberalization, the goal is to ensure that trade flows as smoothly, predictably and freely as possible. The WTO is driven by its member states; it could not function without its Secretariat to coordinate the activities. The WTO Secretariat employs are over 600 staff, and also include its experts' lawyers, economists, statisticians and communications experts so as to assist WTO members on a daily base, and among other things that negotiations progress smoothly, and that the rules of international trade are correctly applied and enforced.

The WTO has many roles: it operates a global system of trade rules, it acts as a forum for negotiating trade agreements, it settles trade disputes between its members and it supports the needs of developing countries. The role of WTO in international trade is as stipulated in the Agreement establishing it and includes: first is facilitating the implementation, administration and operation and furthering the objectives of the agreement establishing it and other Multilateral Trade Agreements and providing the framework for the implementation, administration and operation of the Plurality Trade Agreements, and second is providing the forum for negotiations among its Members concerning their multilateral trade relations in matters dealt with under the agreements in the Annexes to the Agreement setting it up and for the results of such negotiations as may be decided by the Ministerial Conference,

The WTO officially came into effect on 1 January 1995 under the Marrakesh Agreement, signed by 124 nations on 15 April 1994, it was preceded by the General Agreement on Tariffs and Trade (GATT), which was concluded in 1947. Back then, after 2nd world war the Allied countries sought the need for international cooperation in economic relations and the

International Trade Organization (ITO) was established in 1946, when ITO collapsed in 1947, GATT was used for ordering the international trade relationships of the signatories. There were series of rounds of multilateral negotiations, The Uruguay Round was the final GATT Round, it was started at a summit in Punta del Este in 1986 and concluded in Marrakesh in 1994. It capped agriculture subsidies and established the World Trade Organization, and WTO has become an umbrella organization with responsibility for the GATT and its side codes. In the GATT context, there were eight rounds of trade liberalization talks. Initially, their topics were the reduction of tariffs and the phasing out of quotas, but later other trade barriers were tackled to. The GATT was the only multilateral instrument governing international trade from 1946 until the WTO was established on 1 January 1995.[1]

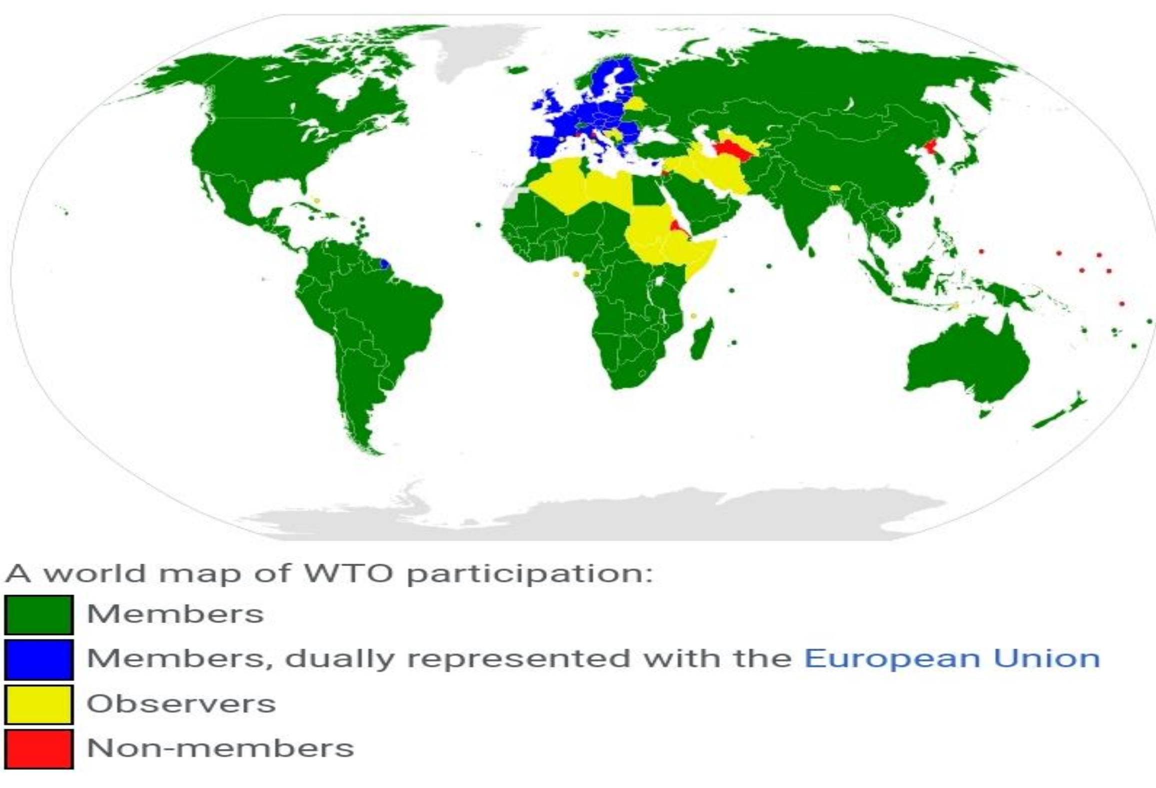

Figure 1.1. A World Map of WTO Participation
Source: WTO members and observers

[1] GAIT/ 1659 Chairman of the Contracting Parties Pays Tribute to GAIT on The EVE of The WTO, https://www.wto.org/Gatt_docs/English/SULPDF/91840063.pdf

Currently, the WTO has over 160 members representing 98 per cent of world trade. Over 20 countries are observing to join the WTO. Figure (1.1) is illustrating the membership and observers of the WTO around the world, 75% of WTO members are developing countries, all WTO agreements contain special provisions for developing countries, including longer periods to implement agreements and commitments, measures to increase their trading opportunities and support to help them build the infrastructure for WTO work, handle disputes, and implement technical standards while least-developed countries receive special treatment, including exemption from many provisions. [2]

The WTO has been entrusted with the following functions:

1. The WTO would facilitate proper implementation of multinational trade agreements.
2. It reviews trade policies undertaken by the member countries.
3. It acts as a forum for the negotiation of disputes among the member countries over trade related problems.
4. The WTO works in cooperation with the IMF and the World Bank.

The WTO forecasts the reduction of tariffs by more than one-third and is concerned with further opening of markets. According to an estimate made by the GAIT, in 2005 turnover, the increase in world income from international trade liberalization in goods could be as high as $510 billion annually. And at the year of 2007, WTO member states represented 96.4% of global trade and 96.7% of global GDP.

1.3 Preferential Trade Agreements

Preferential Trade Agreements (PTAs) are the trade blocs, formed between two or more countries which aim to reduce the tariffs charged on certain products during trade within the countries who sign the agreement. This is done by reducing tariffs but not by abolishing

[2] Congressional Research Service, World Trade Organization: Overview and Future Direction, https://crsreports.congress.gov/product/pdf/R/R45417

them completely. Although the tariffs aren't completely eliminated, the amount charged is much lesser than the amount charged from those countries who are not included in the agreement. A PTA can be established through a trade pact. It is also the first stage of economic integration and an important feature of the global trade system. (Claudia Hofmann, Alberto Osnago and Michele Ruta, 2017)

Since the era of World War II, a multilateral system has been built to support trade liberalization and regulation, and to maintain order within the global trading system, this multilateral system was created first around GATT and then around the World Trade Organization (WTO) when WTO was replaced the GATT. In 1950, a Canadian economist Jacob Viner initiated the static analysis of PTAs. According to WTO's World Trade report 2011, in 2010 the number of preferential trade agreements (PTAs) in force was quadrupled (four times) higher than in 1990. Many countries seek to lower barriers to trade within their regions as a result the number of Preferential Trade Agreements (PTAs) has increased dramatically, modern PTAs remove many behind-the-border barriers by regulating foreign direct investment (FDI), liberalizing services, and protecting intellectual property rights. According to World Bank Data Catalog Content of Deep Trade Agreements, in 1990, only 50 trade agreements were inforce and notified to the WTO, by the end of 2015, the number of trade agreements were increased to 279. [3] Figure (1.2) is also showing that the number of Preferential Trade Agreements has been increased year by years.

Preferential Trade Agreements can be categorized in two forms: Free Trade Associations and Customs Unions. Both the free trade associations and customs union are very similar in terms of the internal arrangements with which member nations agree to trade between members' countries. Under both the free trade associations and customs union, there is an agreement

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[3] The World Bank Data Catalog, Content of Deep Trade Agreements, https://datacatalog.worldbank.org/dataset/content-deep-trade-agreements

to lower or eliminate barriers to trade such as tariffs, essentially, taxes imposed on imported goods, import quotas and other protectionist tools that used to protect domestic industries from foreign competition.

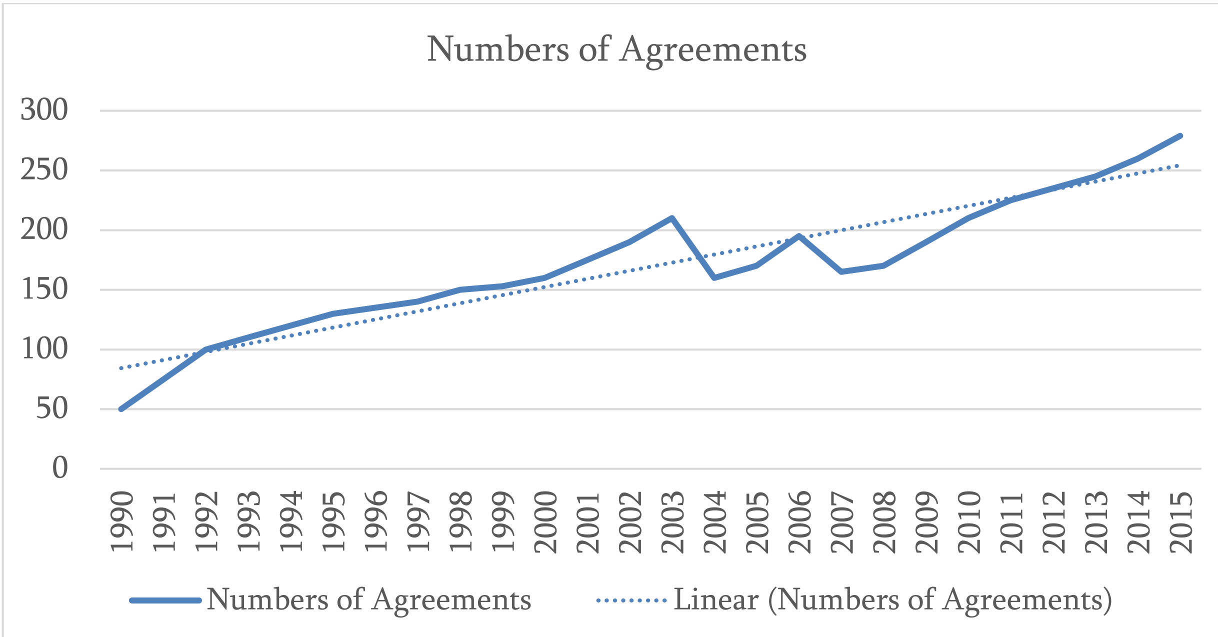

Figure 1.2. PTAs Number of Agreements 1990 to 2015

Source: Number of PTAs in Force by WTO

The free trade associations operate by removing tariffs to goods which originate within the parties but they have customs controls at the internal borders between the members so as to check that the goods do originate within the members and so are entitled to the zero-tariff concession, to make sure that if an importer channels goods from the rest of the world. Examples include the North American Free Trade Agreement and the ASEAN Free Trade Area.

In customs unions, two or more member countries agree to remove all restrictions on mutual trade among them and set up a common tariff schedule and import quotas on goods from the non-members, the result is referred to as a custom union. The group of countries in the Customs Union acts as one body in the negotiation of all trade agreements with non-member countries. As an example, Mercosur consists of Argentina, Brazil, Paraguay, Uruguay, and Venezuela. The EU is also an example of a Customs Union.

The objectives of the PTAs are summarized as follows:

i. to promote cooperation and integration covering all areas of economic activity, particularly trade and customs,
ii. industry, transport and communications, agriculture and monetary affairs
iii. to raise the standards of living of the people of the region by fostering closer relations among Member States
iv. to create a common market by the year 2000 in order to allow the free movement of goods, capital and labor within the sub region and
v. to contribute to the progress and development of all other African countries.

Preferential Trade Agreements or PTA, are formal arrangements of trade between countries that see benefits from trade amongst themselves.

1.4 North American Free Trade Agreement (NAFTA)

The North American Free Trade Agreement (NAFTA) is an agreement between the United States, Canada and Mexico aimed to remove tariff barriers between the three countries. NAFTA came into effect on January 1, 1994, and supersedes the U.S.-Canada Free-Trade Agreement (CFTA) that took effect on January 1, 1989. NAFTA required the elimination of tariffs on half of U.S. goods shipped to Mexico and the gradual phase out of other tariffs among the U.S., Canada and Mexico over a 20-year period. It was one of the world’s largest free trade zones and laying the foundations for strong economic growth and rising prosperity for Canada, the United States, and Mexico. [4]

[4] NAFTA Official Website, NAFTA now.org: http://www.naftanow.org/

Since the establishing of NAFTA, trade and investment levels in North America have increased, bringing strong economic growth, job creation, and better prices and selection in consumer goods, and it has demonstrated how free trade increases wealth and competitiveness, delivering real benefits to families, farmers, workers, manufacturers, and consumers. So the NAFTA could better the American, Canadian, and Mexican economies.

The North American Free Trade Agreement's purpose is to reduce trading costs, increase business investment, and help North America be more competitive in the global marketplace. On January 1, 2008, the last remaining tariffs were removed within North America. More detail about NAFTA has described in part (2) “NAFTA, and its challenge and its goals”.

1.5 MERCOSUR

Mercosur (The Southern Common Market) is a trading block composed of countries in South America, it is an open and dynamic process since its creation its main purpose is to bring about the free movement of goods, capital, services and people among its member states, to promote a common space that generates business and investment opportunities through the competitive integration of national economies into the international market. Mercosur is initially established by Argentina, Brazil, Paraguay and Uruguay, and subsequently joined by Venezuela. And there are five countries with associate member status. These countries are Bolivia, Chile, Colombia, Ecuador, and Peru. As associate members, they are able to join free-trade agreements but do not receive the benefits of the customs union.

The Treaty went into force in 1991, effectively mandating the creation of a common southern market in December 31, 1994 original signatories are Argentina, Brazil, Paraguay and Uruguay. July 31,2012 Venezuela is officially welcomed into the Mercosur trade bloc as Brazilian President Dilma Rousseff hosted Argentina's President Cristina Fernandez and Uruguay's Jose Mojica along with Chavez for the one-day Mercosur meeting in Brasilia. Venezuela had only four years to fully adapt to the trade bloc regulations and failed to do so, for Venezuela was received a letter from the four founding countries which was saying its membership had been suspended from 1 December, 2016. Because "Venezuela has not adopted all the membership rules and treaties it had promised," one official told Reuters news agency.[5]

In 1996 Bolivia joins Mercosur as an associated member. August 25, 2003 Brazil and Peru's presidents sign a free-trade agreement between Peru and Mercosur. December 8,2004 Mercosur signs a cooperation agreement with the Andean Community of Nations. As a result, Colombia and Ecuador are brought in the fold as Mercosur associate members, joining their fellow Andean Community members, Bolivia and Peru. July 21, 2006 Venezuela is accepted as a member of Mercosur, but waiting on recognition of full membership from Paraguayan parliament. May 7,2007 The Mercosur Parliament is inaugurated following an agreement in 2004 ordering its creation. It is based in Montevideo, Uruguay.

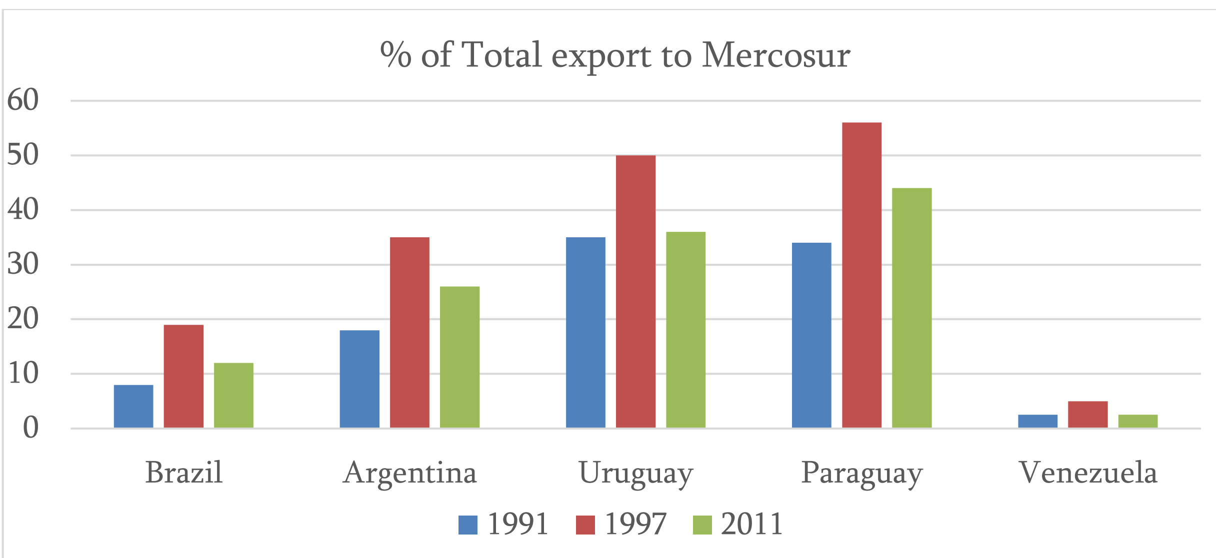

Figure 1.3. The percentages of total export through Mercosur

[5] Mercosur in Brief, Mercosur Official Website, https://www.mercosur.int/en/about-mercosur/mercosur-in-brief/

Source: *The Economic (world news, politics, economics, business and Finances), Mercosur Rip? 14th Jun, 2012.*

The main purpose of Mercosur is to increase the efficiency and competitiveness of the all member economies by opening markets, promoting economic development in the framework of a globalized world, improving infrastructure and communications, making better use of available resources, preserving the environment. Some main objectives of Mercosur are the following: [6]

1. Free movement of goods, services and production factors
2. Abolition of restrictions over the reciprocal trade
3. Establishment of one single external tariff
4. Adoption of common trade policies towards to countries that do not belong to Mercosur
5. Coordination of macroeconomic and sectorial policies.

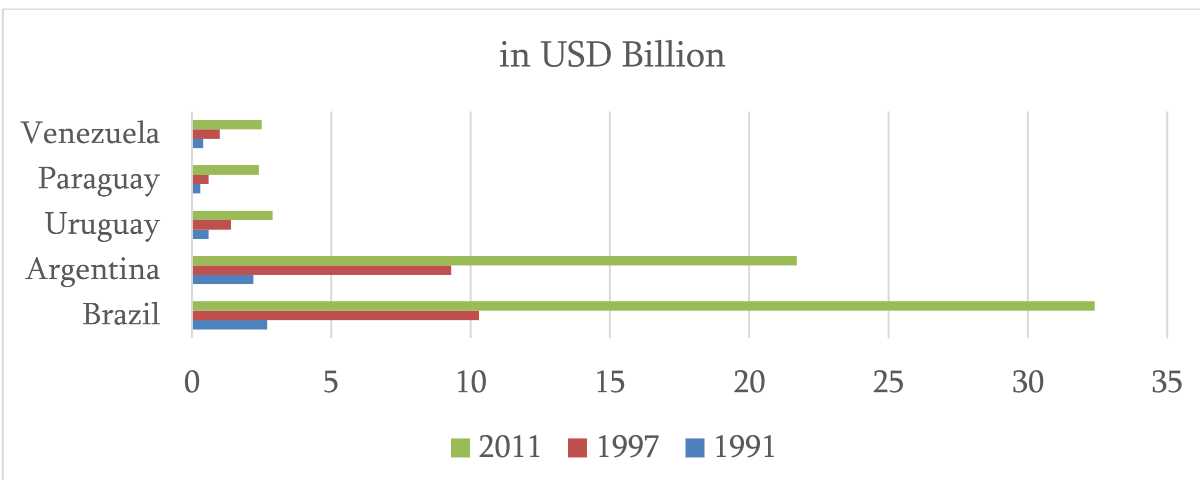

Figure 1.3. The percentages of total export through Mercosur

Source: *USITC Research Program, AS/COA (Americas Society Council of the Americas), scielo (http://www.scielo.br)*

[6] Mercosur Common Market of the South, BBC News, Page last updated at 16:08 GMT, Wednesday, 15 February 2012: http://news.bbc.co.uk/2/hi/americas/5195834.stm

Intra-Mercosur merchandise trade (excluding Venezuela) grew from US$10 billion at the inception of the trade bloc in 1991, to US$88 billion in 2010; Brazil and Argentina each accounted for 43% of this total. Figure (1.3) also showing the percentages of total export through Mercosur by its five members countries. (Claire Felter and Danielle Renwick, 2018)

According to the exporting process through Mercosur 1991 to 2011 Brazil benefited from export to Mercosur 2,7 $ billions in 1991, 10,3 $ billions in 1997, and 32,4 $ billions in 2011. Argentina got advantages 2,2 $ billions in 1991, 9,3 $ billions in 1997, and 21,7 $ billions in 2011. Uruguay earned 0,6 $ billions in 1991, 1,4 $ billions in 1997, and 2,9 $ billions in 2011. Paraguay gain benefit 0,3 $ billions in 1991, 0,6 $ billions in 1997, and 2,4 $ billions in 2011. Venezuela 0,4 $ billions in 1991, 1 $ billions in 1997, and 2,5 $ billions in 2011.

In order to benefit from the preferential treatments celebrated by the Mercosur agreements, that has zero rate aliquots in the transactions between Mercosur members but the only requirement for the products to be exported must have a proper Certificate of Origin. According to the Regime of Origin, for products to be considered from Mercosur, 60% of their inputs must be produced inside the country, aside from capital goods, whose index is 80%. In Brazil, the Certificates of Origin are issued by the state Industry Federations.

1.6 ASEAN

ASEAN stand for “The Association of Southeast Asian Nations” is a regional intergovernmental organization comprising ten countries in Southeast Asia, which promotes intergovernmental cooperation and facilitates economic, political, security, military, educational and sociocultural integration among its members and other countries in Asia. The aims and purposes of ASEAN is to accelerate economic growth, social progress, and cultural development in the region, to promote regional peace and stability, collaboration and mutual assistance on matters of common interest, to provide assistance to each other in the form of training and research facilities, to collaborate for better utilization of agriculture and industry to raise the living standards of the people, to promote Southeast Asian studies and to maintain close, beneficial co-operation with existing international organizations with similar aims and purposes.

There are currently 10 member states: Indonesia, Malaysia, Philippines, Singapore, Thailand, Brunei, Laos, Myanmar, Cambodia and Vietnam. The original founding nations of ASEAN were Indonesia, Malaysia, Philippines, Singapore, and Thailand in the year 1967. This was during the polarized atmosphere of the Cold War, and the alliance aimed to promote stability in the region. Over time, the group expanded to include its current 10 members. ASEAN aims to promote collaboration and cooperation among member states, as well as to advance the interests of the region as a whole, including economic and trade growth. It has negotiated a free trade agreement among member states and with other countries such as China, as well as eased travel in the region for citizens of member countries.

Across all nations of ASEAN, there is a population of over 622 million people. The region has one of the largest economies in the world, and it is believed that by 2050, it will have the 4th-largest economy in the world. It also has one of the largest labor forces in the world, falling only behind India and China. The total region stretches across over 1.7 million square miles. In 2015, the establishment of the ASEAN Economic Community (AEC) is a major milestone in the organization's regional economic integration agenda in ASEAN, AEC was collectively the third largest economy in Asia and the seventh largest in the world, with a combined GDP of $2.6 trillion in 2014, when the combined GDP in 2007 is only $1.3 trillion. Hence, between 2007 and 2014 ASEAN GDP nearly doubled while current GDP per capita increased by 76%. The following Figure (1.4) was described ASEAN economy and Population.[7]

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[7] Asean Countries 2019, World Population Reviews, Http://worldpopulationreview.com/countries/asean-countries/

With the official establishment of the ASEAN Economic Community (AEC) at the end of 2015, there is a growing expectation that the 10-strong trading bloc of South-East Asian nations will soon start to show its mettle as an economic force in the world. Its economies are forecast to grow at 5% annually until 2020, exceeding global growth of 3.52% per year. Its urban population is growing by around 2.2% annually, while the middle-class population is set to increase by 70 million to 194 million by 2020.

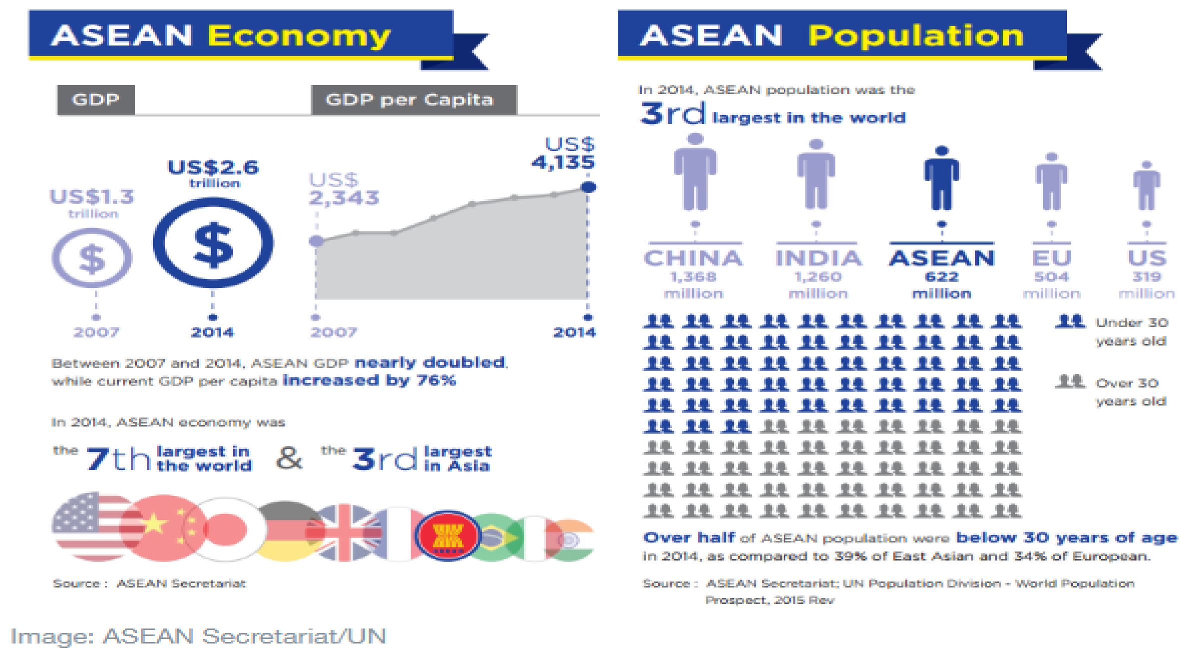

Figure 1.4. ASEAN Economy and Population

Source: *ASEAN Secretariat/UN*

And with more than 600 million people, ASEAN has the third-largest labor force in the world, after China and India. ASEAN countries have historically relied on low skilled labor as their source of competitive advantage. Then the service sector grew from 3% to 63% by 2014. Its GDP ranking improved from 38th in 1961 to 11th globally in 2015 and enrollments in schools went from 29.3% to 99.6% in 2014, and enrollment rates for university increased from 9% to 80% in 2014.

1.7. The European Union (EU)

The European Union (EU) is a political and economic union that formed by 28 countries that are operates as a cohesive economic and political block and located primarily in Europe. The EU's members are Austria, Belgium, Bulgaria, Croatia, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, and the United Kingdom. It has an area of 4,475,757 km² and an estimated population of about 513 million, the euro is the common currency in 19 member states. The European Union (EU) is founded by the Maastricht Treaty which entered into force in 1993 to ensure the so-called four freedoms: the movement of goods, services, people, and money.

The European Economic Community was first established in 1950, called the European Coal and Steel Community with six founding members: Belgium, France, Germany, Italy, Luxembourg, and the Netherlands. The Treaty of Rome established a common market in 1975. It eliminated customs duties in 1968. It put in place standard policies, particularly in trade and agriculture. In 1973, the ECSC added Denmark, Ireland, and the United Kingdom. It created its first Parliament in 1979. Greece joined in 1981, followed by Spain and Portugal in 1986. In 1993, the Treaty of Maastricht established the European Union common market. Two years later, the EU added Austria, Sweden, and Finland. In 2004, twelve more countries joined: Bulgaria, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia, and Slovenia. The Treaty of Lisbon increased the powers of the European Parliament in 2009, and it increased EU power by giving the EU the legal authority to negotiate and sign international treaties. The following Figure (1.5) also illustrating the history of European Union somehow.[8]

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[8] European Union, *home of the diary and Sunday express: https://www.express.co.uk/latest/european-union*

Figure 1.5. History of the European Union

Source: *Encyclopedia Britannica, https://www.britannica.com/topic/European-Union*

The first and most important of EU objective was the establishment of a common market. Subsequent treaties included the aims of establishing: an Economic and Monetary Union; a Common Foreign and Security Policy; and, an area of Justice and Home Affairs. According to the EU in brief "Goals and Value of the EU", the European Union's goals are included the following:

1. promote peace, its values and the well-being of its citizens
2. offer freedom, security and justice without internal borders
3. sustainable development based on balanced economic growth and price stability, a highly competitive market economy with full employment and social progress, and environmental protection
4. combat social exclusion and discrimination

5. promote scientific and technological progress
6. enhance economic, social and territorial cohesion and solidarity among EU countries
7. respect its rich cultural and linguistic diversity
8. establish an economic and monetary union whose currency is the euro.

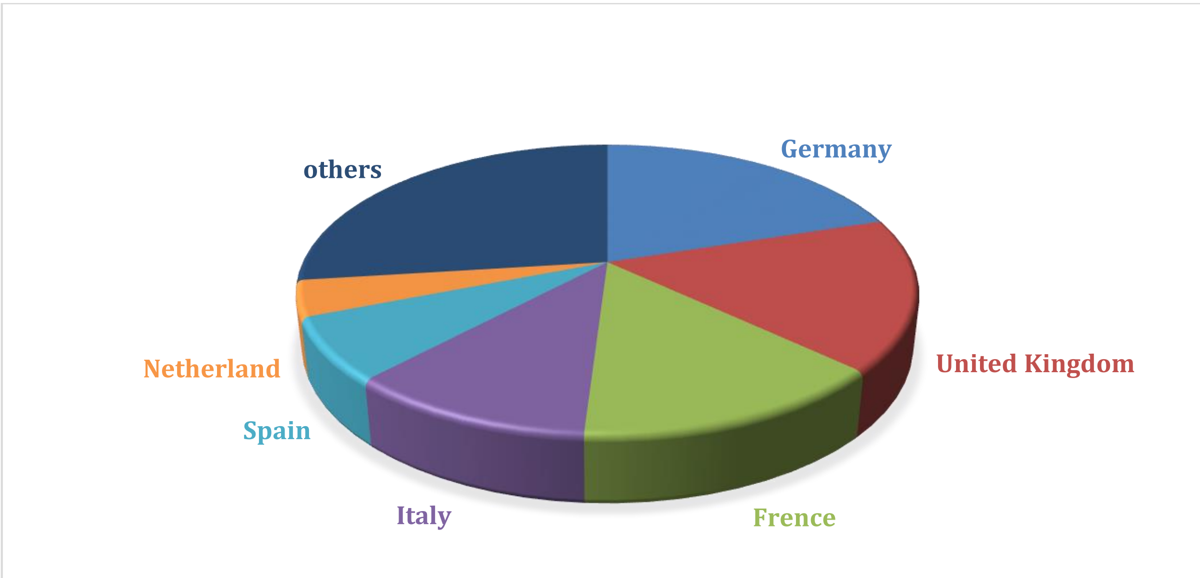

Figure 1.6. 2015 GDP per capital (nominal) in the EU

Source: *IMF, main source by EU*

The European Union is the second largest economy in the world after the United States and according to purchasing power parity or PPP (after China). In 2017, the EU had a combined GDP of $21 trillion international dollars, a 17% share of global gross domestic product by purchasing power parity (PPP). The CBI estimates that the net benefit of EU membership is worth 4-5% of GDP to the UK, or £62bn-£78bn per year. A report by the Centre for Economics and Business Research, released in October 2015, suggested 3.1 million British jobs were linked to the UK's exports to the EU. It gives its members freedom which allows all EU citizens to live, work and travel in other member states.

The above graph pipe Figure (1.6) which was based on IMF sources, also illustrating the Nominal GDP per capital within EU members in 2015, 20% was belong to Germany, 17%

was concerned with United Kingdome, 14% to France, 11% to Italy, 7% to Spain, 4% to Netherland, 27% was belong to the rest EU members. The European Union's GDP could be $18.8 trillion (nominal) in 2018, and representing 22% of global economy (Nominal global GDP). (Kotzeva, 2018)

1.8. The Gulf Cooperation Council

Gulf Cooperation Council (GCC) is the Cooperation Council for the Arab States of the Gulf, it is a regional intergovernmental political and economic union consisting all Arab states (six Middle Eastern countries) of the Persian Gulf except Iraq. The GCC was established to achieve unity among its members based on their common objectives and their similar political and cultural identities, which are rooted in Arab and Islamic cultures. It is aimed to have coordination, integration and inter-connection between Member States in all fields, strengthening ties between their peoples, formulating similar regulations in various fields such as economy, finance, trade, customs, tourism, legislation, administration, as well as fostering scientific and technical progress in industry, mining, agriculture, water and animal resources, establishing scientific research centers, setting up joint ventures, and encouraging cooperation of the private sector.

The GCC was established in Riyadh, Saudi Arabia, in May 1981 with six countries six countries in the Arabian Peninsula: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates. The EU establishes bilateral relations with the GCC countries through a Cooperation Agreement signed in 1988, and the Cooperation Agreement contains a commitment from both sides to enter into negotiations on a free trade agreement. A customs union is declared in 2003. China and the Gulf Cooperation Council (GCC) announces the launch of China-GCC free trade agreement negotiations in 2004. In 2008, a GCC common market is launched which grants national treatment to all GCC firms and citizens. October 31,2009 After six rounds of meetings, New Zealand and GCC conclude the negotiations of a free trade agreement, which will be signed later. Jordan and Morocco are invited to join the GCC on May 10, 2011.[9]

The Charter of the GCC consists of a preamble and 22 articles which divided into 6 topics: basic information (Articles 1, 2, 3, 5), objectives (Article 4), structure (Article 5), function of the main bodies within the GCC (Articles 7-16 and 18), Privileges and immunities (Article 17) and charter implementation, amendment, and deposition (Articles 19-22).

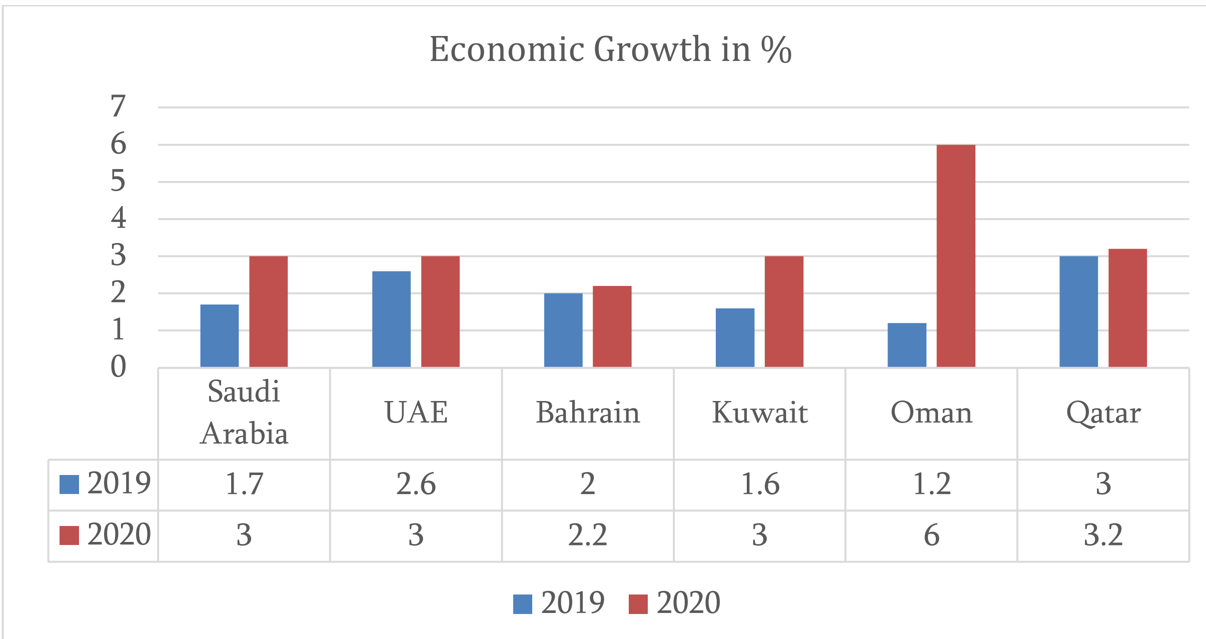

Figure 1.7. Percentages Estimated of GCC's Economic Growth 2019-2020

Source*: Asharq Al-Awsat, main source by World Bank*

The basic objectives of the GCC are defined in Article 4 of the Charter, they are:

1. to achieve cooperation among member states in all fields as a prelude to unity.
2. To strengthen the links of cooperation among the peoples of the member states in different fields.

[9] The Gulf Cooperation Council, Background and Objectives, 2013: https://www.mea.gov.in/Portal/ForeignRelation/Gulf_Cooperation_Council_MEA_Website.pdf

3. To establish similar systems among the member states in all fields, including economic and finance; commerce, customs, and communication; education and culture; social welfare and health; information and tourism; and legislation and administration.
4. To stimulate scientific and technological progress in the fields of industry, mineralogy, agriculture, and animal resources.

Also to establish common projects, and encourage the cooperation of the private sector for the common good of the peoples of the member states.

The rise in the GCC's weight in the global economy is a result of both high energy prices and rapid real economic growth. Since 2007 to 2011, GCC real GDP grew at an annual rate of 4.7% compared with a world growth rate of 2.8%, making it one of the fastest growing regions in the world. In 2013, the GCC was the world's fourth largest exporting nation after China, the US and Germany with most of its exports consisting of crude oil, gas, and petrochemical derivatives and the combined economy of the GCC states was ranked the twelfth world largest economy with an aggregate GDP of $1.62 trillion. The gross domestic product of oil exporters in the Middle East and North Africa grew on aggregate 1.7 per cent in 2017 compared to 5.4 per cent in 2016. The rise in the GCC is due not only to a resurgence of oil prices but also to the improvement of government finances through the reduction of subsidies. According to the World Bank expected, economic growth in the Gulf Cooperation Council (GCC) region to increase to 3.2 percent next year in 2020 and stabilize at 2.7 percent in 2021. Thanks to the Gulf Region's Economic Outlook for 2019, the GDP growth of the GCC is expected to increase from 2.2 percent in 2018 to 2.6 percent in 2019.

Due to figure (1.7) of World Bank expected, the economic growth of Saudi Arabia was expected to reach over 3 percent in 2020, on the other side it is expected to slow moderately to 1.7% in 2019. It said growth in the UAE is forecast to be 2.6 percent in 2019, jumping to 3 percent in 2020 as the country pushes infrastructure investments ahead of Dubai's Expo 2020. In its outlook on Bahrain, the World Bank said growth is projected at 2 percent in 2019, expecting to reach 2.2 percent in 2020. In the other hand Kuwait growth is forecast at 1.6 percent in 2019 and it is expected to grow at around 3 percent by 2020. In Oman, growth is estimated to slow to 1.2 percent in 2019 as the country's commitment to the December 2018 OPEC+ output cut constrains oil production and growth will be dramatically rise to 6 percent in 2020 as the government plans to significantly increase investment in the Khazzan gas field. Growth in Qatar is projected to reach 3 percent in 2019, accelerating to 3.2 percent in 2020 and to 3.4 percent by 2021. (Alasfoor, 2007)

1.9. Southern African Development Community

The Southern African Development Community (SADC) is a Regional Economic Community founded in 1992, the main purpose is to promote cooperation and integration amongst member states in order to address the challenges of the dynamic and increasingly complex regional and global environment. The SADC is comprising 16 Member States; Angola, Botswana, Comoros, Democratic Republic of Congo, Eswatini, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Tanzania, Zambia and Zimbabwe. The first main objectives of Southern African Development Community (SADC) are to success economic development, peace and security, and growth, alleviate poverty, enhance the standard and quality of life of the peoples of Southern Africa, and support the socially disadvantaged through Regional Integration.[10]

The Southern African Development Community (SADC) was originally based on the Southern African Development Co-ordination Conference (SADCC), established in 1980 in Lusaka, Zambia. January 1990 Namibia joins the SADCC. And SADCC was transformed into SADC on 17 August 1992 with the adoption by the founding members of SADCC and newly independent Namibia of the Windhoek declaration and treaty establishing SADC. The SADC

[10] South African Development Community Official Home Page: https://www.sadc.int/about-sadc/overview/history-and-treaty/

provided for both socio-economic cooperation and political and security cooperation. In 1994 South Africa joins the SADC at the Heads of State summit in Gaborone, Botswana. In August1995 Mauritius joins the SADC. In September 1997 The Democratic Republic of the Congo and Seychelles join the SADC. The 1992 SADC treaty was amended on 14 August 2001. Seychelles withdraws from the SADC in 2004 and rejoins back in 2008. August 2005 Madagascar joins the SADC. January 2008 The SADC, along with the Common Market for Eastern and Southern Africa (COMESA) and the East African Community (EAC), announce that they will be establishing the Africa Free Trade Zone at a joint summit. This agreement will combine the current regional trade areas of the member organizations, creating a new trade zone spanning 26 countries. (Dava, 2012)

The objectives of SADC, as stated in Article 5 of the SADC Treaty (1992) are to:

- Achieve development and economic growth, alleviate poverty, enhance the standard and quality of life of the people of Southern Africa and support the socially disadvantaged through Regional Integration;
- Evolve common political values, systems and institutions;
- Promote and defend peace and security;
- Promote self-sustaining development on the basis of collective self-reliance, and the inter-dependence of Member States;
- Achieve complementarity between national and regional strategies and programmes;
- Promote and maximize productive employment and utilization of resources of the region;
- Achieve sustainable utilization of natural resources and effective protection of the environment;
- Strengthen and consolidate the long-standing historical, social and cultural affinities and links among the people of the Region.

These objectives are to be achieved through increased Regional Integration, built on democratic principles, and equitable and sustainable development. An important objective for each Member State of the Southern African Development Community (SADC) is to achieve sustained Economic Growth and Sustainable Development to have better living standards and employment opportunities. Since its founded in 1980 (as SADCC), SADC has formulated policies and strategies for Regional Integration in support of economic growth and development. Clear regional integration guidelines and priorities are found in the Regional Indicative Strategic Development Plan (2003). SADC has also developed a Protocol on Trade (1996), Protocol on Finance and Investment (2006) and the draft Protocol on Trade in Services (2012).

Protocol on Trade (1996), as amended in 2010, is one of the most important legal instruments guiding SADC's work on Trade to reduce customs duties and other barriers to trade on imported products amongst SADC Member States. The Protocol envisioned the establishment of a Free Trade Area in the region. The Regional Indicative Strategic Development Plan targeted achievement of SADC Free Trade Area by 2008 and a Customs Union by 2010. By the beginning of 2008, most customs duties had been eliminated on goods from the participating Member States and about 85% of goods attained zero duty. Under SADC recognizes tourism is also a rapidly growing. Agriculture plays as a major role in the economy for large-scale production of high value crops for export, while employs just 5 % of the population but contributes 60 % to the foreign exchange earnings and 10 % of gross domestic product for the SADC region. Thanks to World Bank’s 2010 development indicators, the aggregate GDP of SADC countries in 2008 was 235billion US Dollars that represented 80% increase since 1990.

1.10. Black Sea Economic Cooperation

The Organization of the Black Sea Economic Cooperation is a unique regional international organization of multilateral political and economic initiatives, aimed to promote cooperation, peace, stability and prosperity in the Black Sea region. It established on 25 June 1992, in Istanbul, BSEC extend over an area of approximately 20 million square kilometers, extending from the Adriatic Sea to the Pacific Ocean, with a population of 330 million people and brings together 12 States of the region, namely Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Moldova, Romania, the Russian Federation, Serbia, Turkey and Ukraine, which are all also members of the OSC. Aiming at fostering interaction and harmony among its members, as well as to ensure peace, stability and prosperity, encouraging friendly and good-neighborly relations in the Black Sea region, today BSEC serves as a forum for cooperation in a wide range of areas for its 12 Member States. [11]

In the mid to late eighties, the countries surrounding the Black Sea - Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Moldova, Romania, the Russian Federation, Turkey, Ukraine and Serbia. Turkey's initiative, decided to start a regular dialogue leading them to launch the Black Sea Economic Co-operation (BSEC) in 1992 in Istanbul. Through the founding Charter adopted at the summit in Yalta in 1998 and entered into force in May of the following year, the BSEC achieved an international legal identity enabling it to effectively become a regional economic organization. Transformed into a full-fledged intergovernmental entity in 1999. The Permanent International Secretariat of the Organization (BSEC PERMIS) is headquartered in Istanbul, Turkey. Working Group on Cooperation in Tourism established in 1994, usually meets twice per year. Republic of Serbia joined the Organization as a Member State in 2004.

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[11] MC.IO/2/14 2 December 2014, Organization of the Black Sea Economic Cooperation: https://www.osce.org/cio/128791?download=true

The highest decision-making body of BSEC is the Council of Ministers of Foreign Affairs of the BSEC Member States. The Council's regular meetings are convened twice a year: in May/June and in November/December. The regular meetings of the Council are held in a Member State chairing the Organization. The Chairmanship-in-Office is held on the principle of rotation in alphabetical order and lasts six months starting from January 1 and July 1. The Committee of Senior Officials of BSEC is accountable to the Council of Ministers of Foreign Affairs and operates on behalf of the latter. The Committee is endowed with a responsibility to implement the activities of the Organization.

The general objective of the BSEC is emphasizing the role of Culture as a tool for social and economic development in the BSEC Region, increasing internal intercultural dialogue initiatives to improve mutual understanding and avoid risks of religious exploitation. The mission of the BSEC are the following;

- to act in a spirit of friendship and good neighborliness and enhance mutual respect and confidence, dialogue and cooperation among the Member States;
- to further develop and diversify bilateral and multilateral cooperation on the basis of the principles and rules of international law;
- to act for improving the business environment and promoting individual and collective initiative of the enterprises and companies directly involved in the process of economic cooperation;
- to develop economic collaboration in a manner not contravening the international obligations of the Member States including those deriving from their membership to international organizations or institutions of an integrative or other nature and not preventing the promotion of their relations with third parties;
- to take into account the specific economic conditions and interests of the Member States involved;

- to further encourage the participation in the BSEC process of economic cooperation of other interested States, international economic and financial institutions as well as enterprises and companies.

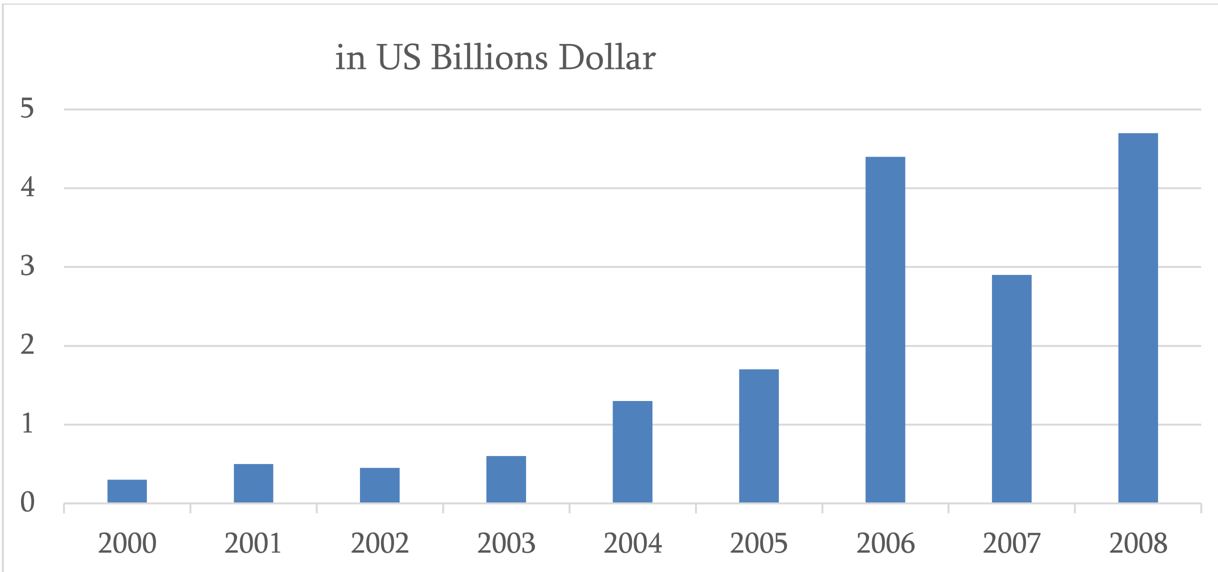

Figure 1.9. The increased of Total Foreign Direct Investment yearly.

Source: Black Sea Trade and Development Bank (BSTDB)

The Black Sea Rang Highway project envisages a four lane ring highway system, approximately 7700 km long, to connect the BSEC Member States with each other. The states in the region have significant economic and human resources, which enabled them to have remarkable economic growth and development over the past few years, despite the global economic crisis, parallel to a steady increase of their share in the world economy (actually at around 8% of the world economy, with a total GDP of 3,4 trillion US Dollars). The real GDP of its Member States grew by an average of 4.7% annually during the last decade, and according to the BSTDB vs figure 1.9, total FDI had been increase form USD 0.2 billion in 2000 to USD 4.6 billion in 2008. As a result, living standards improved, poverty rates dropped, trade and investment rose, and societies were transformed into dynamic places of increasing sophistication and integration into the broader European and global economic markets. (ANKARA, 2012)

Chapter 2: NAFTA, Its Goals, Challenges, History, Functions and Performance

2.1. NAFTA Background

The North American Free Trade Agreement (NAFTA) is an agreement signed by Canada, Mexico, and the United States, creating a trilateral trade bloc in North America, it was initially created to help lower costs of trade and encourage the North American trade. NAFTA eliminated almost all tariffs and taxes on imports and exports and the agreement also remove the trade barriers of the three countries. [12]

The NAFTA was signed at:

- ✓ Ottawa, on the 11th day and the 17th day of December 1992,
- ✓ Mexico, D.F., on the 14th day and the 17th day of December 1992,
- ✓ Washington, D.C., on the 8th day and the 17th day of December 1992.

The agreement came into force on January 1, 1994. It superseded the 1988 Canada–United States Free Trade Agreement between the United States and Canada, and was expected to be replaced by the United States–Mexico–Canada Agreement once it is ratified. The purpose of the agreement is to be enable the free flow of goods which was meant to "eliminate most trade barriers between the three countries."

NAFTA has two supplements: The North American Agreement on Environmental Cooperation (NAAEC) and the North American Agreement on Labor Cooperation (NAALC).

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[12] MRUNIVERSITY, Introduction to NAFTA, https://mru.org/courses/international-trade/introduction-nafta

Most economic analyses indicate that NAFTA has been beneficial to the North American economies and the average citizen, but harmed a small minority of workers in industries exposed to trade competition. However, the gross domestic product of its three members is more than $20 trillion. NAFTA is the first time two developed nations signed a trade agreement with an emerging market country. The three signatories agreed to remove trade barriers between them. By eliminating tariffs, NAFTA increases investment opportunities. The NAFTA created one of the world's largest free trade zones and the agreement is 2,000 pages, with eight sections and 22 chapters.

2.2 History of NAFTA

The foundation of the North American Free Trade Agreement (NAFTA) can be traced to the U.S Congress passed the Trade and Tariff Act of 1984, to point out a willingness to negotiate Free Trade Agreement Between United Stated and other interested countries, that time the United States had been the leading proponent of multilateralism in international trade. And the United States had supported and even encourage regional economic integration in Western Europe. (Amadeo, 2019)

In 1985, president Ronal Reagan and Canadian Prime Minister Mulroney discussed the possibility of a Free Trade Agreement between the United States and Canada. US-Canada Free Trade Agreement began in 1986 and it was signed in 1988. It went into effect on January 1, 1989, and remained in force until NAFTA replaced it.

In 1990, Mexican President Carlos Salinas de Gortari requested a free trade agreement with the U.S. In 1991, Reagan's successor, President George H.W. Bush, began negotiations with President Salinas for a liberalized trade agreement between the two countries. Before NAFTA, Mexican tariffs on U.S. imports were much higher than U.S. tariffs on Mexican imports. Canada also joined the discussions.

In 1992, NAFTA was signed by outgoing President George H.W. Bush, Mexican President Salinas, and Canadian Prime Minister Brian Mulroney. Earlier that year, the European Union had been created by the Treaty of Maastricht. Concerns about the liberalization of labor and environmental regulations led to the adoption of two addendums. NAFTA was ratified by the legislatures of the three countries in 1993. The U.S. House of Representatives approved it by 234 to 200 on November 17, 1993. The U.S. Senate approved it by 61 to 38 three days later.

President Bill Clinton signed it into law on December 8, 1993. It entered into force on January 1, 1994. And on September 30, 2018, the United States, Mexico, and Canada renegotiated the North American Free Trade Agreement. The new deal is called the United States-Mexico-Canada Agreement and signed by the three countries on 30 November 2018.

2.3 Objective of NAFTA

The purpose of the North American Free Trade Agreement is removing barriers to the exchange of goods and services among its member countries, specifically the United States, Canada, and Mexico. By reducing and eventually eliminating tariffs, the signatories hoped the NAFTA would better the American, Canadian, and Mexican economies. And provided formal rules for resolving disputes between investors and participating countries. Among other things, such rules permitted corporations or individual investors to sue for compensation any signatory country that violated the rules of the treaty.[13]

The agreement ensured eventual duty-free access for a vast range of manufactured goods and commodities traded between the signatories. "National goods" status was provided to products imported from other NAFTA countries, banning any state, local, or provincial government from imposing taxes or tariffs on such goods. NAFTA also contained the

[13] NAFTA Secretariat, https://www.nafta-sec-alena.org/Home/Welcome

purposes aimed at securing intellectual-property rights. Participating countries would adhere to rules protecting intellectual property and would adopt strict measures against industrial theft. Further purposes of NAFTA were designed to give U.S. and Canadian companies greater access to Mexican markets in banking, insurance, advertising, telecommunications, and trucking.

According to "Article 102: Objectives", has been described the objectives of this Agreement, as elaborated more specifically through its principles and rules, including national treatment, most-favored-nation treatment and transparency, are to:

1. Grant the signatories most-favored-nation status.
2. Provide protection and enforcement of intellectual property rights.
3. Create procedures for the resolution of trade disputes.
4. Establish a framework for further trilateral, regional, and multilateral cooperation to expand the trade agreement's benefits
5. eliminate barriers to trade in, and facilitate the cross-border movement of goods and services between the territories of the Parties;
6. promote conditions of fair competition in the free trade area; increase substantially investment opportunities in the territories of the Parties;

The main purpose of NAFTA is to stimulate trade and economic activity between the three nations involved, and to having the ability to export more items to the other two countries, each nation has experienced an increase in direct foreign investment from citizens of its fellow NAFTA signatories.

2.4. Functions

NAFTA is functioned to minimize trade disputes, eliminate trade barriers in various services among the three nations of North America and reduced high Mexican tariffs and help to promote agricultural exports. Figure 2.1 also show and explain things such what NAFTA did and explain how it's functioning. In the first stage of the Figure, it is illustrating that NAFTA granted the most-favored-nation status to all co-signers that means countries must give all parties equal treatment including foreign direct investment for that they wouldn't be able to give better treatment to domestic investors than foreign countries and they can't offer a better deal to investors from non-NAFTA countries. Governments must also offer federal contracts to businesses in all three NAFTA countries.

And in the second stage, NAFTA eliminates tariffs on imports and exports between the three countries. Tariffs are taxes used to make foreign goods more expensive. NAFTA created specific rules to regulate trade in farm products, automobiles and clothing. These also apply to some services, such as telecommunications and finance.

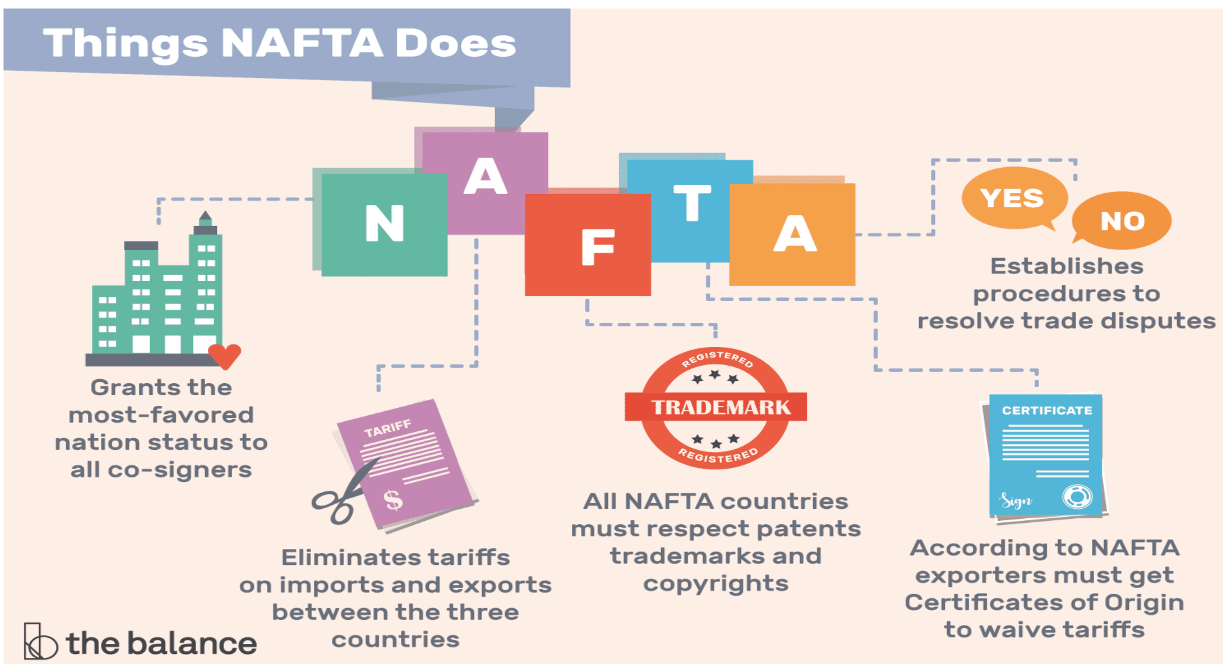

Figure 2.1. Functions of NAFTA

Source: the balance 2018

Thirdly, all NAFTA exporters must get Certificates of Origin to waive tariffs that means the export must originate in the United States, Canada or Mexico. If the product made in Peru but shipped from Mexico will still have to pay a duty free when it enters the United States or Canada. In the next fourth stage, NAFTA established procedures to resolve trade disputes in order to protects businesses from unfair practices. The NAFTA Secretariat facilitates an informal resolution between the parties. If this doesn't work, it establishes a panel to review the dispute. That helps all parties to avoid costly lawsuits in local courts. It helps the parties interpret NAFTA's complex rules and procedures. These trade dispute protections apply to investors as well.

In the stage of fifth, all NAFTA countries must respect patents, trademarks, and copyrights. At the same time, the agreement ensured that these intellectual property rights which didn't interfere with trade. And in the last sixth, the agreement allows business travelers easy access throughout all three countries.

2.5. NAFTA Organizational Structures

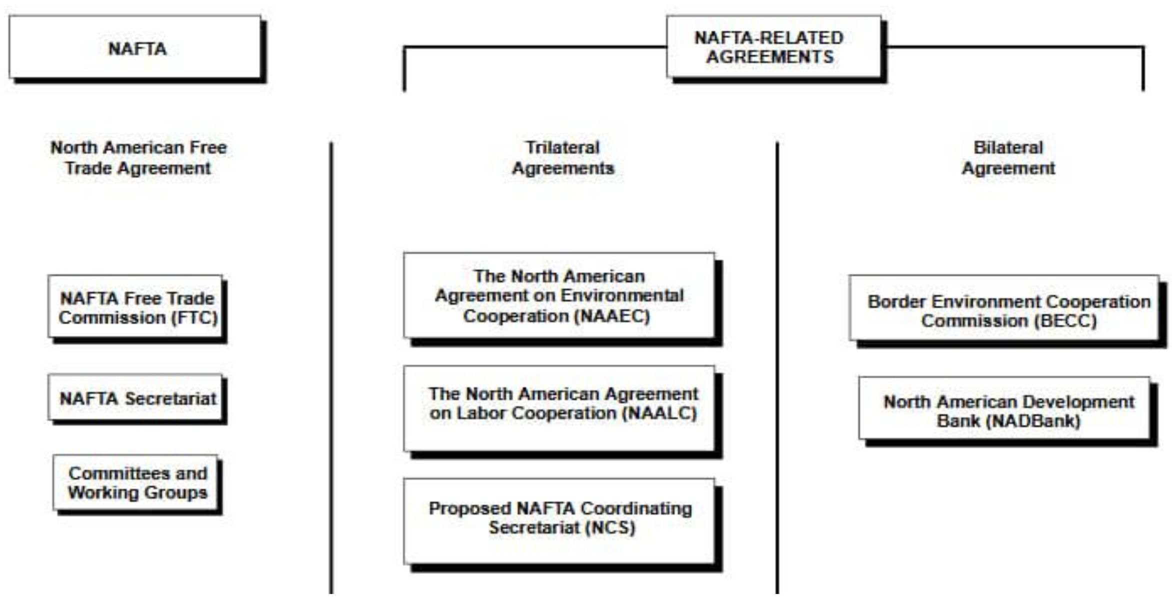

Figure 2.2. Overview of NAFTA and related organizational

Source: GAO/GGD-95-10BR NAFTA Organizations, NAFTA and its related agreements had created a number of bodies and an organizational structure to carry out the terms of the agreements. The organizational structure of NAFTA can be device into three groups include; the Free Trade Commission, the Commission for Environmental Cooperation, the Commission for Labor Cooperation, the Border Environment Cooperation Commission, and the North American Development Bank (see in Figure (2.2). The responsibility for establishing and managing the various NAFTA bodies is being shared equally by the United States, Canada, and Mexico. The side agreements on labour and the environment also led to the creation of the Commission for Labor Cooperation and the Commission for Environmental Cooperation. (Mendelowitz, 1994)

2.5.1. NAFTA Free Trade Commission

The governing body of NAFTA is the Free Trade Commission, which is composed of ministerial representatives from its member countries and act as an interpretative body when confusion arises from clauses within the legal text of the three countries, and supervising the work of the NAFTA Secretariat and NAFTA committees and working groups, and establishing additional committees and working groups as needed. They currently are the U.S. Trade Representative, Canada's Minister of Trade, and Mexico's Secretary of Trade and Industrial Development.

1. **NAFTA's Secretariat;** comprise section in three member countries which is primarily responsible for supporting NAFTA's dispute resolution processes, including providing administrative assistance for dispute resolution panels formed under chapters 19 and 20 of NAFTA. U.S. and Canada National Sections originated under in the U.S.-Canada Free Trade Agreement (FTA). to administer binational procedures for panel reviews. Mexico Section recently created. Sections are responsible for supporting NAFTA's resolution process. The U.S. Section's staff size has not increased under NAFTA from its level under the U.S.-Canada Free Trade Agreement.

2. **NAFTA Committee and Working Group;** A number of committees and working groups had formed to monitor and facilitate NAFTA's implementation of specific chapters of the Agreement and provide information on associated policy implications, 20 committees and working groups created in NAFTA, 4 working groups created since December 1993, 8 working groups carried over from U.S.-Canada Free Trade Agreement. The purpose of these groups is to provide a channel for discussion of issues of ongoing concern to the NAFTA countries; typically comprised of public servants from member countries.

2.5.2. NAFTA-Related Agreements Trilateral

With regard to "Annex 104.1" NAFTA is related to Bilateral and Other Environmental and Conservation Agreements (Trilateral). There are two separate trilateral agreements: North American Agreement on Environmental Cooperation North and American Agreement on Labor Cooperation.

The **North American Agreement on Environmental Cooperation** (**NAAEC**); it is an environmental agreement between the United States of America, Canada and Mexico as a side-treaty of NAFTA. The agreement aimed to promote sustainable development, encourage pollution prevention policies and practices, and enhance compliance with environmental laws and regulations. The NAAEC promotes transparency and public participation, with the objective of enhancing environmental performance of each country and furthering trilateral cooperation. The NAAEC established the Commission for Environmental Cooperation (CEC) to support cooperation among the NAFTA partners to address environmental issues of continental concern.

The North American Agreement on Labor Cooperation (**NAALC**) is one of two side agreements to the NAFTA. It is the first international labor agreement linked to a trade treaty which creates an international discipline on enforcement of domestic labor law, a major innovation in international labor affairs. The NAALC was established to improve working conditions and living standards in the three countries and labor laws were being enforced in all three countries purposed to promote a better understanding by the public of labor laws and at enhancing transparency of enforcement, according to the U.S. Department of Labor. The NAALC provides for things like the protection of migrant workers and children and equal pay for women and men. Basically, they have to treat everyone in agreement equally.

2.5.3. NAFTA-Related Agreements Bilateral

The agreement bilateral has two separates: Border Environment Cooperation Commission and North American Development Bank.

- **The Border Environment Cooperation Commission**; it is a binational organization created in 1994 by the Federal Governments of the United States of America and Mexico. BECC is managed by a board of 10 directors appointed by the United States and Mexico. The purpose is to provide financing, as well as technical and other assistance, to support the development and implementation of infrastructure projects that help preserve, protect and enhance the environment of the border region in order to advance the well-being of the people of the United States and Mexico.

The North American Development Bank *(*NADB*);* it is a binational financial institution capitalized and governed equally by the Federal Governments of the United States and Mexico for the purpose of financing environmental projects certified by the Border Environment Cooperation Commission (BECC) and aimed to address economic development and environmental contamination, the Bank's structure, guidelines, and focus suggest that border cleanup measures are secondary to profit oriented lending. NAD Bank has two components, the first one is managed by a board of the bank, which oversees the operation of NAD Bank and approves its budget and all financial operations. And the second one called the Community Adjustment and Investment Program (CAIP).

Chapter 3: Impact of NAFTA

3.1. Economic Impact of NAFTA

Most economists contend that trade liberalization promotes overall economic growth and efficiency among trading partners. NAFTA's impact had been viewed as generally beneficial for economies and citizens of all three countries as measured by GDP. Free trade agreements have adversely impacted workers in industries exposed to international trade competition. NAFTA had provided new jobs and opportunities to Mexico for its growing workforce and discouraging illegal migration from Mexico. Thanks to Congressional Research Service, NAFTA was unusual in global terms because it was the first time that the Free Trade Agreement (FTA) linked two wealthy developed countries with a low-income developing country. For this reason, the agreement received considerable attention by U.S. policymakers, manufacturers, service providers, agriculture producers, labor unions, non-government organizations, and academics.

NAFTA cut out all duties fee on goods like textile and apparel within the three countries, due to NAFTA, 65% of U.S. apparel imports from Mexico entered duty-free and quota-free. NAFTA also phased out Mexico's restrictive auto decree and eliminated all U.S. tariffs on imports from Mexico and Mexican tariffs on U.S. and Canadian products. NAFTA set out separate bilateral undertakings on cross-border trade in agriculture, one between Canada and Mexico, and the other between Mexico and the United States. Moreover, under NAFTA, investment barriers between the partners were reduced significantly, ensuring basic protection and installing a dispute settlement between investors and the three countries; the United States, Mexico and Canada. According to the Council on Foreign Relation, Regional trade increased sharply over the treaty's first two decades, from roughly $290 billion in 1993 to more than $1.1 trillion in 2016.

Thanks to the Balance, during the year from 1993 to 2018, During that time, the United States increased its exports of goods to the other two from $142 billion to $564 billion. That's 34% of its total exports, making Canada and Mexico its top two export markets. It shipped $299 billion to Canada and $265 billion to Mexico. U.S. imports from its NAFTA partners were $665 billion. That's 26% of total U.S. imports. It's also more than triple the $151 billion imported in 1993. Mexico shipped $346 billion to the United States and Canada shipped $319 billion. And NAFTA increased farm exports because it eliminated high Mexican tariffs. Mexico is the top export destination for U.S. beef, rice, soybean meal, corn sweeteners, apples, and beans. It is the second largest export destination for corn, soybeans, and oils. NAFTA boosted U.S. service exports to Canada and Mexico from $25 billion in 1993 to a peak of $106.8 billion in 2007. By 2009, they had only risen to $63.5 billion and service exports had improved to $88.6 billion in 2012. NAFTA eliminates trade barriers in most service sectors, which are regulated. Moreover, NAFTA has made Mexico into Texas' top trading partner, the Greater Houston region has developed a positive trade balance of more than $4 billion with Canada, and annual exports from Houston to Mexico have topped more than $2.5 billion.[14]

The U.S. Census reports that Mexico and Canada shipped $115 billion in oil and petroleum products in 2017. Due to greater U.S shale oil production, this figure was down from $154 billion in 2008. NAFTA reduced U.S. reliance on oil imports from the Middle East and Venezuela. NAFTA decreased food prices in much the same way. The U.S. Census reports that food imports totaled around $50 billion in 2017, up from $33 billion in 2008. As a result, NAFTA decreased the prices of food imports by USD 5.3 billion annually.

NAFTA removed significant investment barriers, ensured basic protections for NAFTA investors, and provided a mechanism for the settlement of disputes between investors and a NAFTA country since NAFTA was enacted in 1993, Mexico's annual exports to the U.S. rose from

[14] Council on Foreign Relations, NAFTA's Economic Impact, October 1, 2018 https://www.cfr.org/backgrounder/naftas-economic-impact

$40 billion to $296 billion, and U.S. exports to Mexico jumped from $42 billion to $236 billion. In 2017, the U.S. economy was worth $19.49 trillion; Canada, $1.77 trillion; and Mexico, $2.46 trillion. NAFTA's trade area produces more than the 28 countries in the European Union. This trade leveraged another $54.6 billion in business investment. NAFTA protected intellectual properties. It helped innovative businesses by discouraging pirating. It boosted FDI because companies know that international law will safeguard their rights. NAFTA reduced investors' risk by guaranteeing they will have the same legal rights as local investors. Through NAFTA, investors can make legal claims against the government if it nationalizes their industry or takes their property by eminent domain. (John Kingston Beth Ann Bovino Joaquin Cottani Robert Palombi , 2018)

NAFTA exports created 5.3 million new jobs, both in the formal and informal sectors, while approximately 36 percent of these jobs were created in the informal sector where workers typically receive no benefits, are not entitled to vacation pay or overtime, and routinely have no contract protections, the remaining jobs were created in the formal sector, primarily manufacturing jobs. Most of those jobs went to 17 states, but all states saw some increases. U.S. manufacturers added more than 800,000 jobs between 1993 and 1997. Manufacturers exported $487 billion in 2014. It generated $40,000 in export revenue for each factory worker. Even imports from NAFTA partners created jobs. That's because almost 40% of U.S. imports from Mexico originated with American companies. They designed the products domestically, then outsourced some portion of the process in Mexico.

On the others side, NAFTA was done a bit harmful to its member countries. Some experts also said that it had proven difficult to tease out the deal’s direct effects from other factors, including rapid technological change, expanded trade with other countries such as China, and unrelated domestic developments in each of the countries. Debate persists regarding NAFTA’s legacy on employment and wages, with some workers and industries facing painful disruptions as they lose market share due to increased competition, and others gaining from the new market opportunities that were created.

According to a 2011 report from the Economic Policy Institute estimated a loss of 682,900 U.S. jobs went to Mexico. Other estimates estimate a loss of 500,000-750,000 U.S. jobs. Most were in the manufacturing industries in California, New York, Michigan, and Texas. These industries included motor vehicles, textiles, computers, and electrical appliance industries. NAFTA has also lowered U.S. wages, increased inequality, and hurt U.S manufacturing and agriculture in all 50 states. Many companies in industries that were moving to Mexico used the threat of closing the factory. Between 1993 and 1999, 64 percent of U.S. manufacturing firms in those industries used that threat. By 1999, the rate had grown to 71 percent. In additional almost 1.3 million agriculture jobs were lost in Mexico due to NAFTA so that immigration increased from Mexico from approximately 350,000 per year in 1992 to approximately 500,000 per year in 2002 – 60 percent are undocumented. Data shows that they are coming from the rural agriculture sector. (White, 2003)

3.2. The Role of NAFTA in North American Economy

Economists strongly agree that NAFTA has provided benefits to the North American economies. NAFTA had taken place on a major role in North American economy since the negotiations of it began in 1991, the goal for all three countries was the integration of Mexico with the highly developed, high-wage economies of the United States and Canada. And NAFTA had played as a major role of economist development for the three parties for NAFTA eliminated trade barriers and steadier economic growth. Eliminating all tariffs between the three countries had boosted trade volumes. NAFTA also created agreements on international rights for business investors that reduced the cost of commerce and stimulate investment and growth. [15]

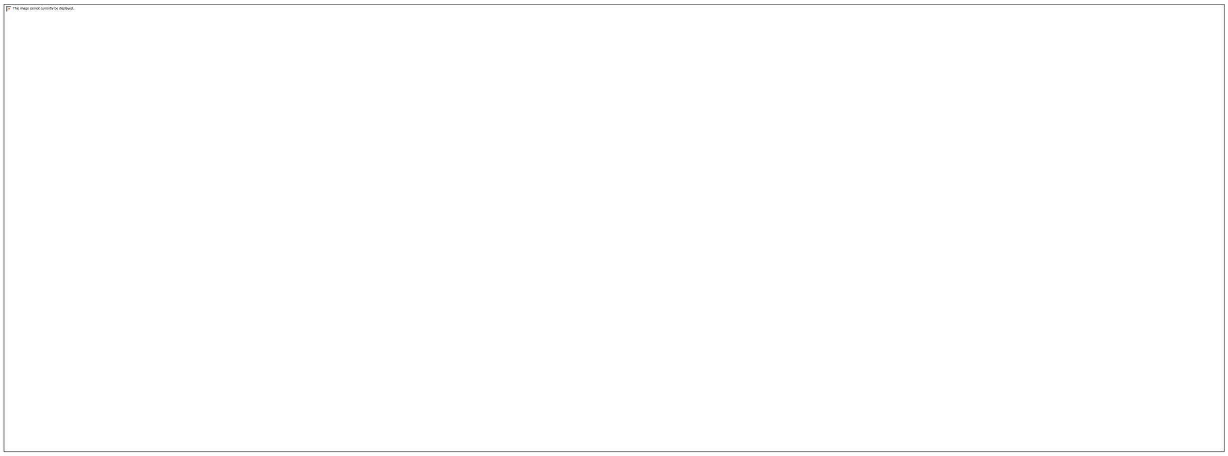

Figure 3.1. Trade volume from 1993 to 2015

NAFTA ignited an explosion in cross-border economic activity. In 2017, Canada ranks as the United States' largest single export market, and it sends 98 percent of its total energy exports to the United States, making Canada the United States' largest supplier of energy products and services. Mexico is the United States' second-largest single export market. Over the past two decades, a highly efficient and integrated supply chain has developed among the three North American. NAFTA boosts trade and economic growth between the US, Canada and Mexico. It encouraged regional trade to more than triple, and cross-border investment between the three countries also grew significantly.

The above figure (3.1) is also showing the increase of economy for those three member countries. From the signing of NAFTA (1993) to 2015, America's GDP has grown by 39.3%. Unemployment in the US has also fallen steadily from 6.5% to 4.1% from 1994–2001. The statistics are clear. NAFTA had worked, and it was an important tool for economic growth. And there are **sixth advantages** of NAFTA: Quadrupled Trade, Lowered Prices, Increased

[15] An overview of North American Free Trade Agreement (NAFTA), https://www.investopedia.com/terms/n/nafta.asp

Economic Growth, Created Jobs, Increased Foreign Direct Investment, and Reduced Government spending.

- **Quadrupled Trade;** trade between the three members had jumped from $297 billion in 1993 to $1.23 trillion in 2018. That boosted economic growth, profits, and jobs for all three countries. It also lowered prices for consumers.
- **Lower Price;** Increased the number of trades can lead the price to be decreased and lower tariffs also reduced import prices. That lessened the risk of inflation and allowed the Federal Reserve to keep interest rates low. That's especially important for oil prices since America's largest import is oil.
- **Increased Economic Growth;** Eliminated tariffs and increased the number of trade also increased economic growth. NAFTA boosted U.S. economic growth by as much as 0.5% a year. The sectors that benefited the most were agriculture, automobiles, and services.
- **Created Jobs;** Boosting the economic growth is the way of boosting jobs. For example, U.S. farm exports to Canada and Mexico quadrupled from $11 billion in 1993 to $43 billion in 2016. It made up 25% of total food exports and supported 20 million jobs.
- **Increased Foreign Direct Investment;** Since NAFTA was founded, U.S. foreign direct investment in Canada and Mexico has more than tripled. It reached $452 billion by 2012, year of the latest available statistics. That boosted profits for U.S. businesses by giving them more opportunities to develop and markets to explore. Canadian and Mexican FDI in the United States grew to $240.2 billion, up from $219.2 billion in 2007.
- **Reduced Government Spending;** NAFTA gave the permission to firms in member countries to bid on all government contracts. That created a level-playing field for all companies within the agreement's borders. It cut government budget deficits by allowing more competition and lower-cost bids.

3.3. Economic Impact on US

During the years since NAFTA started, U.S. trade with the other two members Canada and Mexico has more than tripled, growing more rapidly than U.S. trade with the rest of the world. Canada and Mexico are the two largest destinations for U.S. exports, accounting for more than a third of the total. Most estimates conclude that the deal had a modest but positive impact on U.S. GDP of less than 0.5 percent, or a total addition of up to $80 billion dollars to the U.S. economy upon full implementation, or several billion dollars of added growth per year.

There were arguments that it is to blame for job losses and wage stagnation in the United States, driven by low-wage competition, companies moving production to Mexico to lower costs, and a widening trade deficit. The U.S.-Mexico trade balance swung from a $1.7 billion U.S. surplus in 1993 to a $54 billion deficit by 2014. Many workers and labor leaders point to these numbers to blame trade, including NAFTA, for the decline in U.S. manufacturing jobs. But other economists like Gary Clyde Hufbauer and Cathleen Cimino-Isaacs of the Peterson Institute for International Economics (PIIE) emphasize that increased trade produces gain for the overall U.S. economy. Some jobs are lost due to imports, but others are created, and consumers benefit significantly from the falling prices and often improved quality of goods created by import competition.

Thanks to Houston hispanic chamber of Commerce[16], NAFTA has been a positive economic factor for the United States and even more so for the State of Texas and the Greater Houston Region. NAFTA's impact on the economies of the State of Texas and the Greater Houston region is unmistakable. Due to the Council on Foreign Relations, NAFTA has made Mexico into Texas' top trading partner, the Greater Houston region has developed a positive trade

[16] Houston hispanic chamber of Commerce, THE ECONOMIC IMPACT OF NAFTA, https://www.houstonhispanicchamber.com/assets/docs/NAFTA%20booklet_web.pdf

balance of more than $4 billion with Canada, and annual exports from Houston to Mexico have topped more than $2.5 billion. The State of Texas is one of the biggest beneficiaries of NAFTA. Trade between the three NAFTA countries represents nearly half of Texas' yearly exports, amounting to more than $1 trillion in yearly economic activity. The State of Texas also generates $178 billion in annual trade with Mexico. And the year 2017 alone, Texas exports more than $100 billion in goods annually to the other two NAFTA nations. According to the Texas Public Policy Foundation, NAFTA's impact on the Texas job market has also been positive, with 190,000 new jobs created and just over 20,000 negatively affected by the agreement. The state's major metropolitan areas have been the biggest beneficiaries, while smaller cities have made smaller gains under NAFTA.

Houston have also made one of the greatest beneficiaries of NAFTA. Since it was signed into law in 1993, Houston has nearly doubled its exports to Canada and Mexico. According to the U.S. International Trade Administration, Houston has been the nation's top exporter since 2013. In that time, Mexico has solidified its position as the Greater Houston region's top trading partner, representing more than $16.8 billion in trade annually. According to the Greater Houston Partnership, there are currently 132 subsidiaries in Mexico and 20 Mexican-based subsidiaries located in the Greater Houston region. Mexico is also one of the less than ten foreign countries who operates foreign banks in the Greater Houston region. Trade with Canada represents more than $1 billion in annual economic activity, that made Houston's 32nd top trading partner. Canada also hosts a number of Houston-based subsidiaries, holds 113 total subsidiaries in the region, and operates foreign banks in the city. The Greater Houston region also enjoyed a $4 billion trade surplus to Canada. Due to Houston Public Media, NAFTA continues to be a strong economic driver responsible for thousands of jobs in the Greater Houston region. (Work, 2016)

According to the Texas Public Policy Foundation, NAFTA's impact on the Texas job market has also been positive, with 190,000 new export-related jobs created and just over 20,000 negatively affected by the agreement. The state's major metropolitan areas have been the biggest beneficiaries, while smaller cities have made smaller gains under NAFTA.

3.4. Economic Impact on Canada

NAFTA, the second-largest free trade agreement in the world, eliminates tariffs on most goods flowing between the United States, Canada, and Mexico. The consensus is that the treaty has been good for all three parties, leading to increased sales, a lower cost of goods, and more jobs. Canadian consumers have benefited from tariff-free access to 94 percent of goods imported from the United States and, according to the Office of the US Trade Representative, there has been a 38 percent real increase in trade value since 1994. Total trilateral trade between Canada, Mexico, and the United States has reached almost US$1 trillion under NAFTA. This represents a three-fold increase in trade since 1993. In the same period, trade between Canada and the US doubled. Canada relies heavily on US demand. Nearly 80 percent of all Canadian exports were bound for the US market in 2016. Around $2.4 billion worth of goods and services cross the Canada-US border each day. In 2016, nearly $266 billion had imports from the US into Canada. (John Kingston Beth Ann Bovino Joaquin Cottani Robert Palombi , 2018)

Canada has seen strong gains in cross-border investment in the NAFTA era: Since 1993, U.S. and Mexican investments in Canada have tripled. The U.S. increased investment which accounts for more than half of Canada's FDI stock, grew from $769.9 billion in 1993 to over $368 billion in 2013. In 2015 Canada ramped up investment in the U.S by 911%. However, the most consequential aspect for Canada opening its economy to the U.S. market. Overall Canada-U.S. trade increased rapidly in the wake of Canada's trade liberalization. Post-NAFTA, Canadian exports to the United States grew from $110 billion to $346 billion, while imports from the United States grew by almost the same amount.

Agriculture, in particular, saw a boost. Canada is the leading importer of U.S. agricultural products, and one of NAFTA's biggest economic effects for Canada has been to increase bilateral U.S.-Canada agricultural flows. Canadian agricultural trade with the United States more than tripled since 1994, as did Canada's total agriculture exports to NAFTA partners. In 2016, US agricultural imports from Canada totaled $24.9 billion while US exports amounted to $25.3 billion. In the same year, US imports of agricultural products from Mexico reached $24.66 billion and US exports to Mexico were $17.68 billion. Canada trade flows are large for most states. Annually, all states except Wyoming and Kentucky exchange at least $10 million worth of goods with Canada through imports and exports. (James McBride and Mohammed Aly Sergie, 2018)

Although NAFTA provided a major boost to Canada farms exports to U.S, neither the worst fears of Canada's trade opponents that opening to trade would gut the country's manufacturing sector nor its highest hopes that it would spark a rapid increase in productivity came to pass. Canadian manufacturing employment held steady, but the "productivity gap" between the Canadian and U.S. economies wasn't closed: Canada's labor productivity remains at 72 percent of U.S. levels. And on the other side, it faced some environmental issues. NAFTA clause includes that if any domestic law comes in the way of any trade deal, then trade deal under NAFTA agreement will get priority and the that law will be ignored. Due to this clause many paper industries cut their forests enormously and harmed its environment. So people protested as if their own laws were finding themselves unable to protect their environment then how this agreement can be beneficial.

3.5. Economic Impact on Mexico

As a key partner in the agreement, the effects that NAFTA has had on the Mexican economy is essential to understanding NAFTA on a whole. Since 1990, Mexico approached the United States with the idea of forming a free trade agreement (FTA). Mexico's main motivation in pursuing an FTA with the United States was to stabilize the Mexican economy and promote economic development by attracting foreign direct investment, increasing exports, and creating jobs. The Mexican economy had experienced many difficulties throughout most of the 1980s with a significant deepening of poverty. So the expectation was that NAFTA would improve investor confidence in Mexico, increase export diversification, create higher-skilled jobs, increase wage rates, reduce poverty and NAFTA would narrow the income differentials between Mexico and the United States and Canada. [17]

The Mexican economy is strongly tied to economic conditions in the United States, making it very sensitive to economic developments in the United States. Mexico is highly reliant on exports and most of Mexico's exports go to the United States. Upon the NAFTA implementation, almost 70% of U.S. imports from Mexico and 50% of U.S. exports to Mexico received duty-free treatment. In 2009 Mexican exports to the United States fell 17 percent while its economy contracted by over 6 percent its economy was able to bounce back relatively quickly. Mexico returned to growth in 2010, its GDP expanding over 5 percent, and subsequently falling to around 2 percent in 2014 and 2015.

NAFTA gave a major boost to Mexican farm exports to the United States, which have tripled since NAFTA's implementation. Hundreds of thousands of auto manufacturing jobs have also been created in the country, and most studies have found that the pact had a positive impact on Mexican productivity and consumer prices. Mexico had reduced many of its trade barriers upon joining the General Agreement on Tariffs and Trade (GATT), the precursor to the WTO, in 1986, but still had a pre-NAFTA average tariff level of 10 percent. Mexican policymakers saw NAFTA as an opportunity to both accelerate and "lock in" these hard won reforms to the Mexican economy. In addition to liberalizing trade, Mexico's leaders reduced public debt, introduced a balanced budget rule, stabilized inflation, and built up the country's foreign reserves.

[17] Congressional Research Service, NAFTA and the Mexican Economy (2010)

But Mexico's NAFTA experience has suffered from a disconnect between the promises of some of its supporters that the pact would deliver rapid growth, raise wages, and reduce emigration and the deal's more mixed outcomes. Between 1993 and 2013, Mexico's economy grew at an average rate of just 1.3 percent a year during a period when Latin America was undergoing a major expansion. Poverty remains at the same levels as in 1994. And the expected "wage convergence" between U.S. and Mexican wages didn't happen, with Mexico's per capita income rising at an annual average of just 1.2 percent in that period far slower than Latin American countries such as Brazil, Chile, and Peru.

Mexican unemployment also rose, which some economists have blamed on NAFTA for exposing Mexican farmers, especially corn producers, to competition from heavily subsidized U.S. agriculture. Before NAFTA, Mexico only imported corn and other basic food commodities if local production did not meet domestic needs. NAFTA eliminated Mexican tariffs on corn and other commodities. NAFTA terms also required revocation of programs supporting small farmers. But NAFTA did not discipline U.S. subsidies on agriculture. The result was disastrous for millions of people in the Mexican countryside whose livelihoods relied on agriculture, the price paid to Mexican farmers for the corn that they grew fell by 66 percent, forcing many to abandon farming. From 1991 to 2007, about 2 million Mexicans engaged in farming and related work lost their livelihoods, in turn driving illegal migration to the United States.

However, NAFTA has boosted foreign investment in Mexico, and it has allowed Mexico to boost exports which now compose a large portion of the Mexican GDP.And the U.S. increased FDI in Mexico from $15.2 billion in 1993 to $104.4 billion in 2012, and Mexico ramped up investment in the U.S. by 1283% over the same time period. In 2008, Mexico's exports as a percent of GDP equaled 31%, up from 10% twenty years ago, and over 80% of Mexico's exports went to the United States.

Chapter 4: Challenges, Disadvantages and Critics of NAFTA

4.1 Challenges of NAFTA

Since President Ronal Reagan and Canadian Prime Minister Mulroney signed the US-Canada Free Trade Agreement on 2 January, 1988, in Canada the notion of a Free Trade Agreement with the United States stirred up heated debate. Some Canadian feared that closer relations with the United States would be a threat to Canada's National Sovereignty as well as to its cultural identity. And in the summer of 1988 opposition leader John Turner came out against the Free Trade Agreement, forcing a national election. However, the free trade went into effects on January 1, 1989 and by the late 1980s the Canadian public had come to appreciate the fact that the protection of Canadian market which distorted the investment pattern. US firms invested in Canada to get behind the trade barrier while Canada firms invested in the United States to avoid the uncertainty of continued access to the foreign market of overwhelming important to them. Trade with the United States had by this time come to account for almost 80 percent of Canada's foreign trade and about 20 percent of Canadian gross domestic products.

Instead of the economic gains for people in all three countries promised by NAFTA's supporters, the deal has resulted massive job loss and lower wages. Moreover, both environmental and labor issues were the controversial aspect of NAFTA, and labor issues were more so as Mexico was a very different level of economic development than either the United States or Canada. Wage rates in Mexico were only about one-seventh of their level in the United States, organized labor had concerned about labor rights and working conditions in Mexico, they were feared that lower wage rates and labor standards in Mexico would give Mexican firms an unfair cost advantage, causing displacement of workers in American industry through competition from products from products produced in Mexico.

The Labor Department reports that almost half of the manufacturing workers who lost jobs and were rehired in 2016 experienced a wage reduction, with one out of four taking a cut of greater than 20 percent an annual loss of at least $7,700. Entire communities have been devastated. More than 2 million Mexicans engaged in farming and related work lost their livelihoods as NAFTA flooded Mexico with subsidized corn and other agricultural products. *9/Real average annual wages in Mexico are lower than they were before NAFTA. Tens of thousands of small retail and manufacturing firms were bankrupted as NAFTA opened the door to Walmart and other mega retailers. And scores of environmental, health and other public interest policies have been challenged in all three countries. Consumer safeguards, including key food safety protections, have been rolled back. [18]

4.2. Common Criticisms on NAFTA

NAFTA has been criticized for taking U.S. jobs, making worse the Mexican environment. While it has also done good things for the economy, the North American Free Trade. so that the common criticisms also include both bad view and good view from its members. Some common criticisms are the following:

1. It's unfair to USA.
2. It's the worst deal for the USA in history.
3. Canada took advantage of USA.
4. Mexico took all the US jobs.

According to Quora "some common criticisms by public" said, for instance USA, it has two sides. Its firms like GM Motors, Hines profited hugely because they got cheap labor in Mexico, so their production cost was low and due to NAFTA they were not obliged to pay any import

[18] Global Scholar, Problem with NAFTA, https://ampglobalyouth.org/students/problems-with-nafta/

taxes to America, thus their total income climbed up. And because their headquarters were in USA, so government got much more taxes from them. So America's GDP bettered.

Canada had gained tremendously from the agreement and companies for instance Open Road Auto Groups Ltd, Desjardins etc. got easy entry to the US market which is huge in size without any tariffs. Hence the country's employment jumped up and the GDP was also raised. But on the other side, it experienced various environmental problems. NAFTA clause included that if domestic laws are causing any kind of interference with the trade deal, then the trade deal under NAFTA agreement will be preferred and that the law will be put aside.

The agreement was a big bane for the peasants as they didn't have much technology for agriculture, they used a lot less fertilizers so their production cost was much more. U.S farmers supplied their low cost corn in Mexican markets at huge quantity at. So farming wasn't a feasible option for them, some of them illegally migrated to the US for employments and a good life. And many Americans see the North American Free Trade Agreement (NAFTA) as a contributing factor to the growth of the U.S. economy over the past 20 years and the proliferation of high-skilled jobs, and believe the focus of the NAFTA negotiations should be modernizing the agreement, not withdrawing from it. (Stokes, 2017)

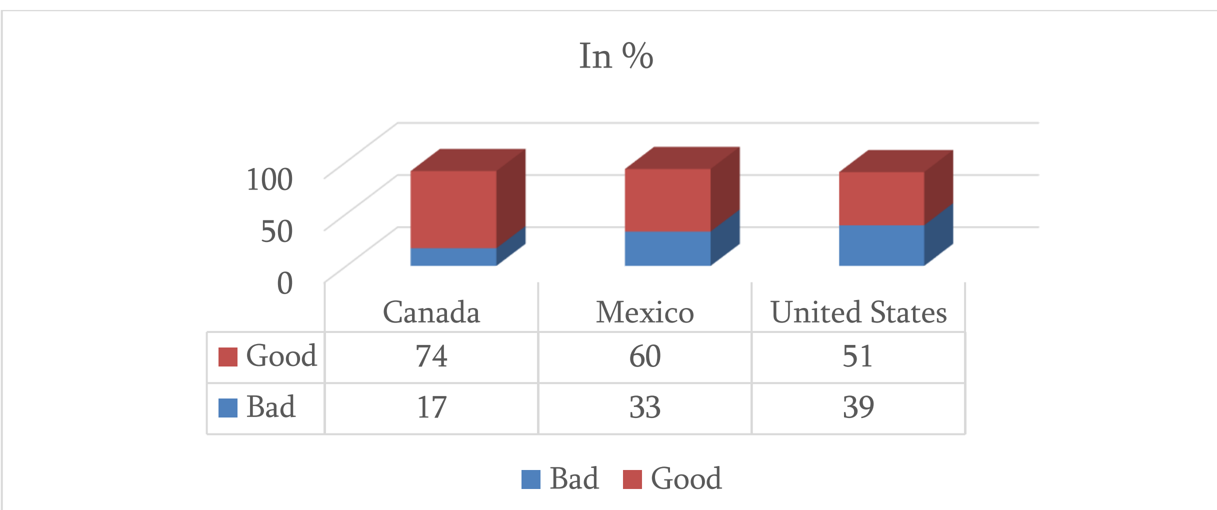

Figure 4.2. Percentages of Public Opinion on NAFTA

Source: spring 2017, Global Attitude Survey

According to figure (4.2), U.S. was the most negative view on NAFTA. About half of Americans (51%) say NAFTA has been a good thing for the U.S., including 11% who say it has been *very* good. That compares with 74% of Canadians who say the agreement has been good for Canada, including 20% who say it has been very good. Among Mexicans, 60% see NAFTA as being good for their country, including 10% who hold that view strongly. Despite often heated rhetoric around the subject, almost half of Americans (45 percent) believe the trade deal has greatly influenced growth in the U.S. economy over the past 20 years and more than half (57 percent) believe a withdrawal from NAFTA is likely to result in a price increase on everyday goods, while only six percent of Americans believe the U.S. should withdraw from the agreement altogether. President Trump had threatened to "rip up" NAFTA and renegotiate a new agreement that better favors the United States and its workers.

4.3. American's Opinion on NAFTA

Thank to NAFTA, USA has two sides. Its Companies like GM Motors, Hines earned a lot because they got cheap labor in Mexico, so their production cost decreased and due to NAFTA they were not supposed to pay any import taxes to America, thus their total income increased. And because their headquarters were in USA, so government got higher taxes from them so America's GDP increased. But on the other side such the ground level low skilled workers lost their jobs in America, so unemployment rate increased. Illegal immigration from Mexico in USA increased. These are the reasons why in every US election NAFTA is a major issue. According to a 2017 Gallup poll, found Americans are split on whether NAFTA is "good" or "bad" for the U.S., showing 48% of Americans saying it's good and 46% saying it's bad. Gallup's first poll on the topic in 1997 showed 37% thought it was good for the country, 47% thought it was bad, and 16% had no opinion so, in other words, the number who oppose it is pretty close to the same. [19]

[19] The Harris Poll, Americans' Views of NAFTA More Pragmatic Than Protectionist, https://theharrispoll.com

4.4. Canadian's Opinion on NAFTA

Canada was also hugely benefitted by this agreement as its companies like Open Road Auto Groups Ltd., Desjardins etc., got access to huge market of USA without any tariffs. So employment increased, GDP of the country increased. But on the dark side, it faced some environmental issues. NAFTA clause includes that if any domestic law comes in the way of any trade deal, then trade deal under NAFTA agreement will get priority and the that law will be ignored. Due to this clause many paper industries cut their forests enormously and harmed its environment.

The following figure (4.1) also showing the Canadian view on NAFTA, due to figure (4.1), a Solid Majority (78%) Support Canada Being Part of NAFTA when 22% oppose, One-fifth (21%) "strongly support" Canada's membership in NAFTA, while one-half (57%) "moderately support" it. One-quarter (25%) of Canadians surveyed said those who feel it has hurt oppose Canada being part of NAFTA.[20]

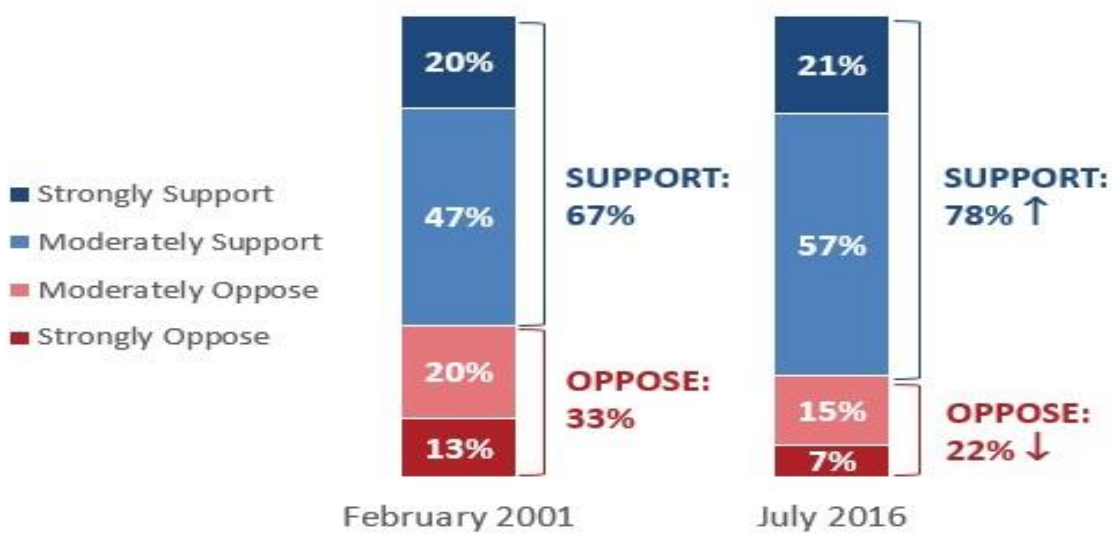

Figure 4.1. Canadian Opinion on NAFTA (%)

Source: ideas, spotlight

[20] Ipsos News & Polls : News, Canadians' Views on NAFTA, www.ipsos.com

4.5. Mexican's Opinion on NAFTA

NAFTA increased the number of employments as companies from USA hired a huge number of low skilled workers. But this agreement broke the back of peasants as they did not have much technology for farming, they used less fertilizers so their production cost was high. US farmers dumped their subsidized corn in Mexico markets at considerably lower prices. So farming was no more an option for them. Some of them illegally migrated to USA for employment and a better life. However, prominent spokesmen for organized labor and environmental organizations have conducted a vocal campaign against a NAFTA, in general, and free trade with Mexico, in particular—making highly emotive claims that a NAFTA would bring massive job losses in the United States and increased child labor atrocities and ecological disasters in Mexico. Nonetheless, 60% of Mexicans support being part in NAFTA while 33% oppose. (Salinas-León, 1991)

4.6. Disadvantages of NAFTA

The North American Free Trade Agreement has six weaknesses, these disadvantages had a negative impact on both American and Mexican workers and even the environment. Six main advantages of NAFTA included: U.S. Jobs Were Lost, U.S. Wages Were Suppressed, Mexico's Farmers Were Put Out of Business, Maquiladora Workers Were Exploited, Mexico's Environment Deteriorated, and **NAFTA** Called for Free U.S. Access for Mexican Trucks.

1. **U.S. Jobs Were Lost:** There was certain estimated that due to NAFTA, U.S. jobs were lost since labor is cheaper in Mexico, many manufacturing industries withdrew part of their production from the high-cost United States. Between 1994 and 2010, the U.S. trade deficits with Mexico totaled $97.2 billion. According to the Trade Adjustment Assistance (TTA) database, there are more than 970,000 specific American jobs certified as lost to NAFTA.

2. **U.S. Wages Were Suppressed;** Not only most of the companies in these industries moved to Mexico but also some companies threatened workers to move to Mexico to keep workers from joining unions. When workers had to choose between joining the union and losing the factory, workers chose the plant. Without union support, the workers could not bargain for better wages. This strategy suppressed wage growth, and it was so successful that it became standard operating procedure.
3. **Mexico's Farmers Were Put Out of Business;** Mexican unemployment also rose, NAFTA **put Mexican farmers** out of business for almost 1.3 million agriculture jobs were lost in Mexico due to NAFTA (1 million men and 300,000 women).
4. **Maquiladora Workers Were Exploited;** NAFTA increased the maquiladora program by removing tariffs, and unemployed Mexican farmers went to work in substandard conditions in the maquiladora program. Maquiladora is where United States-owned companies employ Mexican workers near the border. They cheaply assemble products for export back into the United States. Employment in maquiladoras rose 120,000 in 1980 to 1.2 million in 2006.
5. **Mexico's Environment Deteriorated;** As a result of U.S. companies degraded the Mexican environment to keep costs low. Agribusiness in Mexico used more fertilizers and other chemicals, resulting in increased pollution $36 billion per year.
6. **NAFTA Called for Free U.S Access for Mexican Trucks;** NAFTA allowed Mexican trucks access into the United States. Congress never allowed this provision to go into effect for Congress worried that Mexican trucks would have presented a road hazard. [21]

[21] Kimberly Amadeo, Updated November 30, 2016, NAFTA's 6 Negative Effects, https://www.vanderbilt.edu/olli/class-materials/2017Spring.GDBrentwoodNAFTA.pdf

Chapter 5: The Renegotiation of NAFTA vs USMCA

5.1 The USMCA

The Agreement between the United States of America, the United Mexican States, and Canada is a signed but not ratified free trade agreement between Canada, Mexico, and the United States. It is referred to differently by each signatory—in the United States, it is called the United States–Mexico–Canada Agreement (USMCA); in Canada, it is officially known as the Canada–United States–Mexico Agreement (CUSMA). The agreement is sometimes referred to as "New NAFTA" in reference to the previous trilateral agreement it is meant to supersede, the North American Free Trade Agreement (NAFTA). The Agreement is the result of a 2017–2018 renegotiation of NAFTA by its member states. On 30 Sep 2018, the governments of the United States, Canada and Mexico announced they had reached a trilateral free trade agreement (in principle), concluding more than 13 months of negotiations. On August 2018, Trump and Mexico reached a bilateral trade deal to replace NAFTA. Canada joined on September 30, 2018. The new deal is called the United States-Mexico-Canada Agreement that signed by the three countries on 30 November 2018.

Compared to NAFTA, USMCA increases environmental and labour regulations, and incentivizes more domestic production of cars and trucks. The agreement also provides updated intellectual property protections, gives the United States more access to Canada's dairy market, imposes a quota for Canadian and Mexican automotive production, and increases the duty free limit for Canadians who buy U.S. goods online from $20 to $150

The formal negotiation process began on May 18th, 2017 when the President Trump appointed United States Trade Representative Robert Lighthizer who would be represented the United States, notified Congress that he intended to renegotiate NAFTA starting in 90 days. The three countries had hoped to finish by the end of 2017. Congress needed a text of the new agreement by mid-June to approve it in 2018. Also, Trump's "fast-track" negotiating authority could end. Some members of Congress have threatened to block automatic renewal. In his first 100 days, Trump threatened to withdraw from NAFTA if Canada and Mexico refused to renegotiate. They were willing because the agreement is outdated. For example, it doesn't address internet commerce. It also needs to incorporate the environmental and labor protections that are in side agreements. (Kirby, 2019)

On March 5, 2018, the seventh round of the renegotiations concluded. Progress had been slow. On May 31, 2018, Trump imposed a 25 percent tariff on steel and a 10 percent tariff on aluminum on Canada, Mexico, and the European Union. In retaliation, Canada imposed tariffs on $12.6 billion of U.S. imports. Negotiators have been trying to move forward despite the angry rhetoric from their nations' leaders. On July 1, 2018, Trump said he would not approve any deal until after the U.S. midterm elections in November.

The new deal is an important component of President Trump's economic plan. He wanted to lower the trade deficit between the United States and Mexico. So he threatened to terminate NAFTA if Congress didn't approve the USMCA. But House Democrats won't approve the deal unless Mexico brings its labor protection up to par with the U.S. laws. Some Senate Republicans want steel and aluminum tariffs eliminated for Canada and Mexico. In 2017, Americans bought $71 billion more imports from Mexico than vice versa. The trade deficit with Canada is smaller. NAFTA's purpose was to make North America more competitive in the global marketplace. It's the world's largest free trade agreement. However, the essentially purpose of the USMCA is to first promote the economic and trade interests of the US within the North American and global trade environment and place the economic interests of its partners in second place.

5.2 From NAFTA to USMCA: Key Changes

The new deal changes NAFTA in six areas under the USMCA.

First, auto companies must manufacture at least 75 percent of the car's components in Canada, Mexico, or the United States. It was 62.5 percent previously. At least 30 percent of the car must be made by workers earning at least $16 an hour. That increases to 40 percent in 2023. That's three times what the average Mexican auto worker makes. Autos that don't meet these requirements will be subject to tariffs. The agreement protects Mexico and Canada from any future U.S. auto tariffs. These changes should create more U.S. jobs for autoworkers. But it could reduce U.S. jobs for cars sold to China. The higher labor costs will make them too expensive. for the Chinese market. It will also increase the price of cars sold in America. It also means some small cars will no longer be sold in North America. (carson, 2019)

Second, Canada must open up its dairy market to U.S. farmers. It will eliminate its complex pricing scheme for Class 7 products. That includes milk protein concentrate, skim milk powder, and infant formula. It also allows certain cheeses to be marketed in Mexico and the United States. It opens the wine market in British Columbia to American wine. And third, Mexican trucks must meet U.S. safety standards before crossing the border. That was a win for Mexico. It was promised in the first NAFTA agreement but withdrawn by the U.S. Congress. Mexico must also allow its workers to form unions.

Fourth, the new agreement provides more protection for patents and trademarks. This adopts many of the intellectual property rights negotiated in the Trans-Pacific Partnership abandoned by Trump. Fifth, U.S. drug companies can sell products in Canada for 10 years before facing generic competition. It was eight years under NAFTA. And the final one, companies can no longer use Chapter 11 to resolve disputes with governments. The only exceptions are U.S. oil companies. They are concerned Mexico may try to nationalize its oil industry again. But the Chapter 19 dispute resolution panels remain. These arbitration panels rule on whether a NAFTA country treated a partner's overseas investments unfairly. The panels make sure U.S. corporations maintain the rights protected by the U.S. Constitution. In additional, the parties agreed to revisit the USMCA every six years. If they don't renew it, the deal will sunset in 16 years. (Hiyate, 2018)

5.3 Consequences of USMCA

The new agreement might help restore some of the 500,000 - 750,000 manufacturing jobs lost in California, New York, Michigan, and Texas. On the other hand, it could raise the price of affected imports for American consumers. Inflation would increase as a result. The new restrictions might reduce some trade. As of 2016, NAFTA quadrupled trade to $1.15 trillion. It increased U.S. growth by 0.5 percent each year. That created 5 million new U.S. jobs, including 800,000 manufacturing positions. Canada and Mexico invested $240.2 billion in the United States while U.S. companies invested $452 billion in those countries. The United States imports $294.7 billion from Mexico. That's almost as much as it imports from China. The new agreement won't threaten the flow and price of these imports. They include oil, manufactured products, fruits, vegetables, coffee, and cotton. The only exception is automobile imports. Similarly, 80 percent of Mexico's exports go to the United States. Restrictions on auto exports might damage Mexico's economy. It could force more Mexicans to immigrate to the United States. (Hiyate, 2018)

Trump's threat to end NAFTA weakened trade relationships with America's partners. Mexico created a backup plan if Trump made good on his threat to pull out of NAFTA. Mexico also improved its trade relationship with the EU. On April 21, 2018, the EU upgraded its trade agreement with Mexico. Once signed, it will remove tariffs from almost all trade between the two areas. (Rodriguez, 2018)

The Commission’s model estimates that the new trade agreement USMCA would raise U.S. real GDP by $68.2 billion (0.35 percent) and U.S. employment by 176,000 jobs (0.12 percent).

The model estimates that USMCA would likely have a positive impact on U.S. trade, both with USMCA partners and with the rest of the world. U.S. exports to Canada and Mexico would increase by $19.1 billion (5.9 percent) and $14.2 billion (6.7 percent), respectively. U.S. imports from Canada and Mexico would increase by $19.1 billion (4.8 percent) and $12.4 billion (3.8 percent), respectively. According to a study from the International Trade Commission, the model estimates that the agreement would likely have a positive impact on all broad industry sectors within the U.S. economy.

The United States-Mexico-Canada Agreement (USMCA) is a pending trade agreement that was created to replace the North American Free Trade Agreement (NAFTA). USMCA looks to be very similar to NAFTA in most respects. Structurally, not much changed. The underlying principles of a North American free trade agreement necessitate that many of the regulations affirmed in NAFTA remain.

The USMCA includes agreements on a wider range of topics and content. Technological updates, which were sorely lacking in NAFTA, are now established. Similarly, the USMCA refined and modernized agricultural and intellectual property protocol. Data creates a clear new precedent. The provisional text states that "no Party shall prohibit or restrict the cross-border transfer of information, including personal information," for business purposes, nor shall any country require companies to store "computing facilities" on its soil. The U.S. is better prepared for a trade war with China and sets expectations for its termination. Automobiles must have 75 percent of their parts manufactured in the U.S., up from 62.5 percent under NAFTA.

As a result of the aforementioned automobile changes, prices for cars will rise. No longer being able to outsource to Mexico for cheap labor will cause price increases. In the long run, it better prepares the U.S. to face the far larger Chinese threat to automakers. The 25 percent steel tariffs imposed on Canada and Mexico will stay, at least for the time being. President Trump indicated an intent to work on these further down the road, but their continued existence does not bode well in general. But according to BBC New released on 17 May, 2019, the US has reached a deal with Canada to lift tariffs on steel and aluminum imports in a move that could lead to approval for a new North American trade deal "the US and Canada announced that a 25% tariff on steel imports, and of 10% on aluminum, will end in 48 hours". (sources, 2019)

5.4 Recent Challenges for USMCA

The United States, Canada, and Mexico officially signed a new trilateral trade deal on Friday 30 November, 2018 at the G20 summit in Buenos Aires. It's known as the USMCA, or the United States-Mexico-Canada Agreement. But USMCA is not a done deal since the US Congress hasn't taken up the USMCA, and it is unclear what lawmakers will do, especially now that Democrats control the House. And more than half of the populations especially in Canada and Mexico is not as much as like USMCA when compare to the old agreement NAFTA. Democrats currently object to parts of the deal, which could derail its approval. President Donald Trump encouraged Congress to approve the USMCA and replace NAFTA during his 2019. (Rodriacute, 2018)

Before the agreement can move ahead, the three countries must find a solution to the tariffs the United States put on steel and aluminum imports from Canada and Mexico in 2018 for "national security" reasons. In response, those countries imposed equivalent tariffs on a range of US exports, spreading economic pain across all three countries. The governments of Mexico and Canada, as well as key Republican members of the US Congress, want this problem resolved before approving USMCA. The biggest issue for miners and mining supply companies is that the new agreement did not deal with the 10% tariffs on aluminum and the 25% tariffs on steel imposed by the Trump administration at the end of May under Section 232 of the Trade Expansion Act. Those tariffs have the potential to affect the cost of equipment and mining infrastructure. Albrecht notes that the retaliatory 10-25% surtaxes that the Canadian government imposed soon after have compounded the issue. (Gibillini, 2018)

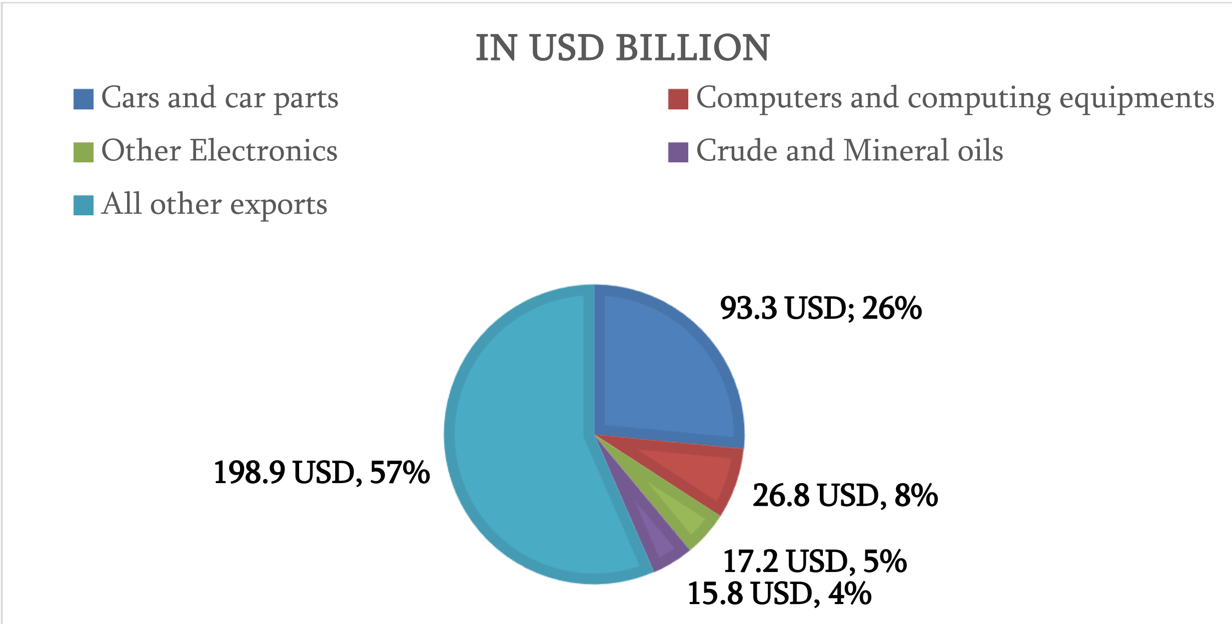

Figure 5.1. Mexican exported to the US in 2018

Source: USITC, Goldman Sachs Global Investment Research

Mexico's auto industry, having thrived under the flexible rules of the North American Free Trade Agreement, is about to face a big test under the more restrictive replacement negotiated by President Donald Trump. According to BBC News released on 31 May 2019, US President Donald Trump's threat Mexico to open a trade war, sent Wall Street sliding, with shares in carmakers among the worst hit. Trump said Mexican tariffs will start at 5% on June 10 and increase until illegal immigration from the southern border has been stopped. The tariff on all Mexican goods will rise to 10% on July 1, 20% on Sept. 1 and 25% on Oct. 1, Trump said in a statement released by the White House. As a consequence, the main US share markets closed between 1.3% and 1.5% lower. General Motors, which like many carmakers has operations in Mexico, fell 4.3%. Shares in carmakers and supply chain companies suffered the worst. Ford fell 3.4% and Fiat Chrysler 5%. Mexico is the single biggest source of parts and engines for the US vehicle sector, importing some $128bn worth of products. A research note from Deutsche Bank said the tariff measure "could cripple the industry and cause major uncertainty". The total value of US imports from Mexico is about $350bn, see in figure (5.1). In Europe, car shares were also down, with Renault shedding 4.5%, Volkswagen 2.6% lower, and BMW 1.6% off.

Thanks to the BNN Bloomberg written, due to the results of the Angus Reid Institute survey released on Tuesday (22 October 2018) reveal 45 per cent of Canadians are disappointed with the United States-Mexico-Canada Agreement (USMCA), while 34 per cent said they are pleased overall, and 21 per cent said they're not sure. Only one-fifth (18 per cent) of respondents said the new deal was better than the original North American Free Trade Agreement. Thirty-five per cent said it was about the same, and almost half (47 per cent) said it was worse. [22]

[22] Atlantic Council, USMCA is Not a Done Deal. It Must Still Clear Three Legislative Hurdles, 22 March 2019 www.atlanticcouncil.org

Conclusion

The North American Free Trade Agreement, which made trade easier for companies in its three member countries the United States, Mexico, Canada to move goods and supplies across North America’s borders. Its secondary purpose was to make these countries more competitive in the global marketplace. It has been wildly successful in achieving both goals. NAFTA was now the largest free trade agreement in the world. One of the problems with NAFTA is that it's reduced U.S. jobs. A second disadvantage is that it has exploited Mexico's farmers and its environment.

NAFTA benefited its member by easing trade between 450 million people in three countries, NAFTA more than quadrupled trade in 20 years. This boosted economic growth in all three countries. It also led to lower prices on groceries and oil in the United States. Grocery prices went down because NAFTA lowers the cost of produce imported from Mexico and Canada. While this means less demand for American agricultural products, there is high demand for lower food prices because food is more expensive every year. Oil prices went down because the United States 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. Even though NAFTA increased the U.S. trade deficit, it still benefited the U.S. economy by increasing exports.

In the other side, NAFTA was criticized for destroying half a million American jobs and lowering U.S. wages. In addition, NAFTA increased the U.S. trade deficit. Moreover, some U.S manufacturers moved to Mexico to take advantage of lower labor costs. Lower wages in Mexico reduced U.S. wages and benefits. Workers in the remaining U.S. factories could not bargain for higher wages. Some accuse NAFTA of exploiting Mexico's workers, destroying its farms, and polluting its environment. Labor in Mexico’s maquiladora program was cheap because workers had no labor rights or health protection. Thanks to NAFTA, almost a third of Mexico's labor force works in the poor conditions of these manufacturing jobs.

President Donald Trump despised the current NAFTA agreement, which he blames for the loss of American jobs. Trump often blasted NAFTA as the “worst trade deal ever” while on the campaign trail and has even threatened to pull out of the agreement unless a better deal can be reached. Other critics concede that NAFTA needs to be updated to reflect changes in the world economy. On September 30, 2018, the United States, Mexico, and Canada renegotiated the North American Free Trade Agreement. The Trump administration wanted to lower the trade deficit between the United States and Mexico.

Nevertheless, NAFTA’s impact has been viewed by most economists as generally beneficial for the economies and citizens of all three countries as measured by GDP, albeit showing modest gains in some instances.

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