

ORIGINAL PAPER



DOI: 10.26794/2220-6469-2022-16-2-43-50
UDC 339.9(045)
JEL F02, F53, N42

The Evolution of Economic Relations Between the USA and Canada: The Interdependence of the Two Economies

A.D. Filina, G.V. Tretyakova

Financial University, Moscow, Russia

ABSTRACT

The paper presents the results of the study of the evolution of economic relations between the United States and Canada, since 1989. The agreements regulating the economic relations of these countries among themselves and with other trading partners. An economic and statistical study of Canada's exports to Latin America and the Caribbean and imports from them was carried out. Both Canada and the United States have become leaders in creating an open and free space based on the principles of multilateral trade. The main characteristics of the free trade zone are mutual concessions in terms of access to markets for services and goods; discipline in terms of trade restrictions; the use of dispute settlement mechanisms. Nevertheless, some researchers question the effectiveness of this trading system. US President Joe Biden promises to take measures to intensify bilateral cooperation, but Canadians are concerned about his decision to cancel the Keystone XL pipeline project. The commitment of the American president to the policy of "buying American" also causes some unrest. The above determines the relevance of considering the issue related to economic cooperation between the United States and Canada in modern conditions. The following research methods were used in the work: the normative method and the method of political analysis.

Keywords: United States of America; Canada; Latin American countries; economic relations; international trade; development trends; integration; NAFTA; announcement of the YUMSK; sustainable economic development

For citation: Filina A.D., Tretyakova G.V. The evolution of economic relations between the USA and Canada: The interdependence of the two economies. *The World of the New Economy*. 2022;16(2):43-50. DOI: 10.26794/2220-6469-2022-16-2-43-50

INTRODUCTION

Trade relations between Canada and USA were regulated by various documents: Free Trade Agreement of 1989, North American Free Trade Agreement (NAFTA) (signed on 17 December 1992; Entered into force on 1 January 1994), and from 1 July 2020 — announcement of the USMCA. Each subsequent agreement differed from the previous one, necessitating the development of new regulations and rules to solve actual problems. Moreover, developments have shown that even developed associations are not protected by new precedents.

ECONOMIC INTEGRATION

Concept of integrated model proposed by A. M. Libman and B. A. Heifetz [1], was of particular interest in the current context. Typology of this model of economic integration balances the power of the players, acting as a driver of the integration process, economic policy adjustments and the degree of trade liberalization are not considered. The authors typologized disintegration and proposed stagnant, shock, conflict, divergent models.

According to some researchers, in the current context, the dominant model of intergovernmental agreements, i.e. a key driver of integration, are national authorities. Traditional political cooperation between peoples and political motivation plays an important role in this process. The main manifestations of centrifugal tendencies are: Weak financial policies, disagreement in the budgeting of individual regions, gaps in the social and economic well-being of States parties, concentration of resources in individual territories, conflicts of interests at national and supranational levels, decision of some countries to leave the union, fragmentation of economic space, change of course of regional economic complexes towards countries not included in the association.

Later, A. M. Libman proposed an integration classification according to the criteria of

realization of the goals. According to the researcher, the intensity and depth of the potential impact of a particular group on international trade can be indicated by this concept, — as before, such associations cannot determine factors of production and freedom of movement of goods.

ECONOMIC COOPERATION BETWEEN THE USA, CANADA AND LATIN AMERICA

Researching economic cooperation between Canada and the USA, it should be emphasized that in the early 21st century Latin America has become an important player in the world economy and politics. The region seeks to forge strong political and economic relations with new partners within and outside the hemisphere. Canada is a promising potential partner for the Latin American region, also interested in diversifying the economy and strengthening investment and trade relations.

Trade between regions gained momentum for 26 years. Some aspects of the Latin American-Canadian relationship have already been the subject of special research. A significant contribution to the development of the topic have made E. G. Komkova, P. McKen, L. McDonald, P. Heidrich [2]. These researchers studied selected aspects of Canadian-Latin American relations, but no in-depth analysis of trade relations, changes in the composition of exports and imports has yet been undertaken. Scientists reviewed the economic and trade relations of Latin America and Canada, but did not form a holistic view of the evolution of these relations in the new century, showing only some stories and problems of individual countries.

For a better understanding the development of trade with Latin America, it is necessary to identify the general trends in the formation of Canadian trade relations in the new century: over the past two decades, the country has slowly built up its export capacity and new trading relations.



Table 1

Latin American countries with the largest share of Canadian exports

Importer	Canada's exports in the Latin and Caribbean regions			
	Number of exports in 2019, (thous. USD)	Trade balance in 2019, (thous. USD)	Export volume growth in 2015–2019, %	Total import growth in partner states price in 2015–2019, %
World	446 562 311	–6 594 914	3	5
Latin America and the Caribbean regions	11 476 350	–29 344 144	–	–
Mexico	5 516 060	–22 301 667	2	5
Brazil	1 698 667	–2 369 443	0	3
Colombia	705 199	78 350	6	–
Chile	656 031	–583 672	5	5
Peru	579 122	–2 118 142	–3	4
Cuba	289 785	–140 369	–5	–5
Ecuador	289 277	122 247	5	2
Argentina	215 077	–469 092	–2	–2

Source: [3].

Table 2

The size of Canadian exports to Latin America by year, thousand dollars

Year	2013	2014	2015	2016	2017	2018	2019
Volume	13157600	12899559	11596089	11130888	1148443	12666540	11476350

Source: [3].

Since the establishment of NAFTA, Mexico has been Canada's main and practically sole trading partner in the region. But in recent years, the share of exports to Mexico is less than half of all exports to the region (*table 1*).

Canada is gradually entering new markets in the region, with there were no trade relations until recently. Overall, exports are steadily increasing in all countries and remain stable without explicit downward or upward trend (*table 2*).

Taking into account the available data, it is possible to identify the main categories in the structure of exports:

1. High-value resources, mechanisms, machines, automobiles, high-tech goods for manufacturing. Canada has a higher level of technological development than most Latin American countries. Therefore, high-tech products and specialized equipment produced in Canada are in high demand in the Latin American region.

2. Food products and organic products used in their production (meat, nuts, fruits, crops). Some products in this category require specific conditions and high-tech production methods. Factory production of many goods in the category provides lowers prices and increases their competitiveness.

Separately, it is necessary to mention the export of fuel and its processed products, the share of exports of which, despite the high performance, in the last 2–3 years has fell almost halved.

In addition to exports of goods, Canada continues to increase exports of services. In contrast trade in goods, trade in services covers the sale of services, electronic and intellectual resources, access to ideas and technologies. This type of export is characterized by stable annual growth throughout the region.

The most dynamically developing direction of imports are precious metals and stones. In the last 2–3 years, the volume of imports from the region has doubled (almost returning to the pre-crisis level). Despite the decline in many imports due to the COVID-19 pandemic, imports of precious stones and metals are only increasing. In addition, the region imports raw materials and parts from high-tech industries, selected outputs from these industries, minerals, inorganic chemicals, as well as vegetables, fruits, coffee, tea, alcohol.

It is especially worth mentioning the high rate of import of furniture produced on the territory of the region. With the strengthening of relationships similar to service exports, the volume of service imports increases (only the directions differ) (*table 3*).

Despite the region's growing interest in exports from Canada, the balance between exports and imports is highly skewed towards the latter (about 3:1).

Canada has invested a significant part of the capital to assist and development of the Latin American region. Social and development assistance programmes for the region are being implemented at the level of different Canadian offices in Latin America. They relate to areas such as migration, education, health, environmental improvement and protection status of the natural environment. In addition to direct assistance and government programmes, part is provided through international

organizations and non-governmental foundations. However, such support acts and projects open the way to advancing Canada's interests in the development of mining sector and related industries. The increasing import of precious metals suggests that this investment in Canada is meeting expectations.

It follows from the above that today one should not expect a jump-up of the volume of trade relations. In addition, fluctuations in exports and imports have generally been small in recent years. At the same time, there are industries that receive additional development, but the growth of individual industries is "compensated" by losses in others.

The volume of trade turnover is quite stable, and today there are hardly any factors that can influence this trend. The constraints on trade balance growth are difficult logistics, Canada's expensive currency, protectionist policies by Canada and the USA, and are unlikely to be overcome anytime soon.

PROSPECTS FOR THE DEVELOPMENT OF TRADE RELATIONS

At present, the development of economic and trade relations between Canada and Latin America is almost entirely in Canada's interest, who wants to get a quick return on their investment in the region. Latin America appreciates working with Ottawa in key areas, taking advantage of Canada's industrial and social investments. No improvement in economic relations between regions to be expected in the near future: Latin America's political instability, strong impact of the pandemic and crisis — main factors, which determine development of Canadian-Latin American relations. Canada sees the region as a promising area of development due to the saturation of economic relations and growing political tensions with other partners. Main market outlets (China, USA and Europe) already established and have little potential to develop trade with Canada. The Latin American region, by contrast, has unlimited opportunities and prospects for new players.



Table 3

The size of Latin American imports in Canada by year and main industries, thousand dollars

Commodity		Canada's imports from Latin America and the Caribbean				
Code	Name	2016	2017	2018	2019	2020
	Total imports by year	36 822 790	40 214 726	41 373 712	40 820 494	35 823 447
87	Vehicles other than railway or tram rolling stock, as well as parts and accessories thereof	7 706 658	9 324 454	9 157 904	8 662 189	6 235 918
85	Electrical equipment and parts thereof; sound recording and reproduction devices	5 332 578	5 391 366	5 542 088	5 381 028	4 560 904
84	Machines, mechanical devices, nuclear reactors, boilers; parts thereof	4 194 607	4 420 029	4 838 710	5 046 617	4 294 318
71	Natural or cultivated pearls, precious and semi-precious stones, precious metals, clad metals	3 967 880	3 365.145	2 839 118	4 095.366	5 092 103

Source: Data on international trade and market access. URL: <https://www.wto.org>.

The rapid growth of integration groups in the world is due to the expectation of positive results from integration. Among them: attracting more investment, increasing trade, increasing product competitiveness, increasing global influence. Integration has already achieved great results in the EU and North America (largely thanks to NAFTA). However, some difficulties necessitated a new agreement with the USMCA.

USA, CANADA, MEXICO

Canada and Mexico are important partners for the USA. Americans want to live in a prosperous, stable region with neighboring democratic countries that share their views. The US-Mexico partnership is the most important in the region. Foreign and domestic policies are interconnected because of common threats to security, dynamic trade

relations and geographical proximity. Mexico — it is the second largest export market of the USA. Mexico was the largest trading partner of the US, beating of Canada and China as at 2020. For several years, Mexico has been the main export market for all American states along a common border of 2 thous. miles (about 3 thous. km). US companies supply more goods and services to Mexico than to China, India, Russia and Brazil combined.

Canada, Mexico, and the USA have helped transform North America into a successful, economically prosperous region and free trade area [4]. GDP of three USMCA-partner countries is higher than that of all 27 EU-member states. The huge trade turnover of the past 20 years has stimulated the economic growth of the region. Mexico and the United States produce and sell agricultural products, plastics, automobiles, textiles, industrial

intermediate goods for the American aerospace sector, equipment, etc. Daily cross the border goods and services of 1.7 billion USD. Many experts discussing trade policy are often ignored that 6 million jobs in the US are directly linked to Mexican companies, — this underscores the importance of Mexico to the American economy

For several decades, the US and Canada, as free-market countries, have together topped the annual rankings of the Index of Economic Freedom (The Heritage Foundation). Economic freedom is the foundation of dynamic, transparent and free market systems, on which it is based on the economically significant partnership between the two allies, and is much more significant during COVID-19, than ever before.

Canada and the US have the longest non-military border — 5 525 miles (about 9 thous. km). Close ties is related between the people of these countries. Several million cross-border interactions between companies and individuals occur annually. Naturally, the two governments also cooperate with each other on the most important issues of security, economy and politics. Canada's relationship with the US is based on common principles and interests: in particular, both countries have membership in the intelligence alliance Five Eyes, as NATO members, they continue to cooperate in the development and security of the Arctic to confront China and the Russian Federation.

Common interests and values strengthen the US-Canada alliance. In today's difficult environment, the two States have long learned to benefit from extensive bilateral economic dialogue with dynamic growth of entrepreneurship and creation of millions of jobs in each country. Mutually beneficial bilateral investment and trade relations are established and maintained between them.

Scientists have made important contributions to the research of international economic integration, in particular NAFTA [5]. But the research of foreign trade should

continue. It is also appropriate to continue to study intraregional flows after the conclusion of the agreement. Special attention should be given to analysing trade in agricultural products according to its characteristics, relevance of food security issues, and the fact that member-countries are important producers and suppliers of such products. A research of the peculiarities of the agreements concluded between Canada and the USA may serve as an example for other countries to sign trade agreements at the regional level in the future

NAFTA has had a positive impact on different areas in all member countries. On 30 November 2018, a new agreement was concluded between Canada, the United States and Mexico — USMCA. Among its innovations are several sections on current trade opportunities and issues [6]. The USA can enter into modern trade agreements with major customers and its neighbors. Technological advances could also be included in trade. The USMCA agreement contains sections on exchange rate, macroeconomic policy, development of digital commerce, participation of medium and small businesses in foreign economic activity, anti-corruption. The Agreement pays particular attention to trade policies for agricultural products, wages in the engineering industry, respect for the rights of indigenous peoples, cooperation in the fields of culture, energy, automobile trade, agriculture, intellectual property, environment, and in the field of dispute settlement.

The USMCA agreement must be reviewed at least once every 6 years after entry into force. The revision will ensure that it remains relevant and effective for North American workers, and help to ensure stability for enterprises and producers, and to solve problems before they develop into something serious. The term of the Agreement is — 16 years. After review, the parties may extend the Agreement for an additional period. Many developments on various issues (including



trade policy) can be traced through the integration of different trading blocs. It should be noted that, although NAFTA countries have some differences in their level of economic development (sometimes very significant), positive effects have occurred in all partner countries, i.e. not only in Canada and the USA, but in Mexico also.

Each country that concluded the Agreement had its own objectives. For example, the USA goal was to diversify its growing market: ensuring of free movement of goods and services, protection of intellectual property rights, combining new technologies and investments with the natural resources of Mexico and Canada, as well as their cheap labour. All this would increase USA competitiveness. The goal of Canada was to join the production of knowledge-intensive products, increase revenues and ensure stable access to the Mexican market. Each country sought to increase its exports and investment inflows. However, some goals differed depending on the risks and benefits of partners.

Economic and trade relations between countries have always been, and will continue to be, a major factor in the development of the North American economic sector. In this regard, I. Fergusson and M. Villarreal note that it is difficult to measure the overall economic impact of NAFTA, as investment and trade are affected by many factors – currency fluctuations, inflation, and economic growth. Nevertheless, even with its negative aspects, NAFTA plays an important role in integration for North America [7]. For 4 years, a clear organizational structure for the implementation of the Agreement was formed, and the main trends that led to its conclusion are not only reflected in free trade, but also

in the extension of NAFTA key principles to other areas of the North American economy. At the same time, it is difficult to disagree with M. Lyzun, who claims that the main objectives of regional integration of any format are: addressing of barriers to the free movement of labour and capital, expansion of mutual trade, scientific and industrial cooperation leading to faster economic growth, sustainable and balanced economic development [3]. Thus, the analysis of foreign trade is an important indicator of integration.

CONCLUSION

Given the importance of the agricultural sector, it should be noted, that the USA has a large share of agricultural exports. Mexico's share of the group's total exports and imports is increasing, both for all commodities and for agricultural exports. The trade balance of NAFTA, and in particular of the USA, was consistently negative for all products, while Canada and Mexico have experienced several years of positive surpluses. Mexico had the highest coverage ratio values for exports/imports.

Intraregional trade is important for each of the participating countries, for example, its share in the USA exceeds one-third of total trade, while in Canada and Mexico it accounts for 74.7 and 80.7%, respectively. The main trade flows are mainly US-Canada and US-Mexico, and, although the difference in volume from the Canada-Mexico focus area has begun to decrease, it remains significant. In addition, trade in agricultural products between the US and Mexico is increased.

In this way, trade relations among member States are developing and their intensification is being given special attention with taking into account of new requirements.

REFERENCES

1. Vinokurov E., Libman A. Trends of regional integration in the post-Soviet space: Results of a quantitative analysis. *Voprosy ekonomiki*. 2010;(7):94–107. (In Russ.). DOI: 10.32609/0042–8736–2010–7–94–107
2. Komkova E.G. USMCA instead of NAFTA. *Mirovaya ekonomika i mezhdunarodnye otnosheniya = World Economy and International Relations*. 2019;63(4):50–58. (In Russ.). DOI: 10.20542/0131–2227–2019–63–4–50–58

3. Lyzun M. Development trends of regional economic integration: Methodological aspect. *Journal of European Economy*. 2020;19(1):82–98. DOI: 10.35774/jee2020.01.082
4. Komar N. Features of the formation of a free trade zone in North America. *Visnik TNEU = Herald of Economics*. 2016;(1):110–117. (In Ukrainian).
5. Kharlamova V.N. International economic integration. Moscow: Ankil; 2017. 174 p. (In Russ.).
6. Felter C., Renwick D. et al. Mercosur: South America's fractious trade bloc. Council on Foreign Relations. Dec. 17, 2021. URL: <https://www.cfr.org/background/mercotur-south-americas-fractious-trade-bloc>, (accessed on 30.11.2021).
7. Villarreal M.A., Fergusson I.F. The North American Free Trade Agreement (NAFTA). Washington, DC: Congressional Research Service; 2017. 43 p. URL: https://sgp.fas.org/crs/row/R_42965.pdf (accessed on 12.02.2022).

ABOUT THE AUTHORS



Alexandra Dmitrievna Filina — 2nd-year Master's student, Faculty of International Economic Relations, Department of World Economy and International Business, Financial University, Moscow, Russia
<https://orcid.org/0000-0001-7796-288X>
mrs.alexandra.filina@mail.ru



Galina Viktorovna Tretyakova — Cand. Sci. (Pedagogical Sciences), Associate Professor, Department of Foreign Languages and Intercultural Communication, Financial University, Moscow, Russia
<https://orcid.org/0000-003-0367-8995>
GVTretyakova@fa.ru

Conflicts of Interest Statement: The authors have no conflicts of interest to declare.

The article was received on 05.03.2022; revised on 15.03.2022 and accepted for publication on 25.03.2022. The authors read and approved the final version of the manuscript.