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North American Regional Trade Agreement and the Sunset Clause: The Way Forward

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The global trade system has witnessed an ongoing shift between multilateralism and regionalism. While on the one hand, the multilateral framework of the World Trade Organisation focuses on promoting global trade, liberalisation, on the other hand, the Regional Trade Agreements have emerged as an alternative means of economic cooperation. The North American Free Trade Agreement (NAFTA), established in 1994, represents a significant case of regionalism aimed at fostering economic integration among the United States, Canada, and Mexico by reducing trade barriers and encouraging investment flows. While NAFTA facilitated trade growth, it also led to significant economic imbalances, particularly in labour markets, digital trade and regulatory gaps. The transition of NAFTA to the United States-Mexico-Canada Agreement (USMCA) in 2020 sought to rectify these shortcomings, ensuring that trade benefits are more evenly distributed across industries and labour forces. USMCA represents a modernised regional trade agreement aimed at enhancing economic integration among North America's three largest economies. Analysing USMCA is crucial in understanding how modern RTAs can align with multilateral trade frameworks while addressing national economic concerns. This study critically evaluates the effectiveness of USMCA in promoting fair trade practices while maintaining regional competitiveness. This paper argues that while regional integration remains important, it should complement, not substitute and active participation in the multilateral trade system.

Keywords: WTO, RTA, NAFTA, multilateralism, regionalism.

INTRODUCTION

The global trading system has been shaped by two dominants yet often conflicting forces – multilateralism and regionalism. While the World Trade Organisation (WTO) was established to promote a non-discriminatory, rule-based trading system, the rise of Regional Trade Agreements (RTAs) has challenged its effectiveness. Regional Trade Agreements lead to trade conversion when a member country shifts from an inefficient domestic producer and starts importing from the other member of the RTA, which is quite beneficial for a member as it provides the same goods at a cheaper rate and in an efficient manner. On the other hand, the concept of Trade diversion arises when a member of RTA switches from purchasing the goods at cheaper prices from the outside world and starts importing the same goods at higher prices from the partner country of the RTA. Trade diversion not only degrades the trade of the partner country but also impacts the rest of the world.

RTAs have been increasing rapidly since the 1990s. RTAs set out preferential terms of trade among the participating countries, which align with the trade rules of the WTO. Therefore, RTAs are a subset of the WTO system rather than a separate trade agreement because the GATT/WTO¹ rules permit countries to enter into RTAs subject to certain conditions.² According to the Organisation for Economic Cooperation and Development (OECD), RTAs encompass half of the international trade which operates parallel to the multilateral trade under the WTO. RTA has been successful in liberalisation negotiations within the WTO framework. These RTAs are generally referred to as ‘Deeper Integration’. The 21st-century RTAs, beyond addressing the key multilateral trade restriction & issues (WTO) at global level, has been actively addressing other areas of issues, such as, investment, labour standards, Intellectual Property Rights (IPR), Competition Policy, trade in services across participating countries leading to more interconnected global economy.³

¹ General Agreement on Tariffs and Trade 1948

² Yong Shik Lee, ‘Regional Trade Agreements in the WTO System: Potential Issues and Solutions’ (2015) 8(2) *Journal of East Asia and International Law* <<http://dx.doi.org/10.14330/jeail.2015.8.2.03>> accessed 04 May 2025

³ ‘Multilateralism And Regionalism: The New Interface’ (*United Nations Conference on Trade and Development*, 26 January 2006) <https://unctad.org/system/files/official-document/ditctnecd20047fas_en.pdf> accessed 04 May 2025

The concept of RTAs has developed and evolved, where the new generation RTAs don't just focus on reducing tariffs but go far beyond it, as they also focus on establishing new rules of trade, diverting from the multilateral trading rules.⁴ In the past, the regional trade Blocs formed, in part, due to the exclusion of less developed countries from significant trade opportunities, leading developed and developing nations to establish preferential trading arrangements among themselves. This approach allowed participating countries to enhance trade within their regions, potentially at the expense of broader global trade inclusivity. However, RTAs today are increasingly intercontinental & trans-regional, which means that nations from different regions are coming together & entering into trade agreements to form trade partnerships.⁵ This allows us to build stronger economic ties across continents. Modern RTAs also allow countries to be part of multiple trade agreements at the same time. Previously, a country would typically commit to only one RTA, but today, overlapping memberships are common. This flexibility enables nations to access multiple markets and promotes greater trade integration on a global scale.⁶ As emphasised in international trade discussions, 'WTO-consistent preferential trade agreements can complement but cannot substitute for coherent multilateral rules and progressive multilateral liberalisation'.

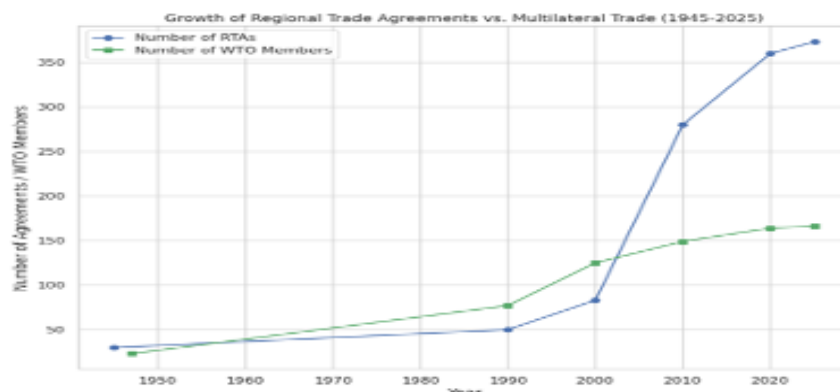


Figure 1 - Growth of Regional Trade Agreements

Figure 1 illustrates the growth of RTA from 1945 to 2025. Initially, Post World War I, the multilateral trade grew as nations adopted a trade regime to grow economies mutually by

⁴ James Mathis, *Regional Trade Agreements in the GATT/WTO: Article XXIV and the Internal Trade Requirement* (1st edn, T.M.C. Asser Press 2002)

⁵ David A. Gantz, *Regional Trade Agreements: Law, Policy and Practice* (Carolina Academic Press 2009)

⁶ Raj Bhala et al., *Scrutinizing RTAs: A Comparative Review of David Gantz, Regional Trade Agreements: Law, Policy and Practice* (Carolina Academic Press 2009)

entering into the GATT & subsequent transformation to the WTO in 1995.⁷ The membership of the WTO has gradually increased from 150 in 2010 to 166 in 2024 due to the trade benefits of the multilateral trading system. However, post-1990, a significant shift was observed where the rise of RTAs escalated. As illustrated in Fig. 1, RTAs gradually increased from 30 RTAs in the 1960s to 280 in 2010, reflecting the regional economic integration of countries. This indicates that the countries seek trade liberalisation but prefer regional settings that allow for tailored agreements & reduced bureaucratic complexities as compared to the multilateral trade system (MTS). Key drivers behind this trend include stalled WTO negotiations (Doha Round), rising protectionism, and the strategic importance of regional economic blocs (e.g., USMCA, RCEP, EU's deepening integration). As of 2025, there are a total of **373 RTAs** in existence, making it a stronger international trade agreement in harmonising trade rules among participating countries, as shown in Fig. 1.⁸ Despite its significant growth & emergence of various mega RTAs like, EU, NAFTA/USMCA, SAFTA, ASEAN, MERCOSUR, etc, it still does not address the interests of WTO member-nations as a whole.

IMPACT OF REGIONAL TRADE AGREEMENTS ON GLOBAL TRADE

RTAs have drastically modified global trade patterns by facilitating deeper economic integration among member states. They facilitate trade liberalisation, reduce tariffs, & simplify rules of trade within specific regions. However, this may result in trade diversion, discrimination against non-members, & departing from WTO rules.

The primary objective of international trade is to remove various trade barriers, which was achieved through GATT/WTO.⁹ However, the RTAs have achieved more success in liberalising trade and removing trade barriers by the members, thereby enhancing the economic efficiency of those countries entering the RTA by increasing the trade flow. The concept of 'regionalism' has grown, resulting in collaboration and interconnectivity among

⁷ Mario Larch et al., 'On the Effects of GATT/WTO Membership on Trade: They are Positive and Large After All' (2019) CESifo Working Paper No. 7721

<https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3421148&utm> accessed 04 May 2025

⁸ 'Regional Trade Agreements' (*World Trade Organization*)

<https://www.wto.org/english/tratop_e/region_e/region_e.htm> accessed 04 May 2025

⁹ Himanshu Gupta, 'Impacts of Regional Trade Agreements on International Trade' (2020) 3(6) *International Journal of Law Management & Humanities* <<https://ijlmh.com/impacts-of-regional-trade-agreements-on-international-trade/>> accessed 04 May 2025

the countries. The RTAs are not a result of regions forming a bloc but rather countries apart from each other yet close in political & economic interests enter into formal agreements, resulting in the growth of 'Regionalisation'.¹⁰ For example, the major regional trading bloc includes the EU, NAFTA & SAFTA. This achieves in creating international relations among the regions between various countries, by promoting trade & economic security. And doubling trade between two countries lowers the risk of conflict between them by about 17%.¹¹

RTAs create opportunities to trade among diverse nations in a competitive landscape where each country involved contributes to the mutually agreed-upon terms and interests. These agreements have led to the harmonisation of trade standards and regulations that align with the WTO's standards, making it beneficial for businesses to expand their import & export simultaneously across borders. These agreements align with the theory of 'The World is Flat' by facilitating regional market integration, which strengthens the idea of interconnected economies where geographical barriers are minimised.¹² As multiple countries enter into RTAs, it has established a framework that promotes the exchange of goods, services, & investments, resulting in more enhanced regional trade facilitation.

Furthermore, RTAs can serve as a spark for innovation and the transfer of technology, as nations collaborate on research & development initiatives, exchange best practices, and pool their resources. By removing trade barriers & establishing common rules, RTAs promote regional economic stability & growth, resulting in interconnectedness & building economic relationships & diplomatic ties, as countries discover mutual interests & objectives, resulting in a collaborative international community. The formation of various RTAs has seen an impact not only in trade but has also resulted in increasing the FDIs of their member countries, as seen in NAFTA. RTAs promote institutionalisation, resulting in shaping the

¹⁰ Gabriele Suder, 'Regional Trade Agreements and Regionalisation: Motivations and Limits of a Global Phenomenon' (*Centre for European Studies*, 08 December 2011)

<<https://ces.cass.anu.edu.au/events/european-integration-model-and-regional-trade-agreements-ersatz-globalisation>> accessed 04 May 2025

¹¹ Maurice Schiff and L. Alan Winters, *Regional Integration and Development* (2003)

¹² Jo-Ann Crawford and Roberto V. Fiorentino, 'The Changing Landscape of Regional Trade Agreements' (*World Trade Organization*, 04 June 2007)

<https://www.wto.org/english/res_e/booksp_e/discussion_papers8_e.pdf> accessed 04 May 2025

market trends and rule of law, ensuring stability & minimising risks.¹³ USMCA led to a reduction in trade barriers, customs duties & trade quotas, resulting in increased trade flows¹⁴ & According to data from the U.S. Census Bureau, in 2023, the total trade in goods between the United States and Mexico amounted to approximately US\$249.73 billion.¹⁵ Agreements like the CPTPP (excluding China) and RCEP (led by China) illustrate how regionalism can create economic blocs that compete for influence in the global economy. RTAs fill the gaps in WTO's stalled negotiations, providing the countries an alternative for encouraging trade cooperation & economic integration.

RTAs significantly enhance the negotiating power of member nations by encouraging unified economic blocs. For instance, the USMCA has also enhanced the collective negotiating power of its member nations by renegotiating NAFTA. This unity enables these countries to negotiate more favourable trade terms with larger economies, such as the United States, Canada & Mexico, than they could individually. The implementation of the USMCA has led to a substantial increase in trade among the member countries. Intra-regional trade in goods and services supported nearly 17 million jobs in 2022, marking a 32% increase compared to 2020.¹⁶ Notably, Mexico benefited significantly, with 9 million jobs supported by USMCA-related trade in 2022, double that of the United States and almost triple that of Canada.¹⁷

IMPACT OF NAFTA ON NORTH AMERICAN ECONOMY

NAFTA, a Free Trade Agreement (FTA) composed of the United States (US), Mexico & Canada, came into force in 1994, forming a north-south regional economic bloc for trade. This is the first FTA entered to create regional economic cooperation & increased trade flow & fair competition among the North American countries, resulting in economic growth of all three

¹³ Wen Yue et al., 'Investment effect of regional trade agreements: an analysis from the perspective of heterogeneous agreement provisions' (2023) 10 Humanities and Social Sciences Communications <<https://doi.org/10.1057/s41599-023-01792-x>> accessed 04 May 2025

¹⁴ Joe Myers, 'The world's free trade areas – and all you need to know about them' (*World Economic Forum*, 06 May 2016) <<https://www.weforum.org/stories/2016/05/world-free-trade-areas-everything-you-need-to-know/>> accessed 04 May 2025

¹⁵ 'Trade in Goods with USMCA with Mexico (Consumption)' (*United States Census*) <<https://www.census.gov/foreign-trade/balance/c0021.html>> accessed 04 May 2025

¹⁶ 'WEEKLY ECONOMIC COMMENTARY' (*Northern Trust*, 02 August 2024) <<https://www.northerntrust.com/content/dam/northerntrust/corporate/global/en/documents/web/pdf/2024/weekly-economic-commentary/wec-0802.pdf>> accessed 04 May 2025

¹⁷ World Bank, *Regional Trade Agreements: A Development Perspective* (2021)

countries.¹⁸ The collaboration between high-income countries such as the US & Canada with low-income countries as Mexico, exemplifies the regional economic cooperation aimed at achieving trade liberalisation and ensuring trade flow among most developed & developing countries under a trilateral agreement, NAFTA. This agreement changed the North American economic integration, leading to stronger economic growth in the countries involved. NAFTA was focused on eliminating tariffs between countries, where the U.S could export agricultural & industrial products duty-free to Mexico.¹⁹ The Agreement also abided by the Most-Favoured Nation (MFN) & National Treatment Principle, following the non-discrimination rule of the global trading system.²⁰ The Agreement has contributed to each participating country, as provided below:

- NAFTA has contributed to the US economy with a substantial increase in trade, with its exports tripling in various industries, particularly automotive & agriculture. The US was one of the leading countries who had held a dominant position in the regulation of NAFTA.
- Under NAFTA, Canada has expanded its exports to foster economic integration & growth in sectors including energy, automotive & agriculture.
- With NAFTA, Mexico has transformed into a major trading & manufacturing hub, attracting Foreign Direct Investment (FDI) & boosting exports to the US & Canada.²¹ It has become one of the largest markets for U.S exports. Most research indicates that NAFTA has had a positive impact on the Mexican economy. For instance, one study highlighted that both the economic and social effects of NAFTA were favourable for Mexico.²² It also suggested that without NAFTA, Mexico's global exports would have been approximately 25% lower.²³

The NAFTA Agreement was mainly focused on removing trade barriers & tariffs in various markets, from automotive, agriculture, investment, to IPR protection in trade between North

¹⁸ Putri Febrianty Ardhana and Rahmah Daniah, 'The Shifting of Regional Regime: Study Case of Renegotiation NAFTA to USMCA' (2022) 4(2) Global South Review <<https://jurnal.ugm.ac.id/globalsouth/article/viewFile/83345/pdf>> accessed 04 May 2025

¹⁹ Leslie Alan Glick, *Understanding the North American Free Trade Agreement* (2010)

²⁰ *Ibid*

²¹ Hubert Escaith, 'From NAFTA to USMCA: Can a Good Idea that Came Too Late Be Born Again?' (2021) 16(2) Norteamérica <<https://www.researchgate.net/publication/357304455>> accessed 04 May 2025

²² World Bank, *World Development Indicators* (2019)

²³ Norbert Fiess and Daniel Lederman, *Mexican Corn: The Effects of NAFTA* (2004)

American countries. This provided an increase in imports & exports among the participating countries, making it one of the largest single markets in the world.²⁴ For instance, the automotive industry saw enhanced regional integration, leading to increased production & job creation across North America. Furthermore, the agreement reduced the risk of inflation & allowed governments to maintain low interest rates on central bank reserves. This is particularly important for oil prices, given that oil is one of America's largest imports. NAFTA helped reduce U.S. reliance on oil imports from the Middle East and Venezuela, ensuring a more stable and reliable energy supply. Since the U.S & Canada already have bilateral trade agreements amongst them for trade liberalisation, NAFTA has resulted in impacts on the Mexican market, resulting in further liberalisation.²⁵ NAFTA has considerably reduced non-tariff barriers & quantitative restrictions relating to quotas, licensing, sanitary & phytosanitary measures to trade.²⁶

The implementation of NAFTA facilitated trade creation among member countries from 1993 to 2017. The overall share of trade among NAFTA countries saw a modest rise, indicating that any trade diversion effects were minimal.²⁷ NAFTA led to a substantial increase in trade among the U S, Canada, and Mexico. Trade between these countries grew from approximately \$290 billion in 1993 to over \$1.1 trillion by 2016. Here were sector-specific reforms due to an increase in production across borders & reduction of tariffs. NAFTA established mechanisms to resolve trade disputes, which helped maintain stable trade relations among the member countries.²⁸ NAFTA also provided a mechanism to solve disputes between countries either through consultation or arbitration, giving parties equal treatment & following due process of law.²⁹

²⁴ Firat Üner and M. Cem Oğultürk, 'Nafta: More Than A Regional Trade Agreement' (2024) 1(5) Munich Personal RePEc Archive <https://mpira.ub.uni-muenchen.de/120039/1/MPRA_paper_120039.pdf> accessed 04 May 2025

²⁵ *Ibid*

²⁶ M. Angeles Villareal and Ian F. Fergusson, *The North American Free Trade Agreement (NAFTA)* (2017)

²⁷ David M. Gould, 'Has NAFTA changed North American trade?' (1998) 1 Economic and Financial Policy Review, Federal Reserve Bank of Dallas <<https://ideas.repec.org/a/fip/fedder/y1998iq1p12-23.html>> accessed 04 May 2025

²⁸ James McBride and Mohammed Aly Sergie, *NAFTA and the USMCA: Weighing the Impact of North American Trade* (2021)

²⁹ Leslie Alan Glick, *Understanding the North American Free Trade Agreement* (2010)

NEED FOR RENEGOTIATION OF USMCA

The North American Free Trade Agreement (NAFTA) played a crucial role in shaping trade relations between the North American countries. However, over time, various challenges and shortcomings associated with NAFTA necessitated a transformation into the United States-Mexico-Canada Agreement (USMCA). This transformation addressed critical issues and aimed to create a more balanced & modern trade framework.

One of the primary reasons for renegotiating NAFTA was the significant trade imbalances it created. The U.S experienced substantial trade deficits with Mexico.³⁰ The USMCA sought to address these imbalances to promote fairer trade practices and ensure more equitable economic outcomes for all member countries. The automotive sector was a central aspect of North American Trade, but the agreement was insufficient in addressing the concerns over rules of origin. USMCA included provisions to address these concerns & implemented stricter rules of origin. NAFTA also faced criticism for contributing to job losses, particularly in the manufacturing sector. The agreement facilitated the relocation of production facilities to Mexico, where labour costs were lower, resulting in the outsourcing of jobs from the United States. This resulted in a profound impact on American workers, leading to job losses, especially in regions heavily dependent on manufacturing employment. The USMCA introduced stronger labour protections and rules of origin to impel domestic production & safeguard jobs in the United States. Since the inception of NAFTA & its implementation for 26 years, it has been unable to address developments in the global economic landscape, which has undergone significant changes, including advancements in technology, IPR & the rise of e-commerce. The USMCA aimed to modernise the trade framework by incorporating provisions related to digital trade, cybersecurity, and IPR. The original agreement lacked comprehensive measures to safeguard intellectual property rights, which are crucial for fostering innovation and creativity. The USMCA introduced more stringent IP protections. By reflecting the realities of the 21st-century economy, the USMCA sought to create a more effective trade agreement that supports innovation & economic growth in an increasingly digital world among all three countries.

³⁰ United States International Trade Commission, *U.S.-Mexico-Canada Trade Agreement: Likely Impact on the U.S. Economy and on Specific Industry Sectors* (2019)

USMCA & ITS IMPACT ON NORTH AMERICAN TRADE

The USMCA, a trilateral agreement between the U.S, Mexico & Canada, came into effect on July 1, 2020.³¹ Being a successor of NAFTA, it has introduced several changes to facilitate trade & economic growth among countries.³² USMCA has introduced rules that would benefit North American businesses through intra-regional trade, & improving innovation, high-level manufacturing within its major competitors, like China & the EU.³³ USMCA has introduced several key provisions, including digital trade³⁴ and electronic signatures to be valid between countries.³⁵

Rules of Origin: USMCA increased the regional content requirement for automobiles from 62.5% under NAFTA to 75%,³⁶ aiming to boost domestic production and reduce dependency on non-member countries.

Labour Provisions: The agreement mandates that 40-45% of automotive content be produced by workers earning at least \$16 per hour, addressing wage disparities and aiming to curb the outsourcing of jobs to regions with lower labour costs.³⁷

Digital Trade and Intellectual Property: USMCA includes comprehensive chapters on digital trade and intellectual property, establishing frameworks for data flows, cybersecurity, and protection of trade secrets, thereby modernising the trade relationship to reflect technological advancements.

Support for SMEs: USMCA includes provisions to help small and medium-sized enterprises (SMEs) benefit from digital trade. It ensures that parties must collaborate on activities to promote SMEs, & to engage in best practices, improving SMEs' access to capital.³⁸ This

³¹ Ünner (n 24)

³² David A. Gantz, *An Introduction to United States, Mexico and Canada Agreement: Understanding the New NAFTA* (Edward Elgar Publishing 2020)

³³ *Ibid*

³⁴ United States International Trade Commission, *U.S.-Mexico-Canada Trade Agreement: Likely Impact on the U.S. Economy and on Specific Industry Sectors* (2019)

³⁵ *Ibid*

³⁶ United States-Mexico-Canada Agreement 2020, art 4.2

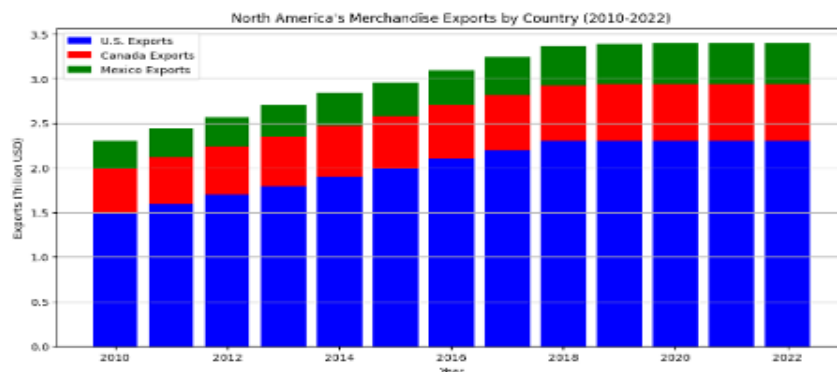
³⁷ United States-Mexico-Canada Agreement 2020, art 23.3

³⁸ Leslie Alan Glick, *Understanding the North American Free Trade Agreement* (2010)

includes measures to reduce barriers to entry & provide support for SMEs to participate in the digital economy.³⁹

Sunset Clause: The agreement includes a 16-year sunset clause with a review every six years, allowing for periodic assessments and adjustments to ensure the pact remains relevant to current economic conditions.⁴⁰

The implementation of USMCA has had a notable impact on trade within North America. This led to increased production among member & non-member countries, leading to trade flows, job creation & investment flows in the region. For example, the automotive industry has seen increased commitments to manufacturing plants in the U.S. and Mexico, driven by the new content requirements.⁴¹ Moreover, the inclusion of digital trade provisions has facilitated the growth of e-commerce and technology services, sectors that were not adequately addressed under NAFTA. This modernisation has provided a more robust framework for businesses operating in the digital economy, promoting innovation and competitiveness.⁴² While USMCA addresses several criticisms of NAFTA, it also introduces complexities. Companies may be hesitant to commit to significant capital expenditures without assurance of the agreement's stability beyond the review periods.⁴³



³⁹ 'The United States-Mexico-Canada Agreement Fact Sheet: Digital Trade' (*United States-Mexico-Canada Agreement*) <https://ustr.gov/sites/default/files/files/Press/fs/USMCA/USMCA-Digital_Trade.pdf> accessed 04 May 2025

⁴⁰ United States-Mexico-Canada Agreement 2020, art 34.7

⁴¹ 'The renegotiation of NAFTA is a relief. But it is not a success' *The Economist* (04 October 2018) <<https://www.economist.com/leaders/2018/10/04/the-renegotiation-of-nafta-is-a-relief-but-it-is-not-a-success>> accessed 04 May 2025

⁴² Andrew Chatzky et al., 'NAFTA and the USMCA: Weighing the Impact of North American Trade' (*Council on Foreign Relations*, 01 July 2020) <<https://www.cfr.org/backgroundunder/naftas-economic-impact>> accessed 04 May 2025

⁴³ Heritage Foundation, *Analysis of the United States-Mexico-Canada Agreement* (2019)

Figure 2 - North America Merchandise Exports from 2010-2022

As illustrated in Figure 2, the impact of NAFTA & its successor, USMCA, has resulted in the consistent growth of North America's merchandise exports from 2010 to 2022. The United States, as the largest economy, dominates exports, with a consistent growth in trade volume until 2018, after which exports remained constant at around \$2.5 trillion. This indicates that while NAFTA was successful in achieving trade liberalisation, factors like economic recessions and changes in trade policies have been influencing exports since 2018. Canada's exports, as shown in the figure, have seen a gradual increase since 2018, particularly in the energy and manufacturing sectors. The subsequent stability of Canada's export performance measures indicates that USMCA did not change the trade policy structure but rather enhanced the performance of strategic industries. As shown in the figure, Mexico has experienced the most considerable change in trade performance since 2014. This reflects the country's growing role as a manufacturing hub, benefiting from nearshoring trends and increased foreign direct investment. The global economic downturn in 2020 created several challenges, but Mexico's continuously high export levels demonstrate the strength of trade relations within North America, along with increased integration. The overall impact of NAFTA and USMCA, as shown in the figure, is evident in the region's total merchandise trade surpassing \$3.5 trillion by 2022.⁴⁴ However, while the agreements have strengthened intra-regional trade, the reliance on the U.S. as the primary export market for Canada and Mexico poses risks, particularly in times of U.S. economic uncertainty. This underscores the need for diversification strategies to enhance trade resilience within the region.

REGIONALISM AND MULTILATERALISM: CONVERGENCE OR DIVERGENCE?

With the tremendous growth of Regionalism, the multilateral trade system is eroding. The debate between regionalism and multilateralism has been ongoing, with scholars divided on whether RTAs complement or supplement the multilateral trading system. On one hand, Regionalism allows for faster trade liberalisation and deeper economic integration among like-minded nations, whereas, on the other, Multilateralism promotes non-discriminatory trade practices on a global scale. While Regionalism can strongly support the multilateral trade system, it cannot replace it. The WTO was a result of the economic devastation &

⁴⁴ United Nations Conference on Trade and Development, *Handbook of Statistics* (2022)

imbalances that emerged in the aftermath of World War II.⁴⁵ The war resulted in global economic inequalities, with developed nations exerting significant dominance over underdeveloped and developing countries in regards to trade. The absence of a unified and fair-trade system allowed powerful economies to establish competing trade blocs, often marginalising weaker economies and reinforcing global economic disparities. But the spread of regionalism could simply reflect the success or failure of multilateralism. RTAs have increased trade and have had an impact on trade flows over the past 10 years. RTAs create both divergence and convergence. RTAs act as a force for convergence when they align with the WTO principles and divergence when they contravene global trade rules of the WTO and create systemic inefficiencies.

Multilateralism in trade refers to the approach where countries adhere to broad, non-discriminatory trade principles under the framework of international institutions such as the World Trade Organisation (WTO). The fundamental objective of multilateral trade agreements is to promote global trade liberalisation, ensuring that all member nations receive equal treatment. The General Agreement on Tariffs and Trade (GATT) and its successor, the WTO, have played a significant role in advancing multilateralism by reducing trade barriers, promoting dispute resolution mechanisms, and fostering economic cooperation on a global scale.⁴⁶ Regionalism, on the other hand, involves the creation of trade agreements between a specific group of countries, often within a geographic proximity. These agreements, such as free trade areas (FTAs) and customs unions, allow member countries to enjoy trade benefits that are not extended to non-members.⁴⁷ Regionalism has gained traction as countries seek to deepen economic integration with key trading partners, sometimes at the expense of broader multilateral commitments. While RTAs can facilitate trade liberalisation within their respective regions, they also raise concerns about trade diversion, where preferences for regional partners lead to inefficiencies in global trade flows.⁴⁸ The case of NAFTA and USMCA underscores how regional agreements can complement multilateral trade rules rather than undermine them.

⁴⁵ *Ibid*

⁴⁶ Multilateralism And Regionalism: The New Interface (n 3)

⁴⁷ *Ibid*

⁴⁸ Samruddhi Pathak, 'Regionalism vs Multilateralism: Does Regionalism challenge Globalization or build upon it?' (2021) 6(3) International Journal of Multidisciplinary
<http://dx.doi.org/10.31305/rrijm.2021.v06.i03.001> accessed 04 May 2025

Convergence -

Facilitating Trade Liberalisation: NAFTA and USMCA have played a significant role in promoting trade liberalisation within North America, setting a precedent for broader trade liberalisation efforts at the WTO. The reduction of tariffs & harmonisation of regulatory standards under these agreements align with multilateral trade principles.⁴⁹

Innovative Trade Provisions: RTAs are often seen as a means of introducing new trade policies to address developments in international trade before they are adopted at a multilateral level. USMCA's digital trade & e-commerce provisions, for example, could influence future WTO negotiations on e-commerce & data governance rules.

Enhancing Supply Chain Efficiency: By integrating regional supply chains, agreements like NAFTA & USMCA create efficiencies that contribute to global trade competitiveness. Many industries, including automotive and manufacturing, rely on seamless cross-border production networks that facilitate broader global trade flows.

Encouraging Regulatory Harmonisation: USMCA's provisions on labour and environmental standards reflect broader efforts to ensure that trade agreements align with global sustainability goals. These commitments can serve as benchmarks for international trade negotiations at the WTO.

Increase in Foreign Direct Investment: RTAs enable countries to increase their foreign direct investment (FDI) by increasing their exports, as seen in the case of Mexico under NAFTA. This also leads to more competition among members as well as non-member countries in regional & international markets.

Divergence -

Despite several alignments between Regionalism & Multilateralism, there exist certain fundamental differences & challenges that it poses to MTS. With the growth of RTAs, there is more reliance on regional trade, which has less enthusiasm for multilateral trade

⁴⁹ Ardhana (n 18)

negotiations.⁵⁰ One of the primary arguments against RTAs is that they may divert trade from more efficient global producers to regional partners, leading to substandard economic outcomes. NAFTA, for instance, strengthened trade within North America but also resulted in the relocation of industries based on preferential access rather than pure market efficiency. Although NAFTA has resulted in a positive impact on three countries, but has reduced trade between non-member countries/foreign countries, leading to suboptimisation of global trade practices. One of the primary advantages of RTAs is be ability to introduce tailored agreements consisting of trade rules by the specific needs of the participating countries. However, with the proliferation of RTAs, different sets of trade rules apply across various regions, complicating the global trading system. This 'Spaghetti Bowl' effect creates regulatory inconsistencies that can hinder multilateral trade negotiations.⁵¹ It often reflects political considerations that may not align with multilateral principles. USMCA, for example, includes provisions that prevent member states from negotiating trade deals with non-market economies like China, showcasing the increasing use of regionalism as a strategic geopolitical tool. RTAs also tend to remove weaker countries or less-developed countries from regional integration, which acts as a negative effect on MTS, as the primary objective of MTS is to ensure no discrimination among member countries and that every nation, developed or underdeveloped, shall have equal opportunity to engage in trading between member nations.

THE SUNSET CLAUSE AND THE WAY FORWARD

The agreement is said to terminate 16 years after it enters into force unless each party confirms it wishes to continue for a new 16-year term, it establishes a review and term extension to avoid the agreement's sudden death while allowing it to stay updated to the new economic and political challenges. The first joint review is in the 6th year after the signature. If the parties fail to extend the agreement, 10 years will result in the eventual termination of the agreement.

⁵⁰ Rafael Leal-Arcas, 'Proliferation of Regional Trade Agreements: Complementing or Supplanting Multilateralism?' (2011) 11(2) *Chicago Journal of International Law* <<https://chicagounbound.uchicago.edu/cjil/vol11/iss2/23/>> accessed 04 May 2025

⁵¹ Heritage Foundation, *Analysis of the United States-Mexico-Canada Agreement* (2019)

As the United States, Mexico and Canada begin discussion on the 2026 run-up of USMCA, the US needs to strengthen key areas like access to critical minerals, development of batteries, electric vehicles, etc. The discussion also comes at a time when the US has imposed a 25% tariff on imports from Canada and Mexico. The exports among the three countries support 17 million jobs. Canada and Mexico are also emerging as US partners when it comes to competing with China. The goods exported to these countries are worth around 1/3rd of the total US Exports. The other way round, the US is also the largest export market for Canada and Mexico, with around 83% of Mexico's exports and 78% of Canada's exports going to the US.

Year	Export	Import	Trade Balance
2024	334	506	-172
2023	323	475	-152
2022	324	452	-128
2021	277	383	-105
2020	213	323	-111

Table 1: United States-Mexico Trade in Goods (\$ billions)

Table 1 shows exports in the year 2023 by the US amounting to 323 billion and imports of 475 million, amounting to a trade deficit of 19%. Similarly, in the year 2024, exports of 334 billion and imports of 506 billion raise the trade deficit to 20%. Not an ideal situation as per the classical economic theories.

Year	Export	Import	Trade Balance
2024	349	413	-63
2023	354	419	-64
2022	359	437	-78

2021	310	357	-48
2020	256	270	-14

Table 2: US-Canada Trade in Goods (\$ billions)

As with US-Canada trade as shown in table 2, the position is similar to that of Mexico in the year 2024, the total export is 349 billion, and import is 413 billion with a trade deficit of about 8%, which is an improvement over the actual trade status of 2022 however when compared to trade balance in 2020 it has doubled. Creating is not an ideal circumstance when it comes to American exports.

CONCLUSION AND RECOMMENDATIONS

Regionalism and multilateralism are two competing yet interdependent forces shaping the future of international trade. The interplay between regionalism and multilateralism continues to shape global trade. Examples, like NAFTA & its successor, US, MCA, can be seen as a regional integration among North American countries, resulting in the growth of economic stability & enhanced North America's competitiveness in the global market. NAFTA's evolution into USMCA illustrates both the benefits and challenges of regionalism. The agreement modernised trade rules, strengthened labour and environmental protections, and addressed digital trade, reflecting a broader shift toward comprehensive economic governance. At the same time, USMCA imposed stricter rules on regional content requirements and labour standards, which, while beneficial for member nations, could create barriers for non-member countries, raising concerns about trade exclusivity. As international trade continues to evolve, the coexistence of regionalism & multilateralism becomes essential for regional cooperation & inclusive trading environments for all nations across the globe.

To mitigate the risks of trade fragmentation, RTAs should incorporate WTO standards in their provisions to promote coherence between regional & multilateral trade. Regional trade blocs should opt for 'open regionalism', which allows the inclusion of new members to agree. They should also not limit trade or economic integration among a specific regional bloc & allow creating RTAs with countries not falling within a region. While regional agreements facilitate trade within a bloc, they should not impose high tariffs & impose restrictive trade

rules against non-member countries. Instead, they should work towards reducing overall trade barriers. And, given the increasing proliferation of RTAs from 2010, the WTO should have a major role in monitoring & assessing the impact of RTAs on global trade. Collaboration between Multilateralism & Regionalism is essential to boost global trade connectivity, thereby achieving regional cooperation & international cooperation. Lastly, the RTAs should be structured in a way that complements, rather than replaces, the Multilateral trade system under the WTO to promote broader trade objectives.