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DEVELOPMENT PROSPECTS FOR TRANSNATIONAL PRODUCTION NETWORKS IN NORTH AMERICA

One of the main features of the world economy at the beginning of the 21st century is engagement of asymmetrical economies in various regional integration strategies which not only spur intra-regional trade and investments, but also, gives multinational corporations (MNCs) of member countries vast opportunities to diversify existing and create new production networks. A transnational production network can be defined as such an organization of economic activity – by both vertically and horizontally integrated multinationals – which includes supply of raw materials, manufacturing of parts and then selling of final goods in several countries. Meanwhile, over the past decade, global merchandise trade flows have taken on an apparent regional pattern, as more volumes of trade are concentrated within specific geographical regions. For instance, intra-regional trade in Europe, North America and East Asia accounted for, respectively, 71%, 48% and 53% of their total merchandise trade in 2011. Out of the aforementioned regions, it is North America where transnational production networks – based on historically deep manufacturing ties between Canadian, Mexican and American businesses – are considered to be driving forces behind continental regionalization in NAFTA which noticeably lacks potent institutions. This is why, the study of transnational production networks from the perspective of North American integration is apropos and indubitably has a substantial research potential.

Since the implementation of NAFTA in 1994, North American MNCs have been able to optimize their business operations through gained access to raw materials, labor force and consumers in partner countries; on top that they enjoyed more transparent regulatory environment in the region. Effectiveness of NAFTA in promoting transnational production networks between businesses of partner countries can be seen from the data which shows that over the period from 1994 to 2011, bilateral trade in intermediate goods between the U.S. and Mexico expanded in 3.5 times, between the U.S. and Canada increased in 1.5 times, and between Canada and Mexico snowballed in 5.5 times. At the present time, the share of bilateral trade in intermediate goods in total merchandise trade between the U.S. and Mexico is 62%, between the U.S. and Canada – 61%, and between Canada and Mexico – 60%. As we can see, the share of bilateral trade in intermediate goods between the U.S. and Mexico is the largest on the continent, however, the gap in the levels of respective indicator for them and their bilateral trade with Canada is rather narrow. The explanation of such state of affairs has to be two-fold. On the

one hand, before the time NAFTA took effect, regional production networks between U.S. and Canadian multinationals had been already highly developed and complex (especially in the automotive and energy sectors). On the other hand, as a result of NAFTA, Mexican government further eliminated a number of protectionist restrictions which had restrained Canadian and American companies from entering Mexican market and conducting business activities there. Despite a favorable role of NAFTA in promoting North American production networks during the period of 1994-2011, the share of intra-regional trade in intermediate goods between U.S. and Mexico and U.S. Canada in their total bilateral merchandise trade increased merely by 2% and 3%, respectively. Moreover, the portion of bilateral trade in intermediate goods between Canada and Mexico in their total bilateral trade flows decreased by 5% over the same period. Hence, it is obvious that the role of North American production networks in determining regional integration in NAFTA has gradually decreased over time. Plus, it reflected asymmetries in continental trade flows. There is a couple of main detriments hampering development of North American production networks. The first one is the inadequate transport system on the continent. For instance, about 25% of bilateral trade between the U.S. and Canada is transported across Ambassador Bridge which connects Michigan (USA) and Ontario (Canada) and has only two lanes. Then, we should mention poor conditions of roads in southern Mexico still causing majority of foreign companies to move to the North. The second one is a series of problems emerging from enhanced U.S. security after terrorist attacks in 2001. As a result of delays in customs procedures, North American companies are exposed to additional expenses for gas and, some of them even have to build warehouses for inventories at the borders to expedite shipments of goods. The third one is a persistent problem of “drug wars” between drug cartels in Mexico which has been affecting its investment attractiveness since 2006.

Summing up, the uniqueness of North American production networks is determined largely by the specific model of regional integration on the continent where member economies are complementary, rather than competitive. It enables its MNCs to produce diverse range of goods exploiting both the economies of scale and comparative advantages. Additionally, NAFTA due to a smaller number of member countries effectively established continental standards for investment protection. These are the factors which are going to determine the future progress of North American production networks.