

DETERMINANTS OF USMCA COMPETITIVE FORCE FORMATION

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Abstract. Understanding the factors that influence the formation of the competitive force within the United States-Mexico-Canada Agreement (USMCA) is crucial for delineating the features that contribute to the effective functioning and development of its economic competitive landscape. The primary objective of this article is to examine the impact of the interplay between determinants influencing the global competitiveness of member states and international integration groupings on the sustainable economic growth of the USMCA. The article introduces the author's conceptual framework, which presents a comprehensive classification of determinants that shape and enhance the adaptive competitiveness of integrated economic systems. This framework, alternatively referred to as the interpretation of the drivers of the USMCA's global competitiveness, applies to any international integration grouping. The proposed approach advocates the separation of the USMCA's development model as an independent entity, distinct from the model that governs the global competitiveness of individual member states. Notable differences have been identified by evaluating several determinants, including economic performance, government efficiency, business efficiency and infrastructure, on the formation of the global competitiveness of member states within the USMCA. The member states of the USMCA show significant differences in their global competitiveness. It is worth mentioning that the criterion of economic performance stands out as the most influential factor, with all three member states performing better in terms of competitiveness on this criterion. The study's findings underscore that the USMCA's competitiveness is a key feature of its economy. It is evident through the cumulative, synergistic effect of the pooling of global competitive forces among the member states. This amalgamation strengthens the USMCA's position in the global economy. Assessing the global competitiveness of the USMCA is important for delineating the development trajectories of member states within the international integration grouping. It is crucial for the design of a coherent competitiveness policy and the promotion of intergovernmental and inter-union dialogue. It also serves as a valuable indicator or marker of the USMCA's competitive development trajectory.

Key words: competitiveness, international integration grouping, global competitive strength of a member state, competitive strength of the United States – Mexico – Canada Agreement, competitive economy.

JEL Classification: F00, F10, F20, F11, F13, F15

1. Introduction

While countries have historically played a central role in the global economy, in the modern era international integration groupings shape the "rules of the game". In this modern landscape, the competitive power of an international integration grouping emerges as a defining characteristic of its economy. It is linked to the cumulative and synergistic effect of the pooling of global competitive forces among

member states. This cooperation strengthens the position of the international integration grouping in the world economy. The multifaceted nature of this concept and its various determinants give rise to theoretical and practical discussions on the transformation of the determinants shaping the competitive power of an international integration grouping.

Furthermore, it is crucial to recognise that when a country joins an international integration grouping,

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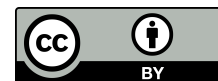
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the factors influencing its global competitiveness change. Consequently, the models and determinants that guide its growth within the grouping also undergo a parallel shift.

Contemporary economic dynamics require a thorough examination of the determinants that shape the competitiveness of international integration groupings. Although a considerable amount of research has been conducted over the past three decades, focusing on the development experiences of the EU, USMCA, MERCOSUR, ASEAN and their member states, and providing recommendations and strategies for accelerating the economic growth of economically underdeveloped countries, the analysis of the determinants influencing the competitive force is now of paramount importance in both domestic and international economics. Therefore, it is relevant to study the determinants that influence the formation of competitive power within the USPA.

2. The Interrelation Between the System of Determinants of the Member State's Global Competitive Strength and the USMCA International Integration Grouping

Recently, the key concept that defines economic policy aimed at sustainable development of global economic actors has been global competitive power, both at the level of individual member states and at the level of international integration groups. The scientific discourse on the organisation of the effective functioning of a competitive economy covers the roles and positions of all participants in the global economic landscape.

Identifying and assessing the determinants that influence the formation of a global competitive force,

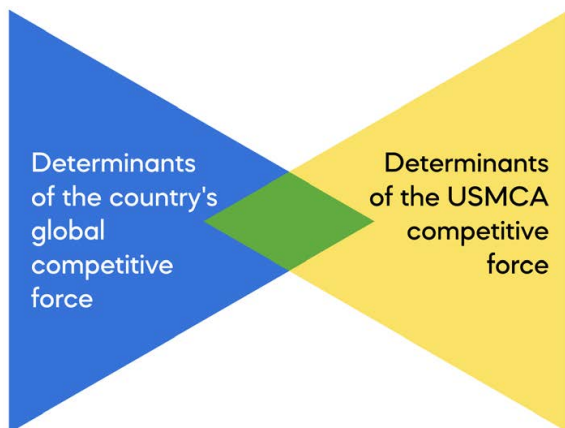


Figure 1. The ratio of the member state's global competitive strength to the USMCA's competitive strength

Source: compiled by the authors

both at the level of an individual member state and within the USMCA, is closely linked to the dynamic and ever-changing landscape of global economic and competitive leadership. Numerous studies have delved into this area of scholarship, recognising the need for national and international policymakers to understand their economy's position relative to other global entities. Understanding the determinants of competitiveness is essential to improving competitive positions. In this analysis, the integrated competitiveness of the USMCA is considered to be the result of aggregating the global competitiveness of its member countries (see Figure 1).

The categorisation of determinants influencing flexible and dynamic global competitive forces is organised according to the scale and nature of their impact. While challenges and uncertainties remain in precisely defining and differentiating the integrated competitive force of interstate integration groupings, there is undeniable recognition of the impact of the set of determinants that shape member states. These determinants governing the formation of a global competitive force include the circumstances and conditions that actively contribute to its augmentation (Zayats, 2020).

The contemporary perspective on the determinants of competitiveness in the USMCA draws on the insights of classical economists such as Adam Smith, David Ricardo and Karl Marx, who traditionally emphasised factors such as land, labour and capital. However, the importance, scope and nature of the influence of these factors has evolved. In recent decades, there has been a notable shift in emphasis, with increasing attention being paid to the central role of innovation.

One of the pioneering academic works in the study of competitiveness is Michael Porter's 1990 publication, "The Competitive Advantage of Nations" (Porter, 1990). In his work, Porter identifies the determinants of a country's global competitive strength within the framework of labour productivity. Porter establishes a hierarchy of factors that contribute to competitive advantage, classifying them into primary factors (natural resources, climatic conditions, geographic location, unskilled and semi-skilled labour and capital) – factors that may be of limited relevance or create unstable advantages, and secondary factors (modern digital information infrastructure, highly skilled labour, critical university research units that are important for a country's competitive advantage). Further categorisations include general factors (highway network, debt capital, well-educated personnel and a wide range of industries) and specialised factors (specialised personnel, infrastructure for specific databases in defined knowledge areas, applied to individual industries). Michael Porter emphasises that it is not

only the stock of determinants that matters, but also the speed with which they are created. Building on Porter's approach, M. Delgado introduced a new structure for the determinants of a country's global competitiveness, classifying them according to the type and strength of their influence (Delgado, Ketels, Porter & Stern, 2012). A widely recognised approach to assessing global competitiveness is found in the World Competitiveness Center report, which distinguishes four determinants (sub-indices): economic performance, government efficiency, business efficiency and infrastructure (IMD World Competitiveness Center, 2023).

Taking into account the above factors, a comprehensive classification of the determinants that shape the flexible, competitive strength of integrated

economic systems (an alternative interpretation of the drivers of global competitive strength within the USMCA) can be visualised in Figure 2.

As shown in Figure 2, the competitiveness of the USMCA depends on a complex system of determinants. This complexity makes it difficult to measure accurately.

3. USMCA Competitive Force Development Model

In modern global economic theory, there are various models for understanding national competitive forces. It is noteworthy that none of these models distinguishes the impact of international integration groups on its development. The analysis of the

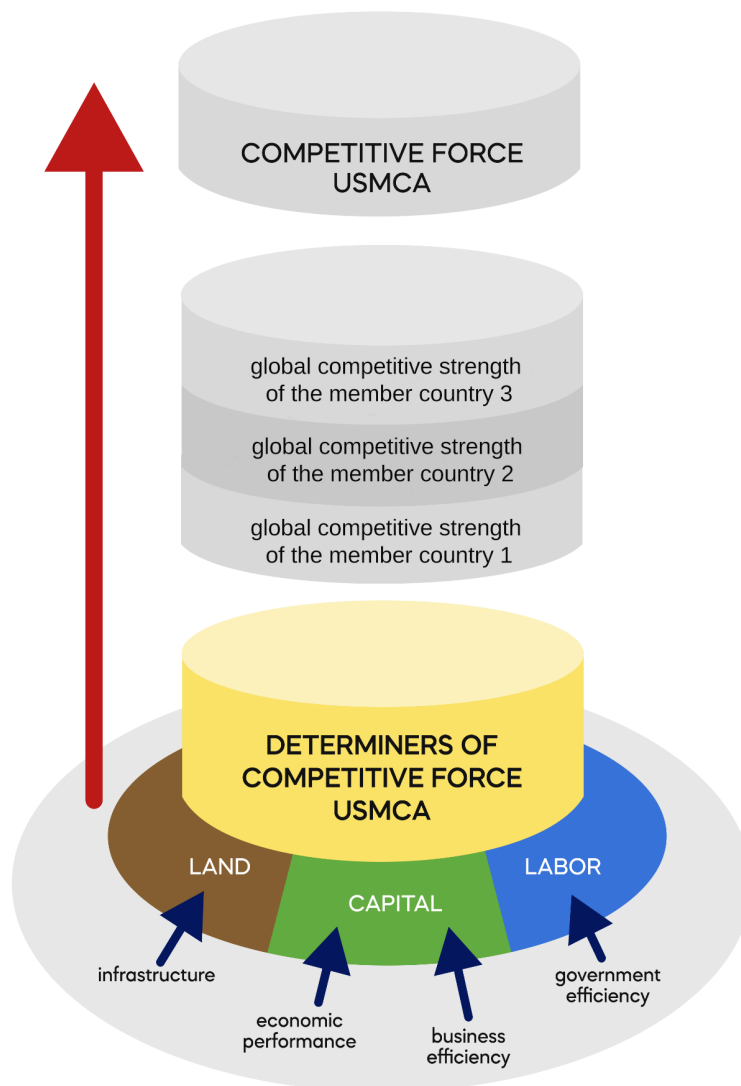


Figure 2. The USMCA's system of competitive determinants

Source: compiled by the authors

determinants affecting competitive strength shows that international economic integration does not reduce the importance of member countries in shaping competitive advantages, but rather changes their essence. From our point of view, the international integration grouping USMCA is seen as a platform for strengthening the global competitive strength of member countries. This platform combines their strengths and contributes to maintaining stable economic and competitive positions in the global economy. In contrast to other researchers who focus exclusively on models of national competitiveness, it is important to study these models not only for national economies, but also for international integration groupings. This is crucial because the interplay of internal determinants among member states transforms the model for the development of competitive forces within the integration grouping (Zayats, 2020).

The model governing the competitive power of the economy within the USMCA integration grouping is undergoing a transformation that reflects the determinants that strengthen international economic

interdependence and interaction between member states. The existence of competitive advantages inherent to each international integration grouping is the main driver of this transformation. These advantages play a key role in enabling member states to improve their position in the global competitive landscape relative to non-members.

It is crucial to recognise that each determinant within the model that shapes a country's global competitiveness undergoes a significant transformation upon joining an integration grouping. This transformation is attributed to the liberalisation of trade and economic relations, coupled with increased specialisation among member states, resulting in an expansion of the scale of trade transactions. Importantly, this does not mean that all member states within the international integration grouping, such as the USMCA, will excel in the same industry. On the contrary, the more dynamic the competitive environment of the integration grouping, the greater the likelihood that certain firms or industries will face challenges. This is due to differences in resources, technologies and the

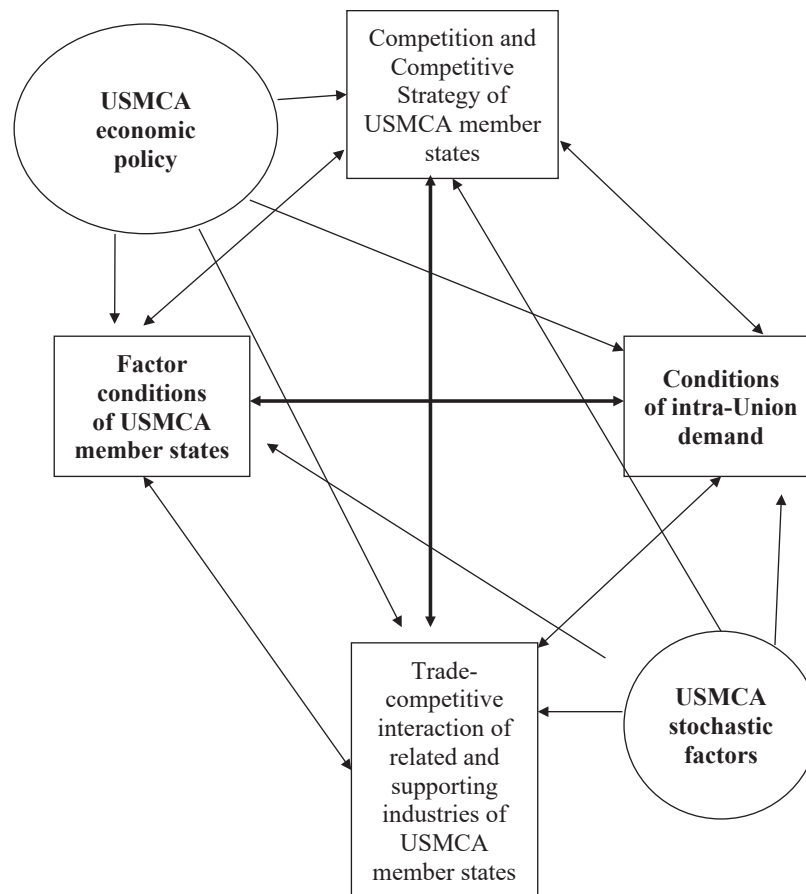


Figure 3. USMCA Competitive Force Development Model

Source: compiled by the authors

differential use of the advantages of the international economic grouping between member states.

The interplay of all the determinants within the competitive power of the member states in the USMCA international grouping guarantees the emergence of self-reinforcing winning moments and the acquisition of new competitive advantages through group interaction. These advantages are virtually impossible to replicate or destroy by countries that are not part of the grouping.

The determining factors in the interpretation of a "competitive diamond" under the USMCA are as follows:

- The factor conditions of the member countries of an interstate integration grouping determine the interaction between the member countries, which leads to the consolidation of markets for goods and services, capital and human resources. This interaction, in turn, contributes to the development of transport and logistics infrastructure within the integration grouping. The availability of resources and increased mobility of labour between partners in the integration grouping intensify innovation and, consequently, contribute to increased competition.
- Conditions of intra-union demand (markets of member states become more open, which leads to a transformation of demand for all members of the integration grouping).
- Trade and competitive interaction of related and ancillary industries of the member states (closer ties between industries of the member states contribute to enhanced trade and competitive interaction).
- Competitive strategy of member states and competition (by joining an international integration grouping, any country changes its competitive strategy as competition in the common market intensifies) (Figure 3).

While the variables within the adapted "competitive diamond" model are useful in assessing the competitive strength of the USMCA, it is important to recognise that this model focuses primarily on the internal competitive dynamics of the integrating grouping. The application of M. Porter's interpreted model to the USMCA serves as a valuable

tool for identifying the sources that influence the formation of the determinants of competitive strength. According to the authors, international integration groupings, including the USMCA, should use different tools from those used by individual countries. This is essential to adequately assess their current economic and competitive status and to identify the main megatrends within the global economy.

4. USMCA Competitive Force Assessment

The assessment of the integrated competitive power of the USMCA will serve as a basis for the formation of the competitive policy of the international integration grouping and the determination of its further actions to increase the competitive power of the grouping, as well as for the strategic decisions of the member states regarding participation in the processes of international economic integration and disintegration.

The USMCA has entered into force, signalling the ongoing process of integration in North America. The main benefit for Mexico and Canada is the end of a negative period characterised by uncertainty and unpredictability in their relations with the United States, their main trading partner. In addition, despite their importance, the changes in the North American integration mechanism are taking place gradually, allowing member states and businesses to adapt to the new rules over time. It is important to note, however, that the USMCA does not eliminate the risk of unilateral protectionist measures. This is illustrated by the continued imposition of discriminatory tariffs on steel and aluminium imports from Canada and Mexico.

Interest in assessing the competitiveness of the USMCA has arisen due to the increased intensity of contemporary competitive dynamics in the global economy. Assessing the integrated competitiveness of the USMCA aims to understand the importance of the competitiveness of an internationally integrated grouping of countries. This assessment seeks to determine whether intergovernmental integration among countries contributes to increasing

Table 1

Global competitive strength of USMCA member countries, 2023

USMCA MEMBER COUNTRY	USA		CANADA		MEXICO	
	Rankings	Score	Rankings	Score	Rankings	Score
ECONOMIC PERFORMANCE	2	80.4	9	68.41	30	57.18
GOVERNMENT EFFICIENCY	25	60.44	16	71.74	60	25.19
BUSINESS EFFICIENCY	14	79.61	17	75.28	51	29.89
INFRASTRUCTURE	6	84.52	11	77.80	59	18.17

Source: compiled by the authors based on the data (IMD World Competitiveness Center, 2023)

the competitive strength at the level of each country and of the international integration grouping as a whole. The assessment of the USMCA's integrated competitiveness is based on data from the IMD World Competitiveness Report 2023 (Table 1).

Table 1 shows significant differences in the level of global competitiveness among the USMCA member countries. In particular, all three countries show above-average results in terms of competitiveness, especially in terms of economic performance. In an overall assessment of the global competitiveness indicators for the USMCA member states, the ranking is as follows: the United States ranks first (9 out of 64 countries), Canada ranks second and third (15 out of 64) and Mexico ranks third and third (56 out of 64). This agreement therefore unites countries that differ significantly in their level of global competitiveness.

5. Conclusions

The competitive power of the USMCA is understood in a much broader context than the progress made at the level of individual member states. It represents a cumulative and synergistic manifestation of the competitive forces of the member states, which has

a significant impact on the distribution of competitive forces among all entities in the global competitive environment.

The USMCA brings together countries with significant differences in global competitiveness, geographical location and role within functioning free trade areas. Despite these differences, each member country has its own economic impact, which can affect the global competitiveness of partner countries within the union in different ways.

The cooperation between countries within the framework of the USMCA plays a crucial role in diversifying the global competitiveness of its member states, as can be seen from the examination of the determinants influencing the formation of the USMCA's competitiveness. Thus, it is important to emphasise that the assessment of the USMCA's global competitive strength is important for determining the development trajectories of the international grouping's member countries. In addition, it plays a crucial role in shaping a unified competition policy that promotes intergovernmental and inter-union dialogue. It also serves as a valuable indicator or marker for tracking the competitive development of the USMCA.

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