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Trade policies and multilateral trade agreement. A theoretical and prospective paper on globalization.

Dr. Solomon Arhin

Abstract — Multilateral trade agreements are between many nations at one time and because it involves more than one country, they're very complicated to negotiate since every nation is autonomous in their choices with whom they want to have a trading deal with. Once all participating countries sign the agreement, multilateral trade agreement becomes very powerful tool for trade. One can draw a dichotomy between multinational trade and trade policies, the latter usually formulated by public officials of each country. Without strong and firm trade policies guiding multilateral trade, the trade objective will be undermined and defeated. This paper will primarily discuss and focus on various aspects of NAFTA as detailed out by some researchers in their emerging theories.

Index Terms— NAFTA, Multilateral, LAIA, Regulations, ANCOM, MERCOSUR, FTAA, Trade policies, maquiladoras ,ECOWAS .

1 INTRODUCTION

Multilateral trade agreements as the name implies are between many nations at one time. Because it involves more than one country be they advanced or developing countries, they are very complicated to negotiate since every nation is autonomous in their choice with whom they want to have a trading deal with so that they achieve their trade objectives and maximum benefits in return . Once all participating countries sign the agreement, multilateral trade agreement becomes very powerful tool for trade. The primary benefit of multilateral agreements is that all nations get treated equally, and so it levels the playing field, especially for poorer nations that are less competitive by nature.

Trade policies, on the other hand, are collection of rules and regulations which pertain to trade. Every nation has some form of trade policy in place, with public officials formulating the policy which they think would be most appropriate for their country. The purpose of trade policy is to help a nation's international trade run more smoothly. Without strong and firm trade policies guiding multilateral trade, the trade objective will be undermined and more strong countries will be in the position to enrich themselves at the expense of the less developed ones. Thakkar and Sands,(2011) in their research broadly mentioned that the regional trade agreements such as the North American Free Trade Agreement **(**NAFTA**)** were intended to ease and ultimately reduce barriers to allow businesses to flourish in North America, but current economic conditions are having a negative effect on export, import, and many of the economic indices. Their research findings suggested that the time is ripe to review and analyze NAFTA's effectiveness in managing the current economy, globalization trends and challenges. Therefore, this paper will primarily discuss and focus on various aspects of NAFTA as detailed out by some researchers in their research findings.

2. THE FRAMEWORK OF THE FREE TRADE AGREEMENT:

Free trade agreements come in various forms depending upon the geographical location of the countries involved. Some of the common once are, Latin American Integration Association(LAIA), Andean Common Market (ANCOM), Southern Cone Common Market (MERCOSUR), Free Trade Area of the Americas(FTAA) and North American Free Trade Area(NAFTA). Similarly, East Africa countries may have their free trade agreement different from West Africa countries. Usually West Africa countries have trade agreement among its members called Economic community of West Africa States (ECOWAS), which provide some preferential treatment to its member countries. These special treatments are not offered to countries outside the network of the community. On the developed countries and North America in particular, the most popular trade agreement that easily comes to mind and which has received recent much attention from researchers is NAFTA(North America Free Trade Agreement).

Implementation of the North American Free Trade Agreement (NAFTA) began on January 1, 1994. The goal of NAFTA was to eliminate barriers of trade and investment between the US, Canada and Mexico. The implementation of NAFTA on January 1, 1994, brought the immediate elimination of tariffs on more than one half of U.S. imports from Mexico and more than one third of U.S. exports to Mexico. Within ten years of the implementation of the agreement, all US-Mexico tariffs would be eliminated except for some U.S. agricultural exports to Mexico that were to be phased out in fifteen years. NAFTA is by far the largest free-trade pact outside of the European Union and is the first reciprocal free-trade pact between a substantial developing country and developed economies .Since the advent of NAFTA one of the more striking occurrences has been the rapid increase in Mexican trade. Most US-Canada trade was already duty free. NAFTA also seeks to eliminate non-tariff trade barriers. NAFTA was not only intended to remove most barriers to trade but also encourage investment among the United States, Canada, and Mexico. Romalis (2007) in his article studies the “NAFTA’S and CUSFTA’S impact on international Trade” and established that NAFTA has been by far the largest free-trade pact besides EU and is the first reciprocal free trade pact between a substantial developing country and developing economies. CUSFTA is the prior Canada-U.S. Free Trade Agreement but he referred to both agreement as NAFTA for the purpose of convenience .Romalis research findings argued out that since the advent of NAFTA,

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Mexico has become the 2nd largest trade partner of US accounting for about 11.5% US merchandize imports in 2001 and 13.9% of U.S , up from 6.9% and 9.0% respectively in 1993.Mexico accounts for major share than Korea, Thailand, Singapore, Malaysia, Hong Kong and Taiwan combined. Why empirical studies often had great difficulty establishing the effect of NAFTA, Romalis however identified substantial impact on trade using various charts: for examples he also described three empirical models and strategies involving the use of ad valorem tariffs, equilibrium and demand elasticity. A very useful and related study was also done by Hanson (2004) on the globalization, labor income and poverty level in Mexico where he examined how the distribution of income changed in Mexico during country's decade of globalization in the 1990 with regards to NAFTA. Hanson's study focused on the analysis on men born in United states with either high-exposure or low-exposure to globalization, as measured by the share of foreign direct investment, imports, or export assembly in state GDP, since labor-force participation rates for women are low 21% in 1990 to 32% in 2000,While men's participation were from 73% in 1990 to 74% in 2000.Women who report zero labor earnings may work in the family business or on the family farm. He said that in 1985, Mexico joined the General Agreement on Trade and Tariffs (GATT), which entailed cutting tariffs and eliminating many non-tariff barriers. In 1989, Mexico eased restrictions on the rights of foreigners to own assets in the country. In 1994, NAFTA consolidated and extended these reforms. Partly as a result of these policy changes, the share of international trade in Mexico's GDP has nearly tripled, rising from 11% in 1980 to 32% in 2002. Mexico is now as closely tied to the U.S. economy as it has been at any point in its history. In 2002, the country sent 89% of its exports to and bought 73% of its imports from the United States. In addition, in the 1940's, Mexico adopted a strategy of import substitution industrialization. To import most manufacturing products, firms had to obtain a license from the government and to pay moderate to high tariffs. In 1965, Mexico softened its import substitution strategy by allowing the creation of maquiladoras. Firms could import free of duty the inputs, machinery, and parts needed for export assembly operations, as long as they exported all output. Furthermore ,to ensure firms abided by this rule, they were required to buy a bond equal to the value of their imports that would be returned to them once they had exported all their imported inputs in the form of final goods (hence the term in-bond assembly plants). In contrast to other firms in the country, maquiladoras could be 100% foreign owned. Bureaucratic restrictions on maquiladoras kept the sector small until 1982, when the government streamlined regulation of the plants.

Hanson's researching findings indicated that states with high-exposure to globalization began the 1990's with higher incomes than low exposure states, even after controlling for regional differences in the observable characteristics of individuals. During the 1990's, low-exposure states had slower growth in labor income than high-exposure states. This took the form of a left-ward

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shift in the income distribution of low-exposure states relative to high-exposure states. The results of this income shift were (a) a decrease in average labor earnings of 10% for individuals from states with low exposure to globalization relative to individuals from states with high exposure to globalization, and (b) an increase in the incidence of wage poverty (the fraction of wage earners whose labor income would not sustain a family of four at above-poverty consumption levels) in low-exposure states of 7% relative to that in high-exposure states. The author made a strongest conclusion that NAFTA ended this special status for maquiladoras by giving all Mexican firms duty free access to the U.S. market. Yet NAFTA did little to stunt the growth of maquiladoras. In a purely legalistic sense, NAFTA did mean the end of the maquiladoras regime; it eliminated the "in-bond" arrangement under which maquiladoras operated. However, Mexico's low wages continue to give the country a comparative advantage in the assembly of manufactured goods for the U.S. economy. Mexico is an interesting case because over the last two decades the country has aggressively opened its economy to the rest of the world. His research affirmed that there was change which was primarily the result of a shift in mass in the income distribution for low-exposure states from upper-middle income earners to lower income earners. Labor income in low-exposure states fell relative to high-exposure states by 10% and the incidence of wage poverty (the fraction of wage earners whose labor income would not sustain a family of four at above-poverty consumption levels) in low-exposure states increased relative to high-exposure states by 7%. During the 1990's, tariff changes appeared to raise disposable income for all households, with richer households enjoying a 6% increase and poorer households enjoying a 2% increase. These income gains imply a 3% reduction in the number of households in poverty. Income gains are larger in regions closer to the United States, where tariff-induced price changes are larger. The sample is working age men with positive labor earnings. Hanson focus on men, since labor-force participation rates for women are low and vary considerably over time. Compounding the problem, many women who report zero labor earnings may work in the family business or on the family farm.

Feliciano (2001) supported this findings by stating that between 1986 and 1990, the Mexican government reduced tariffs and import license coverage by more than 50%. The author, using micro-level data, analyzes the impact of trade reform on Mexican wages and employment. Industries that had greater reductions in protection levels, she finds, had a larger percentage of low-skill workers. Wage dispersion increased in both the non tradables sector and, to a much greater degree than the tradable sector. This pattern suggests that trade reform increased wage inequality. The decline in import license coverage appears to have reduced relative wages of workers in reformed industries by 2%, but did not affect relative employment. Reductions in tariffs had no statistically significant effect on relative wages or relative employment.

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Roberton (2000) further studied wage shocks associated with North American Labor-Market intergration. His study uses household-level data from the United States and Mexico to examine labor-market integration. He considered how the effects of shocks and rates of convergence to an equilibrium differential are affected by borders, geography, and demographics. He found out that even though a large wage differential exists between them, the labor markets of the United States and Mexico are closely integrated. Mexico's border region is more integrated with the United States than is the Mexican interior. Evidence of integration precedes the North American Free Trade Agreement (NAFTA) and may be largely the result of migration .Simple model of aggregate labor supply and demand and household-level data was used and author finds that even before NAFTA, U.S. and Mexican labor markets were integrated. Although the border matters for the absolute wage differential, U.S. and Mexican labor markets are integrated. U.S. wages affect Mexican wages and, when shocked, wages converge back to an equilibrium differential. Wages in the border region exhibit stronger responses and tend to converge faster to the equilibrium U.S. - Mexican wage differential. This result is robust across education and gender groups and across periods of large currency movements. Since changes in wages may be transmitted across borders through capital movements, trade, and migration, determining the contribution of each factor to the transmission of shocks. Here the expected bias becomes more apparent. When the volatile years are excluded, the main shock and convergence coefficients return to magnitudes more similar to those found earlier and are once again statistically significant. The NAFTA-period interacted shock terms are generally not significant but are quite large (this is especially true for more-educated workers). What may be more interesting, however, is that once the volatile years are excluded, the rate of- convergence interaction terms that represent the NAFTA period switch sign and become generally positive. This result is also robust to all variations that is consistent with the prediction that NAFTA would reduce migration by generating opportunities for Mexican workers in Mexico.

Brown etal (2001) uses Michigan Model as a multi-country, multi-sector computational general equilibrium (CGE) model to analyze changes in multilateral and regional trade policies affecting US and Japan. They mentioned that United States and Japan are two of the key players in the global trading system even though they have at times been at odds regarding each other's trade and domestic policies. They specifically explored in their paper the options that the two nations have in prospective trade negotiations at the multilateral and regional level. The researchers focus on the United States to explore options that the nations have in prospective trade negotiations at the multilateral and regional levels. For this purpose, they used the Michigan Model of World Production and Trade to provide some quantitative assessments of the economic effects of different options. They identify NAFTA's effect on trade volumes and prices using detailed trade and tariff data. They identified demand elasticities from additional wages from NAFTA and Non NAFTA member countries. Out of about five thousand commodities selected, it was detected that NAFTA had a substantial impact on international trade volumes, but a modest effect on prices and welfare. NAFTA increased North American output and prices in many highly protected sectors by driving out imports from nonmember countries. They were also much concerned about the positive side of trade liberalization and the overriding conclusion that emerges from model simulations because multilateral trade liberalization has positive and often sizable impacts on the economic welfare and real returns to labor and capital in both the industrialized and developing countries or regions covered in the Michigan Model. A second conclusion of their analysis is that regional and bilateral free trade agreements (FTAs) may be welfare enhancing for the member countries involved. But these welfare gains are considerably smaller than those resulting from multilateral trade liberalization, and, in some cases, disruptive employment shifts might occur. It is also the case that the FTAs involve elements of trade diversion and are therefore detrimental to some non-member countries.

According to Limao (2000), Preferential and free Trade Agreement for that matter can affect multinational Trade Liberations in various channel-they can divert scarce negotiation resources, change the number of negotiating parties and their bargain power and affect the country's multilateral tariff in all or subset of its goods. The effect of preferential trade agreement on Multinational trade liberation is strongest on the goods the country imports or exports under its Preferential Trade Agreement (PTA). However, the direct effect can be estimated by using non-PTA goods as the counterfactual for the outcome in the absence of PTA's .The researcher cited for example, an exporter to the United states that do not belong to one of the PTA's received only fifty-two (52%) as large as benefit in terms of price increase if it exports PTA goods instead of non-PTA goods. A country has an incentive to maintain higher multilateral tariffs relative to similar products that it imports only from non-PTA partners. Preferential Trading Arrangements (PTAs) are an integral and enduring part of the multilateral trading regime. Between 1990 and 1999, 87 Free Trade Agreements were notified to the World Trade Organization (WTO), and nearly all signatories of the WTO are currently members of at least one PTA. Despite such widespread existence, concerns continue about the welfare effects of Free Trade Agreements, especially on excluded countries. By the same token the empirical analysis of the effects of Free Trade Agreements should be at least as concerned with price as with volume effects.

Chan and Alan(2002) supported this view and said that the argument for "natural" trading partners is based on the greater likelihood of geographically proximate countries to be more significant trading partners, correlations between the welfare change estimates and bilateral trade volume. However, Krishna (2003) sited a contradictory view that both geographic proximity and trade volume are found to have no effect in his research. That is not alone but Golub &Hsieh (2000) also concluded in their research that despite the serious difficulties involved in making the requisite international comparisons of productivity and labor compensation, in the vast majority of cases, relative productivity and unit labor cost help to explain US bilateral trade overall patterns or framework particularly when sector-specific purchasing –power-parity exchange rate are used.

2.1 TRADE BENEFITS AND EFFECTS OF NAFTA

Gary & Schott(2008) reiterated that NAFTA is seen to have added about $60 billion yearly to the national income in the U.S. but some politicians and intellectuals blame it for the economic problems. They believe that NAFTA has caused the growing trade deficits in the U.S. However, despite the benefits of the trade agreements which generate the preferential Trade agreement. Some researchers see it as stumbling blocks to multinational Trade Liberations. Samuelson (2004) simplified this by stating that correct economic law recognizes that some American groups can be hurt by dynamic free trade. But correct economic law vindicates the word "creative" destruction by its proof that the gains of the American winners are big enough to more than compensate the losers. Prominent and competent mainstream economists enter into the debate to educate and correct warm-hearted protestors who are against globalization. The gains of the winners from free trade, properly measured, work out to exceed the losses of the losers. This is not by mysterious fuzzy magic, but rather comes from a sharing of the trade-induced rise in total global vectors of the goods and services that people in a democracy want. NAFTA contributed to trade creation and trade divergence but to what extend does it reflect trade creation and divergence from researchers perspective?. The implication of trade creations supports the facts that unilateral removal of tariffs generally increase imports of the goods in question, increasing domestic consumption and reducing domestic production. He said that the gains to consumers outweigh the loss of tariffs revenue and producer surplus leading to overall welfare gains. Whether in the case of trade diversion or diversion, Anne (2000) elaborated this in her research by stating that Trade diversion occurs where low cost production in the rest of the world is displaced by higher cost of production in the partner company. He explained Trade creation as the process under which countries lowering their tariffs shift away from reliance on high cost domestic industry to imports from the lowest cost import partner countries**.** Another major points associated with trade liberalization was that of employment level and wages. Liberalization involves adjustment period reallocation of resources and dislocation of workers which cause a trade -off between employment and wage response and this vary across affected firms and sectors. Workers may be willing to trade off wages to preserve jobs. Alternatively, they may prefer to maintain high level of wages for those who lose their jobs though depends on firms specific characters such as the composition of firm's workforce: permanent or temporary workers or the average seniority of the employees. A detailed analysis of trade creation and diversion was also examined in the work of Clausing (2001) where a series of regressions was used in which the dependant variable was the percent change in imports of a particular commodity from the rest of the world. If trade diversions were present, one will expect the percentage change in imports from the rest of the world to be negatively to the extent of Tariff liberalization with Canada. Trade creation occurs when the lowering of tariffs allows partner country imports to replace high cost domestic production; this improves welfare. Trade diversion, on the other hand, occurs when the removal of tariffs cause trade to be diverted from a third country to the partner country despite the fact that, were the countries treated equally, the third country would be the low cost source of imports. Ravenger(1997) buttressed this point by stating that Trade reform put downwards pressure on employment and wages by shifting down industry product and labor demand. This itself account for a 3-4% decline in real wages on average and for as much as a 10%-14% decline in the more affected industries.

However, according to Hartman(2011), the 2008 U.S. Presidential election highlighted the controversy that exists regarding NAFTA**.** Four of the most vocal criticisms are the loss of U.S. jobs to Mexico, the loss of the Foreign Direct Investment (FDI) in the United States, no net income gain for the average working American, and illegal migration from Mexico as a result of NAFTA**.** The research did not validate three of these criticisms. However, illegal migration from Mexico has been an unintended consequence of NAFTA. The data clearly indicate that strong trade growth occurred among the NAFTA partners, but it is difficult to prove conclusively the growth occurred only because of NAFTA. Of the three NAFTA trading partners, Mexico has benefited least from NAFTA as the country is still witnessing high unemployment, strong income disparities, and weak governance indicators.

2.2 CONCLUSION

NAFTA's effects, both positive and negative, have been quantified by several economists, whose findings have been reported in publications such as the World Bank's Lessons from NAFTA for Latin America and the Caribbean, NAFTA's Impact on North America, and NAFTA Revisited by the Institute for International Economics. Some argue that NAFTA has been positive for Mexico, which has seen its poverty rates fall and real income rise (in the form of lower prices, especially food), even after accounting for the 1994–1995 economic crisis. Others argue that NAFTA has been beneficial to business owners and elites in all three countries, but has had negative impacts on farmers in Mexico who saw food prices fall based on cheap imports from U.S.

agribusiness and negative impacts on U.S. workers in manufacturing and assembly industries who lost jobs. Critics also argue that NAFTA has contributed to the rising levels of inequality in both the U.S. and Mexico. Some economists believe that NAFTA has not been enough (or worked fast enough) to produce an economic convergence, not to substantially reduce poverty rates. The short and long of Canada-US free Trade as elaborated by Treefler (2004) offered precise expression on the long and short of US-Canada free trade. First, free trade agreement was associated with substantial employment losses-12% for most impacted, import competing group of industries and 5% for the manufacturing as a whole. Second ,free trade led to larger labor productivity gains for the most impacted, export oriented group of industries labor productivity rose by 14% at the plant level .For the most impacted, import competing group of industries, labor productivity rose by 15% with at least half of this coming from the exit or contraction of low productivity plants. For manufacturing as a whole, labor productivity rose by about 6% which was remarkable given that much of the manufacturing were duty-free before the implementation of the free trade. Third, free trade created more trade than it diverted and possibly lowered import prices. Therefore, the free trade raised aggregate welfare. Canada gained the most from NAFTA with Canada's GDP rate at 3.6%, growing faster than the United States at 3.3% and Mexico at 2.7%. Canadian employment levels have also shown steady gains in recent years, with overall employment rising from 14.9 million to 15.7 million in the early 2000s. Even Canadian manufacturing employment held steady. One of NAFTA's biggest economic effects on U.S.-Canada trade has been to boost bilateral agricultural flows. In the year 2008 alone, Canada exports to the United States and Mexico was at CAN$381.3 Billion Dollars and imports from NAFTA was at CAN$245.1 Billion Dollars. The Canadian mainstream has been so unanimous in its recognition of NAFTA's advantages despite a few odd detractors that even former NDP Gary Doer of Manitoba openly praises the benefits of NAFTA.

3.0 RECOMMENDATION:

From the practical and academic standpoints, I believe that free trade has increased countries relationship among the partner countries and have improved their relationship. It even facilitates easy access of loans from one country to the other. Taking it from current news, For example, China’s relationship with many African countries like Ghana in last September facilitated a signed agreement with Chinese government offering a loan of about $16bn ,the latest in a string of Chinese investments in Africa. Some have suggested that in order to fully benefit from the agreement, Mexico must invest more in education and promote innovation in infrastructure and agriculture. While these research is by no means the last word on the subject, computational results of some researchers, nonetheless, strongly support the case for swift multilateral action to be taken by the

United States.

Freeman (1995) provides a viewer's guide to the debate and argues that there are good economic reasons for expecting trade to lead to the "immigration" of low-skilled workers in developed or capital-abundant states. Factor prices, including wages, in different national markets that are open to trade should tend to converge. By reviewing the two facts that motivate the debate: the immigration of less-skilled workers in advanced countries and the increase in manufacturing imports from less-developed countries. The author Summarize the arguments and evidence brought to bear on them and give a scorecard on the debate. He conclude by examining the fear that, whatever trade with less-developed countries did in the past, it will impoverish less-skilled Americans and western Europeans in the future, as China, India, Indonesia and others make greater waves in the world economy. On one side of the new debate are those who believe in factor price equalization that in a global economy, the wages of workers in advanced countries cannot remain above those of comparable workers in less-developed countries. They fear that the wages or employment of the less skilled in advanced countries will be driven down due to competition from low-wage workers overseas. On the other side of the debate are those who reject the notion that the traded goods sector can determine labor outcomes in an entire economy or who stress that the deleterious effects of trade on demand for the less skilled are sufficiently modest to be offset readily through redistributive social policies funded by the gains from trade. They fear that neoprotectionists will use arguments about the effect of trade on labor demand to raise trade barriers and reduce global Productivity.

Based on these disparities, I suggest that further research on reviewing literatures on NAFTA in comparison with other Trade agreements existing in other regions such as European unions or other geographical locations will bring out the true and broad benefits as well as weaknesses if any of NAFTA .The comparison of the benefits of NAFTA vis-à-vis, the benefits of other trade agreements will convince the critics and provide more objective basis of assessment to the public and other stakeholders to make informed decision either in support or against particular government trade policies that may have impact on them.

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