

International Economics

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**THE PECULIARITIES
AND DEVELOPMENT DYNAMICS
OF REGIONAL TRADE AGREEMENTS
AT THE BEGINNING OF XXist CENTURY**

Abstract

The formation of transcontinental trade networks is among the outcomes of the process that intensifies the creation of regional blocks. Under these conditions, not only economic and political mechanisms for international flows regulation, but also the distribution of forces and the priorities of major actors on the world market are transformed. Therefore, singling out the peculiarities of and development trends in modern regional trade agreements (RTAs), likewise description of their spatial and economic configuration, allows having a new vision on how the RTAs affect the globalization process at the world market.

Key words:

bilateral and multilateral agreements, foreign trade policy, GATT, inter-regional RTA networks, preferences, process of regionalization, regional trade agreements, regulatory structure of WTO, trans-regional markets

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Translated by Demchenko Halyna.

Since 1990-s, the emergence of the network of trans-regional markets has been followed by the increased dynamics of regional trade agreements (RTAs) made on bilateral or multilateral basis. Economists tried to identify the economic and political reasons of this process. The advocates of RTAs (see, for example, Kolodko 2002; Lutsyshyn and Fedonyuk 2004; Lloyd and MacLaren 2003; Baldwin 1995; Krugman 1991; Summers 1991; Ethier 1998; Lawrence 1999 and others) view regional strategies as a perfect vehicle for trade liberalization on the global scale, since regional agreements are easier to conclude (because of a limited number of countries with similar interests), and they can promote liberalization on the global scale through gradual expansion and amalgamation. The opponents (see Bohomolov 2003; Bhagwati and Krueger 1995; Bhagwati and Panagariya 2003 and others), however, lay emphasis on the risks of competitive regionalization and the transformation of the world economic system into the world of confrontation among economic blocks that would reciprocally apply discriminative trade regimes.

However, economic speculations are one aspect of complicated RTA strategies that are being pursued by a country or a group of countries. They often include broader aims of foreign policy or serve to ensure security on the continent. Therefore, the encouragement of free trade on the preferential level may help developing countries carry out domestic reforms and «open» themselves at an acceptable rate for interaction with highly competitive markets, thus facilitating their integration into the world economy. In its turn, the development of complicated networks of trade relations and their regulatory regimes, which are increasingly interacting with political markets and are not framed by multilateral trade agreements, can place developing countries in a disadvantageous position. This research area is rather urgent for Ukraine, since the country finds itself in an ambiguous position as for the possibility to get preferences under participation in the RTA with the developed countries of Western Europe and potential advantages of trade cooperation with Eastern European countries, including Russian Federation. That is why the study of the dynamics and peculiarities of development of the regional trade the Ukrainian exporters are interested in, likewise identification of peculiarities of the European agreements on free trade (FTAs) and RTAs, has both theoretical and applied meaning for analysts and experts in the area of foreign trade and foreign economic policy in Ukraine.

Proceeding from the above-said, the paper has the following objectives:

- 1) to single out major trends in the development of current RTAs;
- 2) to analyze spatial and economic configuration of RTAs;
- 3) to assess the RTAs' effect on the development of the trans-regional markets network, including the European trade area.

1. Main Trends in the Development of Modern Regional Trade Agreements

At the beginning of 2005, four main trends related to trade agreements could be distinguished as follows:

1) A number of countries view them as: a) a basic subject of their commercial policy; b) one of the objectives of development on the basis of multilateral WTO system; c) priority of trade policy.

2) These agreements are getting more and more complicated, and in many cases, they set regulatory trade regimes exceeding the frames of multilateral mechanisms of harmonization of trade interests.

3) A number of mutually preferential agreements between the developed and the developing countries is increasing, which indicates that the developing countries are losing their beliefs in the multilateral system of preferences; also very important is the appearance of preferential agreements among the key developing countries, which is a reflection of the enhanced «South-South trade patterns»;

4) Despite regional peculiarities, the dynamics of FTAs shows general tendency to expansion and consolidation; on the one hand, there is an increased growth of inter-regional FTAs, which constitute a major part of overall growth in RTAs, while on the other, – the regional trade blocks of a continental scope are being created.

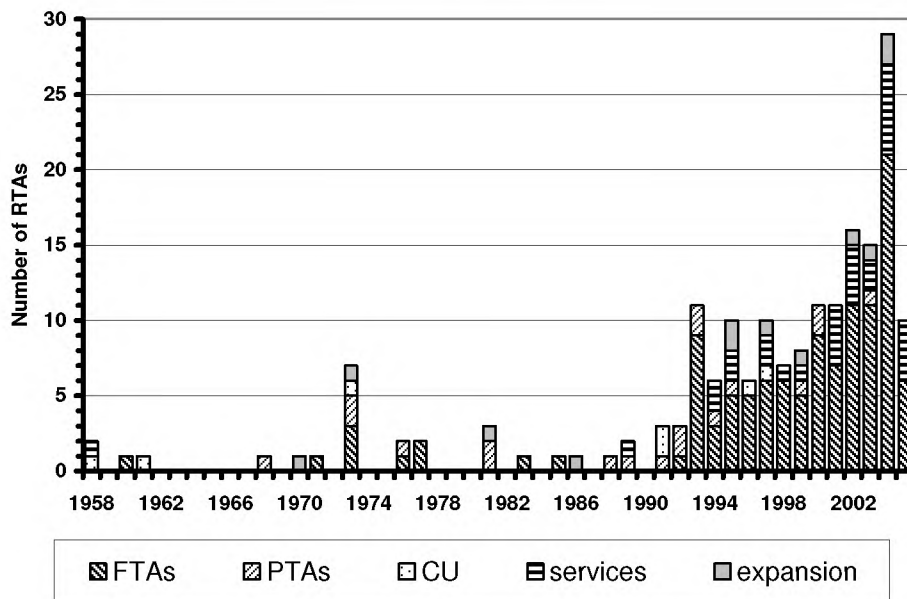
In January 2005, 312 RTAs were notified to GATT/WTO, 170 of which were in force at the moment, and 65 of which were estimated to be operational, but not yet notified (see Figure 1)¹.

The researches found the proliferation of RTAs during the latest decade has taken place at an unprecedented rate. Since January 1, 1995 alone, 196 new RTAs (132 out of them are in force at present) have been notified to the WTO, with an average of 11 notifications every year, compared with an annual average of less than three during the four and a half decades of the GATT. In part, the increase in notifications is a reflection of increased WTO membership and new notification obligations. In addition, it was just at that period when the world economy experienced intensified regionalization on supra-national level that is often identified as «a new wave of regionalization».

¹ See full list of RTAs in force notified to GATT/WTO at http://www.wto.org/english/tratop_e/region_e/region_e.htm.

Figure 1.

RTAs in Force Notified to GATT/WTO (1958–2005)



Source: developed by the author on the basis of current data of WTO (www.wto.org)

Of the 185 RTAs notified to the WTO currently in force², 117 are intended to be free trade areas, 7 are customs unions, 19 are preferential trade agreements, and 31 are agreements on services. The remaining 11 are partial scope agreements, aiming at FTA entrance (4 agreements), preferential trade agreements (1), customs unions (5), and 1 on service area. About 17% of RTAs which are notified and in force encompass obligations in trading both in services and goods. If the RTAs currently under negotiation are concluded, by 2008 the total number of RTAs in force will have approached 300. Proceeding from the typology of the major part of all RTAs in force, 63% of them can be identified as FTAs (see Figure 2). Since 2004, a significant increase in agreements on services is marked, covering in 2005 the second largest segment and making 17%. Preferential agreements account for 10%. Another peculiarity of current trade agreements is the subsequent reduction of the countries' activities related to making agreements on creation of customs unions (4%). It justifies the following:

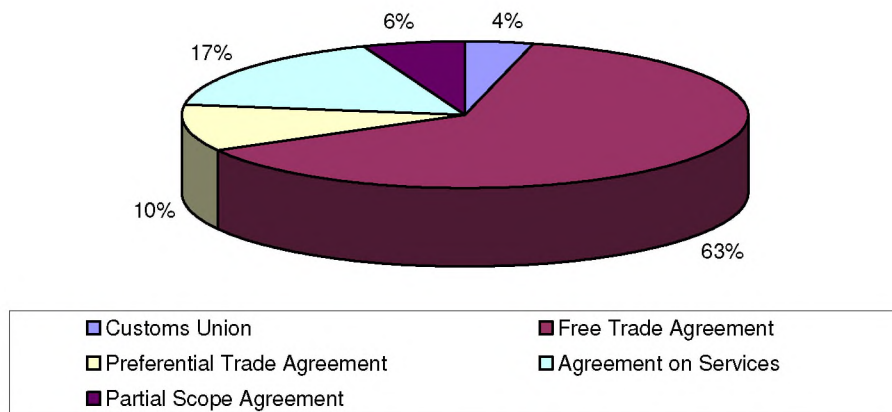
² According to the WTO statistics dated November 22, 2005 (www.wto.org).

1) foreign trade regimes are being liberalized; 2) tariff barriers do not produce significant effect on the volumes and directions of trade flows; 3) the countries prefer agreements that allow to create extra competitive advantages in the area of intra-firm co-operation or trade and to avoid the need for customs legislation unification.

From the author's viewpoint, the FTA domination is related to a rather mobile mechanism of making agreements and insignificant coordination of foreign trade policy by the parties, since each of the parties pursues its own trade policy aimed against the third side. In contrast to this, the customs unions demand fixing single external tariff and harmonization of foreign trade policy, anticipating significant loss of the autonomy in the area of commercial policy, as well as long-standing and complicated negotiations concerning the stages of realization. Moreover, the majority of FTAs is related to strategic market access and does not account for geographic factors as against the customs unions where geographic approaches play the main role in defining the aims of economic (and often political) integration of the parties concerned. As far as the membership in the partial scope agreements is regarded, the trade frames of the latter are limited. Consequently, minor efficiency realization makes them less attractive for most of the countries, including the proponents of multilateral trade liberalization. Eventually, the dynamics of this type of agreements proves this, e. g. if in 2004 their ratio made 8%, in November 2005 it was only 6%.

Figure 2.

Notified Operational RTAs by Type of Agreements (November 2005)



Source: Developed by the author on the basis of current WTO information (www.wto.org).

2. Spatial and Economic Configuration of Current RTAs

The configuration of modern trade agreements is rather varied, and it is getting more and more complex with the overlapping of RTA networks covering internal continental area, as well as intercontinental relations on the regional and sub-regional levels. Geographically, RTAs more often link the markets of the countries with no common borders that are being formed of some non-adjacent areas. *Therefore, the term «regional» now can imply a proper abbreviation, in no way a description of inter-regional (or cross-regional) agreements linking the countries throughout the world into global trade networks.*

The reasons influencing the priority choice of FTAs also play a key role in defining the configuration of a regional agreement. The countries prefer simple configurations of the agreements, like bilateral against onerous multilateral RTAs typical of the customs unions. Thus, bilateral agreements make over 75% of all notified RTAs in force, and almost 90% of those under negotiations (see Figure 3)³.

The consolidation of the trade interrelations established is forecast to be growing within the following 5 years, and a new category of agreements will originate with every party by itself being a regional trade unit.⁴ The fact that some RTAs of this kind have been negotiated for a long time, but failed to be concluded so far, shows that these RTAs are very intricate for negotiations. Nevertheless, in the author's opinion, *the process of trade blocks integration with subsequent turning into major subjects of the world market is an objective trend of the development of a present-day global market.*

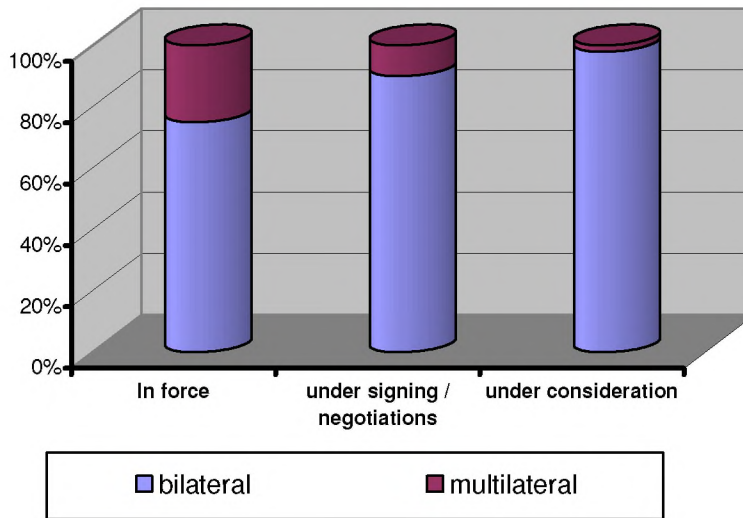
Traditionally, the formation of RTAs occurred between the so-called «natural» trading partners, geographically contiguous countries with already well-established trading patterns. Australia and New Zealand, the NAFTA countries, the EU, EFTA and CEFTA provide good examples. As the analysis of historical lessons shows, most of the countries (the developing countries, in particular) sign their first RTA with one or several neighbouring or regional partners. South-East Asian countries' participation in ASEAN, South African groupings such as CEMAC or SACU, or the Western Hemisphere groupings of CARICOM, the CACM and MERCOSUR are all prime examples. However, once a country has exhausted its strictly regional prospects, it begins its search for new preferential partners. The countries of Western Hemisphere, Europe and Asian-Pacific Region are obviously leading this trend.

³ Bilateral agreements can include more than two countries when one contracting party is represented by an RTA (e. g. the EU (25) – Turkey agreement is a bilateral RTA including 26 countries). Multilateral agreements refer to RTAs with more than two constitutive parties (e.g. EFTA, CAN, MERCOSUR, etc.)

⁴ e. g. EC-GCC, EFTA-SACU Agreements.

Figure 3.

The Configuration of FTAs (February 2005)



Source: Developed by the author on the basis of current WTO information.

The RTAs differ considerably in scope and depth of regulatory mechanisms applied to: a) exchange of tariff preferences on a limited range of products; b) various trade-related provisions going beyond traditional tariff reduction or elimination.

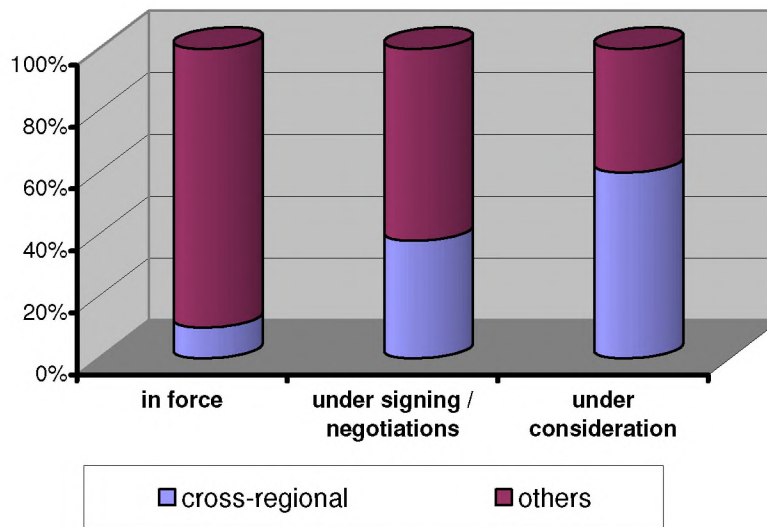
But the agreements signed lately exceed the frame of the WTO regulatory structure covering alongside with others the terms of investment, competition, intellectual property, environment, and labour force. As noted in the World Bank's Global Economic Prospects 2005, these issues are specified for the RTAs between the developed and the developing countries. In the World Bank analysts' opinion, this reflects the interests pursued by the developing economies in making of such agreements.

It is worth noting that the so called «Singaporean problems»⁵, waived at the WTO Conference of Ministries in Cancun (2004), are inserted into many preferential trade agreements, including the agreements between the partners from the developed and the developing countries⁶.

⁵ Trade assistance, investments, government, procurement, and competition.

⁶ Examples of the RTAs between the developed and the developing countries included all or some of the Singaporean problems: EU-PAR, Chili-EFTA, USA-Morocco, USA-Jordan,

Figure 4.

Share of Cross-Regional RTAs (February 2005)

Source: Developed by the author on the basis of current WTO information.

Nevertheless, though these agreements are often labelled the «WTO plus» agreements, this classification should not necessarily be interpreted as positive. For example, the agreements limiting restrictive antidumping measures in trade within the RTAs could be regarded as WTO plus. But this can not be applied to the agreements encompassing the clauses on intellectual property more restrictive than envisioned under TRIPS⁷.

Thailand-Australia. The negotiations on the RTAs EU-MERCOSUR and USA – Andes Community also envisages these problems to be included in the agreements.

⁷ Trade-Related Aspects of Intellectual Property Rights.

3. Rapid Proliferation of RTAs and Their Impact on the Development of Trans-Regional Markets

The reasons of rapid development of the RTAs in the 1990-s and at present should be found in the combination of geopolitical events, the majority of which happened in late 1980-s and early 1990-s. They encompass the following:

1) the uncertainty as for the outcomes of the Uruguay Round (1986–1994) which urged some countries to use preferential agreements as a means of security (insurance) against possible failures of multilateral trade agreements;

2) the ongoing proliferation of the European RTA network and linking new countries, specifically those of Central and Eastern Europe, the Balkans and the Mediterranean region, to this process;

3) the change in the attitude of the developed countries, the USA in particular, to preferential agreements, which might have produced the «domino» effect on the other countries with regard to taking decisions on RTAs;

4) the policy of «added regionalism» applied by such countries as Chili, Mexico and Singapore which have built preferential relations with all their major trade partners;

5) the fragmentation of the former Soviet Union and break-up of the Council for Mutual Economic Assistance brought about a new group of RTAs created between the transition economies and the EU, and the EFTA countries, as well as among the economies in transition themselves.

The process of restoration of reasonable preferential trade relations among transition economies is still going on and constituting a major part of the notified in 1990 RTAs in force (see Table 1).

Another great group of RTAs constitutes preferential agreements between the developed and the developing countries. The EU and the EFTA countries provided more than half of these RTAs, i.e. Euro- Mediterranean agreements with the partner-countries in the North Africa and the Near East, and some other bilateral agreements with the countries like Chili and Mexico.

The USA is rapidly catching up with the EU, having signed some RTAs with the partners from the developing countries and having had some more under negotiation. Other countries are following these leaders (the EU and the USA). These are Japan, Australia, New Zealand, and Canada, having negotiated on the RTAs, in particular, with the countries of South-Eastern Asia and Latin America.

Table 1.

**Notified RTAs in Force (by Date of Entering into Force
and Partner Type), November 2005**

Period	devel- oped econo- mies – devel- oped econo- mies	devel- oped econo- mies – develop- ing econo- mies	devel- oped econo- mies – transitive econo- mies	develop- ing econo- mies – develop- ing econo- mies	develop- ing econo- mies – transitive econo- mies	transitive econo- mies – transitive econo- mies	Total
1958– 1969	3	0	0	1	1	0	5
1970– 1979	5	4	0	4	0	0	13
1980– 1989	4	2	0	2	1	0	9
1990– 1994	4	4	4	6	1	4	23
1995– 1999	4	8	2	8	2	17	41
2000– 2002	1	16	4	10	3	6	40
2003– 2005	4	19	0	11	2	19	54
Total	25	53	10	42	10	46	186

Note: The developed economies: Canada, USA, EU, EFTA, Japan, Australia, and New Zealand; the transition economies: former USSR, Eastern and Central Europe, the Baltic countries, and the Balkan region; the rest – the developing countries.

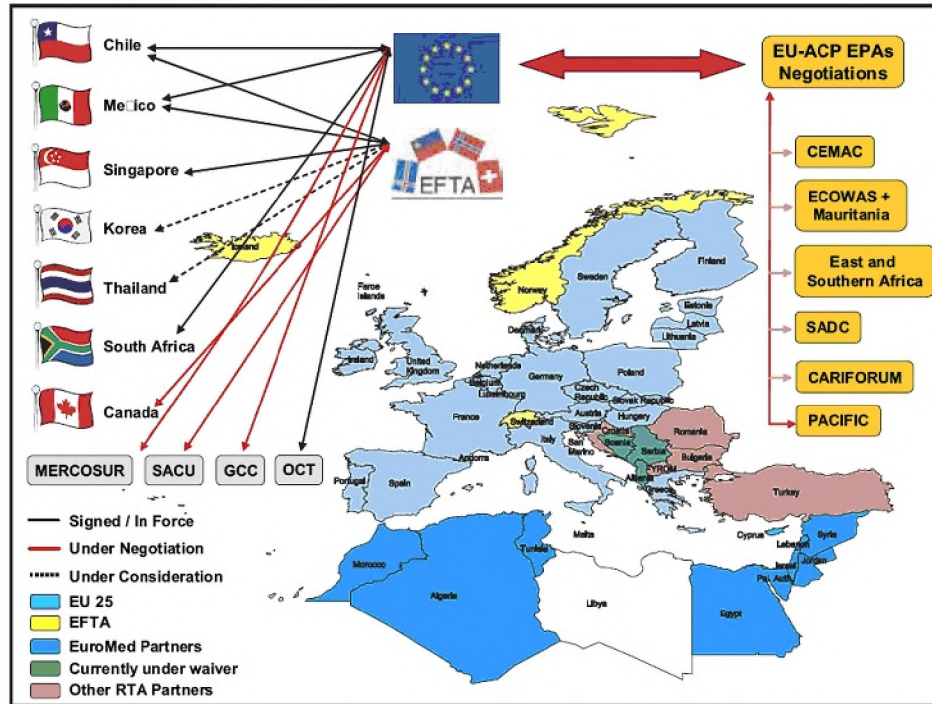
Source: developed by the author on the basis of the WTO data (www.wto.org).

The peculiarity of these preferential agreements consists in grounding on such criteria as reciprocity and multilateral trade liberalization. It is worth noting that these countries may also apply the systems of non-reciprocal preferences. Under current WTO rules concerning RTAs, the *rapid proliferation of preferential agreements between the developed and the developing countries makes the latter face great challenge when transiting from non-reciprocal trade preferences to trade liberalization on a mutual basis.*

The greatest concentration of RTAs is in Europe within the main continental hubs of the EU and EFTA. The European RTA network is presented in Figure 5.

Figure 5.

Network of European RTAs



Source: Crawford and Fiorentino (2005)

Some factors describe the density of inter-European RTAs. Most of them are related either directly or indirectly to current proliferation and consolidation of the European market and economic area specific to the process of political and economic continental integration. The major driver of inter-European RTA concentration is the nature of the process of the EU association, where «spokes» negotiate on the RTAs with the «hub», as well as between themselves, providing the formation of the continental network. This network density is enhanced by almost similar RTA networks formed by Turkey and the EFTA countries due to their association with the EU through the customs union and the European Economic Area (EEA), respectively. This leveling means for Turkey the necessity to interact with the EU foreign economic policy. As for the EFTA countries, they try to meet the EU initiatives on the RTAs to avoid trade discrimination.

The EU accession of the ten new members on May 1, 2004, expanded the European domestic market up to 28 countries⁸, having united 450 mln. people and having provided around 18% of world trade. *In addition, the EU expansion has changed the configuration of the intra-European RTA network* developed throughout these years. Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, and Slovenia's entrance automatically terminated bilateral agreements between the new members and the EU, thus having cancelled trade-related aspects of all available agreements between the new members, as well as between the latter and the third parties with whom the EU had already had preferential agreements. Consequently, 65 notified RTAs were cancelled on May 1, 2004. The process of expansion and consolidation is still proceeding, since the number of candidate countries to join the EU has enlarged. Thus, the Stability Pact concluded between the EU and 8 countries of South-Eastern Europe⁹ initiated the process of sustained development and subsequent consolidation of the region. The RTAs and networks of bilateral FTAs among these countries, as well as bilateral agreements between the EU and these countries¹⁰ serve as key instruments for meeting the objectives. The Memorandum of Understanding of trade assistance and liberalization developed in 2001 obliged these countries to conclude networks of bilateral FTAs. Moldova was another country that joined on the later stage of this process. Consequently, the RTA network has been formed, which is now being implemented.

At present, a similar project is being developed for concluding agreements between the EU and the countries of North Africa and Near East. The project has its main objective to establish the Euro-Mediterranean Free Trade Area by 2010. The Mediterranean partners are Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, Palestine Autonomy, Syria, Tunisia and Turkey. Cyprus and Malta had joined these Agreements before they joined the EU on May 1, 2004. The Associated Agreement between the EU and Egypt came into force on June 1, 2004, and the negotiations with Syria have recently been completed, thus making a network of bilateral RTAs in the region. As in the case of other intra-European RTA networks, the EFTA countries and Turkey are negotiating on possible regional agreements with the same countries.

As far as cross-regional relations are concerned, the EU and the EFTA countries expand their relevant networks of preferential agreements. Thus, the EU is still negotiating on the FTAs with the countries of Cooperation Council of Persian Gulf (GCC) and with the MERCOSUR members, despite the negotiations deadline of October 2004 has already passed long ago. Regarding the contacts of the EU with the ACP countries, the negotiations on economic part-

⁸ EU plus three EFTA member countries.

⁹ The Stability Pact partners are: Albania, Bosnia-Herzegovina, Bulgaria, Croatia, FYR of Macedonia, Moldova, Romania and Serbia, and Montenegro.

¹⁰ The Agreements signed so far include Romania, Bulgaria, Macedonia, Croatia and Albania. The EFTA countries and Turkey are conducting similar negotiations.

nership agreements (EPA)¹¹ were officially opened in 2004 with Eastern and Southern Africa (ESA), Caribbean Forum of ACP countries (CARIFORUM), South-African Development Community (SADC), and the Pacific Ocean group of ACP countries. Except for these long-pending negotiations, *the EU declared that in the future it was not intended to keep to Doha Round agreements on the RTAs*. The EU implied to declare its wish to enhance trade relations with the countries of South-Eastern Asia (though no FTA between the EU and ASEAN was declared). On the other hand, the EFTA countries, having concluded the FTA with Singapore in 2003, studied the possibility to carry on similar negotiations with Thailand, and recently, they have begun negotiations with the Korean Republic. In addition, the EFTA also continues negotiations with Canada and the South-African Customs Union (SACU).

Consequently, the European continent and its market are practically covered in full by networks of regional trade agreements on unilateral and multilateral bases. The formation process of cross-regional RTA networks turned into the objective trend of the European market development, which actually implied a successive transition of local international markets to an intercontinental market on the basis of common trade networks. Therefore, we can assert that international economic and institutional regulation mechanisms are transferred from the area of national economy to the level of international regional associations. The countries staying outside this continental-wide process (i. e. Eastern European countries including Ukraine) are deprived of the opportunity to realize the available competitive advantages on the continental market, thus losing their potential abilities to create new or extra competitive advantages. They find themselves in economic isolation and, therefore, have to re-orient their own foreign trade flows to other partners. This scenario of development is now observed in Ukraine. The process intensity is rather decreased due to the following factors: favourable geo-economic and geopolitical situation of Ukraine, great interest the partners from the developed countries take in the Ukrainian market, flows of labour migrants and the related inflows of foreign currency.

Compared with Europe, *the RTA dynamics in the Western Hemisphere is more heterogeneous by its nature, with several major actors involved in multi-layer RTA processes, the aims of which are not necessarily similar.* The countries of Latin America are following the tradition of regional integration, which is rather different from the recent more-market-oriented RTAs made in Canada and the USA. The latter (and Brazil) are expressive representatives of this vision of preferential agreements while negotiating on the FTAA as a basis for subsequent creation of continental FTA¹². *So far, the negligible progress of achieving the aim does not allow speaking with certainty about a growing number of sub-regional and cross-regional RTAs.*

¹¹ EPA will change current Cotonou Agreement between the EU and 77 ACP countries (African, Caribbean and Pacific group of countries).

¹² FTAA includes all countries of Western Hemisphere, except Cuba. These negotiations, planned to be completed on 1 January, 2005, are long-pending because of insignificant attainments achieved since the 8th Ministerial Conference in Miami in November 2003.

One of the key events within this process is the re-orientation of the USA. When being an opponent, it became an adherent of RTAs, which was reflected in the ambitious project on aggressive preferential trade development. Having concluded in 2003 the RTAs with Singapore, Chili and Jordan, in 2004 it notified the FTAs signed with Australia and Morocco. In addition, being the party to the Dominican Republic – Central America FTA, it signed the agreements with Costa-Rica, Salvador, Honduras, Nicaragua and the Dominican Republic. In addition, the USA is negotiating with Bahrain and studies facilities for similar agreements with Oman and the *United Arab Emirates*. The USA proceeded to the successive round of negotiations with SACU; it started negotiations with three members of the Andes Community (Columbia, Ecuador and Peru), and with Panama; it declared its intention to open FTA negotiations with Thailand.

The development of RTAs in Latin America also gives the countries the impetus to consolidate and to have the RTA network proliferated among the Southern and Central American countries. The MERCOSUR members are working on the creation of a customs union, and they made a frame agreement with three Andes Community members on gradual conclusion of FTAs¹³. Recently, Mexico has declared its intention to ask for becoming a MERCOSUR associated member¹⁴. The countries of Latin America also demonstrated high activity while negotiating on the FTA with the partners from far-abroad countries. Thus, Mexico signed the FTA with Japan, Chili with the Republic of Korea, Panama is negotiating with Singapore, and MERCOSUR with India, MERCOSUR-China FTA is under consideration.

Within 2004-2005, the feasibility of RTAs in the *Asia-Mediterranean region* generated more hot discussions. Thus, *Singapore* signed the RTA with Jordan, it continues negotiations with Canada, India, Mexico, P4 (i.e. tripartite RTA, which includes Chili, New Zealand and Brunei), started negotiations with the Republic of Korea, Kuwait, Qatar, Panama, Peru, and it considers negotiations with Bahrain, Egypt and Sri-Lanka. Having completed the RTA with Mexico, *Japan* studies the possibilities of concluding a similar agreement with Chile. In addition to enhancing its contacts with the ASEAN countries, Japan started negotiations with the Republic of Korea, Malaysia, Philippines, and Thailand.

As far as the Republic of Korea is concerned, apart from its negotiations with Japan and Singapore and a signed agreement with Chile, it conducted negotiations with ASEAN on the plans concerning RTAs. Thailand opened negotiations with New Zealand, signed RTAs with Australia and is considering the FTAs with the EFTA countries and the USA. China is negotiating on the FTAs with ASEAN, and at the same time, is developing technical and economic substantiations for the FTAs with Australia, New Zealand and Chile. Moreover, in June

¹³ They are Columbia, Ecuador and Venezuela. Free trade with Bolivia and Peru is regulated according to the agreements signed between MERCOSUR and Bolivia and Peru, respectively.

¹⁴ Bolivia, Chili and Peru are associated members of MERCOSUR.

2005, it notified a frame agreement on economic co-operation with the GCC countries, which could result in negotiations on FTAs.

Within the wider regional scale, ASEAN, China, Japan, and the Korean Republic are discussing plans concerning the *East-Asian Community as a new pattern for regional co-operation*. Regarding Australia and New Zealand, the negotiations on the FTAs between these countries and ASEAN were opened in 2005.

The hub of South-Asian FTAs was India. Together with its SAARC partners, it signed the South-Asian Free Trade Agreement (SAFTA), aimed at renovation of SAPTA, and the Frame Agreement titled as BIMST-EC (Bangladesh, India, Myanmar, Sri-Lanka, Thailand – the EU). Also India is negotiating on the FTAs with Thailand, after having signed the frame agreements with both of them, and is negotiating on the Complete Economic Cooperation Agreement (CECA) with Singapore. Concerning cross-regional agreements, India signed partial scope agreements with MERCOSUR as a preliminary step to an FTA, and it is also considering an FTA with Chili, GCC and SACU.

The FTA dynamics on the African continent and in the Near East reflects the tendencies similar to those in the other regions of the world, namely the consolidation of the available agreements oriented at expansion of trade relations, mainly with the far-abroad countries.

The countries of *Northern Africa and Near East* enhance their economic and political contacts with the EU through negotiations and implementation of the Euro- Mediterranean Partnership Agreements. Within the framework of this process, Jordan, Egypt, Morocco, and Tunisia have recently signed the Agadir Agreement on the establishment of the FTA by 2006. These countries represent a party to another integrating initiative implying the Arab Free Trade Zone oriented at the establishment of the FTA among 18 members of the League of Arab countries (out of 22) by 2008. Morocco concluded a cross-regional FTA with the USA and is proceeding to realize similar agreements with Jordan and Bahrain. Jordan signed the FTA with Singapore. Alongside with the negotiations with the EU on FTAs, the GCC countries are considering the FTA with India and China, respectively.

In *Sub-Sahara Africa*, such regional initiatives as WAEMU, CEMAC, COMESA and SADC are intended to establish Free Trade Areas or Customs Unions. *In general, the regional integration process is deepening, though its advancement is uneven and rather ambiguous because of the realization challenges, which is the result of complicated network of FTA membership.* The process of RTA modernization can proceed to the stage of realization if the negotiations between EPA and the EU, and the existing regional groupings were opened. As far as South Africa is concerned, in addition to its FTA with the EU, it is considering a similar agreement with China. Moreover, as a SACU member, China is participating in FTA negotiations with EFTA countries, the USA, MERCOSUR and India. Initiatives in Africa-through integration continue by means of

African Economic Cooperation (AEC), the aim of which is to establish the African Economic and Monetary Union by 2028.

In Asia Minor, the regional structures related to the Soviet era were superseded by the RTAs with the countries of the former USSR, as well as with their neighbours. In addition to the free trade agreement of NIS and the agreement on the Customs union (between Kirghiz Republic, Russian Federation, Belarus, Kazakhstan, and Tajikistan), Armenia, Georgia and Kirghiz Republic as the WTO members notified many bilateral agreements between themselves and other regional partners. The majority of other countries in the region were likely to have similar networks of bilateral RTAs, which would considerably exceed the FTAs, but this region was lacking the details on the RTAs under negotiations.

Consequently, the increasing number and activity of RTAs can be viewed as a sign of consolidation of existing agreements into big trade agreements across the regions of the world. The EU, having realized five successive expansions which had enlarged the EU membership from 6 to 25, is a vivid example of the relation between the proliferation of RTAs and consolidation. A unique case of the EU integration is not a single one in the practice of regional and continental economic integration. For example, the countries of Latin America are actively developing and expanding their intra-continental RTA networks and promoting the consolidation of the existing agreements. All the countries of the Western Hemisphere except Cuba are involved in the formation of FTAs on the continental level. Lately, Asia encountered the revived idea of building the East-Asian Community, which includes the ASEAN countries, Japan, China, and the Republic of Korea. On a larger scale, in the Asia-Pacific region, India demonstrates the development of cross-regional FTAs, while Australia and New Zealand enhanced their economic ties with the countries of South-Eastern Asia. The current patterns of global trade do not tend to create trade blocks through closed agreements ('fortress' agreements) intended for limiting foreign trade within the frameworks of local international markets. Nevertheless, the emerged polarized world trade system may bring about potential positive and negative outcomes for the multilateral trade system functioning in the countries outside main trade poles.

The considerable enlargement of the scale and geographic extension of the FTAs was followed by the transformation of their regulatory mechanisms. In addition to pure tariff reduction on commodity trading within the block, new agreements tend to attain deeper effects. New generation of the RTAs, especially those covering the advanced countries, include more regional rules in investments, competition and standards, as well as to take into account the environment and labour conditions. Moreover, most of these agreements create preferential regulating patterns for reciprocal trade in services.

On the one hand, the RTA is promoting market globalization and liberalization of foreign trade regimes on the regional level, while, on the other, the priorities of development and efficiency are transferred to the area of inter-firm cooperation and coordination of actions and policy among the countries— members

of the grouping. Therefore, most of the arguments in favour of RTA membership of the countries including Ukraine are viewed in the context of strategic priorities of economic policy. At that, the following three main problems arise: (1) providing member-countries with effective mechanisms of economic security against «third» countries; (2) probability of realization of potential advantages related to re-orientation of trade flows and linked with successive integration of economic mechanisms; (3) RTAs' impact on internal economic policy of a country. Its practical solution, except for the economic factors already known, depends on the interest of the countries in the integration process, the political pressure faced by the countries and the lobbied options of regional agreements (and consequently, the kind of economic policy).

All this substantiates the need to analyze economic and institutional mechanisms of modern RTAs, which will allow taking into account the emerging outcomes of such a union, evaluating the potentialities for deep integration of the countries, and encompassing new potential economic and political advantages related to international cooperation.

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The article was received on October 21, 2005.