

## EMPIRICAL EVALUATION OF POTENTIAL DEEPENING OF TRANSATLANTIC TRADE COOPERATION

**Statement of the problem.** The development of foreign trade in conditions of globalization is an important element of international economic and political relations. It takes place according to the civilizational and institutional world processes, which are currently based on civilizational polarization of the world, financial crisis, slowdown in liberalization processes, reduction of trade and investment activity in global markets.

**The analysis of recent research and publications.** Outlined processes from the perspective of trade and economic cooperation between the U.S. and European countries are widely studied in the works of many international scientists who examined thoroughly the theoretical and practical aspects of trade between the U.S. and the EU, such as R. Baldwin, C. Hamilton and A. Sapir [1], and the theoretical aspects of transatlantic cooperation are justified (G. Ash [2], D. McGuire and K. Shearer [3] K. Hill and M. Smith [4]). Since the 2000s, from our point of view the most valuable works on foreign trade relations between the U.S. and Europe include D. Hamilton and J. Quinlan [5], A. Hendrickson [6], a group of scientists that includes M. Baldwin, J. Petersen and B. Souk [7], which submit a critical evaluation of previous attempts to transatlantic integration with a parallel analysis of the feasibility and R. Ahern [8, 9], whose research is the most scalene and can generate comprehensive conclusions and recommendations for future relations. The most significant works in Ukrainian science can be considered works of G. Anilovskoyi [10] A. Mazaraki, T. Melnyk [11] and T. Tsygankova [12], who paid special attention to the regulatory aspects of foreign trade.

Appreciating the theoretical and practical achievements of these scholars we should note that the current state of transatlantic relations needs argumentation for their development potential from the perspective of forming an integrated transatlantic formation that has long been a subject of detailed scientific debate [5, 6].

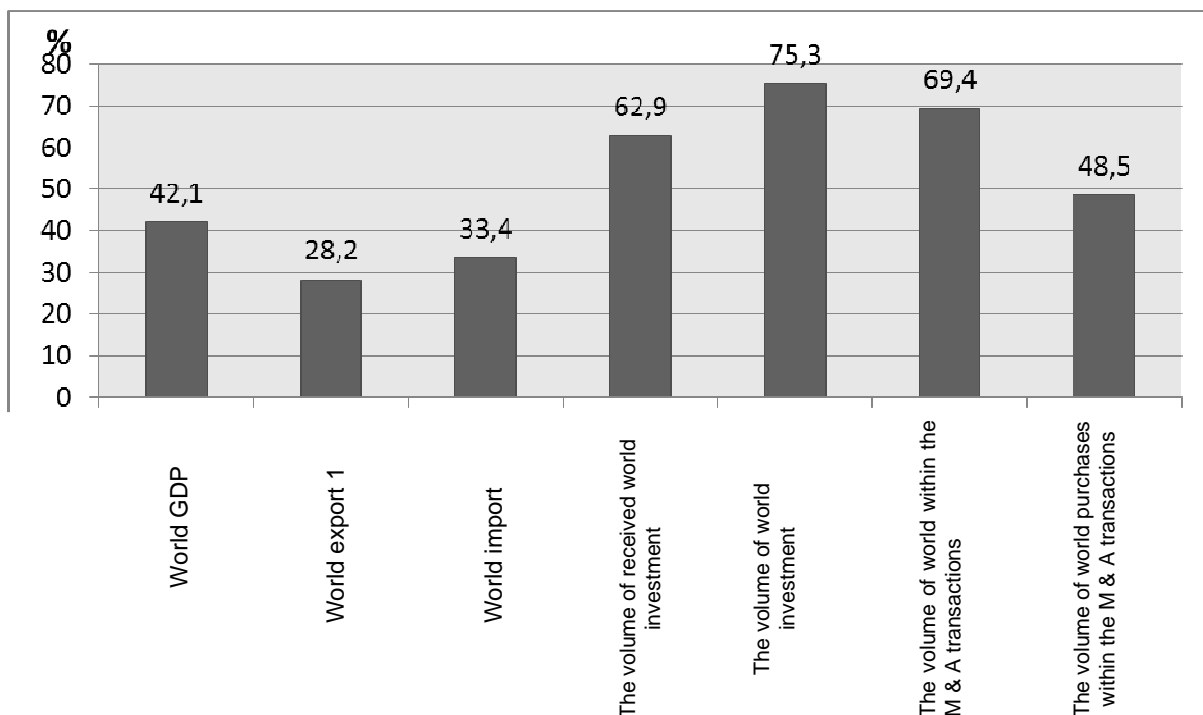
**Formulation of the problem.** The aim of the article is to determine the size and economic potential of the transatlantic trade integration and empirical evaluation of its impact on global economic and trade processes.

**The main material of the study.** Research of the U.S. and the EU economies allows to state that they are closely related not only by the trade agreements, but also by investment and political processes and that determines the existence of common institutional environment, which manifests itself in frequent contacts and constantly operating committees, organizations and institutions designed to deepen existing level of cooperation (Transatlantic Declaration (1990), the New Transatlantic Agenda (NTA) (1995) Transatlantic exchange partnership (TEP) (1998), the transatlantic economic structure and the Transatlantic Economic Council (TEC) (2007).

The term "transatlantic economy" is often used in the economic literature to describe the total economic potential of these subjects of international relations. This definition applies only in a ratio North-North excluding Canada and Mexico on the one hand, and the countries which are not EU members on the other. Therefore, in view of integration processes that have taken place in Europe and positioned the European Union as a single economic system, which has not only a common market, but also a foreign economic policy, transatlantic trade relations include, as can be seen from the works of several prominent economists [5, 6, 16], only the United States and the current EU members. Each of the parties is the largest economic entity in different indicators, and the totality of their potential in some cases reaches 75% of global indicators (Fig. 1).

As can be seen, the transatlantic economy covers about a third of world imports and exports, and over 40% of world GDP. Corporate sector has more potential, as evidenced by indicators of investment flows, and corporate activity for mergers and acquisitions. Close ties between business organizations in Europe and America are the main core of transatlantic integration, which at the entity level, as opposed to government dialogue, always had a positive behaviour. The focus of business entities to maximize profits causes at the legislative level permanent initiation and their lobby for favourable conditions for free trade and economic cooperation, which may be important factors in the growth of competitiveness.

Except purely nominal indicators of production and trade, cooperation of U.S. and the EU is crucial in many areas of public life - in the fight against terrorism, securing peace, spreading democratic values, as well as the deepening of economic globalization through the development of international and regional institutions.



**Figure. 1. The share of transatlantic economy in relation to global indicators, 2011 \***

\* Domestic trade between the EU-27 countries, trade with Norway, Switzerland and Iceland are not included

Source: [13]

The transatlantic countries are active participants of the integration processes in global trade, where they are the main initiators of liberalization, reduction and elimination of trade barriers. Being the most developed regions of the world they conduct active dialogue about creating preferential trade zones and free trade zones mainly in North - South and Centre - Periphery directions that occurs in addition to the agreements concluded within the WTO. Since the mid-1990s, the EU and the U.S. have created a number of different trade regimes for countries with serious developmental problems. Europeans discovered the market on equal terms to more than 69 countries in Africa, Caribbean and Pacific (ACP-countries) united under Lome and Cotonou Conventions [14, p. 110-112]. Americans also signed a large number of regional agreements, most of which are preferential trade agreements. Not so long ago they signed a free trade agreement CAFTA (Central America Free Trade Agreement) [15, p. 193].

Impact of transatlantic partners on total world trade performance gradually decreases, although the role of key "integrators" in the system of political and economic relations continues, newly industrialized countries of Asia, especially China and India are becoming more and more important.

Assessing the potential of new economic blocs by their participation in academic economic literature the concepts of Kimerica (China - America), Kindia (China - India), Asia (all Asian countries, including Japan, China and India), which are opposed to the today's biggest concept of Eurmerika (Europe - America) are more often used (Table 1).

As can be seen, currently the total potential of the U.S. and the EU in all indicators significantly outperforms all the above-mentioned existing and potential blocks. This causes not only their place in the global economic system, but also a role in deepening and strengthening the integration efforts across the world. It is important to note that the formalization of bilateral transatlantic agreement will create such economic potential, that in order to achieve a critical level of 80% of world trade it is enough to attract only eight additional countries to transatlantic bloc: Japan, China, India, Brazil, Russia, Canada, Korea and Mexico.

To summarize it should be noted that the transatlantic economy has long been strong not only in economic but also in the secular and structural basis. According to experts, the transatlantic economy generates about 5 trillion USD per year due to commercial sales and covers up to 15 million workers employed in associated production on both sides of the Atlantic.

These workers demonstrate a high level of productivity, receive high salary and enjoy high standards of safety and ecology. Transatlantic economy remains at the forefront of globalization, which means that commercial ties between the U.S. and Europe are deeper and stronger than between any other two continents. [16]

Deepening of transatlantic cooperation is more often discussed in the scientific, expert and government circles. Taking into account the importance and role of the EU and the U.S. in the global

economy, U.S. scientists K. Bergsten (K. Bergsten) and C. Koch-Weser (C. Koch-Weser) [17] consider them the world's economic superpowers, despite the fact that Japan lost its position and China is still far from the global preferences.

**Table 1**

**Indicators of potential economic blocs in 2011**

Indicator	Europe America	Asia	China - India	China - America
GDP, taking into account purchasing power, %	42,1	30,3	18,1	33,1
Nominal GDP, %	54,3	24,3	10,8	33
The market (on 25/01/2011) in trillion USD	27,8	17	5	19,3
The volume of personal consumption (on 31.10.10), %	58,4	23,4	7,4	34,3
Sales volume within the M & A transactions,%	69,4	24,3	6,8	20,4
The volume of purchases within the M & A transactions,%	48,5	25,7	8,7	18,1
The volume of received investment,%	62,9	19,7	3,6	20,3
The volume of investments,%	75,3	16	1,6	23,9
Capital inflows (2000-2009 years), %	58,6	21,6	7,2	21,5
Capital outflows (2000-2009 years), %	74,4	15,4	2,2	19,1
Export of goods *,%	28,2	30,6	15,4	25,4
Import of goods *,%	33,4	27,6	13,4	27,7
Military expenditure **, in bn. USD	996	272,3	135,4	762,1
Top 100 global brands (2011), units	89	8	-	50 (all U.S.)

\* Summary figure does not include domestic trade of EU-27, trade with Norway, Switzerland and Iceland \*\* in comparable prices in 2008

Source: It was calculated by the author according to data of the IMF, Bloomberg, UNSTAT, SIPRI, Interbrand, EIU: <http://www.imf.org/external/data.htm>

Therefore, they must be responsible for the effective functioning of the global economy. In the conditions of confrontation it will be very difficult to provide such guidance. That's why the U.S. and the EU should create more intense mechanism for consultation and cooperation in a wide range of global economic issues that will enable them to solve their bilateral issues as well as issues of general international character.

It is believed that the proposals to deepen transatlantic economic relations include reducing regulatory barriers, negotiations under the agreement on zero tariffs and the movement to the barrier free investment environment.

Each proposal is focused on getting substantial economic benefits in future in terms of employment creation and growth for both parties. However, in this process there are different positions that justify and deny the benefits of creating transatlantic free trade areas (Table 2).

Comparison of arguments shows that the majority of them are contradicting, they are subjective. The most significant evidence against free trade zone is displayed in concerns about the negative impact on the existing system of regulation of world trade, while the main argument in its favor is the potential economic impact.

It should be noted that the idea of transatlantic liberalization, which consist in concluding a free trade agreement is not new. It has been discussed three times at the official level since 1990, but it has never given any significant result. Dates and arguments that have been used by supporters and opponents, as well as the dynamics of the negotiations allow estimating integration efforts and explaining why they did not give the desired result.

Firstly, transatlantic free trade initiatives appeared immediately after the political tensions between the parties (the first Iraq war, military operations in Kosovo and European leaders' disagreements with the Bush administration). In such circumstances, trade cooperation was proclaimed as part of the "truce" that was more declarative. As a result, the integration processes were seen as a way of reconciliation, rather than identifying and developing benefits of transatlantic cooperation.

Secondly, at present there is no clear scientifically justified evidence of high efficiency of transatlantic integration, which leads to lack of a common strategy and integral management of the process.

Thirdly, critics of transatlantic free trade zone claim that for the past 30 years, there was a good time to implement the plan only in the mid-1990s and there were certain constant difficulties in other years.

Fourth, transatlantic trade initiative has never had strong support in the world, and additionally, according to politicians, potential effects were not big enough to spend political efforts.

**Table 2**  
**Arguments for and against the deepening of trade relations between the U.S. and the EU**

<b>Arguments for transatlantic free trade zone</b>	<b>Arguments against transatlantic free trade zone</b>
1. Generating economic benefits for both sides, including reduced costs for companies that pay for trade with their foreign affiliates.	1. Possible negative impact on a multilateral settlement of trade regulation, "renunciation" of the U.S. and the EU from responsibility for the world trade order.
2. The need to specify and intensify transatlantic economic relations.	2. The complexity of coordination of bilateral trade agreements with WTO obligations.
3. Ability to coordinate efforts to influence "different" countries during the negotiations on the WTO.	3. Adherence to principles of both parties defending agricultural privileges in foreign trade.
4. Expectations of significant effect from the integration of trade systems in absolute terms.	4. The current practice according to which preferential trade agreements rarely provide greater effects than those already formed in the WTO.
5. The idea that at this stage it is impossible to create a completely closed trade bloc that does not provide further expansion.	5. Predominance of two directions of creating preferential agreements: South - South and North - South, which usually contain political subtext.
6. The ability to implement the concepts of "open regionalism" and "deep integration" to facilitate the procedure of reaching an agreement in the most problematic aspects of trade.	6. The increasing complexity of trade relations by creating additional (in excess of existing agreements within the WTO) rules and terms of trade.
	7. The idea of undemocratic and political illegitimacy of creating their own rules for two major trading blocs without considering the interests of others.
	8. Concerns about the closed forms of transatlantic cooperation that does not allow expansion of economic bloc by joining new members.
	9. Low probability of obtaining a significant effect from integration because of already low tariffs.

*Source: It was made by the author according to [5; 8; 13; 18].*

The failure of transatlantic trade integration plan essentially manifested in the activity of currently main transatlantic institution – TEC. A. Merkel was the initiator of its creation in 2007 and that defined the following areas of transatlantic unification: organizing processes of regulation and elimination of non-tariff barriers for trade and investment, encouraging innovation, developing the regulatory framework for new technologies, exchanging of information, sharing best experience and work to improve compatibility of standards and management techniques [18].

**The conclusions of this study.** Thus, the trade cooperation between the U.S. and the EU is a part of not only economic but also political and civilizational cooperation. It is one of the most significant and stable among existing and potential trade interactions. However, at present transatlantic cooperation is increasingly seen in terms of deepening of trade integration, further reduction and abolition of trade barriers, according to scientists it will allow to reinforce investment processes, improve the situation of the trade balance and unemployment and improve the financial and economic indicators of the largest trade partners. Taking into account the scale of potential trade cooperation, it is expected that it will have an impact on the format and intensity of the processes of global trade liberalization.

Although uniting processes do not have stable and comprehensive support in political circles of both subjects of international relations, yet the reasoning for their positive impact in general on mutual and global indicators is more significant. This allows appreciating both the probability and the potential of deepening of transatlantic trade cooperation.

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## **Tustanivskyi B. O. EMPIRICAL EVALUATION OF POTENTIAL DEEPENING OF TRANSATLANTIC TRADE COOPERATION**

**Purpose.** The purpose of this paper is determination of the size and economic potential of the transatlantic trade integration and empirical evaluation of its impact on global economic and trade processes.

**Methodology of research.** Foreign trade relations between the U.S. and the EU have been investigated from a systems perspective, so that critical evaluation of their constituent subsystems has been made, and also the total current and the potential relationships within the transatlantic economy. The evolution of transatlantic trade partnership as separate economic institutions was traced on the bases of concrete historical research method.

Specific gravity of the transatlantic economy in the system of global economic indicators has been revealed; comparison of its key indicators with other potential economic blocs has been implemented. The empirical comparison of argumentation of the scholars according to the relevance and inappropriate of creation of transatlantic area of free trade has been done implemented. The reasons of low intensity activities towards its creation have been analyzed.

**Findings.** The importance significance of the economies of the U.S. and the EU in the context of transatlantic economic concepts to the world has been established. The progress and the main problems of deepen transatlantic trade integration have been analyzed. Based on the evaluation of argumentation

positive and negative aspects of integration of trading systems the U.S. and the EU, it has been found that from an economic point of view its deepening is economically feasible.

**Originality.** The main problems of identified containment of the process and possible risks have been found on the bases of a comprehensive evaluation of the arguments regarding the potential of establishment of transatlantic free trade area.

**Practical value.** The obtained results of estimation of potential of transatlantic free trade area can be used for further argumentation about its feasibility.

**Keywords:** foreign trade, foreign trade relationships, transatlantic economy, transatlantic free trade area, the U.S., the EU , liberalization of trade, trade barriers, non-tariff trade regulation.