

ПРОБЛЕМИ МІЖНАРОДНИХ ЕКОНОМІЧНИХ ВІДНОСИН

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US-UKRAINIAN FREE TRADE AREA IN THE CONTEXT OF DIVERSIFICATION OF INTERNATIONAL TRADE STRATEGY OF UKRAINE

Abstract. The article examines the diversification of international investment regimes with developed countries, in particular with the USA, presents the results of the countries-outsiders of global economy that do not implement integration processes on different continents of the world.

Keywords: economic integration, free trade zone, trading strategies, world economy.

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АМЕРИКАНО-УКРАЇНСЬКА ЗОНА ВІЛЬНОЇ ТОРГІВЛІ В КОНТЕКСТІ ДИВЕРСИФІКАЦІЇ МІЖНАРОДНОЇ ТОРГОВЕЛЬНОЇ СТРАТЕГІЇ УКРАЇНИ

Анотація. У статті досліджено питання диверсифікації міжнародної торгівельної стратегії у напрямі лібералізації торгівельно-інвестиційних режимів із розвинутими країнами, зокрема із США, представлено результати діяльності країн-аутсайдерів світової економіки, які не реалізують інтеграційних процесів на різних континентах світу.

Ключові слова: економічна інтеграція, зона вільної торгівлі, торгівельні стратегії, світове господарство.

1. Background study

A characteristic feature of the contemporary global economy is regional economic integration between countries with asymmetric levels of socio-economic development. Increasingly more less developed countries form free trade areas with developed countries (USA, Canada, Japan, EU, etc.) in order to maximize the benefits of trade and investment cooperation, as well as maintain their own economic and political sovereignty. At present, such trade-oriented countries like Mexico, India, Indonesia, Malaysia, South Korea and others – through the implementation of integration strategies with countries from different continents – expand their markets, attract foreign capital, and accomplish specific tasks of their national development strategies.

As for Ukraine, it has already signed the Association Agreement with the EU in 2014. In addition, Ukraine is a party to the Generalized system of preferences and already has a functioning free trade area with CIS and Montenegro. However, it is clear that Ukraine is significantly inferior to the leading developing countries in terms of the geographical distribution of their free trade agreements. This is particularly seen in the lack of integration initiatives with developed

countries which hampers Ukraine's integration into the world economy. For example, suffice to say that Mexico has 12 free trade agreements with 44 countries [1; p.47-49].

2. Problem-setting

Given the significant lag from leading developing countries with regard to trade agreements, it is an important task for Ukraine is to diversify its foreign trade strategy towards liberalization of trade and investment regimes mainly with developed countries. This is due to the fact that integration with developed countries will contribute not only to the dynamic development of trade, but also provide Ukraine with necessary amounts of foreign capital, facilitate technology transfer, include Ukraine into the transnational production networks, and create conditions for institutional development. Because of the strategic nature of bilateral economic relations between Ukraine and the USA, as well as significant reserves in their dynamic, the United States should become the leading vector of this strategy.

3. The analysis of recent research papers and publications

In their research such economists as Robert Pastor, L. Summers, G. Hufbauer, J. Schott, L. J. Bhagwati, P. Krugman, R. Lipsey, B. Heckman, J. Jensen, D. Tarr and D. Lukyanenko, Y. Makogon, A. Filippenko, M. Schiff made a significant contribution to the study of perspectives, factors and trends in the development of integration processes between the U.S. and less developed countries, as well as bilateral relations between the U.S. and Ukraine.

4. Unexplored aspects of the problem.

Insufficient attention in the study of bilateral relations between the US and Ukraine was paid to the prospects of a bilateral FTA.

5. Purpose of the article

The purpose of this paper is to determine the pre-conditions, areas, and mechanisms for the implementation of the U.S.-Ukraine free trade area in the context of Ukraine's diversification of foreign trade.

6. The main part

One of the major documents, on which a comprehensive and strategic cooperation between the U.S. and Ukraine is based on, is "U.S.-Ukraine Charter on Strategic Partnership". It stipulates that both countries "... stressed that cooperation between the two democracies is based on shared values and interests. This includes promotion of democracy and economic freedom, protecting security and territorial integrity, the rule of law, support for innovation and technical progress", and "... emphasize the mutual desire to strengthen bilateral relations in political, economic, diplomatic, cultural and security fields". With regard to the economic component of cooperation, this document provides for enhanced cooperation between the two countries, including "... the development of a favorable trade and investment business climate and improvement of a market access for goods and services." [1; p.112-117].

Notwithstanding the foregoing objectives and directions of bilateral cooperation between Ukraine and the United States in trade and investment area, it is significantly inferior to the cooperation of Ukraine with the EU and CIS countries. According to the statistics, by the end of 2013 the CIS countries accounted for 35% of exports of Ukraine, Europe – 27%, while the United States – only 1.4%. [1; p.125].

In the area of foreign direct investment such asymmetry is also observed. In particular, at the end of 2013 the economy of Ukraine attracted \$985.8 million, representing 1.7% of all FDI into the country. For the EU, the figure was \$43,546.4, or 77% in the same period. [1; p.149-152].

Thus, the asymmetry in Ukraine's relations with the United States and the countries of the Eurasian region is essential, which results in high dependence of the country on trade and capital markets of the EU and the CIS. This, in turn, is a threat to Ukraine's economy given a slow-paced economic development of the EU and a significant deterioration in the economic and

political dialogue with Russia. With this in mind, securing the chosen course of the European integration, it is reasonable for Ukraine to develop a dynamic trade and investment cooperation with other regions of the world, and primarily with the United States.

The choice of the U.S. as one of the leading geographical vectors in terms of Ukraine's foreign trade strategy transformation is based on several factors. First of all, the U.S. is the largest economy in the world with the nominal GDP of over \$16 trillion. [1; p.194-197].

This serves as a measure of the capacity of U.S. market, where Ukraine could export its high-quality goods. Second, U.S. multinationals are among the most competitive in the world. As of 2012 the U.S. accounted for about 17% of the world's accumulated FDI and about 22% of global foreign investments. [2; p.47]. Involvement of Ukrainian economy into the transnational production networks of U.S. multinationals will improve business processes and management of Ukrainian enterprises. Third of all, the implementation of a free trade agreement with the United States will provide confidence to investors of third countries that market and democratic reforms in Ukraine will be accomplished, which will result in the inflow of foreign capital with long-term interest. Thus, the formation of a free trade area between Ukraine and the United States will enable each country to realize its factor advantages, through the channels of TNCs to promote intra-regional specialization of business and trade based on economies of scale and diffusion of knowledge through technology transfer.

The experience of Mexico's participation in NAFTA has shown that a major factor in the integration of this country with the United States and Canada was the shortage of capital in the domestic market during the market transformation period. In particular, as illustrated by UNCTAD data from 1980 to 1995, gross capital formation in the country declined by 9%. At the same time, the low competitiveness of Mexican businesses would not allow national companies to play an important role in the economy to provide needed capital. It is the inclusion of Mexico in NAFTA that has allowed the country to attract foreign capital resources, and improve the investment climate. As a result, between 1992 and 2012 the total accumulated FDI in Mexico increased by 800%.

However, as the experience of integration processes in Latin America, Southeast Asia and Africa over the past decades has shown the effectiveness of implemented integration strategies in these regions is much lower compared to the EU or NAFTA. The things that can cause it are a limited scope of regional markets and lack of domestic capital resources. That is why, for example, the countries of MERCOSUR and ASEAN gravitate towards economic cooperation with developed countries in different regions of the world. Thus, in order to diversify foreign trade strategy Ukraine should focus on the format structure of integration blocs, which would ensure complementarity of countries' production factors by means of participation of capital- and labor-endowed economies.

The deepening and diversification of Ukrainian-American trade and investment cooperation will enable Ukraine to reach not only static but also dynamic effects of integration. From the theory of regional economic integration it is known that static effects result from changes in import tariffs of member countries in their mutual trade as well as trade with third countries, such as the effects of "trade creation" or "trade diversion". The dynamic effects help us assess the impact of regional integration on such indicators as the investment climate, economic competitiveness, productivity, balance of payments and so on. With regard to this, it should be stressed that by implementing an FTA with the United States, Ukraine should pursue its primary aim – to achieve dynamic effects of integration, which in the long-run will increase the competitiveness of Ukraine's economy.

In the era of globalization regional integration processes are characterized by their geo-economical multi-vector strategies, diversification of areas of cooperation and extensive network of institutional mechanisms. In this case, the countries are increasingly more oriented to achieve their own economic goals by participating in various integration initiatives, which explains the fact that the most common form of integration is currently a FTA. A characteristic feature of modern free trade areas is their comprehensive nature, because the areas of investment, production, labor migration, and coordination of competition policies, public procurement are added to the liberalization of trade regimes. In order to ensure a more efficient allocation of benefits between integrating countries, which usually have asymmetric economies, integration strategies of the modern period include institutional mechanisms for the protection of workers' rights, intellectual property rights, protect the environment, promote economic development of the least developed member countries.

The integration strategy between Ukraine and the United States should aim, above all, at the elimination of tariff and non-tariff barriers in mutual trade, liberalization of trade in services and sensitive products, the introduction of rules of origin and trade disputes resolution mechanisms. As for the investment component of the integration strategy, it would be appropriate to introduce the most favored regime for mutual investments.

Since the integration strategies of the modern period include the intensification of cooperation in many other areas (e.g., environmental protection, labor migration, cultural and humanitarian sphere, etc.), we believe that under the Free Trade Agreement between the US and Ukraine would be an important simplification of procedures for temporary entry of business persons. Implementation of these areas integrate into a free trade agreement with the United States would provide this integration strategy diversified nature and would contribute to a higher level of performance. In general, as the experience of integration processes on other continents shows, the main reasons for the introduction of free movement of labor between integrating countries is their desire for mutual use of human resources and intellect. If the EU as a result of

the creation of the Schengen area has provided for free movement of persons, the NAFTA agreement resulted in the simplification of procedures for migration of highly skilled workers between member states.

One of the main conditions for the formation of a free trade area between the U.S. and Ukraine – which is in the interest of the two countries' societies – should become the inclusion of informal actors (multinational corporations, NGOs and some individuals) into the discussions of the terms of the trade agreement. The main advantage of the participation of these actors in this process is that they contribute to the deepening of relationships between national economies and support the creation of labor specialization between countries. As the experience of the integration processes on different continents shows, the leading role of multinational companies in determining government's integration priorities is visible through a dynamic process of transnationalization of the world economy. In turn, NGOs and individuals influence the decisions of governments concerning areas and depth of integration interaction within a particular group.

According to the statistics, Ukraine and the United States are inherently asymmetrical in terms of socio-economic development. For example, according to the 2012 nominal GDP of Ukraine is 1% of the corresponding number of the U.S., and GDP per capita in Ukraine is only 8% of the corresponding number of the United States. [1; p. 212].

Therefore, the implementation of the integration strategy between the two countries must be complemented by the introduction of mechanisms to address these disparities. In other words, economic integration between the two countries should take place under the principle of "fair" trade, "which is increasingly followed the U.S. in implementing their own trading strategies.

Given the standardized content of institutional mechanisms that are implemented in the U.S. bilateral integration strategies (NAFTA CAFTA-DR, bilateral agreements with Latin American countries), in the case of the formation of the U.S.-Ukraine free trade area we can expect the introduction of the Dispute-settlement mechanism, the Council for ensuring workers' rights and environmental protection, the compliance with the provisions international agreements on intellectual property rights, and so on. The experience of U.S. integration strategies with Peru, Panama, and Colombia shows that within the Council on the protection of workers' rights and environmental protection Latin American countries had to reform the national policies of labor force protection; strengthen the negotiating position of trade unions; promote the development of the labor market; promote sustainable development of member economies. On less developed countries was imposed the obligation to bring their own systems of protection of the environment or the rights of workers to the required level. Thus, as we can see, regardless of the level of free trade agreements, integration arrangements with the United States require a rather profound transformation for less developed countries.

In general, the introduction of such institutions in Ukraine's integration strategy with the U.S., as well as

the principle of fair trade in bilateral relations should facilitate the leveling of the “playing field” for economic entities of the two countries. The main features of this are to minimize the outsourcing of American multinationals to Ukraine, which has imperfect legislation, in order to exploit workers or the environment. However, it should be noted that the impact of its regional integration strategy cannot replace the national development strategies of the country, and can only enhance the quantitative and qualitative indicators of development.

In conclusion we would say that it is a good perspective to develop an integration strategy that would combine the economy of Ukraine, the EU, NAFTA and U.S. partners in integration strategies in the Americas into a single transcontinental free trade area. The prerequisites for this are to create a comprehensive free trade area between Ukraine and the EU; start the negotiations among the USA, Canada, and the EU on bilateral FTAs; already functioning free trade area between Mexico and the EU; as well as a stepwise implementation of the U.S. continental integration strategy (integration agreements with Chile, Colombia, Peru, Panama, Central America and the Caribbean). The implementation of such a transcontinental integration strategy would enhance partnerships of Ukraine with such strategic partners as the EU, the U.S. and Canada, as well as develop economic ties with the Latin American region.

7. Conclusions

Having researched the assumptions, areas and mechanisms for the implementation of the U.S.-Ukraine free trade area in the context of Ukraine’s foreign trade strategy diversification we can draw the following conclusions.

1. The experience of integration processes on different continents shows that countries that do not implement integration strategies will inevitably turn into obvious outsiders of the world economy (Mauritania, Congo, etc.). Thus, membership in regional integration strategies is a prerequisite for improving the competitiveness of member economies.

2. In the present, through participation in regional economic policies the countries are increasingly seeking to achieve their own national priorities. With regard to this, we consider it is appropriate to focus on Ukraine’s free trade agreement with the United States to achieve, above all, the goals of the national socio-economic development, export expansion, improving the investment climate, foreign capital inflows, the development of transnational production networks,

support for democratic reforms, accelerating Ukraine's integration into the global economy.

3. The CIS is a typical example of the group in which disintegration processes prevail as opposed to integration ones. The main reasons include market transformation of economic models of the former socialist countries and change of their policies. Given this, it is proposed to modify the integration of Ukraine in order to reduce economic dependence on Russia. One of the main modifications has become developed countries, and primarily the United States in terms of their economic, technological and resource potential.

4. Despite the fact that today all integration strategies should be harmonized with Art. 24 General Agreement on Tariffs and Trade concerning the inadmissibility of creating protectionist integration associations we consider it inappropriate for Ukraine to participate in any integration initiatives that can result in reducing economic relations with developed countries.

5. Even the most effective integration strategies cannot substitute for effective national strategies of integrating countries. So, for Ukraine in terms of integration with both the EU and the USA sound macro-economic policies that would be able to neutralize any negative effects of economic integration play an important role.

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