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# ANATOMY OF THE EU REGIONAL TRADE AGREEMENTS – WHAT REALLY INFLUENCES ECONOMIC INTEGRATION?

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# SPIS TREŚCI

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# INTRODUCTION

Regional Trade Agreements (RTAs) are often described as a cornerstone of contemporary international economic relations. There are no doubts that in times of a crisis of multilateral negotiations within a framework of the World Trade Organization (WTO) the regional agreements are driving force of liberalization of trade, and the European Union (EU), which concluded over forty RTAs is a leader in this process. Unlike other states, such as the US, these agreements vary over time, scope and nature and all of these factors can be determinants of the level of economic cooperation between partners. The majority of the EU agreements has a very broad and complex scope. Some of RTAs are concluded as so called association agreements (based on the special legal basis – article 217 of the Treaty on Functioning of the European Union – TFEU). Others can be concluded to supplement an association agreements.

Therefore a scope of concluded RTAs largely encompasses areas related to trade in goods and services. Majority of RTAs covers also significant amount of areas not-related to economy. An enforceability of legal obligation can also differ: some provisions contain only general obligation to cooperation while in others we can find real, legally enforceable obligation, which can be invoked in a dispute. A scope of RTA, as well as its legal character influences economic cooperation between the EU and its partners, although we believe that there are mainly economic factors which really influence economic growth.

In our paper we analyse a content of the EU trade agreements. In the first part we examine which areas are covered by a certain agreement with a given partner, dividing the areas into these covered by the WTO law and not covered (starting point are works of Horn, Mavroidis & Sapir) . To analyse significance of these provisions to economic integration we use gravity models. Such an analyses enables us to formulate some conclusions concerning significance of the EU RTAs, its influence on the EU membership in the WTO as well as the trends in the evolution of the EU RTAs.

## 1. FRAMEWORK OF ANALYSIS

A starting point of our analysis are works of Horn, Mavroidis and Sapir presented in 2010<sup>1</sup>. They analyzed 14 of RTAs concluded by the EU, including these concluded before 2000, which were in force in 2009. They divided all areas mentioned in a given agreement into these covered by the WTO law (marked as WTO+) and these not covered (marked as WTO-X) and discovered that in the EU RTAs there are twice as many WTO-X provisions then in comparable agreements concluded by the US. The WTO-X agreements might be further divided into two categories: areas which are related to trade and economy, such as economic cooperation or environment and areas not related to economy at all, such as cooperation in criminal matters.

Horn, Mavroidis and Sapir pointed out, that various provisions of the EU RTAs may be of a very different nature. Some of them are concrete and related to an obligations, while other are rather general and

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<sup>1</sup> See for example World Trade Report 2011, [http://www.wto.org/english/res\\_e/booksp\\_e/anrep\\_e/world\\_trade\\_report11\\_e.pdf](http://www.wto.org/english/res_e/booksp_e/anrep_e/world_trade_report11_e.pdf).

vague. They relate to cooperation between partners rather than provide them with rights and obligations. They cannot be a basis for a dispute or arbitration. They are not enforceable.

The analysis of Horn, Mavroidis and Sapir covered 14 of the EU RTA, in force in 2009, both relatively new RTAs as well as the oldest among the EU RTAs such as EU-Turkey Association Agreement, on the basis of which a custom union has been formed or Agreement on European Economic Area. Nonetheless, the analysis can be qualified as obsolete, as during past few year a number of significant new RTAs has been negotiated by the EU. Among them are EU-South Korea comprehensive free trade agreement and a few major agreements with south American countries. Also the number of Economic Partnership Agreements concluded as a completion of Cotonou Agreement with the ACP countries (with a Group of Africa, Caribbean, Pacific countries) grew recently.

In our research we took Horn, Mavroidis and Sapir as a starting point. All of the agreements<sup>2</sup> concluded by the EU were scanned in order to define areas they cover. We divided these areas into three above mentioned groups. First group are areas which are covered by the WTO, presented in the table nr 1.

**Table 1. WTO+ areas**

FTA industrial goods (FTA ind.)	Tariff liberalization; elimination of non-tariff measures.
FTA agricultural goods (FTA agr.)	Tariff liberalization; elimination of non-tariff measures.
Public procurement	Progressive liberalization; national treatment and/or non-discrimination principle; publication of laws and regulations on the Internet; specification of public procurement regime.
Trade-related intellectual property rights (TRIPs)	Harmonization of standards; enforcement; national treatment, most-favoured nation treatment.
Movement of workers	national treatment for legal workforce, right to employment for families of legally employed, right to transfer key personnel or trainees in case of commercial presence,
Commercial presence	Right to establish a company in a partner country, related to mode 3 of the GATS
Supply of services	Services delivered within the territory of one party, from the territory of another (mode 1 of the GATS) and consumption of services abroad - services delivered outside the territory of one party in the territory of another one, to a service consumer of another party (mode 2).

Focusing mainly on other the WTO+ issues we did not analyzed in details various aspects of trade in goods, such as technical barriers to trade or sanitary and phytosanitary measures, countervailing measures as well as subsidies. Almost all EU RTAs cover all these areas, which seems to be also highly interdependent.

Except a few areas covered by the WTO law, there are lot of areas related to or strengthening WTO rules. They are all related to economy in a broad sense. Particular areas are explained in a table 2. They are the most important part of our analysis. In our view, they have a potential to influence trade. They are present in a great number of the EU RTAs.

**Table 2. WTO-X areas related to economy**

Agriculture	Technical assistance to conduct modernization projects; exchange of information.
Competition policy	Maintenance of measures to proscribe anticompetitive business conduct; harmonization of competition laws; establishment or maintenance of an independent

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<sup>2</sup> All information of the EU agreements are based on the texts from the European Commission website and the Official Journal of the EU.

	competition authority, agreement on implementation of the EU competition rules, rules on state aid.
Consumer protection	Harmonization of consumer protection laws, including ; exchange of information and experts; training.
Data protection	Exchange of information and experts; joint projects, implementation of the EU data protection principles.
Development aid	Financial aid of the EU to a partner country, development aid.
Economic cooperation	Assistance in economic development, all kinds of
Environmental laws	Development of environmental standards; enforcement of national environmental laws; establishment of sanctions for violation of environmental laws; publications of laws and regulations.
Financial cooperation	Assistance in reinforcing of financial institutions and system.
Industrial cooperation	Assistance in conducting modernisation projects; facilitation and access to credit to finance.
Investment protection and promotion	Obligation to promote and protect foreign investments, provisions related to standards of protection.
Movement of capital	Liberalization of capital movement; prohibition of new restrictions, both to finance direct and indirect investments.
Working conditions	Regulation of the national labour market; affirmation of International Labour Organization (ILO) commitments; enforcement, adoption of certain standards.

Probably greatest number of areas is not related to economy. These are various areas, some of them rather general, other narrow and precise. Description of areas not related neither to the WTO law nor to other economic or trade related issues is described in a table 3.

**Table 3. WTO-X areas not related to economy**

Political dialogue	Convergence of the parties' positions on international issues.
Approximation of legislation	Application of the EU legislation in national legislation.
Border control cooperation	exchange of information; drafting legislation; training on visas and asylum; conclusion of re-admission agreements in the future, prevention and control of illegal immigration
Corruption	Regulations concerning criminal offence measures in matters affecting international trade and investment
Cultural and audio visual cooperation	Promotion of joint initiatives and local culture, promotion of the audio-visual industry; encouragement of co-production
Disarmament	Obligation to disarmament, to adjust to international instruments related to disarmament.
Education and training	Measures to improve the general level of education.
Energy and mining	Exchange of information and experience; development of joint initiatives.
Gender	Promotion of gender equality .
Health	Monitoring of diseases; development of health information systems; exchange of information.
Human rights	Respect for human rights.
Illicit drugs	Treatment and rehabilitation of drug addicts; joint projects on prevention of consumption;reduction of drug supply; information exchange.
Indigenous people	Promotion of rights and culture of indigenous people.
Information society	Exchange of information; dissemination of new technologies; training.
Money laundering	Harmonisation of standards; technical and administrative assistance.
Organized crime	Harmonization of standards; technical and administrative assistance
Public administration	Technical assistance; exchange of information; joint projects; Training.
Racism and xenophobia	Obligation to fight racism and xenophobia, cooperation and assistance,
Regional cooperation	Provisions related to cooperation, promotion of regional cooperation; technical assistance programs,
Regional development	Assistance in regional development, cohesion
Research and technology	Joint research projects; exchange of researchers; development of public-private partnership.
Rule of law	Enforcement of law, cooperation and assistance on rule of law mainly from the EU sight.
Small and medium enterprise	Technical assistance; facilitation of the access to finance.
Social development	Assistance in building social society, cooperation in raising living conditions.
Social security	Coordination of social security systems; non-discrimination regarding working conditions.
Statistics	Harmonization and/or development of statistical methods; training.
Taxation	Assistance in conducting fiscal system reforms.

Terrorism	Exchange of information and experience; joint research and studies.
Tourism	Cooperation in strengthening tourism infrastructure and market
Transport	Cooperation in building and maintenance of transport infrastructure

Second stage of the research, beside dividing RTAs into various areas covered by them I verified if they are enforceable.

In my study we took into account 24 agreements concluded by the EU. These are not all agreements concluded by the EU, but typical for regional trade agreements, including creating free trade area as well as – in some cases – economic integration area.

## 2. CLASSIFICATION AND CHARACTERISTICS OF THE EU REGIONAL TRADE AGREEMENTS

The European Union is itself a regional trade agreement in the meaning of the WTO law. It is constituted in accordance with the article XXIV of the General Agreement on Tariffs and Trade (GATT), as a customs union, and art. V of the General Agreement on Trade in Services (GATS), and required notification under article XXIV of the GATT after conclusion of a Treaty establishing the European Economic Community. Beside that fact, the Union and its predecessors – European Economic Community (EEC) and European Community (EC) has always been a great proponent of regional integration and has a long history of establishing free trade agreements.

Most of RTAs has been concluded by the EU as association agreements (AA). Association agreements are a special kind of international treaties concluded by the European Union (formerly by the EEC and EC) with especially close partners. It has a specially designed legal basis – currently it is an article 217 of the Treaty of functioning of the European Union (TFEU). As European Court of Justice said in a case Demirel association agreements create “special, privileged links with non-member country which must, at least to a certain extent, take part in the Community system”<sup>3</sup>.

Although association agreements cover very broad range of issues, they always have a trade part, which include establishment of a free trade arena (FTA), but cover also trade in services and other trade related issues, which might be qualified as the WTO+ agreement<sup>4</sup>. In consequence, association agreements can be qualified as economic integration agreement (EIA)<sup>5</sup> within the meaning of the WTO law. Therefore association agreements almost always need to be notified to the WTO as FTA and EIA (and consisting provisions on free trade in goods and services).

<sup>3</sup> 12/86, Meryem Demirel p..Stadt Schwäbisch Gmünd, [1987] ECR I-3719, par. 9.

<sup>4</sup> Agreements named WTO+ go beyond the GATT/WTO law concerning RTAs. They contain rules of economic cooperation not regulated in the GATT/WTO law (e.g. foreign direct investment). As there is no international law regulating these issues, there are not internationally controlled. This can lead to conclude them on the arbitrary chosen rules (usually set by the stronger partner) and make them very discriminative and – eventually welfare decreasing (they become WTO-).

<sup>5</sup> Generally, as in this paper we use the term economic integration differently than in the notion used by the WTO (in the last setting see EIA, *Economic Integration Agreement* – Article V of GATS; the WTO notion of the term economic integration is justified with relatively deep integration necessary for trade with services – it requires e.g. mobility of labor and/or capital).

The first association agreement has been concluded by the EEC6 shortly after the Community's creation. It was an Agreement establishing an Association between European Economic Community and Turkey, signed in Ankara on 12th September 1963 (OJ L 361, 31.12.1977, p. 1). As its aim was to prepare Turkey to the EEC accession, it created (in three steps) the customs union with between Turkey and the EU. The full custom union has come into effect in the year 1995 on the basis of a Decision of the EC-Turkey Association Council of 22th December 1995 on implementing the final phase of the Customs Union (96/142/EC)<sup>7</sup>.

The deepest and broadest association agreement is an Agreement on the European Economic Area (EEA), which was signed in 1992 and entered into force in 1994. It is the agreement with the EU and European Free Trade Area (EFTA), excluding Switzerland. The EEA established not only a free trade area but also a common economic market. It is not a custom union though. A degree of integration, including common economic policies, is much higher than in any other RTAs concluded by the EU. The EEA agreement is supplemented by a separate agreement with Switzerland, signed in 2004 (which replaced a previous one from 1999). Formally, the agreement with Switzerland covers only trade in goods, but the EU and Switzerland conclude a series of sectorial agreements, covering various services and for example free movement of persons. All of it makes the agreements with EFTA states quite exceptional among typical RTAs. Therefore, an analysis of these two agreements on the same basis as other RTAs seems to be pointless.

The EU has also a long tradition of concluding association agreements with states, who are intended to join the Union (therefore some of the association agreements expired after the respective country access the EC or the EU). The EU tendency to precede a full membership by an association agreement became especially visible in the nineties of the XX. century. The EC concluded so called Europe Agreements with the post-communist states. All these agreements established free trade areas (however with excluded or postponed "sensitive" areas<sup>8</sup>).

The Europe Agreements has been concluded with Poland and Hungary in the year 1991, with Czech Republic, Slovakia, Bulgaria and Romania in 1993, with three Baltic States – Estonia, Latvia and Lithuania in 1995 and with Slovenia in 1996. The agreements had similar content. None of them is currently in force due to subsequent EU memberships of the then non-EU parties, but they might serve as an example of a group of agreements. They should also be taken into account in further analyses as a certain step in the EU RTA evolution.

Currently the EU also has a group of association agreements negotiated and signed with the ultimate objective of full membership of the non-EU partner. The new generation of such EU agreements signed since 2000 are Stabilization and Association Agreements (SAA). They are concluded with Balkan states – in the year 2000 with Former Yugoslav Republic of Macedonia (FYROM), in 2005

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<sup>6</sup> Information concerning the EU agreements and trade relations based on: <http://ec.europa.eu/trade/policy/countries-and-regions/>.

<sup>7</sup> This agreement violated the GATT's rule of establishing free trade in the "reasonable" time (usually not more than 10 years after signing the agreement – see Estevadeordal A., Suominen K., *The Sovereign Remedy? Trade Agreements in a Globalising World*, Oxford University Press, Oxford, New York, 2009, p. 129. It means that RTAs with EU as a member not always are compatible with the GATT/WTO law.

<sup>8</sup> E.g. the majority of Polish goods have got free access to the EU market at the beginning of 1996. However, in the case of the sensitive goods the EU barriers were maintained much longer. Sensitive areas were especially labor- and raw material-intensive industries (a.o. steel, iron, chemicals, textiles and food products). Their products constituted then over 40% of Polish export to the then EC countries – see Czarny E., K. Śledziwska, *Polska w handlu światowym*, PWE Warszawa, 2009, p. 177.

with Croatia (no longer in force due to Croatia's accession to the EU in 2013), in 2006 with Albania, in 2008 with Serbia and in 2010 with Montenegro. In 2008 also a Stabilization and Association Agreement has been signed with Bosnia and Herzegovina, but it is still not in force. The Interim Agreement with Bosnia and Herzegovina, which covers only trade in goods, has been operational since 2008 though.

Very special kind of free trade area, which has been notified by the EU, is Association with Overseas Countries and Territories (OCT). OCT are not independent states. They have various degree of autonomy. They are closely related to some of the EU Member States. The Association with OCT, although notified as an international agreement has been established on the basis of the EEC Treaty and its current legal basis is an article 198 of the TFEU together with the EU secondary legislation issued by the Council of the EU<sup>9</sup>. The EU notified also an agreement concluded with Faroe Islands, which is a dependent territory of Denmark. The Agreement has been signed in the year 1997 and replaced previous one from 1991.

EU has special agreements also with not-fully independent states in Europe, such as San Marino and Andorra. It is worth to mention, that in relation to San Marino, an exception from the GATT most-favour nation clause has been agreed already during a Havana Conference in the year 1945. Formally an agreement establishing customs union between EU and San Marino entered into force in 1992, while an agreement with Andorra in 1991.

It is overstated to say, that the above mentioned agreements are regular free trade agreements in the sense of the WTO law (Article XXIV GATT). They are rather natural consequence of complex relations between EU member states and some small, dependent territories. Their influence is limited as well as their volume of exchange in goods with the EU (together with their overall economic potential) is relatively small.

Special relations, but based on a regular association agreement link the EU with a group of Africa, Caribbean and Pacific (ACP) states. All of these ACP states are former EU member states' colonies and had preferential access to the European market granted originally on the basis of the OCT Association mentioned before. As a result of decolonization, these states gained independence and needed a separate international agreement to retain their preferences. ACP countries are linked by a series of international conventions establishing association with the EU (and previously EEC and EC), which has been signed every five years since 1963<sup>10</sup>. In the year 2000 a Cotonou Agreement has been signed. In the Cotonou Agreement a whole philosophy of granting preferences to the ACP states has been changed. The Agreement itself did not established free trade area or any other form of economic integration in the meaning of WTO law. FTA (or FTA and EIA) was supposed to be covered by separate agreements, concluded with the groups of ACP states – so called Economic Partnership Agreements (EPA).

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<sup>9</sup> Currently it is *Council Decision 2001/822/EC* of 27 November 2001 on the *association of the overseas countries and territories with the European Community*, *OJ L. 324, 7.12.2001, p. 1*, which is soon going to be replaced by a new act.

<sup>10</sup> After Younde Convention, signed in the year 1963 there was a series of Lome Conventions. Younde Convention has been concluded only by African states, but a group of ACP was growing in time because of two simultaneous processes – further countries gained independence and a number of colonies has been descending and further member states joined the EU, enabling their former colonies to join the group entitled to preferences given on the basis of Lome Conventions.



So far, beside the fact that the EU started to negotiate agreements shortly after Cotonou Agreement entrance into force, only one complete EPA has been concluded. In the year 2008 EU signed an EPA with CARIFORUM – member states of CARICOM and Dominican Republic. It is the only full EPA effectively concluded. In 2014<sup>11</sup> negotiations of the EPA with West Africa<sup>12</sup> states were claimed to be concluded, and subsequently the agreement was backed by the Economic Community of West African States, but it has not been signed yet. In July 2014 the EU announced conclusion of negotiations with Southern African Development Community<sup>13</sup> (SADC). Both detailed texts have not been revealed yet. A full EPA grants preferences not only in trade in goods, but also in trade in services and in some other trade related aspects of economic relations. In the year 2009 the EU concluded a few interim economic partnership agreements with some ACP states. They are less developed agreements creating only free trade areas. Such an interim EPA was signed with Eastern and Southern Africa region<sup>14</sup>, with Central Africa (signed eventually only by Cameroon), with Pacific states (Papua and Fiji) and with Ivory Coast from West Africa region. An interim agreement with Ghana (also from West Africa) has been initialled in 2007, but has not been signed yet. (As contrary to the EPA with Western Africa, the text of that agreement was published it is covered by my further analysis.) An agreement with East African Community<sup>15</sup> was initialled in 2007, but never signed, too.

Contrary to the interim SAA with Balkan States, which were negotiated and signed together with the whole association agreement and where the trade part of the association became operational before a completion of ratification procedure in every member state of the EU, interim EPAs are separate agreements, which were separately negotiated and require complete ratification procedure. They do not cover all aspects usually covered by a potential EPA. They name areas for future negotiations instead and liberalize only trade in goods<sup>16</sup>. They have been notified to the WTO only on the basis of article XXIV of GATT.

Another group of states which have some special ties with the EU are Mediterranean states, located in north Africa. The EC signed Euro-Mediterranean Agreements establishing an Association with seven states of that region. Euro-Mediterranean Agreements were signed between the year 1995 (with Tunisia and Israel) and 2002 (with Algeria and Lebanon). In the year 1996 an agreement was signed with Morocco, in 1997 with Jordan and in 2001 with Egypt. Also an agreement with Palestinian Liberation Organization acting for the Palestinian Authority of the West Bank (signed in 1997). In 2008 an agreement with Syria was initialled, but has not been signed due to Syria's internal situation. As the deepening relations with Mediterranean states in ongoing process, the EU recently opened negotiations of a new, more modern agreement called "deep and comprehensive free trade" area with

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<sup>11</sup> Information on dates and stages of conclusion of various agreements based on the <http://ec.europa.eu/trade/policy/countries-and-regions/>.

<sup>12</sup> Benin, Burkina Faso, Cape Verde, Ivory Coast, Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone, Togo and Mauritania.

<sup>13</sup> Botswana, Lesotho, Mozambique, Namibia, South Africa and Swaziland. South Africa agreed to replace its current agreement by the EPA.

<sup>14</sup> Madagascar, Mauritius, the Seychelles, and Zimbabwe.

<sup>15</sup> Kenya, Uganda, Tanzania, Burundi and Rwanda.

<sup>16</sup> Although preferential access to the EU market for All ACP states is granted on the basis of the Generalized System of Preferences (GSP) for developing countries. GSP was constituted in the year 1970 by the UNCTAD. It was form of one-sided preferences granted by the developed countries. EEC introduced GSP in July 1971 (see Unia Europejska. Integracja Polski z Unią Europejską [1997], red. nauk. i koordynacja E. Kawecka – Wyrzykowska, E. Synowiec, Instytut Koniunktur i Cen Handlu Zagranicznego, Warszawa, p.166ff.

Morocco<sup>17</sup>, and what is more it intends to open negotiations also with Tunisia, Egypt and Jordan<sup>18</sup>. None of the Euro-Mediterranean Agreements have been notified as an EIA at the WTO<sup>19</sup>, which might be surprised, as they all cover trade in services chapter, although not every north African state is the WTO member states. On the other hand they all have been notified as RTAs.

Beside agreements with former colonies and future member states the European Union signed a few agreements with other partners, mainly from central and south America. In the year 1997 an agreement with Mexico has been signed. It was a framework agreement, which entered into force in 2000. On the basis of this two decisions of Joint EC-Mexico Council completed free trade rules. They were: Decision 2/2000<sup>20</sup> establishing free trade area for goods and Decision 2/2001<sup>21</sup> establishing EIA with liberalization of trade in service. In 2002 the European Community signed an association agreement with Chile. The agreement, besides other fields of cooperation covers also free trade in goods and services.

Recently, in the year 2012, the European Union concluded two more RTA-like agreements. One of them with Central American countries is a full association agreement. Its trade related part recently became operational with three signatory central American states (Honduras, Nicaragua and Panama) among of six (the other three are Guatemala, Costa Rica and El Salvador). Another agreement is a free trade agreement with Peru and Columbia (referred in the agreements as Andean Community), which is also provisionally operational since 1 August 2013. In July 2014 also Ecuador joined the agreement, but the formal process of conclusion is not finished yet.

Majority of the before listed agreements have been concluded with partners significantly less developed than the EU. However in the year 2010 the EU concluded its first free trade agreement with a developed country – South Korea. This agreement entered into force in 2011, being as well the first agreement concluded by the EU with an Asian state. In December 2012 another deep and comprehensive free trade agreement has been finalized, as the EU completed its negotiations with Singapore, and then in 2014 with Canada, but both agreements has not been signed yet.

Another group of countries which intent to establish closer ties with the EU are members of the EU Eastern Partnership. The EU concluded negotiations of an Association Agreement with Ukraine in 2012, but the agreement has not been signed until June 2014, due to political tensions. Deep and Comprehensive Free Trade Areas with Moldova, Georgia were signed on the same date. They are all full association agreements, but include so called deep and comprehensive free trade agreement (DCFTA) covering trade in goods as well as trade in services. Trade parts of the agreements with Moldova and Georgia became operational from 1 January 2015, but for Ukraine it was postponed until 1 January 2016. The agreements has not been taken into account in our study due to the fact, that they are operational only for a short time with no accessible data for that period.

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<sup>17</sup> First round of negotiations took place in April 2013.

<sup>18</sup> Based on [http://trade.ec.europa.eu/doclib/docs/2006/december/tradoc\\_118238.pdf](http://trade.ec.europa.eu/doclib/docs/2006/december/tradoc_118238.pdf)

<sup>19</sup> <http://rtais.wto.org/UI/PublicSearchByCrResult.aspx>

<sup>20</sup> OJ L 157, 30.06.2000, p. 10.

<sup>21</sup> OJ L 70, 12.03.2011, p. 7.

A table 1 shows 24 agreements taken into account in our study. We excluded from the study agreements and FTAs notified to the WTO which have been concluded with not independent states (such as Palestinian Authority or Faroe Islands). Agreements with EEA and with Switzerland are not covered by a table, as more complicated. The EEA is the only EIA concluded without FTA, although simple FTAs were concluded by the EU with all EEA members separately, too. All of these states are linked with the EU with very special ties, which include deeper integration, covering majority of the EU economic legislation. Therefore they are not separately listed in a study, but they cover all economy-related areas, and provisions there are enforceable.

**Table 1**

Signatory	Association Agreement	Type of agreement	Year	EIA Y/N
Albania	Y	SAA	2006	Y
Algeria	Y	Euro-mediterranean	2002	N*
Bosnia & Hercegowina	Y/N	Interim SAA	2008	N
Cameron	Y/N	Interim EPA	2009	N
CARIFORUM	Y/N	EPA	2008	Y
Central America	Y	FTA/association	2012	Y
Chile	Y	FTA/association	2002	Y
Columbia & Peru	N	FTA	2012	Y
Eastern & Southern Africa	Y/N	Interim EPA	2009	N
Egypt	Y	Euro-mediterranean	2001	N*
Izrael	Y	Euro-mediterranean	1995	N*
Ivory Coast	Y/N	Interim EPA	2009	N
Jordan	Y	Euro-mediterranean	1997	N*
Korea	N	FTA	2010	Y
Lebanon	Y	Euro-mediterranean	2002	N*
FYROM	Y	SAA	2000	Y
Mexico	N	FTA	2000	Y
Montenegro	Y	SAA	2010	Y
Morocco	Y	Euro-mediterranean	1996	N*
Pacific countries	Y/N	Interim EPA	2009	N
Serbia	Y	SAA	2008	Y
South Africa	N	Trade Development and Cooperation	1999	N
Tunisia	Y	Euro-mediterranean	1995	N*
Turkey	Y	Custom Union	1996	N

\*agreements cover services but are not notified as EIA

### 3. TRADE-RELATED MEASURES COVERED BY THE WTO LAW

Trade related measures are probably the most important and specific parts of the RTAs concluded by the EU. First of all they all cover trade in goods. Moreover, in case of all 24 RTAs provisions on trade in goods and abolishment of tariffs are fully enforceable. They usually refer directly to trade in industrial goods and separately to the agriculture goods and fisheries. Only in two there are no specific provisions related to trade in agriculture goods. Almost all of agreements cover also SPS and TBT provisions as well as provisions related to countervailing measures and subsidies. These four areas, although can be defined as separate are closely related to each other. These areas can be in fact counted as one – implementation of liberalization of trade in goods.

The situation with trade in services is much more complicated. First of all only 10 out of 24 agreements have been notified as EIAs to the WTO. All of these agreements cover all aspect of trade in services, except mode 4 of the GATS. They refer to right to establishment and cross border supply of services. Majority of them refer directly to mode 1 and 2 and mentions also consumption of services abroad. There are some (e.g. all SAAs) which refer simply to cross border supply of services, leaving it unclear whether they cover also mode 2 of the GATS. On the other hand though it is quite clear from other provisions of these agreements, that consumption of services is also allowed. Although only 10 agreements are official EIA, additional 9 (all Euromediterranean as well as EU-South Africa and EU-Turkey) cover right to establishment and what is more 2 of them include enforceable obligations within these field (with Jordan and Algeria). Only these countries which concluded interim agreements did not refer to right to establishment in any form. 15 agreements (10 EIAs plus 5 other) refer to supply of services. 11 of these provisions is enforceable (EIA states and Algeria). In our view enforceability of provisions is a crucial factor here, as only enforceable provisions related to trade in services can actually make a difference for trade, although it need to be taken into account that they create favourable conditions for investments rather than trade.

Another crucial area of liberalization is liberalization of movement of workers. Provisions on movement of workers can be found only in 11 agreements, but in 9 of them are specific enough to be enforceable. These provisions may vary in a level of liberalization. In majority of agreements they only supplement provisions on the right of establishment. They refer only to direct investments and enable investors to hire key personnel and some highly qualified specialist. In some cases also free movement of trainees as allowed. Movement of workers, together with above-mentioned right to establishment and cross-border supply of services (modes 1, 2 and 3 of the GATS classification) are in fact a set of factors favourable for direct investments. Third factor is liberalization of movement of capital, which can be found in all agreements, which grant right to establishment. It can be explained by the fact, that free movement of capital it almost always limited to direct investment, while portfolio investments are excluded.

There are a few other areas that can strongly influence international trade in our view. Among other issues covered by the WTO law 18 agreements refer to intellectual property right in some form. Only 10 provisions here are enforceable. Association agreements with Central America do cover that topic,

but it is not enforceable. Also Interim EPA with Cameroon and Interim SAA with Bosnia and Hercegovina refer to intellectual property. Very similar situation refer to public procurement. 17 RTAs cover that area, while only 9 is enforceable. Government procurement provision in the EU-Korea agreement is not enforceable, but one should take into account that both South Korea and the EU are parties of the WTO Government Procurement Agreement (GPA) with its specific rules and concessions.

The highest number of coverage among all areas qualified as trade and economic related have provisions related to environmental protection. They cover also sometimes provisions related to climate change and/or sustainable development. Though only in two cases (EU-Colombia and Peru and EU-CARIFORUM) these provisions are in fact enforceable. In majority of cases they simply refer to future cooperation and assistance. Therefore they were not taken into account in our further studies as factors influencing trade.

On the other hand, in two area almost all provisions present in various agreements are enforceable. These are competition policy and movement of capital. of the TFEU (current article 101 and 102 as well 108 in relation to state aid). They simply widen a scope of the EU competition policy on its partners.

Areas such as industrial, economic and agricultural cooperation are never enforceable. They are a part of almost every association agreement concluded by the EU, but they are always a part of chapters related to a broad cooperation with partners. They do not include specific rules or material law in that areas. In 13 RTAs also provisions related to financial cooperation can be found. Although they are never enforceable, we decided, that the mere fact of general cooperation ca be also one of signs of deeper cooperation in economic matters.

Data protection provisions can be found in relatively small number of 10 agreements. Only 5 of them are enforceable, in SAAs with Serbia, Montenegro and Albania as well as in EPA with CARIFORUM, and Cameroon. They can be enforced only because they require a partner state to accept and adopt a set of the EU rules concerning data protection.

Coverage and enforceability of provisions in all categories is presented in a table 5.

**Table 5.**

Area Covered	Number of provisions	Enforceable provisions
Agriculture	15	0
Competition policy	18	15
Consumer protection	10	1
Data protection	10	5
Development aid	13	4
Economic cooperation	16	0
Environmental laws	21	2
Financial cooperation	13	0
Industrial cooperation	16	0
Investment protection and promotion	14	0
Movement of capital	19	16
Working conditions	8	3

## 4. AREAS NOT RELATED TO ECONOMY

Although there is a broad range of various areas not related to trade and economy covered by RTAs concluded by the EU only very small number of them is enforceable. In fact, great majority of them are standardized clauses used in the association agreements of the EU. Each association agreement has a part concerning broadly understood cooperation. In these chapters one can find a great variety of issues mentioned. They usually lacks any details setting mainly goals of mutual cooperation. Therefore, as shown in a table 6, majority of areas mentioned here are not enforceable. In our opinion it is highly unlikely that they influence trade.

Table 6. WTO-X areas not related to economy

Area Covered	Number of provisions	Enforceable provisions
Human rights	2	0
Approximation of legislation	13	2
Border control cooperation	10	1
Corruption	3	0
Culture and audiovisual cooperation	15	0
Disarmament	1	0
Education and training	13	0
Energy and mining	16	0
Gender	2	0
Health	3	0
Illicit drugs	15	0
Indigenous people	1	0
Information society	17	0
Money laundering	13	0
Organized crime	7	0
Political dialogue	15	0
Public administration	6	0
Racism and xenophobia	1	0
Regional cooperation	18	2
Regional development	3	0
Research and technology	16	0
Rule of law	7	1
Small and medium enterprise	8	0
Social development	12	0
Social security	7	0
Statistics	14	0
Taxation	6	0
Terrorism	6	0
Tourism	16	0
Transport	16	0

All areas covered in these “cooperation” chapters of the EU association agreements might be divided into two groups. One consist of standard areas, usually included into any agreements such as transport, tourism, statics. Each association agreements touches a problem of criminal justice and cooperation within this field, but only two areas are covered by majority of them – illicit drugs (usually both trade and production) and money laundering.

There are also areas which can be found only in one or two agreements. Special provision on fighting racism and xenophobia had been placed only in the EU-Algeria agreement. Disarmament was mentioned only in the EU-Central America agreement. Gender issues are explicitly present only in two agreements concluded with Central America and Chile. It is especially surprising if we take into account that although the first one is one of the newest, the other was concluded over ten years ago. These

special areas mirror probably some special need of a given partner country. It might be especially highlighted in case of indigenous people, mentioned only on the EU-Central America agreement.

Third group of areas are these mentioned only in a particular type of agreements. Great number of issues, absent elsewhere can be found in SAAs. Especially areas related to strengthening rule of law and social society or a quality of life are generally part of these agreements. It can be explained by a special aim of these agreement, which are concluded in order to prepare third states to a future full membership.

## 5. GRAVITY AND REGIONALISM

In the traditional version of a gravity model, value of export is a function of bilateral trade for a pair of countries, their GDPs and the distance between them<sup>22</sup>:

$$\ln X_{ij}^t = \beta_0 + \beta_1 \ln(GDP_i^t) + \beta_2 \ln(GDP_j^t) + \beta_3 \ln|GDPpc_i^t - GDPpc_j^t| + \beta_4 \ln dist_{ij} + \varepsilon_{ij}^t, \quad (1)$$

where:

$X_{ij}^t$  - denotes exports from country  $i$  to  $j$ , at time  $t$ ,

$GDP_i^t$  and  $GDP_j^t$  - stand for nominal GDPs of country  $i$  and  $j$  respectively,

$|GDPpc_i^t - GDPpc_j^t|$  - difference of GDP *per capita* between  $i$  and  $j$ ,

$dist_{ij}$  - distance between country  $i$  and  $j$ .

With the development of theories that led to the use of gravity models, these estimation methods have become a popular tool for modeling the impact of regional trade agreements (RTAs) on trade. These studies have traditionally relied on the introduction of dummy variables for the various groups. They raised the question whether regional trade blocs are a natural feature of international trade. A review of these works are presented by Greenaway and Milner (2002, p. 574-583) and also in the World Trade Report (2011, p. 105).

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<sup>22</sup> Recently, researchers have demonstrated that the gravity equation can be derived from a variety of theoretical models based on neoclassical or monopolistic competition approaches for homogenous and differentiated goods with the representation of the role of technology, factor endowments or demand differences. Series of articles, including Anderson (1979), Bergstrand (1985), Helpman and Krugman (1985), Deardoff (1994), Anderson and van Wincoop (2003) Eaton and Kortum (2001) have provided the theoretical background for this popular tool for measuring the trade effects.

It is believed that studies using a gravity model play an important role in assessing the effect on trade, and its use is justified by the development of theory and econometric techniques. Most studies, especially from the first wave of regionalism, are dedicated to evaluate the impact for Europe, North America and Asia countries. Aitken (1973), Abrams (1980), Brad and Mendez (1985) obtained a statistically significant and positive impact on trade between EU members, while Bergstrand (1985) and Frankel, Stein and Wei (1995) have obtained statistically insignificant results for the EEC variable. Greenaway and Milner (2002) conclude that the results clearly indicate the positive effects of trade regionalism processes, which means that the countries that form a trading bloc intensify the trade among themselves. However, the later may not be treated as a general conclusions, since there are studies which find a lack of positive trade effects. For example the study of Hassan (2001) who carried out the analysis for groups of ASEAN and SAARC Asian; the study of Sharma and Chua (2000) done for ASEAN, and the study of Soloaga and Winters (2001) for the MERCOSUR.

Even if the gravity model is still very important instrument for estimating the effects of regionalism on trade performances, there is the lack of systematic research that focus on the new dimensions in regionalism due to the changes in scopes of agreements. Out analyses, contributes the literature by elaboration the implications of the new waves of regionalism.

## 6. DATA DESCRIPTION AND ESTIMATION RESULTS

The important number of theoretical and empirical studies have already focused on estimation procedures that fit to the gravity models for bilateral trade using panel data for cross-sections. The discussion refers especially to corrections in econometric specification of the model as well as appropriate to the proper estimation methodology. However, it is considerable that there still no consensus on the appropriate methodology.

We construct an extended gravity model for the panel data in which the panel consists of a pair of countries for a period of one year. While some older studies suggest estimating panel-data-based models with OLS, we follow Santos Silva and Tenreyro (2006) who have proposed the Poisson pseudo-maximum-likelihood (PPML) estimator to tackle with the zero flows in trade and inconsistency of OLS due to the heteroscedasticity.

To augment the gravity model presented by the equation (1), we introduce a number of additional independent variables as provides in Table 7.

**Tabel 7. Variables employed in the model**

Variable Name	Description	Source	Expected sign
lgdpi	Natural logarithm of GDP in current US dollars of reporter country (country i) representing the country size variable	WDI	+
lgdpj	Natural logarithm of GDP in current US dollars of partner country (country j) representing the country size variable	WDI	+



ddgppc	Natural logarithm of the absolute value of difference of GDP per capita in purchasing power parity (PPP) of reporter and partner countries as a measure of the impact of factor proportions on bilateral trade	WDI	-
cr_2009	Dummy variable indicating year 2009, year of drop of international trade		-
ldist	Natural logarithm of geographic distance between trading country pairs as a measure of the impact of trade costs.	CEPII	-
contig	Dummy variable indicating that reporter and partner country are neighbors (measure of contiguity)	CEPII	+
IFDIinflow	Natural logarithm of inflow of FDI to partner country	WDI	+
intraEU	Dummy variable indicating that reporter and partner country are the EU members		+
RTAs	Dummy variable indicating that reporter and partner countries have signed regional trade agreement (RTA)	WTO	+

Source: own compilation.

To measure the impact of regional trade agreements signed in the framework of CCP we use the dummy variable RTA. However as we assume that the coverage of the agreements are very different (what is explained in previous chapters) we split RTAs into 3 main groups that cover:

- RTA\_1: areas related to implementation of FTAs for:
  - industrial goods (tariff liberalization; elimination of non-tariff measures)
  - agricultural goods (tariff liberalization; elimination of non-tariff measures)
- RTA\_2: areas related to liberalization of movement of production factors:
  - movement of workers (that covers national treatment for legal workforce, right to employment for families of legally employed, right to transfer key personnel or trainees in case of commercial presence)
  - movement of capital (covers liberalization of capital movement; prohibition of new restrictions, both to finance direct and indirect investments)
  - commercial presence (covers right to establish a company in a partner country)
- RTA\_3: related to further cooperation:
  - Progressive liberalisation of public procurement
  - Harmonisation of standards of trade-related intellectual property rights
  - Assistance in reinforcing of financial institutions and system.

So, we focus on the areas that are covered by RTAs rather than the type of the agreement. This approach is an important evaluation to measure the impact of RTAs on trade.

**Table 8. Estimation results for exports**

	(1) EU15	(2) EU after 2004	(3) EU15	(4) EU after 2004
lgdpi	0.722*** (72.56)	0.791*** (83.69)	0.723*** (72.77)	0.792*** (84.55)
lgdpj	0.744*** (102.14)	0.775*** (89.51)	0.743*** (98.36)	0.779*** (85.78)
ddgppc	-0.106*** (-11.89)	-0.0680*** (-6.91)	-0.105*** (-11.81)	-0.0659*** (-6.73)
cr_2009	-0.295*** (-6.83)	-0.168*** (-4.10)	-0.297*** (-6.88)	-0.167*** (-4.08)
ldist	-0.599***	-0.655***	-0.618***	-0.663***

	(-34.44)	(-30.21)	(-39.81)	(-32.46)
contig	0.683*** (21.66)	0.714*** (17.93)	0.687*** (21.64)	0.719*** (18.00)
IFDIinflow	0.0745*** (8.23)	0.0743*** (6.24)	0.0762*** (8.32)	0.0776*** (6.43)
intraEU	0.218*** (6.39)	0.243*** (6.48)	0.155*** (5.58)	0.226*** (6.90)
RTAs	0.150*** (5.10)	0.107** (3.10)		
RTA_1			0.284*** (6.82)	0.324*** (6.87)
RTA_2			-0.484*** (-10.97)	-0.467*** (-8.37)
RTA_3			0.166*** (3.43)	0.185** (3.08)
_cons	-13.28*** (-54.40)	-14.76*** (-56.84)	-13.10*** (-54.47)	-14.79*** (-56.85)
N	45535	45625	45535	45625

*t* statistics in parentheses

\*  $p < 0.05$ , \*\*  $p < 0.01$ , \*\*\*  $p < 0.001$

To test the model empirically, we use the data-set covering the period from 1988 to 2013. As reporter countries we analyze EU member states; as partners we take all the countries according to the data availability.

We split the period of analysis into 2 periods: first before the accession of 10 new member states to the EU (we run the equation only for EU15 countries); second from 2004 for all EU member states. Table 2 contains estimation results for export flows and Table 3 for import flows.

First of all, we may notice that our results correspond well to the literature. Increase of GDP of both the exporter and the importer in a pair of countries has a *ceteris paribus* positive influence on the expected trade, whereas the influence of their difference is significantly negative assuming any rational significance level. Similarly, the distance between the countries (that could be treated as a proxy for transaction costs) has a negative impact on the expected export and import flows and the dummy for contiguity yields the positive and statistically significant coefficient. Besides, FDI inflows in partner country plays a crucial role both for export and import performances. Although the impact of the later is more important for import flows. Furthermore, estimation results confirm the negative impact of crises on bilateral trade. Additionally, it is remarkable that being a member of the EU gets a positive impact on both exports and imports.

**Table 9. Estimation results for imports**

	(5) EU15	(6) EU after 2004	(7) EU15	(8) EU after 2004
lgdpi	0.716*** (73.36)	0.772*** (85.61)	0.715*** (73.43)	0.769*** (85.89)
lgdpj	0.755*** (106.14)	0.790*** (92.72)	0.756*** (103.65)	0.794*** (90.13)
ddgppc	-0.0552***	-0.0109	-0.0544***	-0.0132

	(-5.89)	(-1.01)	(-5.84)	(-1.23)
c cr_2009	-0.267*** (-6.49)	-0.143*** (-3.73)	-0.266*** (-6.49)	-0.142*** (-3.72)
ldist	-0.588*** (-32.55)	-0.656*** (-30.52)	-0.568*** (-35.27)	-0.626*** (-30.77)
contig	0.702*** (22.67)	0.737*** (19.20)	0.705*** (22.89)	0.743*** (19.51)
lflow	0.0911*** (9.47)	0.103*** (8.30)	0.0935*** (9.74)	0.107*** (8.60)
intraEU	0.125*** (3.70)	0.0655 (1.84)	0.155*** (5.65)	0.138*** (4.30)
RTAs	-0.0720* (-2.26)	-0.176*** (-4.72)		
RTA_1			-0.0596 (-1.70)	-0.0741* (-1.98)
RTA_2			-0.649*** (-14.76)	-0.541*** (-9.61)
RTA_3			0.498*** (11.02)	0.474*** (8.48)
_cons	-13.81*** (-51.99)	-15.10*** (-51.87)	-13.98*** (-53.64)	-15.37*** (-52.34)
N	45535	45625	45535	45625

*t* statistics in parentheses

\*  $p < 0.05$ , \*\*  $p < 0.01$ , \*\*\*  $p < 0.001$

Interesting conclusions can be drawn from the estimates of parameters on dummies representing RTAs and the 3 groups of areas once noticing that dummies that have been introduced should be interpreted as reflecting the ceteris paribus difference between the averaged situation of a given pair of countries in terms of their participation in regionalism (when the two countries have signed regional trade agreement) as compared to export in a pair of countries that both are not engaged together in regionalism. For example, an estimate of the parameter on the RTA variable represents the expected ceteris paribus relative difference of export value from reporter to partner country that are related by RTA compared to the value of export between two partners that are not the sides of the same RTA.

The impact of regionalism on trade differs depending whether we control for imports or exports. Namely, exports, for both periods before and after 2004, are positively influenced. While analyzing the impact of different areas, we find that actually the liberalization of goods in general increases export. Likewise, the implementation of further cooperation (openness in the area of public procurement, implementation of cooperation in trade-related intellectual property rights etc.) also increases export flows. However, liberalization of movement of production factors yield the negative impact on EU exports.

As for the import flows, RTAs generate the negative impacts and therefore imply that they are not beneficial for the EU partners. Although, the agreements that cover liberalization of movement of production factors yield positive and statistically significant coefficients.

# CONCLUDING REMARKS

Range of areas covered by an agreements concluded by the EU depends strictly on the aim of a particular agreement. Majority of the EU trade agreements are not purely economic. They were concluded in order to strengthen ties between the EU and a given partner or a groups of partners. It is clearly visible even from the titles of these agreements. Association agreements, from its very nature, cover broader range of area then trade-oriented WTO or free trade agreements. The aim of the agreement is equally important. The deepest level of cooperation can be observe between the EU and potential candidate countries. Therefore SAAs not only cover greater number of areas covered, but also a number of enforceable areas is higher.

Because of the fact, that economic cooperation and boosting trade is rarely the aim of the EU RTAs, they include provisions that clearly cannot influence international trade.

The gravity models are important instruments for estimating the effects of regionalism on trade performances. However, the findings around the topic are not in line as discussed in the literature review. Once noticing that there is a lack of studies that clearly distinguish between effects based on the areas of the agreements on export and import flows, we might suggest that perhaps this is the reason why researchers don't get consistent results on impacts of regionalism on trade.

In this paper we have shown that the impact of regionalism differs for the EU member states and their partners. In general we can conclude that CCP is beneficial for the EU member states while is less advantageous for the EU partner countries. Besides, the scope of agreements plays a crucial role in generating these impacts. When it covers the directed-trade related areas, the impacts on the exports are positive. Yet, when it is related to factor of production movement – the impacts are negative. Additionally, it is remarkable that the liberalization of factors of production yields positive impacts on the exports of the EU partner countries.

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