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**ELECTRON LECTURES**

on discipline **«** **International economic integration »**

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**Theme № 1. Theoretical foundations of the integration processes in the world economy**

***Questions:***

**1. Theoretical Foundations of International Economic Integration (IEI)**

**2. The nature and background of international economic integration**

**3. Types of IEI**

**4. Subordination of MRI, INC, internationalization, globalization and integration categories**

**5. The internationalization of production and ways of its realization**

**6. Formal and real stages of the internationalization of production**

The term “integration” refers to a process whereby the quality of relations among autonomous social units (kinship groups, tribes, cities, trade unions, trade associations, political parties) changes in such a way as to erode the autonomy of each and make it part of a larger aggregate. In specifically political discussions the term is reserved for the analysis of such changes among more or less “sovereign” political units, and in the study of international relations the term is confined to the analysis of cumulatively changing relations among states, resulting in their acceptance of some new central authority. Historically, such authority has most commonly been imposed by military force—by a conquering group upon the vanquished. In order to distinguish “integration” from the forcible establishment of empires we must specify that the erosion of local autonomy may be based on deliberate and voluntary decisions by actors or result from unintended consequences of such decisions, but it may never rest on force.

Specifically, “regional” integration refers to that process among two or more states on a geographically confined scale, at a level below that of global integration, which sums up such world-wide phenomena as international law, the United Nations, and world trade or population movements. So defined, “regional integration” is an identifiable process in ancient Greece, eighteenth-century and nineteenth-century North America, and nineteenth-century Germany, to cite some obvious instances. Regional integration since 1945 has been an observable phenomenon in both eastern and western Europe, in the “Atlantic area,” the Middle East, Africa, Latin America, and in the Western Hemisphere as a whole. At the same time, “regional disintegration” has been apparent in the weakening of ties among the heirs of former colonial empires, the British Commonwealth, and the French Community.

“Integration” is sometimes also used to specify the *result* of a process of erosion of autonomy—the condition which obtains at the termination of the process; but we shall confine the meaning to the process. The term is important as an analytical tool in the hands of scholars and observers generalizing about the ideas and motives of political actors who are likely to describe their actions with such terms as “unification,” “federation,” *“rapprochement”* “establishing peaceful relations,” or “bringing prosperity to all.” Integration, therefore, is also an objective concept for summing up and projecting the possibly subjective aims of political actors.

**Regional integration as a concept**

Considered as an analytical concept, regional integration sums up a number of separate but related concerns appropriate to the study and—within limits —prediction of regional integration processes under way in various places. It groups behavioral and institutional forces describable by the term “spill-over,” which in turn draws on the notion of “functionalism” and “functional integration.” Regional integration concepts also rely on certain tendencies inherent in bureaucratic organizations. In particular they rely on the tendency of international organizations to expand along functional lines, with the help of functional legal ideas responding to new perceptions of need by the actors.

Specifically, the term “spill-over” describes the accretion of new powers and tasks to a central institutional structure, based on changing demands and expectations on the part of such political actors as interest groups, political parties, and bureaucracies. It refers to the specific process which originates in one functional context, initially separate from other political concerns, and then expands into related activities as it becomes clear to the chief political actors that the achievement of the initial aims cannot take place without such expansion. Demands and expectations for further centralized spheres of activity develop from perceptions of inadequate performance on the part of existing institutions. The inadequacy of the performance is attributed to an insufficient grant of powers or timid policy on the part of the central authorities; hence the claim for new central powers to achieve better performance is a direct outgrowth of the earlier institutional system and the realignment of group expectations produced through it.

By means of the spill-over concept we can analyze broad movements of integration without having to posit identity of aims or perfect agreement among the actors. Integration may proceed merely on the basis of a series of parallel and mutually complementary realignments of expectations and demands, with each actor merely seeking “to get the most out of” the initially centralized functional context. Application of the concept thus permits the projection of integrative trends without having to assume profound consensus among the states.

The extent to which the actors perceive the probable results of their demands on the over-all system is a crucial component of the concept. One type of “learning” is conducive to the progressive adoption of behavior patterns further reinforcing spill-over tendencies; but another type of “learning” may well stop the trend dead in its tracks: there is nothing inevitable in it. One type of “learning” rests on the reasoning associated with the concept of “unintended consequences.” Actors striving for the better achievement of some aims dear to them will commit themselves to modes of behavior which have the unintended result of strengthening certain central institutions, or result in the creation of such institutions. The aims motivating the actors are —to them—manifest and overt, but the logic of events transforms the consciously expected results into something not wholly anticipated in terms of dependence on new central authorities.

Now two things can happen: the actor, having learned that unintended consequences can follow from his initial desires, may consciously make the unintended a manifest desire and thereby deliberately contribute to the process of centralization; but he may also draw the conclusion from the trend of spill-over events that his initial aims were to blame for the unintended and unwanted consequences, thereby compelling a reformulation of initial aims. The second case would produce an adaptation with disintegrative results. In that event the chain of events associated with the spill-over concept would come to a halt. There is little ground for believing that this outcome is less likely than integrative consequences. The positive spill-over concept summarizes adaptive tendencies of extreme fragility—tendencies which have been reversed in many well-known historical situations.

**Regional integration as a process**

**Federations**

The history of regional integration is as old as recorded efforts to achieve the peaceful unification of sovereign entities, efforts which have in the past been described under such rubrics as “federation,” “leagues,” and “alliances.” The literature devoted to these experiences in the past has stressed the political component in the aims of the actors and has tended to assume the need for a pre-existing political consensus for the continuation of integration. Furthermore, emphasis was put on the analysis and description of the constitutions of such entities; the grant of power to central authorities was taken as the measure of political consensus among the integrating units. Hence, the usual conclusion older writers developed was that the mere convergence of military and security aims was an insufficiently permanent demand, preventing leagues and alliances from acquiring the constitutions necessary for integration and therefore disappearing once an immediate military danger was averted. In the analysis of federations stress was put on the question of whether ultimate sovereignty lies with the central or the local governments, whether the “will” to be a nation was stronger than the desire to be locally autonomous. Relatively little effort was devoted to analyzing the patterns of interaction summed up under the spill-over concept. The presumption in favor of the primacy of actors’ political aims militated against raising the question of whether political consensus can emerge from functional preoccupations.

**Communities**

Since the end of World War II the emphasis has been reversed. Scholars (and many actors), impressed with the constantly increasing powers of governments to deal with almost all facets of life—particularly economic welfare—began to be interested in exploring the connection between patterns of commercial, social, and technical transactions and the growth of common or converging aims among important actors. Questions of social structure, demography, migration, economic development, and psychological distance were added to the earlier concern with military and armaments questions in dealing with regional integration. Specific proposals for regional integration were advanced in western Europe (such as the Schuman and Pleven plans in 1950) seeking to build eventual political federation on a substructure of closer ties and common practical concerns generated by institutional steps merging certain vital sectors of the national economies and the defense establishments. In addition, several common and centrally determined plans arose as an unintended consequence of institutional and programmatic patterns in the fields of defense and economic welfare. The initial tasks and powers of many agencies (for example, the Organization for European Economic Cooperation, OEEC; the North Atlantic Treaty Organization, NATO; the Organization of American States, OAS; and the United Nations Economic Commission for Latin America, ECLA) proved insufficient and gave rise to unplanned growth in functionally restricted fields. Concomitantly, a new body of law developed, regulating, for the states concerned, the new types of functional transactions.

Since the institutional forms associated with this development defied traditional constitutional classifications and tended to change *de facto* with the accretion of new tasks, the discussion of “federation” as the technique for regional integration gave way to the terms “community” and “community formation.” With the failure of two frontal attempts to establish a united western Europe by means of political federation (Council of Europe during the years 1949-1951; European Political Community, 1952-1954) the notion of “community” has gained wide currency, especially in connection with ambitious efforts to use the mechanism of economic integration and the establishment of “common markets” as the functional trigger for the spill-over process. Such efforts at community formation have spread from western Europe to Latin America (Latin American Free Trade Association since 1961; Central American Common Market since 1960) to independent Africa with discussions for an African common market (since 1962), and to regional economic planning in eastern Europe (Council for Mutual Economic Assistance, CEMA, since 1956).

*European economic integration.* The most dramatic illustration of the community building process is the functional and geographic expansion of the scope of western European economic integration. The initial step was the creation of a common market for coal and steel in 1952, eliminating not only trade barriers among the “Continental Six” (Belgium, France, Italy, Luxembourg, Netherlands, West Germany) but also involving common policies on the rules of competition, subsidies, cartels, and investments. Expectations built up among the actors participating in the coal-steel nexus resulted in demands which simply could not be carried out by the existing central mechanism, the European Coal and Steel Community. Demands which spilled over from this sector thus infected the field of economics generally, resulting by 1958 in the establishment of the European Economic Community and Euratom, the latter owing its origin in part to the inability of the Coal and Steel Community to resolve a major European fuel crisis. New economic pressures and relationships which were generated by the union of the “Continental Six” spilled over geographically and led Britain, Denmark, Norway, and Ireland to seek membership in the Common Market in 1962.

**The actors in regional integration**

The initial steps of economic integration influence four distinct types of actors, who seek to adjust to the change by making demands which, in turn, tend to reinforce integration.

(1)Expanding group expectations emerge among industrialists, dealers, and trade unions in the initially merged economic sectors. A desire to bring as yet unintegrated but closely related economic sectors under the central rules becomes manifest, as well as a desire to develop means of political control over these larger issues. And in the process of reformulating expectations and demands, the interest groups in question approach one another across national boundaries by forming new asso ciations while their erstwhile ties with national friends deteriorate.

(2)Among political parties a similar phenom enon takes place. Here the spill-over makes itself felt by the desire to control the new central administrative organs, agencies of a pronounced technocratic character—whether these be federal or intergovernmental in legal competence. But, in addition, the larger field of legislative action opens up opportunities for the realization of party programs heretofore stymied in the *immobilisme* of tightly partitioned national economies. This is as true for the welfare-state-minded socialists as it is for free-trade-oriented liberals. Both think they stand to gain from the new dispensation.

(3)Furthermore, the process asserts itself in the relations among civil servants, national government offices, central banks, and technical advisers. A commitment to the realization of agreedupon economic goals permits of no indefinite sabotaging of collective decisions. Momentary crises and obstacles tend to yield only if the bureaucrats agree to new central control devices. Commitment to one set of joint measures leads inexorably to later commitments for additional joint measures in order to carry out the first set. National bureaucracies thus tend to interpenetrate one another in the peculiar European institutional context in which integration is carried on.

(4)Finally, integration is advanced by the inability of governments and private actors outside the system of states undergoing integration to remain aloof from the process. In making the decision to join the union they then expose themselves to the spill-over tendencies implicit in the relations among interest groups, political parties, and civil servants, thus confirming and accelerating the trend initiated by the original governmental decision to join.

Patterns of regional integration. As the summary of the evolution of the concept and the process has shown, the actual pattern of regional integration can be divided according to (1) the subject matter singled out for joint action, (2) the nature of the participating states, and (3) the kind of central institutions which they set up. By correlating items in each of these types with actual situations we can then say something about the success of specific integration efforts.

(1) *Subject matter.* Regional efforts at integration may proceed along a directly political front by seeking to work out joint foreign policies for the associated states (OAS, Council of Europe, Arab League, certain African groupings). Alternatively, they may stress one or several functional tasks, most commonly in the fields of customs unions, economic unions, economic development and finance, joint technological and scientific research, transportation, and telecommunications. Less commonly, the functional emphasis is placed on joint defense, military planning, and rearmament policies, sometimes through the creation of single commands and procurement systems (NATO, Western European Union, Warsaw Pact). More rarely still, the common task involves regional legal systems for the protection of human rights (Council of Europe, OAS).

(2) *Nature of participating states.* Much hinges on whether the participants in regional integration are mutually homogeneous or not. Organizations grouping states of dramatically different power, economic development, and political institutions rarely function harmoniously (OAS, CEMA). Organizations grouping states with political systems, political parties, interest groups, and social institutions which differ from member to member find it difficult to make common policy on anything but the most trivial functional concerns (Arab League, OAS, UN Economic Commission for Europe).

(3) *Institutions.* Regional organizations range from the minimal traditional intergovernmental conference to the extreme of a federation with limited purposes. The intergovernmental arrangement predominates (NATO; OEEC; Organization for Economic Cooperation and Development, OECD; OAS; Arab League; CEMA; UN regional economic commissions). Decisions are made by instructed national delegates, usually on the basis of unanimity, aided by a central secretariat with minimal powers and many commissions of technical experts, recruited nationally and regionally. Truly federal institutions existed for some purposes in east Africa and functioned in the unsuccessful West Indian Federation until 1962. The European communities, however, feature “supranational” institutions, a hybrid of federal and intergovernmental techniques of making decisions and allocating power. These “supranational” techniques, which are also found in many other intergovernmental organizations, militate against the autonomy of functional concerns because they demand the participation of so many public and private decision-making units.

*Supranationality.* The institutional characteristics of supranationality are unique in three ways. First, they involve the simultaneous presence of instructed high-ranking governmental representatives, uninstructed or permissively instructed experts recruited from the national bureaucracies, experts representing the major interest groups, and the “European” staff of experts and high-ranking officials who, on behalf of the communities, make proposals and seek to arrange compromises among clashing demands. Second, a parliamentary and quasi-legislative factor is introduced through the debates and resolutions of transnational political parties active in the European parliament. Finally, the existence of an independent European judiciary with complete jurisdiction over economic integration matters automatically removes the possibility of seeking national legal remedies against unpopular central decisions (European Communities’ Court, European Court of Human Rights).

Decisions filtered through this process rarely reflect the untrammeled wishes of any one party, whether it be a powerful national ministry or a marginal interest group. Every decision is a compromise between politicians, industrialists, farmers, trade unionists, and bureaucrats. The parties redefine their conflict and work out a solution at a higher level, which almost invariably implies the expansion of the mandate or task of an international or national governmental agency. In terms of method, this upgrading of the parties’ common interests relies heavily on the services of an institutionalized mediator—whether a single person or a board of experts—with an autonomous range of powers. In terms of results, this mode of accommodation maximizes integration: policies made pursuant to an initial task and grant of power can be realized only if the task itself is expanded, as reflected in the compromises between the states interested in the task.

**Factors maximizing integration**

Certain kinds of organizational tasks are by nature expansive while others are easily confined. The ideal task for maximizing the spill-over tendency must be closely related to welfare, highly specific in terms of initial requirements, and yet broad enough so that the initial requirements cannot be achieved without the grant of new powers.

Specificity of task is essential, with respect to such assignments as creating a common market for narrowly defined products, unifying railway rates, removing restrictive practices in certain branches of industry, removing import quotas by fixed percentage points during fixed periods, and the like. Functional specificity, however, may be so trivial as to remain outside the stream of human expectations and actions vital for integration. This would seem to be the case with the standardization of railway rolling stock, for example, or the installation of uniform road signs. The task, in short, must be both specific and economically important in the sense of containing the potential for spilling over from one vital area of welfare policy into others.

Expectations of rewards entertained by crucial national elites must be regionally complementary. Hence, organizations grouping states of widely differing power and economic potential rarely provide an ideal setting for the continuation of integration. A frontal attack on political unity seldom succeeds, and the functional concentration on defense and armaments displays less tendency toward spill-over than the creation of common markets. Concentration on cultural programs and the implementation of values relating to the protection of human rights have so far resulted in little active integration.

Hence it can be concluded that for organizations to expand their task they must first be based on specific expectations of the participating elites. While these need not share a profound consensus on ends or means, their objectives must nevertheless be parallel or converging. They may achieve their agreement on the basis of differing paths of reasoning, and their desire to work together may be purely tactical or motivated by sheer expediency. However, their values must be sufficiently congruent to make possible cooperation in joint institutions for purely instrumental motives. Elites lacking even this rudimentary sharing of values will prove to be unprepossessing partners in a cooperative enterprise.

Furthermore, rigid elite structures are unlikely to attain a sufficient degree of instrumental receptivity to the aspirations of others. An elite which recruits its members from large segments of society, which is both rationally and bureaucratically organized, and which eschews firm ideological commitments is most likely to prove receptive to the stimuli associated with the spill-over concept. Totalitarian elites do not qualify for such a role any more than do oligarchical cliques in traditional societies. Members of open elites may permit themselves to be co-opted into international and supranational administrative bodies and thereby commit their followers to active participation in spill-over tendencies while not feeling that they are betraying their beliefs or their followers. Members of closed elites are unlikely to possess this kind of adaptive ability.

The elites best equipped for participating in changing social situations in which the spill-over process may be manifest are the kinds produced by societies with considerable social mobility, technical and professional education, industrial-managerial values, and a high degree of tolerance for technocratic-bureaucratic efficiency. While active industrialism need not be a precondition, the desire to industrialize probably must be; even though high standards of consumption need not exist, the will to create such standards should prevail; and although democracy in the formal sense need not prevail, toleration for dissident groups and a desire to placate them must be present.

**Regional integration in action**

This characterization of tasks and elite skills suggests that regions marked by homogeneously dstributed pluralistic-democratic elites are likely to integrate rapidly if there is some instrumental attachment to a shared aim. It suggests also that homogeneously distributed totaUtarian elites with a sharp common purpose, or at least, elites agreeing internationally on some well-defined ideological program, are equally equipped to advance integration. On the other hand, regional associations characterized by a heterogeneous distribution of elites in member states and by very sporadically shared aims have great difficulty achieving a central programmatic and institutional consensus going beyond the minimum common denominator of preserving the territorial and functional *status quo;* such groupings are likely to stress sovereignty, nonintervention, equality, and intergovernmental cooperation for the achievement of these minimal tasks. Only a sudden realization of common danger is likely to break through this minimalism and then trigger a supranational integration process. This theme will now be illustrated.

**Western Europe**

By the end of the 1960s the six countries of the European communities may achieve economic and *de facto* political union with respect to all functions concerning economic and social welfare. In the process they will absorb such smaller regional groupings in Europe as Benelux, WEU, the Scandinavian system, and the European Free Trade Association (EFTA). Because of size and industrial potential the EEC countries will continue to attract the members of EFTA (Austria, Denmark, Norway, Portugal, Sweden, Switzerland, United Kingdom) so that an integrated European economy will emerge. The extent to which common markets and economic union *must* force over-all political union is less clear. Efforts are being made to reserve joint political and military decisions to a confederal structure, which would be superimposed over the existing supranational institutions. Military and foreign policy integration among western European states has been the result of NATO aims and programs, not specifically European ones. The future of political unification, therefore, is closely connected with the pattern of Atlantic integration.

**North Atlantic area**

Military integration and foreign policy coordination in NATO evolved gradually in response to military weakness during the Korean crisis (1950-1953); such integration had not been intended by the chief architects of NATO in 1948. Since 1953, however, integration has proceeded largely in areas where costs were great and savings for welfare purposes could be achieved only through joint and centrally planned action. Until the question of developing a multinational nuclear force for the alliance came to the fore in the early 1960s, military integration had not proceeded far beyond the initial creation of joint commands, procurement systems, air defense arrangements, and intergovernmental political consultation machinery. Changes in eastern Europe, nuclear deterrents and the European aim of assuring speedy *collective* control over their use, served to confuse the common aim of the member states and caused disintegration in NATO. In the areas of trade, investment, and the coordination of foreign economic policies, OECD provides the vehicle for North Atlantic integration, a vehicle which has not acquired supranational features. Integration here, as elsewhere, is very much a function of a sense of danger and common purpose triggered by the integration of rival regional blocs in world politics.

**Eastern Europe**

After the death of Stalin in 1953 and the evidence of unrest in communist eastern Europe (especially the Hungarian revolution in 1956), a deliberate policy of joint economic planning was initiated through CEMA, based on the doctrine of a “socialist division of labor” and a “world socialist economy.” This resulted in the growth of a planned regional economy featuring national economic specialization. Tied to a political process of consultation among “fraternal” Communist parties and to a military process of joint planning similar to NATO’s, an integrated European communist realm based on polycentric authority is taking shape.

**Middle East**

Efforts to forge all-Arab unity on the basis of the purely intergovernmental Arab League failed because of the irreconcilable aims of the nationally based revolutionary and the traditional elites. Member states consistently intervened in each other’s affairs rather than making a joint policy. Integration, therefore, proceeds on the basis of partial unions and federations among ideologically kindred revolutionary regimes stressing similar programs of drastic economic and social modernization.

**Africa**

In principle all new African states share a commitment to the values of pan-Africanism, the unity of the “African personality,” and the need to pool resources for speedy economic modernization. As in the Middle East, however, the elite and party structures are regionally heterogeneous, so a variety of unstable groupings have arisen. One of the dividing issues is whether association with the EEC will advance modernization or open the door to “neocolonialism.” Hence the states stress sovereignty and nonintervention more consistently than joint action through the Organization of African Unity.

**Western Hemisphere**

The same is true of the OAS, which unites a very heterogeneous collection of states and elites. They have agreed on joint action only in the face of obvious common military danger from one of their own number. The possibility remains that multilaterally administered economic development and technical assistance programs will trigger a supranational institutional development. The same is true of joint antisubversion policies and the protection of human rights.

**Latin American economic unions**

Two economic groupings with unstable membership are functioning—the Latin American Free Trade Association (LAFTA) and the Central American Common Market. Both are based on the underlying common doctrine that industrialization can develop more rapidly on the basis of regional markets, specialization agreements among new industries, and joint investment planning; both are reacting, in part, to an economic threat perceived by their elites as posed by the EEC and the United States. Political union is not overtly demanded and the cohesive sentiment flows from a shared “underdog” mentality which may not readily lend itself to a marked spill-over tendency. LAFTA is likely to grow in proportion to the lack of growth of OAS programs and powers, and vice versa.

**Other areas**

Efforts at regional integration in Asia have been superficial and sporadic. Economic unification among southeast Asian countries, following the same argument as Latin America, has been delayed by territorial disputes. In Asia regional common markets and joint economic planning are discussed but are not being implemented, in large part because of the heterogeneity of elites and the unequal industrial potential of the prospective member states. Efforts at regional integration in the former British West Indies at first developed along the lines of joint functional programs, to be followed by political federation. However, the more rapid development of local national sentiment in Jamaica and Trinidad and speedy local economic development reduced expectations of future rewards, thus dooming the federation. The same process also defeated the proposed federation of Tanganyika, Kenya, and Uganda.

**II. GLOBAL INTEGRATION**

Political integration may be defined as a cumulative process of change in the nature of relations among more or less sovereign political units, such as states, during which these units voluntarily accept some kind of new central authority. This process requires at least four constituent elements: *(a)* the political units involved must permit the establishment of central institutions which promulgate policies; *(b)* the functions of this central authority may not be trivial or vague but must be important and specific; *(c)* the functions, or tasks, performed by the central institutions should be inherently “expansive”; (d) the political units must remain committed to the common enterprise because they perceive ensuing benefits.

The disintegration or diminution of local autonomies may be the consequence of deliberate choice by the decision makers of the units or it may be the unintended consequence of policies which initially had no foreseeable connection with resulting processes of integration. In either case, integration refers to a process which is voluntary and hence endows the new central authority not only with power but also with legitimacy. Imposition of a central authority by military conquest—historically, the main force which induced autonomous political units to submit to a new central authority—thus cannot be viewed as an example of integration as defined here.

Global integration, in contrast to regional integration or the integration of structures of authority within a state, refers to processes of integration during which functions are delegated to a new central authority whose decisions are accepted as legitimate by the component members of world society. What constitutes the members of a world society, or world society itself, is a question that can be investigated historically. Different historical periods are characterized by different types of world society, and the attributes of the members of these world societies may also differ quite radically in terms of size, number, absolute and relative power, internal cohesion, value systems, objectives, and so forth. The members of the world society may be nation-states (as is generally the case today), empires, principalities, city-states, or any other forms of political organization endowed with the authority to deal with external affairs.

The boundaries of a world society are determined by the frequency of interaction among its members. As a consequence, several “world” societies may have existed simultaneously because one world society—whose members interacted frequently—was not aware of the existence of other world societies or because it deliberately chose to keep interaction with its environs to a minimum. In some cases, such as the Inca world of a.d.1200-1530, the outer limits of such world societies can be determined fairly accurately; in other cases, such as the ancient empires of the Middle East or the empires that bordered the Mediterranean, the difficulties of delimitation are greater.

Contemporary world society is a global society and, in fact, is about to transcend its global confines and extend into outer space. The attributes of this contemporary global world society and the nature of its component members can be usefully described and summarized by the term “international system.” That is, the contemporary international system may be regarded as one of many possible ways in which the members of a world society can interact. An international system in turn may be defined as a pattern of relations among the major units of world politics (states) that is characterized by the absolute and relative power of these units and by the conflicting and converging objectives pursued by these units. The resulting patterns of power and purpose are thus the consequence of the physical and psychological-motivational forces that operate within and among the major units.

**Processes relevant to integration**

Interaction. It is important, both historically and analytically, to distinguish between processes of interaction among the members of a world society and processes of integration. Clearly, there can be no processes of global integration if there are no processes of global interaction; at the same time, frequent interaction can take place without diminution of the autonomy of the members that could lead to the establishment of a new central authority. The frequency of interaction and the range of different types of interaction among the members of the contemporary international system are probably higher and more extensive than in any other period of history. This is in large part the consequence of technological developments in the fields of communications and transport which have “shrunk” the world, allowing social interaction to take place with relative speed and economy.

**Interdependence**

The consequences of this increased interaction on relationships of interdependence are somewhat ambivalent. On the one hand, interdependence, when perceived, at times has been resisted and measures have been taken to counteract it. In recent history some states, or groups of states, have deliberately sought to reduce their dependence on other states of the international system—say, in matters of military security, the exchange of raw materials or finished commodities, etc.—so as to preserve for themselves a higher degree of political maneuverability or to deny advantages to an actual or potential opponent. Restrictions on international travel and on the free flow of labor across international borders, and restrictive immigration or emigration policies, are other examples of curtailing social interaction with the expected consequence of reducing some type of interdependence.

Furthermore, it can by no means be taken for granted that increasing interaction, even if coupled with interdependence, must necessarily lead to ensuing processes of integration. For example, in examining historical developments, the closer one gets to the modern age and its increasing opportunities for interaction, the fewer the historical examples of full-fledged successful integration of two or more previously sovereign units. For both psychological and practical reasons the modern nation-state has become the most important source of authority and the central arbitrator for groups and individuals with conflicting interpretations of what constitutes the public good and how to share its benefits equitably. With the development of modern nationalism in the late eighteenth and in the nineteenth century, the nation-state emerged as the most important large-scale sociopolitical organization that could command the overriding loyalty of groups and individuals and provide the psychological satisfactions of identifying with and serving a common cause. Although international causes, such as communism, international socialism, and Zionism produced rival value systems, the nation-state remained by and large the central authority endowed with the legitimate exercise of sovereign power. (In recent years this phenomenon is poignantly illustrated by the centrifugal tendencies which have affected both cold war camps and which have taken as their focal point a reorientation of public policy around the authority of the nation-state. It is further illustrated by the ardent nationalism displayed by the ruling elites of the developing nations of Africa and Asia.) These essentially psychological dimensions were buttressed by developments which delegated to the modern social-service state extensive functions for regulating economic life and for providing social welfare services. As a result the modern nation-state became, and in a large measure has remained, the central authority and major institutional structure for the effective conduct of both external and internal affairs.

**Interpenetration**

Notwithstanding these qualifying factors, the contemporary international system is generally regarded as being so highly interdependent that some analysts have suggested the term “penetration” as most applicable for describing the relationships of mutual influence among the members of the system. James Rosenau, for example, has proposed the concept of a new kind of political system, the penetrated system, to comprehend the fusion of national and international systems. He argues that national societies have become so penetrated by their external environment that they are no longer the only source of legitimacy or even of the employment of coercive techniques and that, consequently, national political systems now permeate, as well as depend on, each other and that their functioning now embraces actors who are not formally members of the system (1966, pp. 63-65).

Perhaps the most striking manifestation of the phenomenon of penetration is that many of the national units in the contemporary international system find it more and more difficult, if not meaningless, to distinguish between foreign policy and domestic policy. This holds true not only for the developing new nations that are going through the slow processes of modernization and the building of a viable nationhood but also for the industrialized nations of the Northern Hemisphere whose reallocations of resources and values are strongly affected by international factors. The occupation regimes of Germany and Japan in the postwar period, United States involvement in South Vietnam, United Nations operations in the Congo, foreign aid grants which require the recipient states to adhere to a specified program of utilization—these are just a few examples of where the allocation of values in a national unit is strongly affected by the prevailing patterns of power and purpose in the international system. Not only are domestic allocations of values strongly affected by the international environment, but national decision makers have begun to recognize that in a large number of issues external events have a direct impact on the allocation of values which traditionally took place largely within the domain of essentially national institutional structures.

Nowhere is the phenomenon of interpenetration more clearly visible and institutionalized than in the operations of regional international organizations which are endowed with some measure of supranational authority, that is, in functional contexts such as the European Common Market, where interpenetration has in fact led to processes of integration.

Another example of interpenetration is a result of the changing nature of the nation-state. As John Herz (1959) has cogently argued, the previously existing “hard shell” of physical, legal, and psychological boundaries which national systems have traditionally maintained vis-a-vis their external environment is becoming increasingly “permeated,” primarily because of developments in modern weapons technology and the application of economic and psychological warfare. Indeed, one cannot think of a more fundamental, or unavoidable, type of interdependence or interpenetration than that which results from the possibility that a nuclear exchange between members of the system may abolish the system itself.

All these examples—and they are by no means exhaustive—go beyond the mere fact that there is an increasing interdependence among national actors in the system; rather, they are examples of a process of interpenetration in which the traditional political, economic, legal, and psychological boundaries separating the nation-state from the environing international factors are becoming increasingly tenuous.

**Global integration and the UN**

Measured against the magnitude of the tasks that evolve from the conditions of the international system, and in spite of the interpenetrative attributes of present-day world politics, existing global integrative structures cannot be regarded as anything more than inadequate and minimal. International law and the functioning global organizations that are effectively operating bodies and approximate the precepts of integration, such as the Universal Postal Union (UPU), the International Labour Organisation (ILO), and some of the other UN specialized agencies, do not greatly influence the major political concerns that preoccupy the members of the international system. Although not entirely noncontroversial, the essentially technical and rather specialized nature of the tasks performed by these functional organizations preserves a certain “autonomy of functional contexts” that does not lend itself to extensive “spillover” into more controversial, political areas. Some of the most important functions for a stable but dynamic world order, such as providing a central and authoritative machinery for channeling forces of change in ways that avoid a violent disruption of world society, are denied anything but a loosely structured organizational construct on the global level. Some of the functions that were explicitly or implicitly assigned to the UN, such as collective security, peaceful change, and pacific settlement tasks, have resulted in neither patterns of expectations nor patterns of behavior that portend an integrated international system with a corresponding accretion of power for a central authority. It is nonetheless useful to consider these functions, if only to highlight the strictures against global integration that prevail in the contemporary system and to point out the effect of global functional efforts on processes of regional integration.

**Collective security**

The hope that global integrative trends would lead to a world society whose members would resolve their conflicts with a minimum of violence is at the heart of the more ambitious proposals for an integrated international system. A key attribute of a highly integrated international system would thus be a central authority endowed with a monopoly of the legitimate use of physical force. The concept of collective security, as embodied in the UN Charter, does not correspond precisely with the idea that a central global authority *should* possess this kind of authority over the use of force. It is, however, sufficiently similar in its intended effect—i.e., that a collective response can stifle an aggressor—and, moreover, supplies a concrete historical example of attempts to regulate the use of force among the members of the international system by a global organization.

Four major factors of the international system made it extremely difficult for the UN to operate effectively in the functional area of collective security.

(a) The anticipated harmony of interests among the “Big Five,” the permanent members of the Security Council, evaporated rapidly. The developing polarization of conflict, perceived interests, and ideology between the Soviet bloc and the Western powers shattered the concert envisaged by the framers of the Charter. In addition, the global dimensions of the postwar international system made the cold war blocs evaluate most conflicts arising in the system in the light of their possible repercussions on the East-West balance of power.

(b) The polarization of perceived interests between the cold war blocs was coupled with a polarization of capabilities. Up to the late 1950s, power in the international system was not diffused but concentrated in two power blocs—more specifically, in the alliance superpowers, the United States and the Soviet Union.

(c) The very nature of the state system posed vexing problems for UN collective security functions. The possibility of making rather clear distinctions between domestic and international issues is an important premise for collective security responses because they are triggered most unambiguously when transgression involves the violation of territorial integrity. For reasons already noted, this condition could not be met in many parts of the world. Particularly in conflicts between colonial powers and their colonies, and among some of the new states, it was often difficult to distinguish between internal and external dimensions of a conflict. Moreover, the outcome of an essentially domestic power struggle was often assessed by the cold war antagonists in a global context because it could affect the cold war balance of power.

*(d)* Finally, the UN itself became a forum which the superpowers exploited for their national policies and in which they sought to gain the support of the membership for cold war issues. The UN was thus prevented from securing the flexibility of alignment against an aggressor which is required for collective security functions.

In light of these strictures, it is not surprising that the success of the UN in this task area was minimal. However, “collective security” functions were performed in the international system by structures other than the UN. For example, the restraints imposed on each other by the two cold war military blocs and the gradually developing nuclear “balance of terror” undoubtedly contributed substantially to the stability of the international system. This is one of the most striking ironies of the postwar international order: factors that stabilized the system at the same time prevented global collective security functions. The polarization of power and purpose—undoubtedly a stabilizing influence because of the resulting deterrence effect—was antithetical to a collective security arrangement which ideally requires diffusion of power, albeit with centralized *ad hoc* management in the event of aggression.

**Peaceful change and pacific settlement**

In contrast to collective security functions, peaceful change operations require that the global institution concern itself with (a) the merits of the dispute (that is, make a value judgment about the need and type of changes in the international system); *(b)* the internal political attributes of the disputants; and (c) the forces of unrest, before they escalate to the point of aggression. In short, a peaceful change operation entails a management of ends and projects that requires a positive attitude toward change, substantive evaluation of aspirations, and concern with the internal disposition of states.

The operational assumptions of pacific settlement functions are a hybrid between those of collective security and peaceful change. Instead of sanctions (as for collective security operations), pacific settlement relies chiefly on methods of mediation, conciliation, and inquiry. Pacific settlement is not as much concerned with the intrinsic merit of the dispute as peaceful change is (in fact, it implicitly encourages compromise), but neither does it envisage a purely instrumental response as the means of management of collective security.

UN “balancing.” With the impasse experienced by the UN in the task area of collective security, the organization gradually turned to alternative functions which in some ways are akin to the operational assumptions of peaceful change and pacific settlement. This was accomplished through the processes of “balancing” (cf. Haas 1955; 1956). The concept of balancing describes and rests upon an intricate negotiating process in the UN during which the Afro-Asian members, as neutral mediators, traded their support on cold war security issues in which the superpowers were interested against the superpowers’support on colonial, social, and economic issues in which the mediators were interested. In particular, the superpowers sought to enlist the symbol of the UN for their cold war projects by supporting the neutrals’ projects of colonial emancipation, human rights, and economic development.

Clearly, in its balancing operations the UN became involved in functional contexts that called for declarations and commitments as to what the world ought to be like and how the organization could aid in its transformation; that is, the UN had to take a stance on the substantive merits of a grievance and, as a corollary, had to become concerned to some extent with the internal political conditions of the member states. To have done otherwise would have meant abdication of the organization’s relevance not only in the task area of collective security but also in the area of peaceful change and pacific settlement.

What is particularly striking is that the UN’s limited success in the peaceful change area (for example, Palestine, the former Italian colonies, the Togo trust territories, West Irian, and the general issue area of colonial emancipation) was made possible not so much in spite of, but because of, cold war tensions. For example, the shift of influence from the Council to the Assembly and the blurring of functions between the two bodies was in good part an outgrowth of the collective security impasse resulting from the use of the veto in the Council. This provided the growing number of smaller powers with the parliamentary lever to exert a stronger influence over UN functions than their actual power would have justified. Their role as mediators in the cold war conflict and UN influence in the creation of new states further enhanced their advantage in a setting of multilateral diplomacy, cross-functional balancing, and egalitarian voting procedures. The basis for these permissive conditions was that both cold war camps, in competing for the allegiance or at least neutrality of the new states, were committed to advocating and supporting forces of change, modernization, and economic development.

On the whole, all the obstacles that hampered UN collective security functions—polarization of power and purpose in the earlier phase of the postwar world, heterogeneous membership of the international system, north-south polarization of economic development and industrial capacity—were precisely the factors that allowed the UN to fulfill important, if limited, functions in the area of peaceful change and pacific settlement.

The processes of balancing in the UN had a twofold implication for international integration. First, although balancing operations did not lead to processes of global integration, they reflected and underscored a high degree of interdependence among the members of the international system. This, in turn, had a significant effect on bargaining processes among the members of the Western alliance in the context of the North Atlantic Treaty Organization (NATO) and the European Common Market: that is, global balancing had an impact on regional integration (cf. Haas 1956; 1961). As noted, bipolarity of power and the nuclear standoff between East and West prevented institutionalized global collective security but stabilized the international system. Nuclear bipolarity, however, also produced fissures in the Western alliance by eroding previously more complementary security interests among the Western powers. The ensuing tensions within the alliance were sharpened by differing policies on the pace of colonial emancipation and by the conflicts which developed between the United States and some western European allies because of economic regionalism and nationalism in western Europe. It is here that global balancing had an important effect on regional integrative ventures. To the extent that the differences among the Western allies could not be fully adjusted on the level of Western regional organizations but had to be further compromised at the global UN level in order to obtain a united Western voting posture, the world organization contributed to the adjustment of interests not only among, but also within, regional groups.

Second, processes of balancing not only reflected the shifting patterns of power and purpose in the international system but to some extent aided in systemic transformations by providing for them an institutional setting which made them clearly visible. When the major alignments in the system shifted from the postwar bipolar pattern to a tripolar one after the Bandung Conference and to a multipolar pattern thereafter with the admission of a large number of African nations, the UN forum served as an institutional structure where these shifts became clearly manifest and could be utilized by all parties concerned for cross-functional balancing. Even though these processes resulted in only minimal global integrative trends, they played an important role by symbolizing the interdependence among the members of the international system.

**III. FUNCTIONALISM AND FUNCTIONAL INTEGRATION**

Functionalism in its different meanings is a much discussed topic. This article, however, will deal only with the specialized meaning that the term has in international organization, tracing its origins and influence in international affairs, and emphasizing its contributions to the study of international integration.

**Functionalism in international organization**

Starting in the late nineteenth century, a number of scholars took the proliferation of international organizations—like the Universal Postal Union and the International Telegraphic Union—as an indication of a growing sense of world community and as a guarantee for future international stability. Paul S. Reinsch, Leonard Woolf, G. D. H. Cole, Pitman Potter, and others (see Martin 1950; Engle 1957) have all expanded on these basic points. But it was David Mitrany who best formulated the doctrine and the theory of functionalism in international organization. His essay *A Working Peace System* (1943) summarized the main arguments of the functionalists and by its very title drew attention to their major claim: functionalism is the road to a lasting peace. This claim has been the main target—and a very easy one—of the attacks on the functionalists. However, a close examination of the doctrine reveals that it may have other, more useful ideas to offer to the student of international relations.

**The functionalist doctrine**

The functionalist believes that contemporary nationalism rests on factors which cut across national lines, i.e., that there is a movement away from a demand for national rights and toward a demand for services (Mitrany 1943, p. 17. It must be remembered that Mitrany was writing during World War II and was predicting the shape of the postwar world by projecting the domestic trend toward welfare statism into the international arena). The functionalist maintains that social and economic maladjustments are the basic causes of war and that social and economic welfare is the precondition of peace. The real task of our common society is the conquest of poverty, ignorance, and disease; our social interdependence is all-pervasive and all-embracing.

The existing state system, according to the functionalist, contributes to international tensions and conflicts because it is institutionally inadequate. It cannot deal with basic global problems because it arbitrarily divides global society into national units based on territory, and not on the problem to be solved. International institutions based on *function* rather than on *territory* would be appropriate for the solution of such problems. Establishing such institutions is possible, he argues, because social activities can be separated into political and nonpolitical (“technical”) ones. The particular activity (or function) will determine the form of the agency in any given case.

Furthermore, the experience gained in one area can be transferred to other areas so that a successful institutional device can serve as a model for devices in many different settings. Successful experience will spread and accumulate, forming part of the foundation for an international society. (This idea serves as the basis for the “spill-over” concept discussed below.)

The existing state system, in the functionalist canon, promotes the subjective allegiances which send men to war. International bodies that focus attention on areas of common interest may, on the other hand, foster international loyalty among people at large and counteract harmful nationalistic attitudes. Similarly, the leaders of national states—politicians, diplomats, and soldiers—are blinded by their narrow view of their national interests and do not have the proper perspective to encourage international cooperation. Experts working for international organizations will develop international loyalties and will help to create a peaceful international community.

Finally, the most basic premise of the functionalists, albeit not explicity stated, is that human beings are fundamentally rational, that they see the advantages of harmony over conflict in social relations, and that they can control their destiny through the evolutionary steps that will lead to a peaceful world.

The functionalist program emerges quite simply and clearly from the above premises. In selected areas of life, “comprehensive and solid” authorities will be created. Some of these already exist, but many more must be added, until a “web of international activities and agencies” will “overlay political divisions” (Mitrany 1943, pp. 10-11). ultimately, international government, consisting of the sum of these agencies, will be coextensive with all international activities. Coordination among these various organizations will also emerge functionally. First there will be ties between individual bodies, based on common needs and problems. When these prove inadequate, groups of agencies will start to work together. Later, general international planning agencies will emerge, covering broad ranges of activities. Finally, a general political authority will emerge, out of the necessity for over-all coordination. (However, this last step is left rather vague and is not considered of immediate importance.)

The functionalists do recognize that difficulties may arise in the course of implementing their program, but they claim that such difficulties are merely mechanical and can be mechanically solved as they arise.

*Criticism.* Among the more sophisticated critics of functionalism is Inis Claude ([1956] 1964, chapter 16), who rejects most of the functionalist premises. War, he states, is not a product of economic and social conditions; rather, to quote Kelsen: “the unsatisfactory situation of world economy is the consequence of war” (1944, p. 16).

Furthermore, Claude rejects the notion of the “separability” of the economic and social strata of life from the political, and even if they could be separated, he believes that states would insist on putting off welfare matters until they had solved the political issues that divide them.

As for transferring cooperative experience from one sphere to another and accumulating cooperative spirit, here again Claude is pessimistic, believing that functional development is bounded by political issues and will expand only until halted by some crisis. “The problem of the recurrent setback, the interruption and disruption by war of the projects of functionalism for the eventual elimination of war, poses a critical dilemma” (Claude [1956] 1964, p. 354).

Claude also challenges the functionalists’ reliance on human rationality, particularly the rational transfer of loyalties from national to international agencies. New institutions do not necessarily create new loyalties. Finally, Claude notes that the functionalist program for building the foundation of peace is a long-range one, and he is not sure that all that time is available (presumably before another world war erupts).

Most of this criticism is, of course, directed at the programmatic features of functionalism, challenging the proposition that this is the road to peace. In other words, Claude is engaging in an ideological debate (other critics do the same, only not as well). The empirical evidence he presents is not much better than the original evidence presented by the functionalists. However, regardless of the validity of these assertions and counterassertions, functionalism must also be examined from two other points of view: (a) as a phenomenon in international politics and *(b)* as a theoretical contribution to the study of international organization.

**Functionalism in operation**

Functionalists advocate building on existing foundations—extending the network of international agencies and increasing their powers. As already noted, this practical approach is one of the chief attractions of functionalism, for functional international organizations have existed for well over one hundred years, and their number has steadily increased. Accurate figures are hard to obtain because they depend on one’s definition of a functional international organization. However, a general picture of governmental and nongovernmental organizations can be found in the *Yearbook of International Organizations* (see also Reuter 1956; Angell 1965).

In the nineteenth century, as a result of the rapid technological progress and the exploitation of new sources of energy, the range of international relations was greatly widened and nations found more and more common interests, which led to the creation of numerous international organizations, both private and governmental (Mangone 1954). From the functionalist’s point of view, the most significant of these institutions were the “public unions” or “administrative unions.” These generally started as treaties signed by states to protect specific interests. The treaties led to the establishment of international bureaus or secretariats which coordinated the activities of the members and handled administrative matters. Periodic meetings were held at which representatives of the member states set broad policies, generally making decisions by unanimous vote only.

These organizations emerged primarily in the fields of communications, transport, and commerce, and to a lesser extent in the areas of health and social welfare. Thus they represented primarily the economic and social interests of nations and were comparatively untouched by issues of war and peace. Several of these public unions have survived both world wars and are still functioning—some as specialized agencies of the United Nations but others as independent organizations. It is easy to see why the functionalists lay so much emphasis on separating economic from political issues and on increasing the number of such organizations: these are the ones that have continued to function and, within their limited spheres of competence, have achieved considerable success.

The founders of the League of Nations, although at first reluctant, did finally incorporate articles 23-25 into the Covenant (Walters 1952, vol. 1, p. 59). These articles suggest at least an awareness of functionalist concerns. Article 23 sketches areas of social concern; article 24 provides for administrative coordination of existing international bureaus, and even for the financing of such bodies if placed under the direction of the League; and article 25 is devoted to encouraging international health and prevention of disease. (Since a whole article is devoted to matters of health, it is quite clear that this was considered, at the time, a most important functional area.)

As the League started to operate, these “functional” aspects of its work assumed increasing importance. It set up technical committees, organized conferences, started technical assistance, and conducted studies in social and economic problem areas (Asher et al. 1957). In fact, most retrospective appraisals of the League single out this area of activity as its most notable achievement. For example: “In retrospect, the successes scored by its functional agencies seem to be the main redeeming features of the record of the League …” (Claude [1956] 1964, p. 357; see also Goodspeed 1959, pp. 76-77).

Although the League recognized the autonomy of some international public unions, such as the International Labour Organisation (ILO), it was basically committed to centralizing all its activities. The Council, therefore, was in charge of coordinating, supervising, and controlling even economic and social matters. The political pressures that were thus brought into the functional field were of some concern to the League, and a special committee was established to recommend improvements. The Bruce Report (League of Nations 1939) recommended the creation of a special body of governmental representatives *and experts* to replace the Council as the supervisory agency of the League’s technical activities. In other words, this was a functionalist solution.

During and after World War II there was a growing awareness of the need for international social and economic collaboration. The United Nations Charter specifically provided for specialized agencies and for coordinating welfare activities through the Economic and Social Council (articles 55-72). It may be an exaggeration to call the whole United Nations system “a full fledged experiment in the application of the functional theory to international affairs” (Claude [1956] 1964, pp. 357-358), but there is no doubt that functionalist ideas were influential in creating the machinery for dealing with social and economic problems (Asher et al. 1957, pp. 420-639).

Since the drafting of the charter, the functional program of the United Nations has expanded considerably, and there has been an increase in the number of functional agencies outside the United Nations system (Jessup & Taubenfeld 1959, pp. 85-116, 117-134). True, in many fields the international organizations concerned have quite narrow, limited functions of an essentially administrative nature, and the important policies and decisions are made by the member states individually. Nevertheless, in several cases “supranational” political power has been given to the organizations, and in the case of the European Economic Community and its predecessors, the road seems to be leading to political integration.

In the discussion thus far it has not been made clear whether these functional phenomena were directly related to the work of the functionalists. Clearly, David Mitrany, Gunnar Myrdal, James Avery Joyce, and others used these international developments to illustrate their claims, but it is far from certain that these men, in turn, influenced the events. All one can say is that functionalist ideas influenced a considerable number of international civil servants and even some national leaders, both before and after World War II.

Important individuals like Albert Thomas of the ILO, Lord Boyd Orr of the Food and Agriculture Organization (FAO), Brock Chisolm of the World Health Organization (WHO), and Aake Ording of the United Nations International Children’s Emergency Fund (UNICEF) often expressed views that would have pleased any functionalist (Schuman 1952). These men all occupied important positions during the formative years of their organizations and undoubtedly helped to create an atmosphere favorable to functionalism. In the European context, Jean Monnet, Walter Hallstein, and others have also expressed views that show their sympathy with functionalist ideas.

To conclude, the significance of functionalism in operation is that both international organizations and their leaders reflect many of its views and assumptions, and follow policies that agree with its programs.

**Theoretical contributions**

The fact that functionalist ideas were derived from international phenomena, and in turn influenced some policy makers and international institutions, draws attention to the contributions that functionalism can make to the study of international relations. It shows the importance of certain aspects of international relations that would otherwise be neglected and raises important questions about the nature of international political processes. In so doing, moreover, it enables students to use concepts and techniques from other areas of political science and from other social sciences to examine international relations.

The study of functional international organizations has traditionally occupied few scholars, and the topic has been allocated few pages in most books on international organization; general works on international relations barely mention them. Although this situation still prevails, there are signs of change, and credit is due to the functionalists and their emphasis on the role of such organizations (see, e.g., Alexandrowicz 1962).

The questions that arise out of the functionalist emphasis apply to several aspects of international relations. For example, do institutions precede functions or vice versa? Mitrany argued that only when the need for an organization is clear will that organization emerge. On the other hand it is obvious that as organizations grow, they subsume new functions and occasionally even create them. Clearly the relationship is worth investigating. Another example: What kind of constitution should an international organization have? Mitrany claimed that nothing could be worse than a written one. Yet most international bodies do in fact have some founding document—be it a covenant, a charter, or a treaty. Is this a factor in their difficulties? Should such agencies have unwritten constitutions? No constitutions? The connections here to international public law are obvious and important. A final example: Mitrany has been criticized for suggesting the Tennessee Valley Authority as a model for international public authorities. Much of the criticism may be valid, but the critics do not systematically examine why the analogy is faulty. The groundwork for such examinations is only now being laid, but clearly much can be learned by comparing national and international functional agencies (Alger 1963).

In addition to the institutions themselves, functionalism draws attention to the parts played by interest groups in international politics. Here, too, traditional scholarship was deficient, concentrating merely on governments and, at best, mentioning the *domestic* influence of pressure groups on foreign offices and diplomats. Very occasionally someone would refer to international nongovernmental organizations, only to dismiss them as mildly interesting but unimportant. There is, however, some evidence that the role of nongovernmental bodies is by no means insignificant, and their influence may occasionally even exceed that of governments (Meynaud 1961; Bock 1966).

Functionalists are often accused of having an idealized and therefore “unrealistic” view of human nature when they suggest that international institutions will develop international loyalties in their officials and help to overcome divisive national loyalties. This criticism oversimplifies the true position of the functionalists who also claim that officials may act to promote *international* interests even though their reasons are *nationalistic.* This argument can, of course, be empirically tested. Careful investigation will be able to determine the effects that working for an international organization has on the individuals concerned. At present, information of this kind is practically nonexistent. (But see some recent contributions in Kelman 1965.) In fact, little is systematically known about international civil servants, their backgrounds, their attitudes, etc. Even less is known about government representatives and interest group officials who act in the international arena. By drawing attention to these questions, functionalism opens another area for investigation.

Functionalism has also had a definite impact on the study of international law since 1945. The work of scholars like Philip C. Jessup and Howard J. Taubenfeld (1959), C. Wilfred Jenks (1958), and Wolfgang Friedmann (1964) clearly bears the mark of functionalist ideas. Friedmann, for example, notes with approval that “a functional approach to international organization correlates the development of international law and organization with political and social realities and tendencies of international life” (p. 276). A further reflection of this influence is the growth of international legal studies devoted to functional concerns, e.g., trade, conservation of resources, and social welfare.

But perhaps the major contribution of functionalism has been to the study of international integration. It is precisely in these terms that Haas (1964) examines it and finds it, on the whole, quite useful. The concepts of separability, transferability, and spill-over, which play such an important role in all discussions of international integration, originate in the ideas of the functionalists; and, of course, at the heart of the doctrine of functionalism lies the notion of integrating the nation-state system into a world community to achieve lasting peace.

**Functional international integration**

The concept of functional international integration, which refers to the integration of “technical” or “noncontroversial” activities of nations, forms a part of the broader concept of international integration. Since the concept is of recent origin and since little work has been done on it, it might be useful to trace its origins before discussing its characteristics and potentialities.

Interest in “world community,” “world government,” the “commonwealth of man,” or “one world” is, of course, quite old (see the survey in Schuman 1952); but only since the end of World War II have social scientists made serious efforts to study the phenomena described by these labels, largely because only since then have there been enough such phenomena to make empirical study worthwhile.

The growing interdependence of the nations of the world as a result of the enormous rate of technological change has been the subject of much comment. However, this interdependence has by no means been a one-way street leading to internationalism or a sense of world community. There has been an increase in world trade and international communication, which has brought developed countries into closer commercial relationships; at the same time poorer countries have been encouraged to multiply their international trade and financial contacts (Kindelberger 1965). But the same technological advances have also enabled national governments to increase their powers and activities and have made nationalism more popular and intractable than before. This process has been furthered by the growing discrepancy between rich countries and poor, by the fact that most developed countries devote a smaller part of their resources to foreign trade than they did in the past, and by the decline of large-scale international migrations which were quite common before 1914 (Deutsch et al. 1957, pp. 22-25). Similarly, the development of nuclear weapons has had a mixed effect, on the one hand creating the interdependence of “a community of fear” and encouraging negotiations and cooperation, and on the other hand increasing the tempo of the arms race and whetting the appetite of individual nations to acquire nuclear weapons of their own. Yet, important as the problem of interdependence is, it has not had as great an impact on scholarly interest as have the post-1945 developments in Europe. The evolution of a European economic community and the beginnings of political unification have presented economists and political scientists with data and have led them to develop the concept, or rather concepts, of “international integration.” (Scholars are still far from agreeing on a definition of the term.)

Two other developments have contributed to the interest in integration and have broadened its subject matter. First, the emergence of a large number of new nations, many of them without unified political traditions or “sense of community,” has led scholars to study “national integration.” Second, the combination of technological advances and rapid urbanization has created problems inside many industrial countries; local or metropolitan governments are incapable of providing for the needs of people and larger units have not yet emerged; scholars, therefore, have begun to talk about “community formation” and “regional integration.”

International integration, political as well as economic, has been defined variously as a *process,* a *condition,* or both. Arguments can be made for all three positions, but, from my point of view, defining integration as a process is the most useful. This has led me to accept the definition of Leon Lindberg, according to which political integration is “the process whereby nations forgo the desire and ability to conduct foreign and key domestic policies independently of each other, seeking instead to make *joint decisions* or to *delegate* the decision making process to new central organs” (1963, p. 5). Lindberg goes on to suggest that this process requires four conditions: (1) the development of central institutions and policies; (2) the assignment to these institutions of important spe-fic tasks; (3) an inherently expansive nature to these tasks; and (4) the continued commitment of member states, i.e., they must continue to see their interests as consistent with the enterprise. (For different approaches see Jacob & Toscano 1964, pp. 1-11; Deutsch et al. 1957, p. 5; North et al. 1960.)

Note that this definition does not deal with the result of the process. Thus, no point is postulated at which integration is complete. For that matter, no special predetermined line of evolution is established; the process of integration may go on for any length of time and *may* result in a new political entity, but it does not have to.

As already indicated, most of the scholarly work on integration by economists and political scientists has concerned the European community, although some very recent studies have dealt with Africa (Nye 1965) and Latin America (Wionczek 1966). The emphasis has naturally been on *regional* phenomena, and very little attention has been paid either to global or to functional phenomena.

**Economic integration**

A possible exception to the emphasis upon regional phenomena can be found in the work of some economists. There is probably consensus among economists to regard economic integration as a process *and* a condition: a process encompassing measures to abolish discrimination between economic units belonging to different national states and a condition in which various forms of discrimination between national economies are absent (Balassa 1961, p. 1). As such, economic integration can take various forms, from free trade area to customs union to common market to economic union to complete economic integration, and it also describes the steps leading to the attainment of each of these forms As to the means and objectives of economic integration, two extreme views may be contrasted: the “liberalist” and the “dirigist.” The liberalist approach, also called “functional” (but not to be confused with our usage of the word), involves gradually eliminating impediments to commodity movements and eventually establishing “a larger market in which the laws of supply and demand can be effective without regional administrative intervention” (Sannwald & Stohler [1958] 1959, p. 84). The advocates of this approach (e.g., Maurice Allais, Wilhelm Roöpke, and M. A. Heilperin) equate integration with trade liberalization and oppose the establishment of supranational institutions or, indeed, any form of political unification. Proponents of the dirigist or “institutional” approach (e.g., André Philip, Maurice Bye) say that integration should be established through positive administrative measures and maintained through continuous administrative action. They propose creating a supranational authority with the delegated functions of coordinating economic policies. (Obviously it is the dirigists who are closer in approach to the functionalists.)

By and large, however, economists agree on the way in which to study integration and tend to concentrate on such subjects as commodity and factors movements, size and growth of markets, economies of scale, and external economies. They acknowledge that political aspects are “of great consequence” but “leave it for the political scientist to determine the political implications of such developments” (Balassa 1961, pp. 6-7).

When political scientists do look at the work of the economists—and far too few have done so—they are not quite sure of its contributions. Haas and Schmitter seem to feel that “sophisticated economic analysis” and “pure economic theory” are not especially helpful, because the political actors do not see things the way economists do. On the other hand, they admit that economic analysis could indicate “the limits of the politically possible” if only economists could agree on welfare gains and losses in particular cases. Furthermore, they argue for viewing economic union as a prelude to political integration, even though the chief actors may not see it that way in the beginning (Haas & Schmitter 1964, pp. 707-709).

**Global and functional integration**

Clearly, the relationship between economic and political integration needs further exploration. I believe that the study of economic integration can certainly contribute to the study of international *political* integration along several important lines.

First, political scientists can use the concepts and techniques evolved by economists to study global integration, even though most of the economists’studies have been regional and European in scope. The universal process of economic integration, though much less advanced than the regional one, is nevertheless measurable in the same terms. And while the political elements that are absent from the economic formulation will not be discovered by this approach, it is fair to assume that precisely these elements are least developed on the global level. In brief, this approach could supply data on what might be called the “infrastructure” of the integration process.

Second, economic integration can be viewed as an important instance of functional integration, i.e., the integration of “technical” or “noncontro-versial” activities of nations. Since almost all the empirical data on global integration concerns precisely such activities, this concept needs further elaboration. (Functional integration can, of course, also play an important role in the study of domestic integrative attempts—national, regional, or even local.)

*Separability.* The terms *technical* and *noncon-troversial* have been used, rather than *nonpolitical,* to avoid the pitfall which trapped the functionalists. In their desire to promote international agencies they insisted that political and nonpolitical (i.e., social, economic, scientific, technological, etc.) activities can be separated and that the latter can be dealt with while the former remain in abeyance. Critics were quick to point out that such separability is a myth, since all the nonpolitical activities mentioned have definite political implications, and that as soon as nations feel their impact, they will intervene politically and destroy or at least change the nature of the organization, if indeed they don’t create it as a political instrument in the first place.

This criticism is well taken, but to go further and argue that there is, therefore, no meaningful difference among international activities along these lines is totally unjustified. Every international activity may well have its political implications, but so long as the actors perceive it as *primarily* technical, noncontroversial, or unimportant to their major political concerns, it can be placed in a separate category for purposes of analysis and comparison. From this point of view, the idea of separability does come into play, and we can talk of the “autonomy of functional contexts” (Haas 1961), of functional international organizations, and of functional international integration.

There is some historical evidence that functional approaches were dominant in the early stages of most cases of international integration (Deutsch et al. 1957, p. 87). These approaches were the intermediate ground in those integrative attempts which led to the establishment of a new political entity as well as in those that led to more pluralism. In either instance, leaders found functional steps congenial and useful to advocate. Such steps do not visibly encroach on national sovereignty; they do not imply automatic political unification; and they generally do have immediate, visible, beneficial effects. Thus, “practical” men can support them. On the other hand, eventual expansion of integration into other fields, extending even to full-fledged political unity, is *not* excluded, so “idealists” can also rally round. Finally, functional activities are, by definition, specialized, and interest only limited segments of the population; national leaders, therefore, do not perceive them as threatening their domestic reputation. Consequently, functional international organizations meet with very little political opposition in most nations.

*Spill-over.* The major importance of functional integration, however, lies in the unintended consequences that such efforts have for the international integrative process. According to some observers, an “expansive logic” operates. Jean Monnet is represented as feeling that “the very disequilibrium produced by the integration of one sector and the nonintegration of the surrounding ones, the pressures from the central institutions and from the *new* community-wide political processes, will result in an ascending spiral of integration” (Hoffmann 1963, p. 530).

This idea of the expansive logic of functional integration is closely related to the “spill-over” concept evolved to explain the progress of integration in the face of the separate and autonomous policies that constitute each stage of the whole integrative process. The spill-over describes the way the powers and tasks of an institution expand because its existing powers and tasks are inadequate to meet the demands and expectations of the political actors involved. These expanded tasks then lead to further actions and new expectations and still further expansion. The concept helps us to analyze integration efforts without having to assume that all the participants share the same view of the desired end product. Spill-over is a significant concept because it draws attention to the different patterns of growth of institutional authority and of the decision-making process in international bodies.

Functional integration proceeds through the progressive delegation of the decision-making power. At first the decisions may be made in individual capitals on the basis of recommendations from an international nongovernmental group; then they are made jointly by representatives of nations in an international conference; and finally they are made by the international agency itself, thus contributing, almost casually, to international integration.

Another unintended consequence of the functional integrative process is the emergence of a new type of international actor: the functional specialist. He may be an international civil servant or a national specialist, but in either case preliminary studies show that he begins to feel a sense of community and develops a special interest in maintaining the system. His increasing decision-making power, of course, reinforces these feelings and allows him, if he is one of the more capable members of the organization, to initiate creative personal action to further the integrative process.

In conclusion, it should be obvious that functional international organizations are important agents in functional integration and should be studied from that point of view. There is no need to prejudge the case by implying that all such organizations inevitably lead to world peace and greater international unity. Quite the contrary: many of them may lead to conflict and disunity. However, it is clear that either result can be assessed in terms of the integrative process; and it is, therefore, important to find out which organization contributes how much under what circumstances and for what reasons to international integration or disintegration. This kind of research should rank high on the agenda of needed work in international organization and could lead to important contributions to international relations theory.

**IV. ECONOMIC UNIONS**

The partial integration of the economies of a group of countries can take a number of characteristic forms. A *preferential tariff system* is composed of a group of countries charging lower tariffs on products imported from each other than are charged on products imported from the rest of the world. A *free trade area* is composed of a set of countries with no tariffs on trade among themselves but with no common tariff against the outside world. A free trade area requires customs points at internal borders since, in their absence, goods destined for any member would enter the area through the member country with the lowest rate of tariff on that good. A *customs union* has free trade between member countries plus a common external tariff. A customs union does not require customs points to regulate the movement within the area of goods imported from outside the area. A *common market* is a customs union with additional provisions to ensure the free movement of factors of production between member countries. An *economic union* is a common market with some provision for common monetary, fiscal, and other governmental policies, while *complete economic integration* implies a single economic policy over all the participating countries.

Historically, economic policies to foster the freer movement of factors and goods have usually been associated with political objectives. The United States provided one of the earliest experiments in economic union, and this was combined with political union. In this case the union became inward-looking, erecting a tariff barrier against the outside world and fostering local industrial development; imports as a percentage of national product declined steadily from quite a high level at the outset to a level of less than 3 per cent in the 1960s. The political unification of Germany was also associated first with a customs union, the Zollverein, and later with a high-tariff policy introduced by Bismarck in the 1870s which fostered domestic industries at the expense of imported goods and coincided, as in the United States, with an era of rapid industrial development. In the 1930s, under the impact of the great depression, Britain abandoned her 100-year-old policy of free trade and adopted the imperial preference system. Under this system member countries of the commonwealth and empire adopted tariffs on most imports but set their rates substantially lower on goods originating in other member countries than on goods from non-members.

After World War II, economic unions of various kinds became popular, undoubtedly in reaction to the inadequacies of the old nation-state. The West Indies common market was originally linked to the political drive to establish the West Indies Federation. Plans are also proceeding to group Argentina, Brazil, Chile, Paraguay, Peru, Uruguay, and Mexico into the Latin American Free Trade Association and to unite El Salvador, Guatemala, Honduras, and Nicaragua into the Central American Common Market. The movement toward economic integration that has aroused most interest is the one that developed in western Europe shortly after the war. The Netherlands, Belgium, and Luxembourg first formed a customs union, then a full economic union. Subsequently, these three Benelux countries plus France, Germany, and Italy formed the European Common Market. In 1960 the “outer seven” countries of Austria, Denmark, Great Britain, Norway, Portugal, Sweden, and Switzerland formed the European Free Trade Association.

The early stages of the European Common Market (ECM) were very successful. A schedule was drawn up for the phased elimination of tariff on manufactured goods; subsequently the timetable was adhered to and sometimes accelerated. In the contexts of fully employed economies these tariff reductions have generally caused less economic dislocation than many had feared at the outset. Extending the Common Market to cover the agricultural sector has, however, proved to be very difficult. The central authorities of most countries are committed to a much more comprehensive and complex set of interventions in the agricultural sector than in manufacturing. Arrangements for establishing a single agricultural market and a common agricultural policy were not agreed on at the outset, but a timetable was set up for the various stages of negotiations on this subject. It subsequently proved impossible to adhere strictly to this schedule for delayed agreement.

There can be little doubt that the drive toward the ECM was motivated mainly by those whose ultimate aim was the political union of Europe and who saw economic union as a means to this political end rather than as a means to more specific economic goals, such as improving the efficiency of resource allocation, increasing the degree of competition, or raising the rate of growth. The Common Market negotiations were successful because there was a climate of opinion in favor of some supranational development in Europe. As time has passed and the ravages of World War II have become more remote to memory, the climate has swung back to a more nationalistic outlook. This change has been particularly marked in France, and it has undoubtedly made more difficult the skillful handling of the two largest problems confronting the Common Market in recent times: the as yet unsuccessful attempts to agree on terms for the entry of Great Britain into the market and the extreme difficulties encountered in finding a solution to the agricultural problem.

**Analysis of economic welfare effects**

In spite of the obvious political motivation behind the European and other common markets, evidenced by the lack of interest of member countries in attempts to quantify the potential economic gains, economists have been interested in discovering and quantifying the sources of potential economic gains and losses arising out of such unions. And the discussion of such issues among economists has been given considerable practical importance by the fact that politicians in those countries which want to stay out of the European and other economic unions because they disapprove of the political objectives have been forced to ask themselves if their countries can afford the economic cost of doing so.

A theoretical study begins with a classification of tariff systems. A nondiscriminating tariff system charges a single *ad valorem* rate on all commodities. A discriminating tariff system discriminates between commodities when different rates are charged on different commodities and discriminates between countries when different rates are charged on a single commodity, the rate varying with the country of origin. All of the forms of partial economic integration distinguished at the outset of this article involve the introduction of geographically discriminating tariff systems.

In the past, statesmen have often taken differing attitudes to preferential tariff systems and customs unions, condemning the former and praising the latter. From the economists’ point of view there is no fundamental distinction between the two. The critical factor in both cases is the introduction of a geographically discriminating tariff system, and what matters is that the rate of tariff on goods coming from other member countries is made lower than the rate on goods coming from outside countries; the situation when the tariff on members is zero is only a special case.

**Static considerations**

It has become customary to divide the effects of unions into static and dynamic ones. Static effects concern resource allocation, the location of consumption, and the terms of trade. We shall consider each of these in turn.

*Resource allocation.* The effects of a customs union on resource allocation have been divided by Viner (1950) into trade-creating and trade-diverting effects. If two or more of the member countries have an industry producing some commodity under tariff protection, then, with the abolition of tariffs on trade between union members, the lowest-cost source of supply within the union will capture the union market and will drive out the higher-cost sources of supply. This change represents a shift toward lower-cost sources of production, and it creates trade between union members where previously protected industries had each satisfied its own national market. Such a change is called a *trade-creating* one. If, however, one of the union countries has a tariff-protected industry producing some commodity, X, while at least one other union country does not have such a protected industry, then *trade diversion* is likely to occur. Before the union, the nonproducing country would be buying from the cheapest possible foreign source, since its tariff system would not distort the real structure of the relative prices of one good imported from alternative sources. The customs union does, however, distort these relative prices. If the protected industry’s price without tariff is less than the price of the same good bought from the outside world including tariff, then the nonproducing union country will switch from buying from the outside world to buying from its union partner. This causes a shift of resources from lower-cost to higher-cost sources of production and diverts one of the partners’ trade from nonunion sources of supply. Both trade-creating and trade-diverting effects can occur if the formation of the union leaves unchanged the average level of tariffs on goods from third countries. If the formation of the union is the occasion of increasing tariffs against nonunion countries, then the trade-diverting element will be reinforced.

*Consumption patterns.* Customs unions also affect the pattern of consumption by changing the structure of relative prices of goods. Even if production were totally unaffected by the union, there would tend to be a reallocation of world consumption. The union has the effect of lowering the relative prices of goods imported from other union countries vis-a-vis the prices both of domestically produced goods and of goods imported from the outside world. This will usually cause each union country to consume more of the goods produced by its partners and less of goods produced both domestically and by nonunion countries. The welfare effects of these consumption changes are most easily appreciated intuitively by considering the two sets of changes in relative prices separately. The union brings relative prices into conformity with the real terms of trade existing between union countries and, *ceteris paribus,* this tends to raise welfare, but it creates a divergence between the relative prices of goods imported from other union countries on the one hand and from the outside world on the other. *Ceteris paribus,* this tends to lower welfare.

*Terms of trade.* The third main effect of a union on welfare is through the terms of trade. Generally, the trade-diverting effects of the union will mean that union countries are reducing their demands for goods from nonunion countries, and this will usually tend to turn the terms of trade in the union’s favor. If the tariffs levied by the union countries against the rest of the world were at or above the optimum level before the union was formed, this “favorable” change in the terms of trade will tend to lower union welfare.

All three static effects can either raise or lower welfare, so there can be no general qualitative prediction about the direction of the welfare changes caused by customs unions. Some generalizations about factors pushing the balance toward gain or loss have been put forward. The most important are that unions are more likely to bring gain in each of the following circumstances: (1) the larger the area covered by the union, because the larger the area, the larger is the volume of trade creation likely to be relative to the volume of trade diversion; (2) the higher the level of preunion tariffs between union members, because the higher the level, the more nearly self-sufficient the members will have been and the larger the number of protected industries that may be subject to trade creation; (3) the further apart the unit costs in the different union countries of any commodity subject to trade creation, because the further apart the costs, the greater the gain per unit of trade created; (4) the lower the level of preunion and postunion tariffs against the outside world, because the lower the level, the smaller the number of commodities subject to trade diversion; (5) the closer together the unit costs of union and nonunion members for any commodity subject to trade diversion, because the smaller will be the loss per unit of trade diversion; (6) the lower the outside world’s own general level of tariffs, because the lower this is, the smaller the distorting effect on the relative prices of union and nonunion members’ goods as seen in markets both within and without the union.

*Quantification of gains.* Several notable attempts have been made to quantify the possible welfare effects of customs unions or of other tariff cuts on a similar scale. The most important are those of P. J. Verdoorn (1960), H. G. Johnson (1958), and J. Wemelsfelder (1960). All of these have come up with the answer that the potential gains from resource reallocation are extremely small—probably a once-for-all gain on the order of the magnitude of 1 per cent of a country’s national income. This gain, which is equivalent to that brought about by no more than a few months of economic growth, seems hardly worth making a vast effort to attain or taking any substantial risks to obtain. Clearly, the whole case of free trade versus modest tariffs on the order of 10 per cent or 20 per cent *ad valorem* needs to be rethought in the light of these figures.

A simple calculation, using no more than one or two well-known facts, shows that the results of the detailed studies mentioned above are unlikely to have underestimated the order of magnitude of the static gains. Typical tariff levels of European countries prior to the formation of the Common Market were on the order of 20 per cent. This meant that the *maximum level* of inefficiency of a protected domestic industry was 20 per cent. The *average level* was likely to have been closer to 10 per cent than to 20 per cent. The percentage of a country’s resources that are engaged in producing goods inefficiently under tariff protection is more difficult to estimate, but the upper limit can be taken as the percentage of resources in those industries which are unable to cover existing costs without tariff protection. This could hardly have exceeded 10 per cent of total resources in the countries of western Europe and is likely to have been much less in many. Taking these rough orders of magnitudes, we have 10 per cent of a country’s resources producing goods on average 10 per cent less efficiently than they could have been produced abroad. Eliminating this inefficiency should raise the over-all productivity of a country’s resources by 1 per cent, thus raising national income by the same figure.

**Dynamic considerations**

With the publication of the above estimates the supporters of economic unions shifted their case from static arguments, which were the ones mainly relied on until then, to dynamic arguments. The main dynamic considerations are economies of scale, the effects on market structures, and the effects on the underlying growth rate.

*Economies of scale.* Let us consider the industries in a particular member country that are efficient enough to survive the formation of the union. If, in the preunion situation, their domestic and export market was not large enough to allow all significant economies of scale to have been exhausted, then the enlargement of the market consequent to the formation of a union will allow further scale economies to be realized, and the reduction in real unit costs of production will contribute to a once-for-all rise in living standards. The rise may, of course, be spread over several years, while the economies are realized through time, but it is not a source of permanent change in the rate of growth.

*Effect on market structures.* If the unified market contributes to wider competition and breaks down monopoly positions in the formerly protected markets of individual member countries, then the formation of the union may lead to welfare gains. If, on the other hand, the climate of the union is conducive to the formation of monopolies and restrictive practice agreements, welfare may be lowered. It is also believed by many that the chill winds of international competition will force more efficient behavior on people who were formerly sheltered behind high national tariff walls and were willing to earn only modest profits in return for quite unadventurous business behavior.

*Effect on long-term growth rates.* The possible effect of a union on long-term growth rates is more difficult to determine. If larger firms have more funds to devote to research and development than have the smaller firms that satisfy separate national markets, this could be an important source of dynamic gain. If the union fosters a more competitive spirit which in turn leads to a more active search for innovations, this could also be important. On the other hand, it is possible that some member areas could suffer seriously if the union accentuates regional inequalities by reinforcing the advantages of already well advanced areas. The way in which this could happen is outlined in the works of Myrdal (1956) and Perroux (1955) that are discussed briefly later in this article.

*Quantitative importance of dynamic gains.* Empirical knowledge of the quantitative importance of the dynamic factors is sketchy. Various economists have given widely different guesses on the unex-ploited economies of scale existing in the various countries of western Europe. Bela Balassa (1961) has reviewed much of the evidence and has made a good case for the existence of unexploited economies in the Common Market countries, thus supporting the belief that an increase in the size of the market consequent on the formation of the ECM would lead to some reduction in real costs of production. We have virtually no knowledge, however, of how significant this would be in quantitative terms. As in the case of resource reallocation, the gains could be trivial. If, say, 20 per cent of a country’s productive units found their real costs falling by 5 per cent, the gain could be in the order of a once-for-all rise in national income of 1 per cent. For the gains to be substantial, either costs would have to fall dramatically, or a very large proportion of the country’s total productive activities would have to be involved.

Empirical evidence is very sketchy on the second effect of unions: that on the degree of competition. Persons favorable to the European Common Market have suggested that, while not being hostile to bigness per se, the market authorities are trying to encourage competition. Persons hostile to the market have argued that the actions of the authorities will in the end encourage the growth of more effective monopolies than were likely when a single central policy could not affect behavior in all six member countries. The fact that both views are still argued vigorously shows that sufficient evidence has not yet been accumulated to allow us to take a final stand on the important case study of the effect of the European Common Market on encouraging or discouraging various market forms.

It has also been argued that, while not actually changing market forms, the Common Market will increase the degree of effective competition within any existing form. For example, many people in Great Britain have put great stress on the beneficial effects of continental European competition in forcing a more progressive attitude on management and labor. Others believe, however, that the adaptation of labor and management will not occur fast enough and that as a result of the sudden introduction of competition from the Continent, Britain would be turned into a permanently depressed area. It is argued that these unfavorable trends would be accentuated by the near certainty that Britain would go into the Common Market with an overvalued exchange rate due to misplaced feelings of national pride. This might reduplicate the situation of the 1920s, when Britain, following a return to the gold standard at an overvalued exchange rate, experienced a severe local depression, with over 10 per cent unemployment, from 1925 to 1930. Those holding this view argue that to take even a small chance of a large loss in order to get a fairly large chance of a small gain is a gamble that should appeal to very few.

There remains the third possible source of gain: the effect of the union on the long-term growth rate of the participating countries taken as a whole, Here we have very little evidence as yet, and about all that can be said is that the work of Lamfalussy (1961) shows that the rapid growth in “the six” cannot, with any reasonable degree of probability, be ascribed to developments in the Common Market to date.

There is also concern about the effects of the union on differential growth rates in various developed and backward areas of the union. The work of Myrdal (1956) and Perroux (1955) suggests that unions may accentuate regional inequalities as already established centers of growth attract the most mobile and most productive factors from the underdeveloped areas. This theory is in contradiction to the classical theory of resource allocation, but it can be developed as a fully consistent theory based on certain dynamic postulates. The choice between the two must thus be made on empirical grounds. Borts and Stein (1964) have produced evidence from the United States that regional inequalities tend to lessen as growth proceeds. This evidence is in favor of the classical theory, but a final verdict must await further studies. In the meantime the outcome is critical to underdeveloped economies on the fringe of the Common Market that must decide whether or not to make a determined effort to enter the organization.

The general state of empirical knowledge on all possible effects of unions, other than the realloca-tion of resources according to comparative advantage, is most unsatisfactory. The knowledge existing at the time of writing was reviewed to this effect by Lipsey (1960). In spite of a great deal of discussion and argument on qualitative issues, we remain profoundly ignorant on most of the important questions which are capable of being quantified. This lack of knowledge was dramatically illustrated by a poll of British economists taken by the London *Observer* at a time of British negotiations for entry into the Common Market. The opinions of highly reputable economists ran the entire gamut from “total disaster” to “enormous gains” (“The *Observer . . .”* 1962). Such divergent views could not be held by large numbers in the face of any solid body of evidence. The significance of some of the views expressed has been discussed in another context by Hutchison (1964).

The political implications of economic union have already been mentioned, and there can be no doubt that many supporters of customs unions and common markets see them as a first step toward political union. Some economists (for example, Meade 1953) argue that the practical problems of a common market will force greater harmony of policies on the central authorities, irrespective of their own desires. These economists thus see a high degree of economic and political integration as the inevitable result of economic union. This possibility explains the hostile attitude to economic union on the part of many who might be favorably inclined to its more limited economic objectives.

There is general agreement that some economic and social policies will have to be harmonized; minimum wage laws and corporate income taxes are two examples. It is accepted, however, and American experience seems to confirm this, that quite substantial differences in some tax rates and in some social policies can be sustained within the framework of a closely integrated common market.

To what extent independent monetary and fiscal policies can be operated is still conjectural. Clearly the high degree of economic interdependence fostered by a union, together with a fixed exchange rate policy, reduces the freedom of one country to operate a full employment policy independent of its partners. Within a union there is no way to insulate the balance of payments of one country from the effects of an inflation of that country’s aggregate demand by exchange depreciation or tax and quota policies to reduce imports. Clearly some degree of autonomy must be abandoned. Just how much and whether it is a modest or an exorbitant price to pay for the advantage of union are some of the most important unsolved problems facing policy makers today.

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## Theme № 2 The European Union and the stages of its development

***Questions:***

**1. Background of the emergence of economic integration in Western Europe**

**2. Free Trade Area of the EEC**

**3. Customs Union Group of Western European countries**

**4. Common Market Group of the EEC countries**

**5. Economic Union of West European countries**

Introduction

The European Union (EU) is a political and economic partnership that represents a unique form of cooperation among sovereign countries. The Union is the latest stage in a process of integration begun after World War II, initially by six Western European countries, to foster interdependence and make another war in Europe unthinkable. Today, the EU is composed of 28 member states, including most of the countries of Central and Eastern Europe, and has helped to promote peace, stability, and economic prosperity throughout the European continent. The EU has been built through a series of binding treaties, and over the years, EU member states have sought to harmonize laws and adopt common policies on an increasing number of economic, social, and political issues. EU member states share a customs union; a single market in which goods, people, and capital move freely; a common trade policy; and a common agricultural policy. Nineteen EU member states use a common currency (the euro), and 22 participate in the Schengen area of free movement in which internal border controls have been eliminated. In addition, the EU has been developing a Common Foreign and Security Policy (CFSP), which includes a Common Security and Defense Policy (CSDP), and pursuing cooperation in the area of Justice and Home Affairs (JHA) to forge common internal security measures. EU member states work together through several institutions to set policy and to promote their collective interests. Key EU institutions include the European Council, composed of EU Heads of State or Government, which acts as the strategic guide and driving force for EU policy; the European Commission, which upholds the common interest of the Union as a whole and functions as the EU’s executive; the Council of the European Union (also known as the Council of Ministers), which represents the national governments; and the directly elected European Parliament, which represents the citizens of the EU. EU decisionmaking processes and the role played by the EU institutions vary depending on the subject under consideration. For most economic and social issues, EU member states have largely pooled their national sovereignty, and EU decisionmaking has a supranational quality. Decisions in other areas, such as foreign policy, require the unanimous consensus of all 28 member states. The United States has strongly supported the European integration project since its inception as a means to foster democratic states and strong trading partners in Europe. The United States and the EU have a dynamic political partnership and share a huge trade and investment relationship. To expand and strengthen the transatlantic economy even further, the United States and the EU are pursuing a comprehensive free trade agreement, known as the Transatlantic Trade and Investment Partnership (T-TIP); both the United States and the EU hope to conclude negotiations in 2016. At the same time, some U.S.-EU divisions exist on a range of issues. These include how best to manage relations with Russia, the Israeli-Palestinian conflict, climate change, and several longstanding trade disputes. Data privacy and data protection have also been key sticking points, with the differences in U.S. and EU approaches highlighted most recently by the October 2015 EU court judgment invalidating the U.S.-EU Safe Harbor Agreement that had permitted the transfer of personal data between European and U.S. companies since 2000. Many U.S. officials, including some Members of Congress, are also concerned that the multiple challenges currently facing the EU—from the migration and refugee crisis to the upcoming UK referendum on EU membership to the rise of anti-EU populist political parties—may have significant implications for the EU’s future and its ability to be a robust and effective U.S. partner in the years ahead. This report serves as a primer on the EU. It also briefly describes U.S.-EU political and economic relations that may be of interest in the 114th Congress. Also see CRS Report R44249, The European Union (EU): Current Challenges and Future Prospects in Brief, by Kristin Archick.

The [**European Union**](https://en.wikipedia.org/wiki/European_Union) is a [geo-political](https://en.wikipedia.org/wiki/Geopolitics) entity covering a large portion of the European continent. It is founded upon numerous treaties and has undergone expansions that have taken it from 6 [member states](https://en.wikipedia.org/wiki/Member_state_of_the_European_Union) to 28, a majority of the states in Europe.

Distinct from the ideas of [federation](https://en.wikipedia.org/wiki/Federation), [confederation](https://en.wikipedia.org/wiki/Confederation) or [customs union](https://en.wikipedia.org/wiki/Customs_union) the main development of the Europe Union has depended on a[supranational](https://en.wikipedia.org/wiki/Supranational_union) foundation to ''*make war unthinkable and materially impossible''*[[1]](https://en.wikipedia.org/wiki/History_of_the_European_Union#cite_note-1)[[2]](https://en.wikipedia.org/wiki/History_of_the_European_Union#cite_note-2) and reinforce democracy as enunciated by[Robert Schuman](https://en.wikipedia.org/wiki/Robert_Schuman) and other leaders in the [Europe Declaration](https://en.wikipedia.org/wiki/Europe_Declaration) of 1951 and the "[Schuman Declaration](https://en.wikipedia.org/wiki/Schuman_Declaration)" (1950). This principle was at the heart of the [European Coal and Steel Community](https://en.wikipedia.org/wiki/European_Coal_and_Steel_Community) (ECSC) (1951), the [Treaty of Paris (1951)](https://en.wikipedia.org/wiki/Treaty_of_Paris_%281951%29), and later the [Treaties of Rome](https://en.wikipedia.org/wiki/Treaties_of_Rome)(1958) which established the [European Economic Community](https://en.wikipedia.org/wiki/European_Economic_Community) (EEC) and the [European Atomic Energy Community](https://en.wikipedia.org/wiki/European_Atomic_Energy_Community) (EAEC). Both the ECSC and EEC were later incorporated into the European Union while the EAEC maintains a distinct legal identity despite sharing members and institutions.

The [Maastricht Treaty](https://en.wikipedia.org/wiki/Maastricht_Treaty) (1992) created the [European Union](https://en.wikipedia.org/wiki/European_Union) with its [pillar system](https://en.wikipedia.org/wiki/Pillars_of_the_European_Union), including foreign and home affairs alongside the[European Community](https://en.wikipedia.org/wiki/European_Community). This in turn led to the creation of the single European currency, [the euro](https://en.wikipedia.org/wiki/Euro) (launched 1999). The Maastricht Treaty has been amended by the treaties of [Amsterdam](https://en.wikipedia.org/wiki/Treaty_of_Amsterdam) (1997), [Nice](https://en.wikipedia.org/wiki/Treaty_of_Nice) (2001)

Large areas of Europe had previously been united by empires built on force, such as the [Roman Empire](https://en.wikipedia.org/wiki/Roman_Empire), [Byzantine Empire](https://en.wikipedia.org/wiki/Byzantine_Empire), [Frankish Empire](https://en.wikipedia.org/wiki/Frankish_Empire), [Holy Roman Empire](https://en.wikipedia.org/wiki/Holy_Roman_Empire), [Ottoman Empire](https://en.wikipedia.org/wiki/Ottoman_Empire), the [First French Empire](https://en.wikipedia.org/wiki/First_French_Empire) and [Nazi Germany](https://en.wikipedia.org/wiki/Nazi_Germany). A peaceful means of some consolidation of European territories used to be provided by [dynastic unions](https://en.wikipedia.org/wiki/Dynastic_union); less common were country-level unions, such as the [Polish–Lithuanian Commonwealth](https://en.wikipedia.org/wiki/Polish%E2%80%93Lithuanian_Commonwealth) and [Austro-Hungarian Empire](https://en.wikipedia.org/wiki/Austro-Hungarian_Empire).[[4]](https://en.wikipedia.org/wiki/History_of_the_European_Union#cite_note-4)

In the [Congress of Aix-la-Chapelle](https://en.wikipedia.org/wiki/Congress_of_Aix-la-Chapelle_%281818%29) of 1818, [Tsar Alexander](https://en.wikipedia.org/wiki/Alexander_I_of_Russia), as the most advanced internationalist of the day, suggested a kind of permanent European union and even proposed the maintenance of international military forces to provide recognised states with support against changes by violence.[[5]](https://en.wikipedia.org/wiki/History_of_the_European_Union#cite_note-5)

Largely due to the devastating effects of war many people turned to the idea of some form of unified Europe, notably [William Penn](https://en.wikipedia.org/wiki/William_Penn), [Abbot Charles de Saint-Pierre](https://en.wikipedia.org/wiki/Abbot_Charles_de_Saint-Pierre), [Victor Hugo](https://en.wikipedia.org/wiki/Victor_Hugo), [Richard Coudenhove-Kalergi](https://en.wikipedia.org/wiki/Richard_Coudenhove-Kalergi) and [Giuseppe Mazzini](https://en.wikipedia.org/wiki/Giuseppe_Mazzini). Such ideas became greater in Europe following [World War I](https://en.wikipedia.org/wiki/World_War_I), with the massive loss of life it entailed, but it was not until after [World War II](https://en.wikipedia.org/wiki/World_War_II) that real steps were taken.

An example of an organisation formed to promote the association of states between the wars to promote the idea of European union is the [Pan-Europa movement](https://en.wikipedia.org/wiki/Pan-Europa_movement).

After two devastating world wars, the political climate favoured an international unity that could preserve peace in Europe effectively. (bombed[Hamburg](https://en.wikipedia.org/wiki/Hamburg%22%20%5Co%20%22Hamburg) in 1943)

[World War II](https://en.wikipedia.org/wiki/World_War_II) from 1939 to 1945 saw a human and economic cost which hit Europe hardest. It demonstrated the horrors of war, and also of extremism, through [the Holocaust](https://en.wikipedia.org/wiki/The_Holocaust) and the [atomic bombings of Hiroshima and Nagasaki](https://en.wikipedia.org/wiki/Atomic_bombings_of_Hiroshima_and_Nagasaki). Once again, there was a desire to ensure it could never happen again, particularly with the war giving the world [nuclear weapons](https://en.wikipedia.org/wiki/Nuclear_weapon). Most European countries failed to maintain their[Great Power](https://en.wikipedia.org/wiki/Great_Power) status leaving two rival ideologically opposed superpowers.[[6]](https://en.wikipedia.org/wiki/History_of_the_European_Union#cite_note-6) However, the exception was the USSR, which became a superpower after World War II and maintained the status for 45 years.

To ensure Germany could never threaten the peace again, its heavy industry was partly dismantled (See: [Industrial plans for Germany](https://en.wikipedia.org/wiki/Industrial_plans_for_Germany)) and its main coal-producing regions were detached ([Saarland](https://en.wikipedia.org/wiki/Saarland), [Silesia](https://en.wikipedia.org/wiki/Province_of_Silesia)), or put under international control ([Ruhr area](https://en.wikipedia.org/wiki/Ruhr_area)).[[7]](https://en.wikipedia.org/wiki/History_of_the_European_Union#cite_note-7) (See: [Monnet Plan](https://en.wikipedia.org/wiki/Monnet_Plan))

With statements such as [Winston Churchill](https://en.wikipedia.org/wiki/Winston_Churchill)'s 1946 call for a "[United States of Europe](https://en.wikipedia.org/wiki/United_States_of_Europe)" becoming louder, the [Council of Europe](https://en.wikipedia.org/wiki/Council_of_Europe) was established in 1949 as the first pan-European organisation. In the year following, on 9 May 1950, the [French Foreign Minister](https://en.wikipedia.org/wiki/French_Foreign_Minister) [Robert Schuman](https://en.wikipedia.org/wiki/Robert_Schuman) proposed a community to integrate the coal and steel industries of Europe – these being the two elements necessary to make weapons of war. (See: [Schuman declaration](https://en.wikipedia.org/wiki/Schuman_declaration)).

[Robert Schuman](https://en.wikipedia.org/wiki/Robert_Schuman) [proposed](https://en.wikipedia.org/wiki/Schuman_Declaration) the [Coal and Steel Community](https://en.wikipedia.org/wiki/European_Coal_and_Steel_Community) in May 1950.

On the basis of that speech, France, Italy, the [Benelux](https://en.wikipedia.org/wiki/Benelux) countries (Belgium, Netherlands and [Luxembourg](https://en.wikipedia.org/wiki/Luxembourg)) together with [West Germany](https://en.wikipedia.org/wiki/West_Germany)signed the [Treaty of Paris (1951)](https://en.wikipedia.org/wiki/Treaty_of_Paris_%281951%29) creating the [European Coal and Steel Community](https://en.wikipedia.org/wiki/European_Coal_and_Steel_Community) the following year; this took over the role of the[International Authority for the Ruhr](https://en.wikipedia.org/wiki/International_Authority_for_the_Ruhr)[[8]](https://en.wikipedia.org/wiki/History_of_the_European_Union#cite_note-8) and lifted some restrictions on German industrial productivity. It gave birth to the first institutions, such as the High Authority (now the [European Commission](https://en.wikipedia.org/wiki/European_Commission)) and the Common Assembly (now the [European Parliament](https://en.wikipedia.org/wiki/European_Parliament)). The first presidents of those institutions were [Jean Monnet](https://en.wikipedia.org/wiki/Jean_Monnet) and [Paul-Henri Spaak](https://en.wikipedia.org/wiki/Paul-Henri_Spaak) respectively.

[WikiLeaks](https://en.wikipedia.org/wiki/WikiLeaks) documents revealed on 8 May, 2009[[9]](https://en.wikipedia.org/wiki/History_of_the_European_Union#cite_note-9) show that at the [Bilderberg Group](https://en.wikipedia.org/wiki/Bilderberg_Group) in 1955, there was support for a single European currency (i.e. the [euro](https://en.wikipedia.org/wiki/Euro)) and for a [common market in Europe](https://en.wikipedia.org/wiki/European_Common_Market) with lower tariff rates than those outside of the common market, and greater pan-[European integration](https://en.wikipedia.org/wiki/European_integration), based on the then six members of the European Coal and Steel Community, "particularly with regard to the industrial utilization of [atomic energy](https://en.wikipedia.org/wiki/Atomic_energy)."[[10]](https://en.wikipedia.org/wiki/History_of_the_European_Union#cite_note-10)

The attempt to turn the [Saar protectorate](https://en.wikipedia.org/wiki/Saar_%28protectorate%29) into a "European territory" was rejected by a referendum in 1955. The Saar was to have been governed by a statute supervised by a European Commissioner reporting to the Council of Ministers of the [Western European Union](https://en.wikipedia.org/wiki/Western_European_Union).

After failed attempts at creating defence ([European Defence Community](https://en.wikipedia.org/wiki/European_Defence_Community)) and political communities ([European Political Community](https://en.wikipedia.org/wiki/European_Political_Community)), leaders met at the [Messina Conference](https://en.wikipedia.org/wiki/Messina_Conference) and established the [Spaak Committee](https://en.wikipedia.org/wiki/Spaak_Committee) which produced the [Spaak report](https://en.wikipedia.org/wiki/Spaak_report). The report was accepted at the [Venice Conference](https://en.wikipedia.org/wiki/Venice_Conference) (29 and 30 May 1956) where the decision was taken to organise an [Intergovernmental Conference](https://en.wikipedia.org/wiki/Intergovernmental_Conference). The [Intergovernmental Conference on the Common Market and Euratom](https://en.wikipedia.org/wiki/Intergovernmental_Conference_on_the_Common_Market_and_Euratom) focused on economic unity, leading to the [Treaties of Rome](https://en.wikipedia.org/wiki/Treaties_of_Rome)being signed in 1957 which established the [European Economic Community](https://en.wikipedia.org/wiki/European_Economic_Community) (EEC) and the [European Atomic Energy Community](https://en.wikipedia.org/wiki/European_Atomic_Energy_Community) (Euratom) among the members.[[11]](https://en.wikipedia.org/wiki/History_of_the_European_Union#cite_note-autogenerated1-11)

The two new communities were created separately from ECSC, although they shared the same courts and the Common Assembly. The executives of the new communities were called Commissions, as opposed to the "High Authority". The EEC was headed by [Walter Hallstein](https://en.wikipedia.org/wiki/Walter_Hallstein) ([Hallstein Commission](https://en.wikipedia.org/wiki/Hallstein_Commission)) and Euratom was headed by [Louis Armand](https://en.wikipedia.org/wiki/Louis_Armand) ([Armand Commission](https://en.wikipedia.org/wiki/Armand_Commission)) and then [Etienne Hirsch](https://en.wikipedia.org/wiki/Etienne_Hirsch). Euratom would integrate sectors in [nuclear energy](https://en.wikipedia.org/wiki/Nuclear_power) while the EEC would develop a [customs union](https://en.wikipedia.org/wiki/Customs_union) between members.[[11]](https://en.wikipedia.org/wiki/History_of_the_European_Union#cite_note-autogenerated1-11)[[12]](https://en.wikipedia.org/wiki/History_of_the_European_Union#cite_note-12)[[13]](https://en.wikipedia.org/wiki/History_of_the_European_Union#cite_note-13)

Throughout the 1960s tensions began to show with France seeking to limit supranational power and rejecting the membership of the United Kingdom. However, in 1965 an agreement was reached to merge the three communities under a single set of institutions, and hence the [Merger Treaty](https://en.wikipedia.org/wiki/Merger_Treaty) was signed in Brussels and came into force on 1 July 1967 creating the [European Communities](https://en.wikipedia.org/wiki/European_Communities).[[14]](https://en.wikipedia.org/wiki/History_of_the_European_Union#cite_note-14) [Jean Rey](https://en.wikipedia.org/wiki/Jean_Rey_%28politician%29) [presided over](https://en.wikipedia.org/wiki/President_of_the_European_Commission) the first merged Commission ([Rey Commission](https://en.wikipedia.org/wiki/Rey_Commission)).

[De Gaulle's](https://en.wikipedia.org/wiki/Charles_De_Gaulle) veto delayed the first enlargement.

*Main article:*[*History of the European Communities (1973–1993)*](https://en.wikipedia.org/wiki/History_of_the_European_Communities_%281973%E2%80%931993%29)

After much negotiation, and following a change in the [French Presidency](https://en.wikipedia.org/wiki/President_of_France), Denmark, Ireland and the United Kingdom (with [Gibraltar](https://en.wikipedia.org/wiki/Gibraltar)) eventually joined the European Communities on 1 January 1973. This was the first of several enlargements which become a major policy area of the Union (see: [Enlargement of the European Union](https://en.wikipedia.org/wiki/Enlargement_of_the_European_Union)).[[15]](https://en.wikipedia.org/wiki/History_of_the_European_Union#cite_note-15)

In 1979, the European Parliament held its first direct elections by universal suffrage. 410 members were elected, who then elected the first female[President of the European Parliament](https://en.wikipedia.org/wiki/President_of_the_European_Parliament), [Simone Veil](https://en.wikipedia.org/wiki/Simone_Veil).[[16]](https://en.wikipedia.org/wiki/History_of_the_European_Union#cite_note-16)

A further enlargement took place in 1981 with Greece joining on 1 January, six years after applying. In 1985, [Greenland](https://en.wikipedia.org/wiki/Greenland) voted to leave the Community after gaining [home rule](https://en.wikipedia.org/wiki/Home_rule) from Denmark (See also: [EU territories](https://en.wikipedia.org/wiki/Special_member_state_territories_and_their_relations_with_the_European_Union)). Spain and Portugal joined (having applied in 1977) on 1 January 1986 in the third enlargement.[[17]](https://en.wikipedia.org/wiki/History_of_the_European_Union#cite_note-17)

The [Iron Curtain](https://en.wikipedia.org/wiki/Iron_Curtain)'s fall enabled the accession of the [DDR](https://en.wikipedia.org/wiki/East_Germany) ([Berlin Wall](https://en.wikipedia.org/wiki/Berlin_Wall)).

Recently appointed Commission President [Jacques Delors](https://en.wikipedia.org/wiki/Jacques_Delors) ([Delors Commission](https://en.wikipedia.org/wiki/Delors_Commission)) presided over the adoption of the [European flag](https://en.wikipedia.org/wiki/European_flag) by the Communities in 1986. In the first major revision of [the treaties](https://en.wikipedia.org/wiki/Treaties_of_the_European_Union) since the Merger Treaty, leaders signed the [Single European Act](https://en.wikipedia.org/wiki/Single_European_Act) in February 1986. The text dealt with institutional reform, including extension of community powers – in particular in regarding foreign policy. It was a major component in completing the single market and came into force on 1 July 1987.[[18]](https://en.wikipedia.org/wiki/History_of_the_European_Union#cite_note-18)

In 1987 [Turkey](https://en.wikipedia.org/wiki/Turkey) formally applied to join the Community and began the longest application process for any country. In Central Europe, after[1988 Polish strikes](https://en.wikipedia.org/wiki/1988_Polish_strikes) and [Polish Round Table Agreement](https://en.wikipedia.org/wiki/Polish_Round_Table_Agreement) in 1989, the [Berlin Wall](https://en.wikipedia.org/wiki/Berlin_Wall) fell, along with the [Iron curtain](https://en.wikipedia.org/wiki/Iron_curtain). Germany [reunified](https://en.wikipedia.org/wiki/German_reunification) and the door to enlargement to the former [eastern bloc](https://en.wikipedia.org/wiki/Eastern_bloc) was opened (See also: [Copenhagen Criteria](https://en.wikipedia.org/wiki/Copenhagen_Criteria)).[[19]](https://en.wikipedia.org/wiki/History_of_the_European_Union#cite_note-19)

With a wave of new enlargements on the way, the [Maastricht Treaty](https://en.wikipedia.org/wiki/Maastricht_Treaty) was signed on 7 February 1992 which established the European Union when it came into force the following year.

Interactive SVG map of the evolution of the European Union

On 1 November 1993, under the third [Delors Commission](https://en.wikipedia.org/wiki/Delors_Commission), the [Maastricht Treaty](https://en.wikipedia.org/wiki/Maastricht_Treaty) became effective, creating the [European Union](https://en.wikipedia.org/wiki/European_Union) with its[pillar system](https://en.wikipedia.org/wiki/Pillars_of_the_European_Union), including foreign and home affairs alongside the [European Community](https://en.wikipedia.org/wiki/European_Community).[[20]](https://en.wikipedia.org/wiki/History_of_the_European_Union#cite_note-20)[[21]](https://en.wikipedia.org/wiki/History_of_the_European_Union#cite_note-21) The [1994 European elections](https://en.wikipedia.org/wiki/European_Parliament_election%2C_1994) were held resulting in the [Socialist group](https://en.wikipedia.org/wiki/Party_of_European_Socialists) maintaining their position as the largest party in Parliament. The Council proposed [Jacques Santer](https://en.wikipedia.org/wiki/Jacques_Santer) as[Commission President](https://en.wikipedia.org/wiki/President_of_the_European_Commission) but he was seen as a second choice candidate, undermining his position. Parliament narrowly approved Santer but[his commission](https://en.wikipedia.org/wiki/Santer_Commission) gained greater support, being approved by 416 votes to 103. Santer had to use his new powers under Maastricht to flex greater control over his choice of Commissioners. They took office on 23 January 1995.[[22]](https://en.wikipedia.org/wiki/History_of_the_European_Union#cite_note-ENA-22)

On 30 March 1994, accession negotiations concluded with [Austria](https://en.wikipedia.org/wiki/Austria), [Sweden](https://en.wikipedia.org/wiki/Sweden) and [Finland](https://en.wikipedia.org/wiki/Finland). Meanwhile, [Norway](https://en.wikipedia.org/wiki/Norway), [Iceland](https://en.wikipedia.org/wiki/Iceland) and [Liechtenstein](https://en.wikipedia.org/wiki/Liechtenstein)joined the [European Economic Area](https://en.wikipedia.org/wiki/European_Economic_Area) (which entered into force on 1 January 1994), an organisation that allowed [European Free Trade Association](https://en.wikipedia.org/wiki/European_Free_Trade_Association) states to enter the [Single European Market](https://en.wikipedia.org/wiki/Single_European_Market). The following year, the [Schengen Agreement](https://en.wikipedia.org/wiki/Schengen_Agreement) came into force between seven members, expanding to include nearly all others by the end of 1996. The 1990s also saw the further development of the [euro](https://en.wikipedia.org/wiki/Euro). 1 January 1994 saw the second stage of the [Economic and Monetary Union of the European Union](https://en.wikipedia.org/wiki/Economic_and_Monetary_Union_of_the_European_Union) begin with the establishment of the [European Monetary Institute](https://en.wikipedia.org/wiki/European_Monetary_Institute) and at the start of 1999 the euro as a currency was launched and the [European Central Bank](https://en.wikipedia.org/wiki/European_Central_Bank) was established. On 1 January 2002, notes and coins were put into circulation, replacing the old currencies entirely.

Coins and banknotes of the [Euro](https://en.wikipedia.org/wiki/Euro), the single-currency [introduced from 1999](https://en.wikipedia.org/wiki/History_of_the_euro)

During the 1990s, the [conflicts in the Balkans](https://en.wikipedia.org/wiki/Yugoslav_wars) gave impetus to developing the EU's [Common Foreign and Security Policy](https://en.wikipedia.org/wiki/Common_Foreign_and_Security_Policy) (CFSP). The EU failed to react during the beginning of the conflict, and [UN peacekeepers](https://en.wikipedia.org/wiki/UN_peacekeepers) from the Netherlands failed to prevent the [Srebrenica massacre](https://en.wikipedia.org/wiki/Srebrenica_massacre)(July 1995) in [Bosnia and Herzegovina](https://en.wikipedia.org/wiki/Bosnia_and_Herzegovina), the largest mass murder in Europe since the second world war. The [North Atlantic Treaty Organization](https://en.wikipedia.org/wiki/North_Atlantic_Treaty_Organization) (NATO) finally had to [intervene in the war](https://en.wikipedia.org/wiki/NATO_intervention_in_Bosnia_and_Herzegovina), forcing the combatants to the negotiation table. The early foreign policy experience of the EU led to foreign policy being emphasised in the [Treaty of Amsterdam](https://en.wikipedia.org/wiki/Treaty_of_Amsterdam) (which created the [High Representative](https://en.wikipedia.org/wiki/High_Representative)).[[23]](https://en.wikipedia.org/wiki/History_of_the_European_Union#cite_note-23)

However, any success was overshadowed by the budget crisis in March 1999. The Parliament refused to approve the Commission's 1996[community's budget](https://en.wikipedia.org/wiki/Budget_of_the_European_Union) on grounds of financial mismanagement, fraud and nepotism. With Parliament ready to throw them out, the entire[Santer Commission](https://en.wikipedia.org/wiki/Santer_Commission) resigned.[[24]](https://en.wikipedia.org/wiki/History_of_the_European_Union#cite_note-Ringe-24)[[25]](https://en.wikipedia.org/wiki/History_of_the_European_Union#cite_note-Hoskyns-25) The post-Delors mood of euroscepticism became entrenched with the Council and Parliament constantly challenging the Commission's position in coming years.[[26]](https://en.wikipedia.org/wiki/History_of_the_European_Union#cite_note-Topan-26)

In the [following elections](https://en.wikipedia.org/wiki/European_Parliament_election%2C_1999), the Socialists lost their decades-old majority to the new People's Party and the incoming [Prodi Commission](https://en.wikipedia.org/wiki/Prodi_Commission) was quick to establish the new [European Anti-fraud Office](https://en.wikipedia.org/wiki/European_Anti-fraud_Office) (OLAF).[[27]](https://en.wikipedia.org/wiki/History_of_the_European_Union#cite_note-OLAF-27) Under the new powers of the Amsterdam Treaty, Prodi was described by some as the 'First Prime Minister of Europe'.[[28]](https://en.wikipedia.org/wiki/History_of_the_European_Union#cite_note-28) On 4 June, [Javier Solana](https://en.wikipedia.org/wiki/Javier_Solana) was appointed Secretary General of the Council and the strengthened [High Representative for the Common Foreign and Security Policy](https://en.wikipedia.org/wiki/High_Representative_for_the_Common_Foreign_and_Security_Policy) admitted the intervention in Kosovo – Solana was also seen by some as Europe's first [Foreign Minister](https://en.wikipedia.org/wiki/Foreign_Minister).[[29]](https://en.wikipedia.org/wiki/History_of_the_European_Union#cite_note-29) The [Nice Treaty](https://en.wikipedia.org/wiki/Nice_Treaty) was signed on 26 February 2001 and entered into force on 1 February 2003 which made the final preparations before the [2004 enlargement to 10 new members](https://en.wikipedia.org/wiki/2004_enlargement_of_the_European_Union).

Ex-President Barroso.

On the 10–13 June 2004, the 25 member states participated in the largest trans-national election in history (with the second largest democratic electorate in the world). The result of the [sixth Parliamentary election](https://en.wikipedia.org/wiki/European_Parliament_election%2C_2004) was a second victory for the [European People's Party-European Democrats](https://en.wikipedia.org/wiki/European_People%27s_Party-European_Democrats)group. It also saw the lowest [voter turnout](https://en.wikipedia.org/wiki/Voter_turnout) of 45.5%, the second time it had fallen below 50%.[[30]](https://en.wikipedia.org/wiki/History_of_the_European_Union#cite_note-30) On 22 July 2004, [José Manuel Barroso](https://en.wikipedia.org/wiki/Jos%C3%A9_Manuel_Barroso) was approved by the new Parliament as the next Commission President. However, his new team of 25 Commissioners faced a tougher road. With Parliament raising objections to a number of his candidates he was forced to withdraw his selection and try once more. The Prodi Commission had to extend their mandate to the 22 November after the new line up of Commissioners was finally approved.[[31]](https://en.wikipedia.org/wiki/History_of_the_European_Union#cite_note-31)

A proposed [constitutional treaty](https://en.wikipedia.org/wiki/Treaty_establishing_a_Constitution_for_Europe) was signed by [plenipotentiaries](https://en.wikipedia.org/wiki/Plenipotentiary) from EU member states on 28 October 2004. The document was ratified in most member states, including two positive referendums. The referendums that were held in France and the Netherlands failed however, killing off the treaty. The European Council agreed that the constitution proposal would be abandoned, but most of its changes would be retained in an amending treaty. On 13 December 2007 the treaty was signed, containing [opt-outs](https://en.wikipedia.org/wiki/Opt-outs_in_the_European_Union) for the more eurosceptic members and no state-like elements. The Lisbon treaty finally came into force on 1 December 2009. It created the post of [President of the European Council](https://en.wikipedia.org/wiki/President_of_the_European_Council) and significantly expanded the post of [High Representative](https://en.wikipedia.org/wiki/High_Representative). After much debate about what kind of person should be President, the European Council agreed on a low-key personality and chose [Herman Van Rompuy](https://en.wikipedia.org/wiki/Herman_Van_Rompuy) while foreign policy-novice [Catherine Ashton](https://en.wikipedia.org/wiki/Catherine_Ashton) became High Representative.

The [2009 elections](https://en.wikipedia.org/wiki/European_Parliament_election%2C_2009) again saw a victory for the [European People's Party](https://en.wikipedia.org/wiki/European_People%27s_Party), despite losing the [British Conservatives](https://en.wikipedia.org/wiki/Conservative_Party_%28UK%29) who formed a smaller eurosceptic grouping with other anti-federalist right wing parties. Parliament's presidency was once again divided between the People's Party and the Socialists, with [Jerzy Buzek](https://en.wikipedia.org/wiki/Jerzy_Buzek) elected as the first [President of the European Parliament](https://en.wikipedia.org/wiki/President_of_the_European_Parliament) from an ex-communist country. Barroso was nominated by the Council for a second term and received backing from EPP who had declared him as their candidate before the elections. However, the Socialists and Greens led the opposition against him despite not agreeing on an opposing candidate. Parliament finally approved Barroso II, though once more several months behind schedule.

In 2007, the [fifth enlargement completed](https://en.wikipedia.org/wiki/2007_enlargement_of_the_European_Union) with the accession of [Romania](https://en.wikipedia.org/wiki/Romania) and [Bulgaria](https://en.wikipedia.org/wiki/Bulgaria) on 1 January 2007. Also, in 2007 Slovenia adopted the euro,[[32]](https://en.wikipedia.org/wiki/History_of_the_European_Union%22%20%5Cl%20%22cite_note-32) Malta and Cyprus in 2008[[33]](https://en.wikipedia.org/wiki/History_of_the_European_Union#cite_note-33) and Slovakia in 2009. However trouble developed with existing members as the [eurozone](https://en.wikipedia.org/wiki/Eurozone)entered its first recession in 2008.[[34]](https://en.wikipedia.org/wiki/History_of_the_European_Union#cite_note-34) Members cooperated and the ECB intervened to help restore economic growth and the euro was seen as a safe haven, particularly by those outside such as Iceland.[[35]](https://en.wikipedia.org/wiki/History_of_the_European_Union#cite_note-35)[[36]](https://en.wikipedia.org/wiki/History_of_the_European_Union#cite_note-Oakley17-36)[[37]](https://en.wikipedia.org/wiki/History_of_the_European_Union#cite_note-37)

However, with the risk of a default in [Greece, Ireland, Portugal and other members in late 2009–10](https://en.wikipedia.org/wiki/2010_European_sovereign_debt_crisis), eurozone leaders agreed to provisions for loans to member states who could not raise funds. Accusations that this was a u-turn on the EU treaties, which rule out any bail out of a euro member in order to encourage them to manage their finances better, were countered by the argument that these were loans, not grants, and that neither the EU nor other Member States assumed any liabilities for the debts of the aided countries. With Greece struggling to restore its finances, other member states also at risk and the repercussions this would have on the rest of the eurozone economy, a loan mechanism was agreed. The crisis also spurred consensus for further economic integration and a range of proposals such as a [European Monetary Fund](https://en.wikipedia.org/wiki/European_Monetary_Fund) or federal treasury.[[38]](https://en.wikipedia.org/wiki/History_of_the_European_Union#cite_note-38)[[39]](https://en.wikipedia.org/wiki/History_of_the_European_Union#cite_note-39)[[40]](https://en.wikipedia.org/wiki/History_of_the_European_Union#cite_note-EMF_1-40)

The European Union received the [2012 Nobel Peace Prize](https://en.wikipedia.org/wiki/2012_Nobel_Peace_Prize) for having "contributed to the advancement of peace and reconciliation, democracy and human rights in Europe."[[41]](https://en.wikipedia.org/wiki/History_of_the_European_Union#cite_note-41)[[42]](https://en.wikipedia.org/wiki/History_of_the_European_Union#cite_note-42)The Nobel Committee stated that "that dreadful suffering in [World War II](https://en.wikipedia.org/wiki/World_War_II) demonstrated the need for a new Europe [...] today war between Germany and France is unthinkable. This shows how, through well-aimed efforts and by building up mutual confidence, historical enemies can become close partners."[[43]](https://en.wikipedia.org/wiki/History_of_the_European_Union#cite_note-43) The Nobel Committee's decision was subject to considerable criticism.[[44]](https://en.wikipedia.org/wiki/History_of_the_European_Union#cite_note-Gaspers_FPC-44)

On 1 July 2013, Croatia [joined the EU](https://en.wikipedia.org/wiki/Accession_of_Croatia_to_the_European_Union), and on 1 January 2014 the French [Indian Ocean](https://en.wikipedia.org/wiki/Indian_Ocean) territory of [Mayotte](https://en.wikipedia.org/wiki/Mayotte) was added as an outermost region.[[45]](https://en.wikipedia.org/wiki/History_of_the_European_Union#cite_note-45)

Conclusion

The European Union (EU) is a political and economic partnership that represents a unique form of cooperation among sovereign countries. In addition, the EU has been developing a Common Foreign and Security Policy (CFSP), which includes a Common Security and Defense Policy (CSDP), and pursuing cooperation in the area of Justice and Home Affairs (JHA) to forge common internal security measures. EU member states work together through several institutions to set policy and to promote their collective interests. Key EU institutions include the European Council, composed of EU Heads of State or Government, which acts as the strategic guide and driving force for EU policy; the European Commission, which upholds the common interest of the Union as a whole and functions as the EU’s executive; the Council of the European Union (also known as the Council of Ministers), which represents the national governments; and the directly elected European Parliament, which represents the citizens of the EU. EU decisionmaking processes and the role played by the EU institutions vary depending on the subject under consideration. For most economic and social issues, EU member states have largely pooled their national sovereignty, and EU decisionmaking has a supranational quality. Decisions in other areas, such as foreign policy, require the unanimous consensus of all 28 member states. The United States has strongly supported the European integration project since its inception as a means to foster democratic states and strong trading partners in Europe. The United States and the EU have a dynamic political partnership and share a huge trade and investment relationship. To expand and strengthen the transatlantic economy even further, the United States and the EU are pursuing a comprehensive free trade agreement, known as the Transatlantic Trade and Investment Partnership (T-TIP); both the United States and the EU hope to conclude negotiations in 2016. At the same time, some U.S.-EU divisions exist on a range of issues. These include how best to manage relations with Russia, the Israeli-Palestinian conflict, climate change, and several longstanding trade disputes. Data privacy and data protection have also been key sticking points, with the differences in U.S. and EU approaches highlighted most recently by the October 2015 EU court judgment invalidating the U.S.-EU Safe Harbor Agreement that had permitted the transfer of personal data between European and U.S. companies since 2000. Many U.S. officials, including some Members of Congress, are also concerned that the multiple challenges currently facing the EU—from the migration and refugee crisis to the upcoming UK referendum on EU membership to the rise of anti-EU populist political parties—may have significant implications for the EU’s future and its ability to be a robust and effective U.S. partner in the years ahead. This report serves as a primer on the EU. It also briefly describes U.S.-EU political and economic relations that may be of interest in the 114th Congress. Also see CRS Report R44249, The European Union (EU): Current Challenges and Future Prospects in Brief, by Kristin Archick

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**Theme № 3 Experience of integration development in certain regions of the world**

***Questions:***

**1. Free Trade Zone in Central Europe**

**2. The North American Free Trade Association**

**3. Cooperation in the Asia-Pacific region**

**4. Integration in South America**

**5. Integration in Africa**

**What Is Regional Economic Integration?**

Regional economic integration has enabled countries to focus on issues that are relevant to their stage of development as well as encourage trade between neighbors.

There are four main types of regional economic integration.

1. **Free trade area.** This is the most basic form of economic cooperation. Member countries remove all barriers to trade between themselves but are free to independently determine trade policies with nonmember nations. An example is the North American Free Trade Agreement (NAFTA).
2. **Customs union.** This type provides for economic cooperation as in a free-trade zone. Barriers to trade are removed between member countries. The primary difference from the free trade area is that members agree to treat trade with nonmember countries in a similar manner. The Gulf Cooperation Council (GCC)[[1]](http://catalog.flatworldknowledge.com/bookhub/3158?e=fwk-168388-ch06_s02" \l "ftn.fn-1) is an example.
3. **Common market.** This type allows for the creation of economically integrated markets between member countries. Trade barriers are removed, as are any restrictions on the movement of labor and capital between member countries. Like customs unions, there is a common trade policy for trade with nonmember nations. The primary advantage to workers is that they no longer need a visa or work permit to work in another member country of a common market. An example is the Common Market for Eastern and Southern Africa (COMESA).[[2]](http://catalog.flatworldknowledge.com/bookhub/3158?e=fwk-168388-ch06_s02" \l "ftn.fn-2)
4. **Economic union.** This type is created when countries enter into an economic agreement to remove barriers to trade and adopt common economic policies. An example is the European Union (EU).[[3]](http://catalog.flatworldknowledge.com/bookhub/3158?e=fwk-168388-ch06_s02" \l "ftn.fn-3)

In the past decade, there has been an increase in these trading blocs with more than one hundred agreements in place and more in discussion. A trade bloc is basically a free-trade zone, or near-free-trade zone, formed by one or more tax, tariff, and trade agreements between two or more countries. Some trading blocs have resulted in agreements that have been more substantive than others in creating economic cooperation. Of course, there are pros and cons for creating regional agreements.

**Pros**

The pros of creating regional agreements include the following:

* **Trade creation.** These agreements create more opportunities for countries to trade with one another by removing the barriers to trade and investment. Due to a reduction or removal of tariffs, cooperation results in cheaper prices for consumers in the bloc countries. Studies indicate that regional economic integration significantly contributes to the relatively high growth rates in the less-developed countries.
* **Employment opportunities.** By removing restrictions on labor movement, economic integration can help expand job opportunities.
* **Consensus and cooperation.** Member nations may find it easier to agree with smaller numbers of countries. Regional understanding and similarities may also facilitate closer political cooperation.

**Cons**

The cons involved in creating regional agreements include the following:

* **Trade diversion.** The flip side to trade creation is trade diversion. Member countries may trade more with each other than with nonmember nations. This may mean increased trade with a less efficient or more expensive producer because it is in a member country. In this sense, weaker companies can be protected inadvertently with the bloc agreement acting as a trade barrier. In essence, regional agreements have formed new trade barriers with countries outside of the trading bloc.
* **Employment shifts and reductions.** Countries may move production to cheaper labor markets in member countries. Similarly, workers may move to gain access to better jobs and wages. Sudden shifts in employment can tax the resources of member countries.
* **Loss of national sovereignty.** With each new round of discussions and agreements within a regional bloc, nations may find that they have to give up more of their political and economic rights. In the opening case study, you learned how the economic crisis in Greece is threatening not only the EU in general but also the rights of Greece and other member nations to determine their own domestic economic policies.

**Major Areas of Regional Economic Integration and Cooperation**

There are more than one hundred regional trade agreements in place, a number that is continuously evolving as countries reconfigure their economic and political interests and priorities. Additionally, the expansion of the World Trade Organization (WTO) has caused smaller regional agreements to become obsolete. Some of the regional blocs also created side agreements with other regional groups leading to a web of trade agreements and understandings.

**North America: NAFTA**

**Brief History and Purpose**

The North American Free Trade Agreement (NAFTA) came into being during a period when free trade and trading blocs were popular and positively perceived. In 1988, the United States and Canada signed the Canada–United States Free Trade Agreement. Shortly after it was approved and implemented, the United States started to negotiate a similar agreement with Mexico. When Canada asked to be party to any negotiations to preserve its rights under the most-favored-nation clause (MFN), the negotiations began for NAFTA, which was finally signed in 1992 and implemented in 1994.

The goal of NAFTA has been to encourage trade between Canada, the United States, and Mexico. By reducing tariffs and trade barriers, the countries hope to create a free-trade zone where companies can benefit from the transfer of goods. In the 1980s, Mexico had tariffs as high as 100 percent on select goods. Over the first decade of the agreement, almost all tariffs between Mexico, Canada, and the United States were phased out.

The rules governing origin of content are key to NAFTA. As a free trade agreement, the member countries can establish their own trading rules for nonmember countries. NAFTA’s rules ensure that a foreign exporter won’t just ship to the NAFTA country with the lowest tariff for nonmember countries. NAFTA rules require that at least 50 percent of the net cost of most products must come from or be incurred in the NAFTA region. There are higher requirements for footwear and cars. For example, this origin of content rule has ensured that cheap Asian manufacturers wouldn’t negotiate lower tariffs with one NAFTA country, such as Mexico, and dump cheap products into Canada and the United States. Mexican *maquiladoras* have fared well in this arrangement by being the final production stop before entering the United States or Canada. *Maquiladoras* are production facilities located in border towns in Mexico that take imported materials and produce the finished good for export, primarily to Canada or the United States.

**Current Challenges and Opportunities**

Canadian and US consumers have benefited from the lower-cost Mexican agricultural products. Similarly, Canadian and US companies have sought to enter the expanding Mexican domestic market. Many Canadian and US companies have chosen to locate their manufacturing or production facilities in Mexico rather than Asia, which was geographically far from their North American bases.

When it was introduced, NAFTA was highly controversial, particularly in the United States, where many felt it would send US jobs to Mexico. In the long run, NAFTA hasn’t been as impactful as its supporters had hoped nor as detrimental to workers and companies as its critics had feared. As part of NAFTA, two side agreements addressing labor and environmental standards were put into place. The expectation was that these side agreements would ensure that Mexico had to move toward improving working conditions.

Mexico has fared the best from NAFTA as trade has increased dramatically. *Maquiladoras* in Mexico have seen a 15 percent annual increase in income. By and large, Canadians have been supportive of NAFTA and exports to the region have increased in the period since implementation. “Tri-lateral [merchandise] trade has nearly tripled since NAFTA came into force in 1994. It topped $1 trillion in 2008.”[[4]](http://catalog.flatworldknowledge.com/bookhub/3158?e=fwk-168388-ch06_s02" \l "ftn.fn-4)

**Future Outlook**

Given the 2008 global economic recession and challenging impact on the EU, it isn’t likely that NAFTA will move beyond the free-trade zone status to anything more comprehensive (e.g., the EU’s economic union). In the opening case study, you read about the pressures on the EU and the resistance by each of the governments in Europe to make policy adjustments to address the recession. The United States, as the largest country member in NAFTA, won’t give up its rights to independently determine its economic and trade policies. Observers note that there may be the opportunity for NAFTA to expand to include other countries in Latin America.[[5]](http://catalog.flatworldknowledge.com/bookhub/3158?e=fwk-168388-ch06_s02" \l "ftn.fn-5) Chile was originally supposed to be part of NAFTA in 1994, but President Clinton was hampered by Congress in his ability to formalize that decision.[[6]](http://catalog.flatworldknowledge.com/bookhub/3158?e=fwk-168388-ch06_s02" \l "ftn.fn-6) Since then, Canada, Mexico, and the United States have each negotiated bilateral trade agreements with Chile, but there is still occasional mention that Chile may one day join NAFTA.[[7]](http://catalog.flatworldknowledge.com/bookhub/3158?e=fwk-168388-ch06_s02" \l "ftn.fn-7)

**Did You Know?**

Mexico, NAFTA, and the ***Maquiladoras***

The Mexican economy has undergone dramatic changes during the last decade and a half as the country has become integrated into the global marketplace. Once highly protected, Mexico is now open for business. Successive governments have instituted far-reaching economic reforms, which have had a major impact on the way business is conducted. The scale of business has changed as well. Forced to compete with large multinationals and Mexican conglomerates, many traditional family-owned firms have had to close because they were unable to compete in the global marketplace.

NAFTA has added to the already-strong US influence on Mexico’s corporate and business practices. In particular, competitiveness and efficiency have become higher priorities, although company owners and managers still like to surround themselves with people they know and to groom their sons and sometimes their daughters to be their successors. US influence is also pervasive in the products and services offered throughout Mexico.

Mexico has always had a strong entrepreneurial business culture, but until NAFTA, it was protected from the pressures of international finance and the global marketplace. Business and particularly interpersonal business relationships were viewed as something that should be pleasurable, like other important aspects of life.

Long-term relationships are still the foundation on which trust is established and business is built. In Mexico, patience and the willingness to wait are still highly valued—and necessary—in business transactions. This is slowly changing, spurred in part by an aggressive cadre of young professionals who pursued graduate education in the United States.

Since the mid-1960s, production facilities known as *maquiladoras* have been a regular feature of Mexican border towns, especially along the Texas and New Mexico borders. US multinational companies, such as John Deere, Zenith, Mattel, and Xerox, run the majority of the more than 3,600 maquiladoras in northern Mexico. Billions of dollars’ worth of products—from televisions to clothes to auto parts—are assembled in maquiladoras and then shipped back, tax free, to the United States for sale to US consumers.

Maquiladoras employ more than a million Mexicans, mostly unskilled women in their twenties and early thirties who work long hours. Wages and benefits are generally poor but much better than in the rest of Mexico. The huge growth in trade between the United States and Mexico has greatly expanded the role—and scale—of these assembly operations.

Along with the benefits, challenges have also come with the increased trade. A large number of Mexicans are concerned that wealth is distributed more unevenly than ever. For example, many commentators see the political situation in the state of Chiapas as underscoring the alienation large groups have suffered as a result of the opening of the Mexican economy to global forces. A rural region in southern Mexico, Chiapas is home to extremely poor Mayan, Ch’ol, Zoque, and Lacandón Indians. Although it is the poorest state in Mexico, Chiapas has the richest natural resources, including oil, minerals, and electrical power.

On January 1, 1994, the day NAFTA officially took effect, a group of Indian peasants, commanded by Subcomandante Marcos, rose up in armed rebellion. This was shocking not only to Mexico’s leadership but to the international community. The unrest in Chiapas stems from long-standing economic and social injustice in the region and from the Indians’ isolation and exploitation by the local oligarchy of landowners and mestizo bosses (*caciques*). While NAFTA clearly advanced the goals of free trade, global businesses are often forced to deal with local economic, political, and social realities within a country.

The Mexican government has indicated that improving the social conditions in the region is a high priority. However, only partial accords have been reached between the government and the peasants. At the same time, the army continues to exert tight control over the state, particularly in and around towns where residents are known to support the rebels.

The low standard of living in Chiapas and of Indians throughout Mexico remains a significant challenge for the Mexican government. In the years following the Chiapas uprising, poverty in southern Mexico has risen to about 40 percent, while in the north, poverty has decreased thanks to closer economic links with the United States.[[8]](http://catalog.flatworldknowledge.com/bookhub/3158?e=fwk-168388-ch06_s02" \l "ftn.fn-8)

**South America: MERCOSUR**

The Common Market of the South, Mercado Común del Sur or MERCOSUR, was originally established in 1988 as a regional trade agreement between Brazil and Argentina and then was expanded in 1991 to include Uruguay and Paraguay. Over the past decade, Bolivia, Chile, Colombia, Ecuador, and Peru have become associate members, and Venezuela is in the process for full membership.

MERCOSUR constituents compose nearly half of the wealth created in all of Latin America as well as 40 percent of the population. Now the world’s fourth-largest trading bloc after the EU, NAFTA, and the Association of South East Asian Nations (ASEAN),[[9]](http://catalog.flatworldknowledge.com/bookhub/3158?e=fwk-168388-ch06_s02" \l "ftn.fn-9) the group has been strategically oriented to develop the economies of its constituents, helping them become more internationally competitive so that they would not have to rely on the closed market arena. MERCOSUR has brought nations with long-standing rivalries together. Although this is an economic trade initiative, it has also been designed with clear political goals. MERCOSUR is committed to the consolidation of democracy and the maintenance of peace throughout the southern cone. For example, it has taken stride to reach agreements between Brazil and Argentina in the nuclear field.[[10]](http://catalog.flatworldknowledge.com/bookhub/3158?e=fwk-168388-ch06_s02" \l "ftn.fn-10)

MERCOSUR has emerged as one of the most dynamic and imaginative initiatives in the region. Surging trade, rising investment, and expanding output are the economic indicators that point to the group’s remarkable achievement. More than this, the integration is helping transform national relations among South American nations and with the world as a whole, forging a new sense of shared leadership and shared purpose, which is sending ripples of hope across the continent and beyond.

**Other Trade Agreements in the Americas**

**CARICOM and Andean Community**

The Caribbean Community and Common Market (CARICOM), or simply the Caribbean Community, was formed in 1973 by countries in the Caribbean with the intent of creating a single market with the free flow of goods, services, labor, and investment.[[11]](http://catalog.flatworldknowledge.com/bookhub/3158?e=fwk-168388-ch06_s02" \l "ftn.fn-11) The Andean Community (called the Andean Pact until 1996)[[12]](http://catalog.flatworldknowledge.com/bookhub/3158?e=fwk-168388-ch06_s02" \l "ftn.fn-12) is a free trade agreement signed in 1969 between Bolivia, Chile, Colombia, Ecuador, and Peru. Eventually Chile dropped out, while Venezuela joined for about twenty years and left in 2006. This trading bloc had limited impact for the first two decades of its existence but has experienced a renewal of interest after MERCOSUR’s implementation. In 2007, MERCOSUR members became associate members of the Andean Community, and more cooperative interaction between the trading groups is expected.[[13]](http://catalog.flatworldknowledge.com/bookhub/3158?e=fwk-168388-ch06_s02" \l "ftn.fn-13)

**CAFTA-DR**

The Dominican Republic–Central America–United States Free Trade Agreement (CAFTA-DR) is a free trade agreement signed into existence in 2005. Originally, the agreement (then called the Central America Free Trade Agreement, or CAFTA) encompassed discussions between the US and the Central American countries of Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua. A year before the official signing, the Dominican Republic joined the negotiations, and the agreement was renamed CAFTA-DR.[[14]](http://catalog.flatworldknowledge.com/bookhub/3158?e=fwk-168388-ch06_s02" \l "ftn.fn-14)

The goal of the agreement is the creation of a free trade area similar to NAFTA. For free trade advocates, the CAFTA-DR is also seen as a stepping stone toward the eventual establishment of the Free Trade Area of the Americas (FTAA)—the more ambitious grouping for a free trade agreement that would encompass all the South American and Caribbean nations as well as those of North and Central America (except Cuba). Canada is currently negotiating a similar treaty called the Canada Central American Free Trade Agreement. It’s likely that any resulting agreements will have to reconcile differences in rules and regulations with NAFTA as well as any other existing agreements.[[15]](http://catalog.flatworldknowledge.com/bookhub/3158?e=fwk-168388-ch06_s02" \l "ftn.fn-15)

**Did You Know?**

As a result of CAFTA-DR, more than 80 percent of goods exported from the United States into the region are no longer subject to tariffs.[[16]](http://catalog.flatworldknowledge.com/bookhub/3158?e=fwk-168388-ch06_s02" \l "ftn.fn-16) Given its physical proximity, Florida is the main investment gateway to the CAFTA-DR countries: about three hundred multinational firms have their Latin American and Caribbean regional headquarters in Florida. In all, more than two thousand companies headquartered outside the United States operate in Florida.

US companies, for example, sell more than $25 billion in products to the Latin American and Caribbean regions annually, ranking it among the top US export markets. With the removal of virtually all tariffs and other barriers to trade, the CAFTA-DR agreement is making commerce with these countries even easier, opening opportunities to a range of industries. At the same time, it’s making the CAFTA-DR countries richer and increasing the purchasing power of their citizens.

For international companies looking to access these markets, the United States, recognized worldwide for its stable regulatory and legal framework and for its robust infrastructure, is the most logical place to set up operations. And within the United States, no location is as well positioned as Florida to act as the gateway to the CAFTA-DR markets. For a variety of reasons—from geography and language to well-developed business and family connections—this is a role that Florida has been playing very successfully for a number of years and which, with the implementation of CAFTA-DR, is only gaining in importance.[[17]](http://catalog.flatworldknowledge.com/bookhub/3158?e=fwk-168388-ch06_s02" \l "ftn.fn-17)

**Europe: EU**

**Brief History and Purpose**

The European Union (EU) is the most integrated form of economic cooperation. As you learned in the opening case study, the EU originally began in 1950 to end the frequent wars between neighboring countries in the Europe. The six founding nations were France, West Germany, Italy, and the Benelux countries (Belgium, Luxembourg, and the Netherlands), all of which signed a treaty to run their coal and steel industries under a common management. The focus was on the development of the coal and steel industries for peaceful purposes.

In 1957, the six nations signed the Treaty of Rome, which established the European Economic Community (EEC) and created a common market between the members. Over the next fifty years, the EEC added nine more members and changed its name twice—to European Community (EC) in the 1970s and the European Union (EU) in 1993.[[18]](http://catalog.flatworldknowledge.com/bookhub/3158?e=fwk-168388-ch06_s02" \l "ftn.fn-18)

The entire history of the transformation of the EEC to the EU has been an evolutionary process. However, the Treaty of Maastricht in 1993 stands out as an important moment; it’s when the *real* economic union was created. With this treaty, the EU identified three aims. The first was to establish a single, common currency, which went into effect in 1999. The second was to set up monetary and fiscal targets for member countries. Third, the treaty called for a political union, which would include the development of a common foreign and defense policy and common citizenship. The opening case study addressed some of the current challenges the EU is facing as a result of the impact of these aims. Despite the challenges, the EU is likely to endure given its historic legacy. Furthermore, a primary goal for the development of the EU was that Europeans realized that they needed a larger trading platform to compete against the US and the emerging markets of China and India. Individually, the European countries would never have the economic power they now have collectively as the EU.

Today, the EU has twenty-seven member countries. Croatia, Iceland, Macedonia, and Turkey are the next set of candidates for future membership. In 2009, the twenty-seven EU countries signed the Treaty of Lisbon, which amends the previous treaties. It is designed to make the EU more democratic, efficient, and transparent and to tackle global challenges, such as climate change, security, and sustainable development.

The European Economic Area (EEA) was established on January 1, 1994, following an agreement between the member states of the European Free Trade Association (EFTA) and the EC (later the EU). Specifically, it has allowed Iceland (now an EU candidate), Liechtenstein, and Norway to participate in the EU’s single market without a conventional EU membership. Switzerland has also chosen to not join the EU, although it is part of similar bilateral agreements.

Figure 5.3 Countries in the EU (as of May 1, 2011)



Source: “The Member Countries of the European Union,” Europa, accessed May 1, 2011, <http://europa.eu/about-eu/member-countries/index_en.htm>.

**CEFTA**

Central European Free Trade Agreement (CEFTA) is a trade agreement between non-EU countries in Central and Southeastern Europe, which currently includes Albania, Bosnia and Herzegovina, Croatia, Macedonia, Moldova, Montenegro, Serbia, and the United Nations Interim Administration Mission on behalf of Kosovo (UNMIK)—all of whom joined in 2006.[[19]](http://catalog.flatworldknowledge.com/bookhub/3158?e=fwk-168388-ch06_s02" \l "ftn.fn-19)

Originally signed in 1992, CEFTA’s founding members were the Visegrad Group, also called the Visegrad Four or V4, which is an alliance of four Central European states—the Czech Republic, Hungary, Poland, and Slovakia. All of the Visegrad Group have relatively developed free-market economies and have formal ties.[[20]](http://catalog.flatworldknowledge.com/bookhub/3158?e=fwk-168388-ch06_s02" \l "ftn.fn-20)

Many of the Central European nations have left CEFTA to become members of the EU. In fact, CEFTA has served as a preparation for full EU membership and a large proportion of CEFTA foreign trade is with EU countries. Poland, the Czech Republic, Hungary, Slovakia, and Slovenia joined the EU on May 1, 2004, with Bulgaria and Romania following suit on January 1, 2007.[[21]](http://catalog.flatworldknowledge.com/bookhub/3158?e=fwk-168388-ch06_s02" \l "ftn.fn-21) Croatia and Macedonia are in the process of becoming EU members.[[22]](http://catalog.flatworldknowledge.com/bookhub/3158?e=fwk-168388-ch06_s02" \l "ftn.fn-22)

**Amusing Anecdote**

There are twenty-three official and working languages within the EU, and all official documents and legislation are translated into all of these languages. With this in mind, it’s easy to see why so many Europeans see the need to speak more than one language fluently!



**EU Governance**

The EU is a unique organization in that it is not a single country but a group of countries that have agreed to closely cooperate and coordinate key aspects of their economic policy. Accordingly, the organization has its own governing and decision-making institutions.

* **European Council.** The European Council provides the political leadership for the EU. The European Council meets four times per year, and each member has a representative, usually the head of its government. Collectively it functions as the EU’s “Head of State.”
* **European Commission.** The European Commission provides the day-to-day leadership and initiates legislation. It’s the EU’s executive arm.
* **European Parliament.** The European Parliament forms one-half of the EU’s legislative body. The parliament consists of 751 members, who are elected by popular vote in their respective countries. The term for each member is five years. The purpose of the parliament is to debate and amend legislation proposed by the European Commission.
* **Council of the European Union.** The Council of the European Union functions as the other half of the EU’s legislative body. It’s sometimes called the Council or the Council of Ministers and should not be confused with the European Council above. The Council of the European Union consists of a government minister from each member country and its representatives may change depending on the topic being discussed.
* **Court of Justice.** The Court of Justice makes up the judicial branch of the EU. Consisting of three different courts, it reviews, interprets, and applies the treaties and laws of the EU.[[23]](http://catalog.flatworldknowledge.com/bookhub/3158?e=fwk-168388-ch06_s02" \l "ftn.fn-23)

**Current Challenges and Opportunities**

The biggest advantage of EU membership is the monetary union. Today, sixteen member countries use the the euro. Since its launch, the euro has become the world’s second-largest reserve currency behind the US dollar. It’s important to remember several distinctions. First, the EU doesn’t consist of the same countries as the continent of Europe. Second, there are more EU member countries than there are countries using the euro. Euro markets, or euro countries, are the countries using the euro.

The European single market is the foremost advantage of being a member of EU. According to Europa, which is the official website of the EU (<http://europa.eu>), the EU member states have formed a single market with more than five hundred million people, representing 7 percent of the world’s population. This single market permits the free flow of goods, service, capital, and people within the EU.[[24]](http://catalog.flatworldknowledge.com/bookhub/3158?e=fwk-168388-ch06_s02" \l "ftn.fn-24) Although there is a single tariff on goods entering an EU country, once in the market, no additional tariffs or taxes can be levied on the goods.[[25]](http://catalog.flatworldknowledge.com/bookhub/3158?e=fwk-168388-ch06_s02" \l "ftn.fn-25)

Businesses conducting business with one country in the EU now find it easier and cheaper, in many cases, to transact business with the other EU countries. There’s no longer a currency–exchange rate risk, and the elimination of the need to convert currencies within euro markets reduces transaction costs. Further, having a single currency makes pricing more transparent and consistent between countries and markets.

Despite the perceived benefits, economic policymakers in the EU admit that the Union’s labor markets are suffering from rigidity, regulation, and tax structures that have contributed to high unemployment and low employment responsiveness to economic growth. This is the case, particularly, for relatively low-skilled labor.

**Future Outlook**

Europe’s economy faces a deeper recession and a slower recovery than the United States or other parts of the world. Because the EU’s $18.4 trillion economy makes up 30 percent of the world economy, its poor prospects are likely to rebound on the United States, Asia, and other regions.[[26]](http://catalog.flatworldknowledge.com/bookhub/3158?e=fwk-168388-ch06_s02" \l "ftn.fn-26) Fixing the EU’s banking system is particularly tricky, because sixteen of the twenty-seven countries share the euro currency and a central bank, but banking regulation mostly remains under the control of the national governments.[[27]](http://catalog.flatworldknowledge.com/bookhub/3158?e=fwk-168388-ch06_s02" \l "ftn.fn-27)

The Europe 2020 strategy put forth by the European Commission sets out a vision of the EU’s social market economy for the twenty-first century. It shows how the EU can come out stronger from this crisis and how it can be turned into a smart, sustainable, and inclusive economy delivering high levels of employment, productivity, and social cohesion. It calls for stronger economic governance in order to deliver rapid and lasting results.[[28]](http://catalog.flatworldknowledge.com/bookhub/3158?e=fwk-168388-ch06_s02" \l "ftn.fn-28)

**Asia: ASEAN**

The Association of Southeast Asian Nations (ASEAN) was created in 1967 by five founding-member countries: Malaysia, Thailand, Indonesia, Singapore, and the Philippines. Since inception, Myanmar (Burma), Vietnam, Cambodia, Laos, and Brunei have joined the association.[[29]](http://catalog.flatworldknowledge.com/bookhub/3158?e=fwk-168388-ch06_s02" \l "ftn.fn-29)

ASEAN’s primary focus is on economic, social, cultural, and technical cooperation as well as promoting regional peace and stability. Although less emphasized today, one of the primary early missions of ASEAN was to prevent the domination of Southeast Asia by external powers—specifically China, Japan, India, and the United States.

In 2002, ASEAN and China signed a free trade agreement that went into effect in 2010 as the ASEAN–China Free Trade Area (ACFTA). In 2009, ASEAN and India also signed the ASEAN–India Free Trade Agreement (FTA). In 2009, ASEAN signed a free trade agreement with New Zealand and Australia. It also hopes to create an ASEAN Economic Community by 2015.[[30]](http://catalog.flatworldknowledge.com/bookhub/3158?e=fwk-168388-ch06_s02" \l "ftn.fn-30) While the focus and function remains in discussion, the intent is to forge even closer ties among the ten member nations, enabling them to negotiate more effectively with global powers like the EU and the United States.[[31]](http://catalog.flatworldknowledge.com/bookhub/3158?e=fwk-168388-ch06_s02" \l "ftn.fn-31)

**Asia: APEC**

The Asia–Pacific Economic Cooperation (APEC) was founded in 1989 by twelve countries as an informal forum. It now has twenty-one member economies on both sides of the Pacific Ocean. APEC is the only regional trading group that uses the term *member economies*, rather than countries, in deference to China. Taiwan was allowed to join the forum, but only under the name Chinese Taipei.[[32]](http://catalog.flatworldknowledge.com/bookhub/3158?e=fwk-168388-ch06_s02" \l "ftn.fn-32)

As a result of the Pacific Ocean connection, this geographic grouping includes the United States, Canada, Mexico, Chile, Peru, Russia, Papua New Guinea, New Zealand, and Australia with their Asia Pacific Rim counterparts.[[33]](http://catalog.flatworldknowledge.com/bookhub/3158?e=fwk-168388-ch06_s02" \l "ftn.fn-33) This assortment of economies and cultures has, at times, made for interesting and heated discussions. Focused primarily on economic growth and cooperation, the regional group has met with success in liberalizing and promoting free trade as well as facilitating business, economic, and technical cooperation between member economies. With the Doha Round of the WTO dragging, APEC members have been discussing establishing a free-trade zone. Given its broader membership than ASEAN, APEC has found good success—once its member countries agree. The two organizations often share common goals and seek to coordinate their efforts.

**China Seeks to Create a Trading Bloc**

On June 29, 2010, China and Taiwan signed the Economic Cooperation Framework Agreement (ECFA), a preferential trade agreement between the two governments that aims to reduce tariffs and commercial barriers between the two sides. It’s the most significant agreement since the two countries split at the end of the Chinese Civil War in 1949.[[34]](http://catalog.flatworldknowledge.com/bookhub/3158?e=fwk-168388-ch06_s02" \l "ftn.fn-34) It will boost the current $110 billion bilateral trade between both sides. China already absorbed Hong Kong in 1999, after the hundred-year lease to Britain ended. While Hong Kong is now managed by China as a Special Administrative Region (SAR), it continues to enjoy special economic status. China is eager for Hong Kong and Taiwan to serve as gateways to its massive market. Taiwan’s motivation for signing the agreement was in large part an effort to get China to stop pressuring other countries from signing trade agreements with it.[[35]](http://catalog.flatworldknowledge.com/bookhub/3158?e=fwk-168388-ch06_s02" \l "ftn.fn-35)

“An economically stronger Taiwan would not only gain clout with the mainland but also have more money to entice allies other than the 23 nations around the globe that currently recognize the island as an independent state. Beijing is hoping closer economic ties will draw Taiwan further into its orbit.”[[36]](http://catalog.flatworldknowledge.com/bookhub/3158?e=fwk-168388-ch06_s02" \l "ftn.fn-36) While opposition in Taiwan sees the agreement as a cover for reunification with China, the agreement does reduce tariffs on both sides, enabling businesses from both countries to engage in more trade.

**Middle East and Africa: GCC**

The Cooperation Council for the Arab States of the Gulf, also known as the Gulf Cooperation Council (GCC), was created in 1981. The six member states are Bahrain, Kuwait, Saudi Arabia, Oman, Qatar, and the United Arab Emirates (UAE). As a political and economic organization, the group focuses on trade, economic, and social issues.[[37]](http://catalog.flatworldknowledge.com/bookhub/3158?e=fwk-168388-ch06_s02" \l "ftn.fn-37) The GCC has become as much a political organization as an economic one. Among its various initiatives, the GCC calls for the coordination of a unified military presence in the form of a Peninsula Shield Force.[[38]](http://catalog.flatworldknowledge.com/bookhub/3158?e=fwk-168388-ch06_s02" \l "ftn.fn-38)

In 1989, the GCC and the EU signed a cooperation agreement. “Trade between the EU and the GCC countries totalled €79 billion in 2009 and should increase under the FTA. And while strong economic relations remain the basis for mutual ties, the EU and the GCC also share common interests in areas such as the promotion of alternative energy, thus contributing to the resolution of climate change and other pressing environmental concerns; the promotion of proper reform for the global economic and financial policies; and the enhancement of a comprehensive rules-based international system.”[[39]](http://catalog.flatworldknowledge.com/bookhub/3158?e=fwk-168388-ch06_s02" \l "ftn.fn-39)

In 2008, the GCC formed a common market, enabling free flow of trade, investment, and workers.[[40]](http://catalog.flatworldknowledge.com/bookhub/3158?e=fwk-168388-ch06_s02" \l "ftn.fn-40) In December 2009, Bahrain, Saudi Arabia, Kuwait, and Qatar created a monetary council with the intent of eventually creating a shared currency.[[41]](http://catalog.flatworldknowledge.com/bookhub/3158?e=fwk-168388-ch06_s02" \l "ftn.fn-41) Since its creation, the GCC has contributed not only to the expansion of trade but also to the development of its countries and the welfare of its citizens, as well as promoting peace and stability in the region.[[42]](http://catalog.flatworldknowledge.com/bookhub/3158?e=fwk-168388-ch06_s02" \l "ftn.fn-42)

**Middle East and Africa: AEC**

The African Economic Community (AEC) is an organization of the African Union states. Signed in 1991 and implemented in 1994, it provides for a staged integration of the regional economic agreements. Several regional agreements function as pillars of the AEC:[[43]](http://catalog.flatworldknowledge.com/bookhub/3158?e=fwk-168388-ch06_s02" \l "ftn.fn-43)

* Community of Sahel-Saharan States (CEN-SAD)
* Common Market for Eastern and Southern Africa (COMESA)
* East African Community (EAC)
* Economic Community of Central African States (ECCAS/CEEAC)
* Economic Community of West African States (ECOWAS)
* Intergovernmental Authority on Development (IGAD)
* Southern African Development Community (SADC)
* Arab Maghreb Union (AMU/UMA)

Economists argue that free trade zones are particularly suited to African countries which were created under colonial occupation when land was divided up, often with little regard for the economic sustainability of the newly created plot.

Plus, post-independence conflict in Africa has left much of the continent with a legacy of poor governance and a lack of political integration which free trade zones aim to address….

[In October 2008,] plans were agreed to create a “super” free trade zone encompassing 26 African countries, stretching from Libya in the north to South Africa. The GDP of this group of nations is put at $624bn (£382.9bn).[[44]](http://catalog.flatworldknowledge.com/bookhub/3158?e=fwk-168388-ch06_s02" \l "ftn.fn-44)

Ambitiously, in 2017 and after, the AEC intends to foster the creation of a free-trade zone and customs union in its regional blocs. Beyond that, there are hopes for a shared currency and eventual economic and monetary union.

**How Do These Trade Agreements and Efforts Impact Business?**

Overall, global businesses have benefited from the regional trade agreements by having more consistent criteria for investment and trade as well as reduced barriers to entry. Companies that choose to manufacture in one country find it easier and cheaper to move goods between member countries in that trading bloc without incurring tariffs or additional regulations.

The challenges for businesses include finding themselves outside of a new trading bloc or having the “rules” for their industry change as a result of new trade agreements. Over the past few decades, there has been an increase in bilateral and multilateral trade agreements. It’s often called a “spaghetti bowl” of global bilateral and multilateral trade agreements, because the agreements are not linear strands lining up neatly; instead they are a messy mix of crisscrossing strands, like a bowl of spaghetti, that link countries and trading blocs in self-benefiting trading alliances. Businesses have to monitor and navigate these evolving trade agreements to make sure that one or more agreements don’t negatively impact their businesses in key countries. This is one reason why global businesses have teams of in-house professionals monitoring the WTO as well as the regional trade alliances.

For example, American companies doing business in one of the ASEAN countries often choose to become members of the US–ASEAN Business Council, so that they can monitor and possibly influence new trade regulations as well as advance their business interests with government entities.

The US–ASEAN Business Council is the premiere advocacy organization for U.S. corporations operating within the dynamic Association of Southeast Asian Nations (ASEAN). ASEAN represents nearly 600 million people and a combined GDP of USD $1.5 trillion across Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam. The Council’s members include the largest U.S. companies working in ASEAN, and range from newcomers to the region to companies that have been working in Southeast Asia for over 100 years….

The Council leads major business missions to key economies; convenes multiple meetings with ASEAN heads of state and ministers; and is the only U.S. organization to be given the privilege of raising member company concerns in consultations with the ASEAN Finance and Economic Ministers, as well as with the ASEAN Customs Directors-General at their annual meetings. Having long-established personal and professional relationships with key ASEAN decision makers, the Council is able to arrange genuine dialogues, solve problems and facilitate opportunities in all types of market conditions, and provide market entry and exclusive advisory services.[[45]](http://catalog.flatworldknowledge.com/bookhub/3158?e=fwk-168388-ch06_s02" \l "ftn.fn-45)

US–ASEAN member companies read like the *Fortune* Global 500 and include AT&T, Coca-Cola, Microsoft, Johnson & Johnson, Chevron, Ford Motor Company, and General Electric. While other countries and the EU have ongoing dialogues with ASEAN, the US–ASEAN Business Council is the most formal approach. For a list of ongoing ASEAN relationships with key trading partners, visit <http://www.usasean.org/about/what-we-do>.

It’s easy to see how complicated the relationships can be with just one trading bloc. A global firm with operations in North America, the EU, and Asia could easily find itself at the crosshairs of competing trade interests. Staffed with lawyers in an advocacy department, global firms work to maintain relationships with all of the interested parties. If you are curious about a business career in trade, then you may want to consider combining a business degree with a legal degree for the most impact.

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**Theme 4. European Free Trade Association**

**Plan**

**1.Which is the European Free Trade Association**

**2.History of the European Free Trade Association**

**Intoduction**

European Free Trade Association (EFTA), group of four countries—[Iceland](http://www.britannica.com/place/Iceland), [Liechtenstein](http://www.britannica.com/place/Liechtenstein), [Norway](http://www.britannica.com/place/Norway), and[Switzerland](http://www.britannica.com/place/Switzerland)—organized to remove barriers to [trade](http://www.britannica.com/topic/trade) in industrial goods among themselves, but with each nation maintaining its own commercial policy toward countries outside the group. Headquarters are in [Geneva](http://www.britannica.com/place/Geneva-Switzerland), [Switzerland](http://www.britannica.com/place/Switzerland).

The member countries of the [Organisation for European Economic Co-operation](http://www.britannica.com/topic/Organisation-for-European-Economic-Co-operation) (OEEC; 1948) originally proposed an OEEC-wide free-trade area to which countries not wishing to join the [European Economic Community](http://www.britannica.com/topic/European-Community-European-economic-association) (EEC; now part of the European Union) could belong and in which the EEC would function as one unit. When negotiations for this broke down in November 1958, the “outside” group, then composed of [Austria](http://www.britannica.com/place/Austria), [Denmark](http://www.britannica.com/place/Denmark), [Norway](http://www.britannica.com/place/Norway), [Portugal](http://www.britannica.com/place/Portugal), [Sweden](http://www.britannica.com/place/Sweden), Switzerland, and the [United Kingdom](http://www.britannica.com/place/United-Kingdom) (later known as the Outer Seven), decided to join together in the EFTA to strengthen their future bargaining power in establishing the wider free-trade area. The EFTA is based on the [Stockholm](http://www.britannica.com/place/Stockholm) Convention signed by the seven nations in November 1959 and becoming operative in May 1960. [Finland](http://www.britannica.com/place/Finland) became an associate member in 1961 and a full member in 1986; [Iceland](http://www.britannica.com/place/Iceland) was admitted to full membership in 1970; and [Liechtenstein](http://www.britannica.com/place/Liechtenstein) (formerly associated through a customs union with Switzerland) became a full member in 1991. In January 1973, however, Britain and [Denmark](http://www.britannica.com/place/Denmark) became members of the EEC and left the EFTA. [Portugal](http://www.britannica.com/place/Portugal) joined the EEC in 1986. [Austria](http://www.britannica.com/place/Austria), [Finland](http://www.britannica.com/place/Finland), and [Sweden](http://www.britannica.com/place/Sweden) became members of the[European Union](http://www.britannica.com/topic/European-Union) in 1995.

The original convention committed the members to a schedule of [tariff](http://www.britannica.com/topic/tariff) reductions and quota liberalizations for industrial goods but also included provisions for escape if the burden imposed on domestic economies proved too great. Provisions also were made for bilateral agreements to liberalize trade in agricultural products. By 1967, import duties on most industrial goods had been abolished. In 1977 the EFTA entered into agreements with the EEC that established industrial [free trade](http://www.britannica.com/topic/free-trade) between the two organizations’ member countries. In October 1991 the members of the EFTA and EEC agreed to establish a free-trade zone among themselves called the [European Economic Area](http://www.britannica.com/topic/European-Economic-Area) (EEA), which came into effect on January 1, 1994. At that time Switzerland (which did not ratify the agreement) and Liechtenstein (bound by its union with Switzerland) did not join the EEA, but the following year Liechtenstein, after a series of negotiations with Switzerland, became a full member.

A minimal administrative structure was set up by the original convention; meetings at the ministerial level usually occur twice yearly, and meetings at the official level take place every other week. Decisions are implemented by the individual governments themselves; EFTA holds no supranational powers.

The **European Free Trade Association** (**EFTA**) is an intergovernmental trade organisation and [free trade area](https://en.wikipedia.org/wiki/Free_trade_area) consisting of four European states: [Iceland](https://en.wikipedia.org/wiki/Iceland), [Liechtenstein](https://en.wikipedia.org/wiki/Liechtenstein), [Norway](https://en.wikipedia.org/wiki/Norway), and [Switzerland](https://en.wikipedia.org/wiki/Switzerland).[[1]](https://en.wikipedia.org/wiki/European_Free_Trade_Association#cite_note-TradeRelations-1) The organisation operates in parallel with the [European Union](https://en.wikipedia.org/wiki/European_Union)(EU), and all four member states participate in the [EU's single market](https://en.wikipedia.org/wiki/Internal_market).[[2]](https://en.wikipedia.org/wiki/European_Free_Trade_Association#cite_note-2)

The EFTA was established on 3 May 1960 as a [trade bloc](https://en.wikipedia.org/wiki/Trade_bloc)-alternative for European states who were either unable or unwilling to join the then-[European Economic Community](https://en.wikipedia.org/wiki/European_Economic_Community) (EEC) which in November 1993 became the EU. The [Stockholm Convention](https://en.wikipedia.org/w/index.php?title=Stockholm_Convention_(1960)&action=edit&redlink=1), establishing the EFTA, was signed on 4 January 1960 in the Swedish capital by seven countries (known as the "[outer seven](https://en.wikipedia.org/wiki/Outer_seven)"). Today only two founding members remain: Norway and Switzerland. The initial Stockholm Convention was superseded by the Vaduz Convention, with the aim of providing a successful framework for continued expansion and [liberalization of trade](https://en.wikipedia.org/wiki/Free_trade_area) among the organisation's member states and with the rest of the world.

While the EFTA is not a [customs union](https://en.wikipedia.org/wiki/Customs_union), it does have a co-ordinated trade policy.[[1]](https://en.wikipedia.org/wiki/European_Free_Trade_Association#cite_note-TradeRelations-1) As a result, its member states have jointly concluded free trade agreements with a number of other countries.[[1]](https://en.wikipedia.org/wiki/European_Free_Trade_Association#cite_note-TradeRelations-1) To participate in the EU's single market, Iceland, Liechtenstein and Norway are party to the Agreement on a [European Economic Area](https://en.wikipedia.org/wiki/European_Economic_Area) (EEA), with compliance regulated by the [EFTA Surveillance Authority](https://en.wikipedia.org/wiki/EFTA_Surveillance_Authority) and the [EFTA Court](https://en.wikipedia.org/wiki/EFTA_Court). Switzerland instead has a set of bilateral agreements with the EU.

British reaction to the creation of the [European Economic Community](https://en.wikipedia.org/wiki/European_Economic_Community) was mixed and complex. Britain was also preoccupied with the[Commonwealth](https://en.wikipedia.org/wiki/Commonwealth_of_Nations), which, at the time of EFTA's formation, was in transition. Britain therefore brought together several countries, including some bordering the EEC, to form the European Free Trade Association soon after the establishment of the six-nation EEC ([France](https://en.wikipedia.org/wiki/France), [West Germany](https://en.wikipedia.org/wiki/West_Germany), [Italy](https://en.wikipedia.org/wiki/Italy), [Belgium](https://en.wikipedia.org/wiki/Belgium), [Luxembourg](https://en.wikipedia.org/wiki/Luxembourg), and the [Netherlands](https://en.wikipedia.org/wiki/Netherlands)).

On 12 January 1960, the Treaty on European Free Trade Association was initialled in the Golden Hall of the Prince's Palace of[Stockholm](https://en.wikipedia.org/wiki/Stockholm). This established the progressive elimination of customs duties on industrial products, but did not affect agricultural products or maritime trade.

The main difference between the early EEC and the EFTA was the absence of a common external customs [tariff](https://en.wikipedia.org/wiki/Tariff), and therefore each EFTA member was free to establish individual customs duties against, or individual free trade agreements with, non-EFTA countries. Despite this modest initiative, the financial results were excellent, as it stimulated an increase of foreign trade volume among its members from 3.5 to 8.2 billion US dollars between 1959 and 1967. This was rather less than the increase enjoyed by countries inside the EEC.

After the [accession of Denmark, Ireland and the UK to the EEC in January 1973](https://en.wikipedia.org/wiki/Enlargement_of_the_European_Union), EFTA began to falter. For this reason most countries eased or eliminated their trade tariffs in preparation to join the EEC, but experienced declining revenue which reduced the importance of EFTA.[[*citation needed*](https://en.wikipedia.org/wiki/Wikipedia%3ACitation_needed)][[*clarification needed*](https://en.wikipedia.org/wiki/Wikipedia%3APlease_clarify)] Four members remain: [Switzerland](https://en.wikipedia.org/wiki/Switzerland), [Norway](https://en.wikipedia.org/wiki/Norway),[Liechtenstein](https://en.wikipedia.org/wiki/Liechtenstein) and [Iceland](https://en.wikipedia.org/wiki/Iceland).

The founding members of EFTA were [Austria](https://en.wikipedia.org/wiki/Austria), [Denmark](https://en.wikipedia.org/wiki/Denmark), [Norway](https://en.wikipedia.org/wiki/Norway), [Portugal](https://en.wikipedia.org/wiki/Portugal), [Sweden](https://en.wikipedia.org/wiki/Sweden), [Switzerland](https://en.wikipedia.org/wiki/Switzerland) and the [United Kingdom](https://en.wikipedia.org/wiki/United_Kingdom). During the 1960s these countries were often referred to as the **Outer Seven**, as opposed to the [Inner Six](https://en.wikipedia.org/wiki/Inner_Six) of the then-[European Economic Community](https://en.wikipedia.org/wiki/European_Economic_Community) (EEC).[[3]](https://en.wikipedia.org/wiki/European_Free_Trade_Association#cite_note-3)

[Finland](https://en.wikipedia.org/wiki/Finland) became an associate member in 1961 and a full member in 1986, and [Iceland](https://en.wikipedia.org/wiki/Iceland) joined in 1970. The United Kingdom and Denmark joined the EEC in 1973, and hence ceased to be EFTA members. Portugal also left EFTA for the European Community in 1986.[Liechtenstein](https://en.wikipedia.org/wiki/Liechtenstein) joined EFTA in 1991 (previously its interests had been represented by Switzerland). [Austria, Sweden and Finland joined the EU in 1995](https://en.wikipedia.org/wiki/1995_enlargement_of_the_European_Union) and thus ceased to be EFTA members.

Twice, in [1973](https://en.wikipedia.org/wiki/Norwegian_European_Communities_membership_referendum%2C_1972) and [1995](https://en.wikipedia.org/wiki/Norwegian_European_Union_membership_referendum%2C_1994), the Norwegian government has tried to join the EU (still the EEC in 1973) and by doing so, leave the EFTA. Both times, membership of the EU was rejected in national referendums, keeping Norway in the EFTA. Iceland [applied for EU membership in 2009](https://en.wikipedia.org/wiki/Accession_of_Iceland_to_the_European_Union) due to the [2008–2011 Icelandic financial crisis](https://en.wikipedia.org/wiki/2008%E2%80%932011_Icelandic_financial_crisis), but has since dropped its bid.[[4]](https://en.wikipedia.org/wiki/European_Free_Trade_Association#cite_note-4)

Members of the European Union (blue) and
EFTA (green)

Between 1994 and 2011, EFTA membership for [Andorra](https://en.wikipedia.org/wiki/Andorra), [San Marino](https://en.wikipedia.org/wiki/San_Marino), [Monaco](https://en.wikipedia.org/wiki/Monaco), [Isle of Man](https://en.wikipedia.org/wiki/Isle_of_Man), [Morocco](https://en.wikipedia.org/wiki/Morocco), [Turkey](https://en.wikipedia.org/wiki/Turkey), [Israel](https://en.wikipedia.org/wiki/Israel) and other [ENP partners](https://en.wikipedia.org/wiki/European_Neighborhood_Policy) was discussed.[[10]](https://en.wikipedia.org/wiki/European_Free_Trade_Association#cite_note-10)

In November 2012, after the [Council of the European Union](https://en.wikipedia.org/wiki/Council_of_the_European_Union) had called for an evaluation of the [EU's relations with the sovereign European microstates](https://en.wikipedia.org/wiki/Microstates_and_the_European_Union) of Andorra, Monaco and San Marino, which they described as "fragmented",[[11]](https://en.wikipedia.org/wiki/European_Free_Trade_Association#cite_note-11) the [European Commission](https://en.wikipedia.org/wiki/European_Commission) published a report outlining options for their further integration into the EU.[[12]](https://en.wikipedia.org/wiki/European_Free_Trade_Association#cite_note-options-12) Unlike Liechtenstein, which is a member of the EEA via the EFTA and the Schengen Agreement, relations with these three states are based on a collection of agreements covering specific issues. The report examined four alternatives to the current situation:

1. a Sectoral Approach with separate agreements with each state covering an entire policy area,
2. a comprehensive, multilateral Framework Association Agreement (FAA) with the three states,
3. EEA membership, and
4. EU membership.

The Commission argued that the sectoral approach did not address the major issues and was still needlessly complicated, while EU membership was dismissed in the near future because "the EU institutions are currently not adapted to the accession of such small-sized countries." The remaining options, EEA membership and a FAA with the states, were found to be viable and were recommended by the Commission. In response, the Council requested that negotiations with the three microstates on further integration continue, and that a report be prepared by the end of 2013 detailing the implications of the two viable alternatives and recommendations on how to proceed.[[13]](https://en.wikipedia.org/wiki/European_Free_Trade_Association#cite_note-13)

As EEA membership is currently only open to EFTA or EU members, the consent of existing EFTA member states is required for the microstates to join the EEA without becoming members of the EU. In 2011, [Jonas GahrStøre](https://en.wikipedia.org/wiki/Jonas_Gahr_St%C3%B8re), the then [Foreign Minister of Norway](https://en.wikipedia.org/wiki/Minister_of_Foreign_Affairs_%28Norway%29) which is an EFTA member state, said that EFTA/EEA membership for the microstates was not the appropriate mechanism for their integration into the internal market due to their different requirements from those of large countries such as Norway, and suggested that a simplified association would be better suited for them.[[14]](https://en.wikipedia.org/wiki/European_Free_Trade_Association#cite_note-14) [Espen Barth Eide](https://en.wikipedia.org/wiki/Espen_Barth_Eide), Støre's successor, responded to the Commission's report in late 2012 by questioning whether the microstates have sufficient administrative capabilities to meet the obligations of EEA membership. However, he stated that Norway was open to the possibility of EFTA membership for the microstates if they decide to submit an application, and that the country had not made a final decision on the matter.[[15]](https://en.wikipedia.org/wiki/European_Free_Trade_Association#cite_note-15)[[16]](https://en.wikipedia.org/wiki/European_Free_Trade_Association#cite_note-16)[[17]](https://en.wikipedia.org/wiki/European_Free_Trade_Association#cite_note-NORLIE-17)[[18]](https://en.wikipedia.org/wiki/European_Free_Trade_Association#cite_note-18) Pascal Schafhauser, the Counsellor of the Liechtenstein Mission to the EU, said that Liechtenstein, another EFTA member state, was willing to discuss EEA membership for the microstates provided their joining did not impede the functioning of the organization. However, he suggested that the option direct membership in the EEA for the microstates, outside of both the EFTA and the EU, should be given consideration.[[17]](https://en.wikipedia.org/wiki/European_Free_Trade_Association#cite_note-NORLIE-17) On 18 November 2013 the EU Commission concluded that "the participation of the small-sized countries in the EEA is not judged to be a viable option at present due to the political and institutional reasons", and that Association Agreements were a more feasible mechanism to integrate the microstates into the internal market.[[19]](https://en.wikipedia.org/wiki/European_Free_Trade_Association#cite_note-19)

The Norwegian electorate has rejected treaties of accession to the EU in two referendums. At the time of the [first referendum in 1972](https://en.wikipedia.org/wiki/Norwegian_European_Communities_membership_referendum%2C_1972), their neighbour [Denmark](https://en.wikipedia.org/wiki/Denmark) joined. Following the [second referendum in 1994](https://en.wikipedia.org/wiki/Norwegian_European_Union_membership_referendum%2C_1994), two other [Nordic neighbours](https://en.wikipedia.org/wiki/Nordic_countries), [Sweden](https://en.wikipedia.org/wiki/Sweden) and [Finland](https://en.wikipedia.org/wiki/Finland), joined the EU. The last two [governments](https://en.wikipedia.org/wiki/Politics_of_Norway) of Norway have been unable and unwilling to advance the question positively, as they have both been coalition governments consisting of proponents and opponents.

Since Switzerland rejected EEA membership in a [referendum in 1992](https://en.wikipedia.org/wiki/Swiss_referendums%2C_1992), more referendums on [EU membership](https://en.wikipedia.org/wiki/Switzerland_and_the_European_Union) have been initiated, the last time in [2001](https://en.wikipedia.org/wiki/Swiss_referendums%2C_2001). These were all rejected.

On 16 July 2009, the government of Iceland formally applied for EU membership,[[20]](https://en.wikipedia.org/wiki/European_Free_Trade_Association%22%20%5Cl%20%22cite_note-20) but the negotiation process has been halted since mid-2013.

In mid-2005, representatives of the [Faroe Islands](https://en.wikipedia.org/wiki/Faroe_Islands) raised the possibility of their territory joining the EFTA.[[21]](https://en.wikipedia.org/wiki/European_Free_Trade_Association#cite_note-21) According to Article 56 of the EFTA Convention, only states may become members of the EFTA.[[22]](https://en.wikipedia.org/wiki/European_Free_Trade_Association#cite_note-22) The Faroes are a [constituent country](https://en.wikipedia.org/wiki/Constituent_country) of the [Kingdom of Denmark](https://en.wikipedia.org/wiki/Danish_Realm), and not a [sovereign state](https://en.wikipedia.org/wiki/Sovereign_state) in their own right.[[23]](https://en.wikipedia.org/wiki/European_Free_Trade_Association#cite_note-faroes-23) Consequently, they considered the possibility that the "Kingdom of Denmark in respect of the Faroes" could join the EFTA, though the Danish Government has stated that this mechanism would not allow the Faroes to become a separate member of the EEA because Denmark was already a party to the EEA Agreement.[[23]](https://en.wikipedia.org/wiki/European_Free_Trade_Association#cite_note-faroes-23)

The Faroes already have an extensive bilateral free trade agreement with Iceland, known as the [Hoyvík Agreement](https://en.wikipedia.org/wiki/Hoyv%C3%ADk_Agreement).

The United Kingdom is holding a [referendum in 2016](https://en.wikipedia.org/wiki/United_Kingdom_European_Union_membership_referendum%2C_2016) on [withdrawing](https://en.wikipedia.org/wiki/United_Kingdom_withdrawal_from_the_European_Union) from the [European Union](https://en.wikipedia.org/wiki/European_Union). Were the UK to withdraw from the EU, its new relationship with the organization could take several forms. A research paper presented to the [Parliament of the United Kingdom](https://en.wikipedia.org/wiki/Parliament_of_the_United_Kingdom) proposed a number of alternatives to EU membership which would continue to allow it access to the EU's [internal market](https://en.wikipedia.org/wiki/Internal_market), including continuing EEA membership as an EFTA member state, or the [Swiss model](https://en.wikipedia.org/wiki/Switzerland%E2%80%93European_Union_relations) of a number of bilateral treaties covering the provisions of the single market.[[24]](https://en.wikipedia.org/wiki/European_Free_Trade_Association#cite_note-24)

EFTA is governed by the EFTA Council and serviced by the EFTA Secretariat. In addition, in connection with the EEA Agreement of 1992, two other EFTA organisations were established, the EFTA Surveillance Authority and the EFTA Court.

The [EFTA Council](https://en.wikipedia.org/w/index.php?title=EFTA_Council&action=edit&redlink=1) is the highest governing body of EFTA. The Council usually meets eight times a year at the ambassadorial level (heads of permanent delegations to EFTA) and twice a year at Ministerial level. In the Council meetings, the delegations consult with one another, negotiate and decide on policy issues regarding EFTA. Each Member State is represented and has one vote, though decisions are usually reached through consensus. The Council discusses substantive matters, especially relating to the development of EFTA relations with third countries and the management of free trade agreements, and keeps under general review relations with the EU third-country policy and administration. It has a broad mandate to consider possible policies to promote the overall objectives of the Association and to facilitate the development of links with other states, unions of states or [international organisations](https://en.wikipedia.org/wiki/International_organisations). The Council also manages relations between the EFTA States under the EFTA Convention. Questions relating to the [EEA](https://en.wikipedia.org/wiki/European_Economic_Area) are dealt with by the Standing Committee in Brussels.

The day-to-day running of the Secretariat is headed by the Secretary-General, [Kristinn F. Árnason](https://en.wikipedia.org/w/index.php?title=Kristinn_F._%C3%81rnason&action=edit&redlink=1), who is assisted by two Deputy Secretaries-General, one based in [Geneva](https://en.wikipedia.org/wiki/Geneva) and the other in [Brussels](https://en.wikipedia.org/wiki/Brussels). The three posts are shared between the Member State. The division of the Secretariat reflects the division of EFTA’s activities. The Secretariat employs approximately 100 staff members, of whom a third are based in Geneva and two thirds in Brussels and [Luxembourg](https://en.wikipedia.org/wiki/Luxembourg).

The Headquarters in Geneva deals with the management and negotiation of free trade agreements with non-EU countries, and provide support to the EFTA Council. In Brussels, the Secretariat provides support for the management of the EEA Agreement and assists the Member States in the preparation of new legislation for integration into the EEA Agreement. The Secretariat also assists the Member States in the elaboration of input to EU decision making. The two duty stations work together closely to implement the Vaduz Convention’s stipulations on the intra-EFTA Free Trade Area.

The EFTA Statistical Office in Luxembourg contributes to the development of a broad and integrated European Statistical System. The EFTA Statistical Office (ESO) is located in the premises of [Eurostat](https://en.wikipedia.org/wiki/Eurostat), the Statistical Office of the European Union, in Luxembourg, and functions as a liaison office between Eurostat and the EFTA National Statistical Institutes. ESO's main objective is to promote the full inclusion of the EFTA States in the European Statistical System, thus providing harmonised and comparable statistics to support the general cooperation process between EFTA and the EU within and outside the EEA Agreement. The cooperation also entails technical cooperation programmes with third countries and training of European statisticians.

A Joint Committee consisting of the EEA States plus the [European Commission](https://en.wikipedia.org/wiki/European_Commission) (representing the EU) has the function of extending relevant [EU law](https://en.wikipedia.org/wiki/EU_law) to the non EU members. An EEA Council meets twice yearly to govern the overall relationship between the EEA members.

Rather than setting up pan-EEA institutions, the activities of the EEA are regulated by the [EFTA Surveillance Authority](https://en.wikipedia.org/wiki/EFTA_Surveillance_Authority) and the [EFTA Court](https://en.wikipedia.org/wiki/EFTA_Court). The [EFTA Surveillance Authority](https://en.wikipedia.org/wiki/EFTA_Surveillance_Authority) and the [EFTA Court](https://en.wikipedia.org/wiki/EFTA_Court) regulate the activities of the EFTA members in respect of their obligations in the [European Economic Area](https://en.wikipedia.org/wiki/European_Economic_Area) (EEA). Since Switzerland is not an EEA member, it does not participate in these institutions.

The EFTA Surveillance Authority performs the [European Commission](https://en.wikipedia.org/wiki/European_Commission)'s role as "guardian of the treaties" for the EFTA countries, while the EFTA Court performs the [European Court of Justice](https://en.wikipedia.org/wiki/European_Court_of_Justice)'s role for those countries.

The original plan for the EEA lacked the EFTA Court or the EFTA Surveillance Authority, the European Court of Justice and the European Commission were to exercise those roles. However, during the negotiations for the EEA agreement, the European Court of Justice informed the [Council of the European Union](https://en.wikipedia.org/wiki/Council_of_the_European_Union) by way of letter that they considered that giving the EU institutions powers with respect to non-EU member states would be a violation of the treaties, and therefore the current arrangement was developed instead.

The [EEA and Norway Grants](https://en.wikipedia.org/wiki/EEA_and_Norway_Grants) are the financial contributions of Iceland, Liechtenstein and Norway to reduce social and economic disparities in Europe. They were established in conjunction with the 2004 enlargement of the European Economic Area (EEA), which brought together the EU, Iceland, Liechtenstein and Norway in the Internal Market. In the period from 2004 to 2009, €1.3 billion of project funding was made available for project funding in the 15 beneficiary states in Central and Southern Europe. The EEA and Norway Grants are administered by the Financial Mechanism Office, which is affiliated to the EFTA Secretariat in Brussels.

The EFTA Secretariat is headquartered in [Geneva](https://en.wikipedia.org/wiki/Geneva), [Switzerland](https://en.wikipedia.org/wiki/Switzerland), but also has duty stations in [Brussels](https://en.wikipedia.org/wiki/Brussels), [Belgium](https://en.wikipedia.org/wiki/Belgium) and [Luxembourg](https://en.wikipedia.org/wiki/Luxembourg). The EFTA Surveillance Authority has its headquarters in [Brussels](https://en.wikipedia.org/wiki/Brussels), [Belgium](https://en.wikipedia.org/wiki/Belgium) (the same location as the headquarters of the European Commission), while the EFTA Court has its headquarters in Luxembourg (the same location as the headquarters of the European Court of Justice).

The Portugal Fund was established in 1975 when Portugal was still a member of EFTA, to provide funding for the development and reconstruction of Portugal after the [Carnation Revolution](https://en.wikipedia.org/wiki/Carnation_Revolution). When Portugal left EFTA in 1985 to join the EEC, the remaining EFTA members decided to nonetheless continue the Portugal Fund, so Portugal would continue to benefit from it. The Fund originally took the form of a low-interest loan from the EFTA member states to Portugal, to the value of 100 million [US dollars](https://en.wikipedia.org/wiki/US_dollar). Repayment was originally to commence in 1988, but EFTA then decided to postpone the start of repayments until 1998. The Portugal Fund has now been dissolved by the Member States.

Except for Switzerland, the EFTA members are also members of the [European Economic Area](https://en.wikipedia.org/wiki/European_Economic_Area) (EEA). The **EEA** comprises three member states of the European Free Trade Association (EFTA) and 28 [member states of the European Union](https://en.wikipedia.org/wiki/Member_states_of_the_European_Union) (EU), including [Croatia](https://en.wikipedia.org/wiki/Croatia) which is provisionally applying the agreement pending its ratification by all EEA countries.[[25]](https://en.wikipedia.org/wiki/European_Free_Trade_Association#cite_note-25)[[26]](https://en.wikipedia.org/wiki/European_Free_Trade_Association#cite_note-croatsign-26) It was established on 1 January 1994 following an agreement with the [European Community](https://en.wikipedia.org/wiki/European_Communities) (which had become the EU two months earlier).[[27]](https://en.wikipedia.org/wiki/European_Free_Trade_Association#cite_note-agreement-27) It allows the EFTA-EEA states to participate in the [EU's Internal Market](https://en.wikipedia.org/wiki/Internal_market) without being [members of the EU](https://en.wikipedia.org/wiki/Member_state_of_the_European_Union). They adopt almost all EU legislation related to the single market, except laws on agriculture and fisheries. However, they also contribute to and influence the formation of new EEA relevant policies and legislation at an early stage as part of a formal decision-shaping process.[[28]](https://en.wikipedia.org/wiki/European_Free_Trade_Association#cite_note-influence-28) One EFTA member, [Switzerland](https://en.wikipedia.org/wiki/Switzerland), has not joined the EEA but has [a series of bilateral agreements](https://en.wikipedia.org/wiki/Switzerland%E2%80%93European_Union_relations), including a [free trade agreement](https://en.wikipedia.org/wiki/Free_trade_agreement), with the EU.

The following table summarises the various components of EU laws applied in the EFTA countries and their sovereign territories. Some territories of EU member states also have a [special status](https://en.wikipedia.org/wiki/Special_Member_State_territories_and_the_European_Union#Summary) in regard to EU laws applied as is the case with some [European microstates](https://en.wikipedia.org/wiki/Microstates_and_the_European_Union#Summary).

EFTA also originated the Hallmarking Convention and the [Pharmaceutical Inspection Convention](https://en.wikipedia.org/wiki/Pharmaceutical_Inspection_Convention), both of which are open to non-EFTA states.

Map of free trade agreements between EFTA and other countries

  EFTA

  Free trade agreement

  Ongoing free trade negotiation

  European Economic Area

  Declaration on cooperation or dialogue on closer trade relations

EFTA has several free trade agreements with non-EU countries as well as declarations on cooperation and joint workgroups to improve trade. Currently, the EFTA States have established preferential trade relations with 24 states and territories, in addition to the 28[member states of the European Union](https://en.wikipedia.org/wiki/Member_states_of_the_European_Union).[[35]](https://en.wikipedia.org/wiki/European_Free_Trade_Association#cite_note-35)

A citizen of an EFTA country can live and work in all other EFTA countries and in all EU countries, and a citizen of an EU country can live and work in all EFTA countries (but for voting and working in sensitive fields, such as government / police / military, citizenship is often required, and non-citizens may not have the same rights to welfare and unemployment benefits as citizens).

Since each EFTA and EU country can make its own citizenship laws, dual citizenship is not always possible. Of the EFTA countries, Iceland and Switzerland allow it (in Switzerland, conditions for the naturalization of immigrants vary regionally), but Norway only in exceptional cases, and Liechtenstein only for citizens by descent, but not for foreigners wanting to naturalize. Some non-EFTA/non-EU countries do not allow dual citizenship either, so immigrants wanting to naturalize must sometimes renounce their old citizenship. See also [Multiple citizenship](https://en.wikipedia.org/wiki/Multiple_citizenship) and the nationality laws of the countries in question for more details.

Like EU citizens, EFTA citizens enjoy a high degree of travel freedom. In the "*Henley Visa Restrictions Index 2016*," the rankings of the EFTA passports were as follows (For details, click on the name of the country):

* 06 a. [Norway](https://en.wikipedia.org/wiki/Visa_requirements_for_Norwegian_citizens): 172 countries visa-free / visa on arrival
* 06 b. [Switzerland](https://en.wikipedia.org/wiki/Visa_requirements_for_Swiss_citizens): 172
* 10. [Iceland](https://en.wikipedia.org/wiki/Visa_requirements_for_Icelandic_citizens): 167
* 12. [Liechtenstein](https://en.wikipedia.org/wiki/Visa_requirements_for_Liechtenstein_citizens): 164

The four EFTA countries belong to the [Schengen Area](https://en.wikipedia.org/wiki/Schengen_Area) and use [its visa policy](https://en.wikipedia.org/wiki/Visa_policy_of_the_Schengen_Area).

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Theme № 5 The North American Free Trade Association

*Questions:*

1. Background of the NAFTA

2. The principles and some of the results of NAFTA

**The North American Free Trade Agreement** (NAFTA) is an international agreement among the United States, Canada, and Mexico. Much has changed in the years since NAFTA took effect on January 1, 1994. The biggest effect of NAFTA has been on trade volumes. From 1993 to 1997, US.-Canadian trade increased more than 80 percent and U.S.-Mexican trade increased more than 90 percent. Mexico is now the second-largest trading partner of the United States, being second only to Canada.

NAFTA phases out tariffs among the three countries over a period ending in 2009, and it liberalizes rules related to investment in Mexico. NAFTA's adoption was supported strongly by most businesses and investors in the United States. Many other citizens, however, opposed its adoption and continue to be wary of its consequences. Debate continues as to whether NAFTA's effects have been negative or positive. Labor representatives say that NAFTA has encouraged more U.S. companies to move their operations to Mexico, where wages are lower than in the United States, workers receive fewer protections in terms of occupational safety and health, and enforcement of environmental laws is less stringent in many, but not all, cases.

Many, but not all, environmental groups opposed NAFTA prior to its adoption, and such opposition continues. As a result of opposition prior to Congress's approval of NAFTA, side agreements on labor, the environment, and import surges were negotiated. Following heated debate and serious concern about whether NAFTA would be approved, NAFTA and the side agreements were approved by the U.S. Congress in November 1993. As we enter the 21st century, environmentalists allege that increased trade resulting from NAFTA has led to further degradation of the environment in Mexico and the Southwest United States.

**NAFTA'S PROVISIONS**

NAFTA liberalizes rules for investment by businesses from one NAFrA country in another NAFTA country. It also eliminates tariffs and other barriers to trade among the United States, Canada, and Mexico over a 15-year period that began January 1, 1994. Thus, it creates what some commentators are calling "the world's largest trading bloc." As of December 31, 1993, there were tariffs on approximately 9,000 products being traded between the United States and Mexico. Approximately 4,500 tariffs were eliminated on January 1, 1994, and by 1999 tariffs remained in effect on only about 3,000. The remaining tariffs will be gradually phased out, with the last of them being terminated by the year 2009. NAFTA is a two-volume document covering more than 1,200 pages with extremely detailed, complex provisions specifying how tariffs and other barriers for a multitude of different industries will be altered. The following description of NAFrA summarizes some of its salient provisions with respect to selected sectors of the economy.

**REMOVAL OF BARRIERS TO INVESTMENT.**

NAFTA removes certain investment barriers, protects NAFTA investors, and provides process for settlement of disputes between investors and a NAFTA country. Coverage includes anticompetitive practices, financial services, intellectual property, temporary entry for businesspersons, and dispute settlement procedures. One of the most significant aspects of NAFTA is that it minimizes or eliminates many requirements of foreign government approval, which formerly posed significant barriers to investment.

NAFTA includes provisions on anticompetitive practices by monopolies and state enterprises as well as on such practices by privately owned businesses. It also sets out principles to guide regulation of financial services. Under NAFTA, financial service providers from one NAFTA country may establish banking, insurance, securities operations, and other types of financial services in another NAFTA country. The advantage of this for investors is that they are able to use the same financial service providers for both domestic and international transactions.

NAFTA provides U.S. and Canadian firms with greater access to Mexico's energy markets and energy-related services. Pursuant to NAFTA, U.S. and Canadian energy firms are now allowed to sell their products to PEMEX, Mexico's state-owned petroleum company, through open, competitive bidding. Under NAFTA, for the first time Mexico is allowing foreign ownership and operation of self-generation, cogeneration, and independent power plants.

Transportation among the three countries is becoming more efficient and less costly due to changes in investment restrictions. Pursuant to NAFTA, Mexico is removing its restrictions on foreign investment for trucking firms. Since 1995, U.S., Mexican, and Canadian trucking companies have been allowed to establish cross-border routes. Bans on such routes prior to NAFTA made shipping across the U.S.-Mexican border costly and inefficient; goods had to be unloaded from one truck and put onto another truck as they were moved from Mexico to the United States, or vice versa. As we enter the 21st century, trade is flowing more freely between the United States and Canada for a variety of reasons. For example, as of January 1999, a driver-record database is available for use by law enforcement officers in each of the three NAFTA countries. But crossing procedures at the U.S.-Mexican border continue to be inefficient. In January 1996, an agreement was to take effect that would allow U.S. and Mexican carriers to pick up and deliver international shipments in states adjacent to the U.S.-Mexican border, but the agreement was blocked by the United States. Commentators believe that the decision was based on organized labor's opposition to NAFTA. In addition, the United States and Mexico are still working to harmonize safety standards for motor carriers.

Under NAFTA, Mexico's pharmaceutical market is being opened to U.S. investors. Mexico has removed its import restrictions on pharmaceutical products, and it will phase out tariffs on such products by 2004. Mexico has opened its government procurement contracts for pharmaceuticals to bids from U.S. and Canadian companies.

NAFTA builds on the work of the General Agreement on Tariffs and Trade (GATT), providing substantial protection for intellectual property. Covered are copyrights , including sound recordings; patents and trademarks; plant breeders' rights; industrial designs and trade secrets; and integrated circuits (semiconductor chips). NAFTA includes details regarding procedures for enforcement of intellectual property rights and for damages in the event of violations of such rights. Mexico divides its intellectual property laws into two areas: intellectual property and industrial property. Mexico adopted its new Industrial Property Law as of 1994 and its new Federal Copyright Law took effect in 1997. Mexico has a history, however, of weak enforcement of intellectual property rights, and this area of law is developing slowly.

NAFTA does not create a common market for movement of labor. Thus, provisions in NAFTA deal with temporary entry of businesspeople from one NAFTA country into another. On a reciprocal basis, each of the three countries admits four categories of businesspersons: (1) business visitors dealing with research and design, growth, marketing and sales, and related activities; (2) traders and investors; (3) intracompany transferees—provided that such transferees are employed in a managerial or executive capacity or possess specialized knowledge; and (4) specified categories of professionals who meet minimum educational requirements or possess specialized knowledge.

**ELIMINATION OF TARIFFS.**

NAFTA's provisions on farm products were of great concern to agriculture businesspeople in the United States. Pursuant to NAFTA, tariffs on all farm products will be phased out, but producers of certain "sensitive" products will be allotted extra time to adjust gradually to competition from products of other NAFTA countries. Tariffs for those sensitive products will be phased out over a period of 15 years ending in 2009. "Sensitive products" receiving such treatment include corn and dry beans for Mexico, and sugar, melons, asparagus, and orange juice concentrate for the United States.

Provisions related to the automobile industry were also of special concern in the United States. Pursuant to formnulas set out in NAFTA, as of 1995, cars must contain 50 percent North American content to qualify for duty-free treatment. By 2002, they will be required to contain 62.5 percent North American content to receive such treatment. Also, U.S. automobile manufacturers have gained greater access to Mexican markets. During a transition period, limits on numbers of vehicles imported to Mexico are being phased out, as are duties on automobiles, light trucks, and automobile parts. As of 1999, according to Brenda M. Case," The auto industry is already one of the great success stories of the Mexican economy, and most of the world's auto makers have plans to make it bigger and better. Auto plants, suppliers, and dealers make up 20 percent of Mexico's exports and 2.5 percent of its gross domestic product (GDP)."

Mexico's telephone system was severely underdeveloped prior to NAFTA. Prices were high, service was irregular, and private customers often waited for years to get telephones installed. As of NAFTA's effective date, Mexico abolished tariffs on all telecommunications equipment except telephone sets and centralswitching equipment, and tariffs on even those products were phased out by 1998. Now, U.S. companies compete for certain contracts for Mexico's telephone system. In addition, foreign investors are allowed to form joint ventures with Mexican companies in the area of telecommunications, although foreign participation in telecommunications is limited to 49 percent in most cases. As a result of the new joint ventures and lowered tariffs, the quality of telephone service in Mexico has improved tremendously.

**DISPUTE RESOLUTION.**

Administration of NAFTA is handled by a commission composed of ministers (cabinet-level officers) designated by each NAFTA country. A secretariat serves the commission and assists with the administration of dispute resolution panels.

Whenever a dispute arises with respect to a NAFTA country's rights under the agreement, a consultation can be requested at which all three NAFTA countries can participate. If consultation does not resolve the dispute, the commission will seek to settle the dispute through mediation or similar means of alternative dispute resolution procedures. If those measures are unsuccessful, a complaining country can request that an arbitration panel be established. The panel is composed of five members selected from a trilaterally agreed upon list of trade, legal, and other experts. After study, the panel issues a confidential initial report. After receiving comments from the parties, a final report will be prepared and conveyed to the commission. If the panel finds that a NAFTA country violated its NAFTA obligations, the disputing parties have 30 days to reach an agreement. If none is reached, NAFTA benefits may be suspended against the violating country in an amount equivalent to the panel's recommended penalty until the dispute is resolved.

**ENVIRONMENTAL PROVISIONS AND SIDE**

**AGREEMENT**

NAFTA has more provisions relating to the environment and, at least on paper, is more protective of the environment than any other international agreement or treaty ever before entered into by the United States. Former U.S. Environmental Protection Agency (EPA) Administrator William K. Reilly observed that it is "the most environmentally sensitive … free trade agreement ever negotiated anywhere." Yet consideration and adoption of NAFTA led to a painful division within the environmental community. A coalition of eight major environmental organizations supported it, yet other major environmental groups opposed its approval.

NAFTA's environmental provisions are complex, lengthy, and yet-to-be interpreted as they are implemented. Questions arise in two directions. First, does NAFTA do enough to safeguard existing environmental laws and standards? Second, does NAFTA require or at least promote upward harmonization of the environmental laws of the three NAFTA countries?

**ENVIRONMENTAL PROVISIONS IN THE PREAMBLE.**

The environment and the pursuit of what is called "sustainable development" are mentioned three times in NAFTA's preamble. Nevertheless, in NAFTA's Statement of Objectives, which is part of the agreement itself, they are not mentioned at all. Thus, sustainable development is a goal of NAFTA, but there are no substantive provisions in NAFTA to require its pursuit or achievement. "Sustainable development" is a term used often in environmental discussions today. It refers to measures designed to ensure that the needs of the present are met without compromising the ability of future generations to meet their own needs.

**ENVIRONMENTAL PROVISIONS WITHIN NAFTA.**

In terms of our ability to safeguard the "status quo" in environmental regulation in the United States, there are two key articles in NAFTA: Articles 7 and 9. Article 7 covers sanitary and "phytosanitary" measures. ("Phytosanitary" refers to measures related to plant and food safety.) Article 7 reserves to each party (the United States, Mexico, and Canada) the "right" to set its "appropriate level of protection" for human, animal, or plant life or health. It confirms that a party may adopt a measure more stringent than an "international standard, guideline or recommendation." Further, adoption of these "more stringent" measures may be by federal, state, or local governments.

A major concern of U.S. environmental groups is the ability of the United States to maintain its own health and environmental standards. For example, Article 7 says that any trade measure used to achieve a party's level of protection must be "necessary" for the protection of human, animal, or plant life. Some environmentalists are concerned that the term "necessary" might be interpreted very narrowly, as has been the case recently under interpretation of GATT.

Article 9 of NAFTA gives each party the right to establish the levels of protection that it considers to be appropriate so long as the choice is made based on a "legitimate" objective. Environmental measures cannot be used to promote unfair discrimination or to serve as a disguised barrier to trade. NAFTA allows only those trade regulations involving "product characteristics or their related processes and production methods." Thus, a process standard must be related to the characteristics of a product, and a party can't prohibit trade in products grown or manufactured using "unsustainable" methods. Analyzing such provisions of NAFTA, environmentalists fear that specific, individual U.S. environmental laws or regulations might be challenged under NAFTA as being a nontariff barrier to trade without a legitimate objective.

**PROVISIONS OF THE ENVIRONMENTAL SIDE AGREEMENT.**

The North American Agreement on Environmental Cooperation, also known as the "Environmental Side Agreement," was adopted as a part of NAFTA along with two other side agreements, covering labor and import surges.

Part one of the Environmental Side Agreement lists two objectives: (1) to promote environmental concerns without harming the economy, and (2) to open discussion of environmental issues to the public.

Part two outlines the obligations of the three countries. It confirms that each party has the right to set its own standards and states that the governments of each country are responsible for monitoring and enforcing their environmental laws. It also states that private parties can request government intervention and can seek remedies through the courts of their respective countries.

Part three establishes a Commission for Environmental Cooperation (Environmental Commission) that is based in Montreal, Canada. The Environmental Commission consists of a council, a secretariat, and a Joint Public Advisory Committee. The council consists of cabinet-level representatives who will meet at least once a year. Its function is to implement the environmental side agreement. The secretariat provides a support system for the Council.

Nongovernment organizations or private citizens may assert that a country "has shown a persistent pattern of failure to effectively enforce its environmental laws" by filing a complaint with the commission. Thus, private citizens can serve as watchdogs for the commission. This is important to U.S. environmental groups because such groups have played an active role in overseeing enforcement of U.S. environmental laws and regulations.

The Joint Public Advisory Committee may advise the council on any relevant matter and may provide relevant technical information. The committee consists of 15 members, 5 of whom are appointed by each of the NAFTA countries.

Pursuant to part four of the Environmental Side Agreement, each party agrees to cooperate and to provide information to the secretariat upon request.

Part five allows a party to request consultation with a second party concerning the party's failure to enforce its environmental laws if such a failure is shown to be part of a persistent pattern. If a mutually satisfactory resolution is not reached within 60 days, a party can request a special session of the council, which must meet within 20 days. If the council is unable to resolve the dispute, it can convene a panel for arbitration of the dispute. The panel will issue an initial report within 180 days, and the parties are allowed to submit comments within 60 days. Next, the panel will submit a final report, which will be made public within 5 days after it is received by the council. The parties are given an opportunity to reach their own settlement based on the report, and if they cannot reach an "action plan" within 60 days, the panel can be reconvened to establish one. If the offending country does not follow the plan, a fine can be imposed. If the fine is not paid, NAFTA benefits can be suspended.

Thus, the Environmental Side Agreement allows citizeiis and their organizations to serve as "watchdogs" by bringing complaints to the attention of the Environmental Commission. Nevertheless, citizens do not have standing to take action on their own. A NAFTA party, however, can file a complaint with the council in cases in which another party has shown a persistent pattern of failure to enforce its environmental laws and regulations. Ultimate sanctions against an offending party may include suspension of trade benefits; such sanctions, however, have not been used during the first six years of NAFTA, and it is unlikely that they will be invoked in the near future.

At the time NAFTA and the Environmental Side Agreement were adopted, commentators predicted that suspension of trade benefits would seldom be invoked as a sanction. That prediction "come true" over NAFTA's first six years. As of mid-1995 the Environmental Commission had not issued even a draft of its procedures for handling complaints from citizens. As of 1999 it is clear that the Environmental Commission is poorly funded (with a budget of under $10 million for all three countries), its complaints process makes it difficult for private citizens to file and pursue complaints, and it lacks authority to force member countries to participate in many of its activities. For example, in 1998, the Environmental Commission issued a detailed pollution report detailing types and quantities of hazardous substances emitted into the air in the United States and Canada. Mexico, however, was not included in the report, because data on emissions from that country were not available.

The Environmental Commission's accomplishments have been limited to date. Its greatest accomplishment so far has probably been that it has promoted communication about environmental problems among governments, citizens, and environmental groups from the three NAFTA countries.

**SIDE AGREEMENT ON LABOR**

The North American Agreement on Labor Cooperation, commonly known as the "Labor Side Agreement," was negotiated in response to concerns that NAFTA itself did little or nothing to protect workers in Mexico, the United States, or Canada. U.S. labor groups have maintained their opposition to NAFTA even with the addition of the Labor Side Agreement. Representatives of labor groups assert that the Labor Side Agreement does little to protect workers in the United States, Canada, or Mexico. The structure and provisions of the Labor Side Agreement parallel those of the Environmental Side Agreement. Included are a preamble, objectives of the agreement, and obligations of the parties. There are also provisions for a Commission for Labor Cooperation, dispute resolution mechanisms, and sanctions against a NAFTA country found to be in violation of the agreement's provisions.

The preamble affirms the three parties' desire to create new employment opportunities and to protect, enhance, and enforce basic workers' rights while, at the same time, affirming their respect for each party's constitution and laws.

Part one lists the objectives of the agreement. Its basic goals include the desire to improve labor conditions and encourage compliance with labor laws. Another goal is to encourage open sharing of information (transparency) among the three countries regarding their respective labor laws and their enforcement of those laws.

Part two of the Labor Side Agreement discusses the obligations of the parties. Each party is responsible for enforcement of its own labor laws, but the parties agree that proceedings dealing with enforcement of labor laws will be "fair" and tribunals will be "impartial." Labor laws and information about their enforcement are to be made public, and public education will be promoted.

Part three establishes a Commission for Labor Cooperation. It will consist of a council and a secretariat. The council meets at least once a year or upon the request of one of the parties. Its primary tasks are to oversee implementation of the Labor Side Agreement and to promote cooperation among the parties on various labor issues.

The secretariat is headed by an executive director, and that position is rotated among the three countries. The secretariat's tasks are to assist the council, make public the labor policies of each country, and prepare studies requested by the council.

The United States, Mexico, and Canada have each established a National Administrative Office (NAO) led by a secretary. NAOs are responsible for gathering information within their respective countries and conveying it to the secretariat and the other two NAFTA parties. In addition, the Labor Side Agreement allows the NAOs in each country to review each other's labor laws (and enforcement) in response to complaints from workers.

In the event of a dispute related to the Labor Side Agreement, the leader of one of the NAFTA parties may request a meeting with another leader to attempt to resolve the dispute. The allegation cannot be based on a single failure to enforce its own laws. Instead, any complaint must be based on a "persistent pattern of failure by the Party complained against to effectively enforce its occupational safety and health, child labor, or minimum wage technical labor standards." All three NAFTA parties are allowed to participate in such a meeting. If the matter is not resolved by those leaders, a party-country may request that an Evaluation Committee of Experts (ECE) be established. The ECE will study the matter and submit a report to the council. The purpose of this report is to allow a party to obtain information about the practices and enforcement of labor laws by another NAFTA party.

After the ECE's report is presented, the parties will try to resolve any dispute between themselves. If this fails, the council may attempt to assist the parties in resolving the dispute. Finally, if the matter is not resolved, the council may convene an arbitration panel, chosen from a roster of 45 people chosen pursuant to qualifications outlined in the Labor Side Agreement. The panel convenes, receives input from each of the disputing party-countries, and prepares an initial report. After reviewing comments from each of the parties, a final report is prepared. If it is found that a party "persistently failed" to enforce its laws, the disputing parties will prepare an action plan. If the parties do not agree or if the plan is not fully implemented, the panel can be reconvened. If the panel finds that the plan was not implemented, the offending party can be fined. If the fine is not paid, NAFTA trade benefits can be suspended to pay the fine. As of 1999, however, such a sanction has not been ordered.

Thus, the Labor Side Agreement provides a mechanism for dealing with a party-country that shows a "pattern of practice" of failing to enforce its occupational safety and health, child labor, or minimum wage technical labor standards. The Labor Commission is supposed to pressure NAFTA countries into enforcing their own labor laws, but it lacks a meaningful method for punishing them. For example, managers at the ITAPSA brake parts factory in the State of Mexico, Mexico, fired assembly-line workers in retaliation for voting for an independent union. The U.S. and Canadian NAOs issued reports recommending that the former workers be restored to their jobs, but, according to Robert Donnelly, that has not happened.

As we enter the 21st century, organized labor in the United States continues to oppose NAFTA; labor representatives view the Labor Side Agreement as an ineffective mechanism that is unenforceable. The most significant achievement of the Labor Side Agreement to date is similar to that of the Environmental Side Agreement: complaints before the Labor Commission and the NAOs of the three countries have attracted media attention. And that media attention, in turn, may be compelling countries to enforce their own labor laws to a greater extent than might otherwise occur.

**TRADE AND ECONOMIC CONSEQUENCES**

NAFTA is facilitating an unprecedented level of economic integration in North America. It is creating opportunities for investment and growth by private business, and it is promoting more stable relations between and among the United States, Mexico, and Canada. Nevertheless, NAFTA is not welcomed by all people in the three countries. Overall, NAFTA is neither a complete success nor a complete failure. Its benefits vary for each of the three countries.

The effects of NAFTA on trade between the United States and Canada have not been as dramatic. The U.S.-Canada Free Trade Agreement was enacted in 1989, and tariffs between the United States and Canada were completely eliminated (with a few minor exceptions) as of 1998. Therefore, under NAFTA, trade observers have focused on effects on Mexico.

Mexico has benefited from NAFTA in substantial ways including, but not limited to, the following: First, as of 1998 Mexico passed Japan to become the second-largest trading partner of the United States. Second, exports from maquiladoras (in Mexico) to the United States are up about 135 percent comparing 1994 to 1999. (The maquiladora program was established pursuant to an agreement between the United States and Mexico. The agreement allows U.S. businesses to operate manufacturing facilities in northern Mexico, with restrictions, including the condition that all products produced be returned to the United States.) Third, direct foreign investment in Mexico has grown tremendously. It was at about $4 billion before NAFTA and reached over $10 billion in 1998. Fourth, Mexico is beginning to enjoy a more diversified economy. Before NAFTA, oil production was its primary source of revenue; now the manufacturing sector is becoming its primary source.

NAFTA's effect on the United States has not been as dramatic. In 1993, in his book Save Your Job, Save Our Country, former U.S. presidential candidate and businessperson H. Ross Perot (1930-) warned workers of a "giant sucking sound" that would be the flow of American jobs to Mexico. In reality, NAFTA's effect on jobs in the United States has varied. The jobs that have been most vulnerable are those that require unskilled labor and those that were, in the past, protected by high U.S. tariffs. Such industries include the clothing industry, glassware, and manufacture of ceramic tiles. The American Textile Manufacturers Association strongly opposed and continues to oppose NAFTA because lower labor costs in Mexico make it hard for U.S.-manufactured clothing to compete with low-priced garments made in Mexico. On the other hand, it is reported that NAFTA led to the creation of 100,000 jobs in the United States during the first half of 1994, and that as of January 1995 there were at least 700,000 U.S. jobs that depended on exports to Mexico. Trade officials say that 2.6 million U.S. jobs were supported by exports to Mexico and Canada in 1998.

Economic consequences of NAFTA for Mexico are more significant than those for the United States because Mexico has a much smaller economy. As of 1993, the $6 trillion American economy was 20 times the size of Mexico's. As of 1998, U.S.-Mexico trade totaled $173.3 billion in a U.S. economy with a GDP of $8.5 trillion. In contrast, Mexico had a GDP of about $381 billion in 1998.

**FACTORS AFFECTING CONTINUING**

**DEVELOPMENT OF TRADE WITH AND**

**WITHIN MEXICO**

NAFTA does not represent a blessing for Mexico's unskilled workers and their families. Workers are obtaining employment at low wages in new manufacturing facilities. Their wages, however, are not sufficient to enable them to purchase decent housing, clothing, and good food for their families. Due to a lack of potable water, inadequate sewage facilities, inadequate or unavailable electricity, and other inadequate or unavailable services in the areas around new industrial facilities, life for workers and their families is often a miserable existence. Diseases and illness due to a lack of sanitary facilities and due to industrial pollution are prevalent and are increasing.

There have been scandals within Mexico's government. On March 23, 1994, Luis DonaldoColosio, the leading candidate for election to Mexico's presidency, was assassinated during a political rally. In August 1994, Ernesto Zedillo was elected to the presidency. His election was reassuring to investors who were awaiting the results of the election, because he advocated economic and political policies similar to those of former President Carlos Salinas, who led Mexico in approving NAFTA. During 1995, however, there were additional scandals within Mexico's government. The brother of former President Salinas was arrested in March 1995 and convicted in 1998 of planning the murder of Jose Francisco Ruiz, who had been governor of the Mexican state of Guerrero from 1987 to 1993. In the aftermath of his brother's arrest, and accusations Salinas himself embezzled millions of dollars, he left Mexico and went into exile in Europe.

In addition, on January 1,1994, the effective date of NAFTA, there was an uprising in Chiapas, Mexico, led by Zapatista rebels. (The rebels take their name from the early 20th-century Mexican revolutionary leader Emiliano Zapata [1879-1919].) After the initial fighting, which resulted in at least 145 deaths, the rebellion has continued to simmer, with occasional armed conflicts, for over six years. The Zapatistas are protesting political injustices, extreme poverty, and ethnic oppression of the indigenous people of Chiapas. They are also protesting NAFTA and the environmental degradation resulting from increased industrialization of Mexico.

Foreign investments in Mexico have been stemmed by Mexico's financial crisis of 1995-96 and its continuing financial problems since then. In November 1994, the Mexican peso was trading for slightly over three pesos per U.S. dollar. But the exchange rate had dropped to a low of 7.7 pesos per dollar as of March 9, 1995. Further, inflation in Mexico reached an annualized rate of 64 percent as of February 1995. In March 1995, the United States extended $20 million in loans and loan guarantees to Mexico. In return, Mexico instituted an economic plan that included sweeping budget cuts, increased taxes, and approved provisions allowing the United States to oversee Mexico's handling of its economy. The loans have been repaid, but the agreement caused Mexican citizens accuse President Zedillo of" trading his nation's sovereignty" for American dollars.

Meanwhile, Mexico's response to the debt crisis included creation of an official bank bailout program called Bank Fund for Savings Protection (FondoBancarioparaProteccin de Ahorro —also known as Profoba or Fobaproa). But, according to Angelo Young, the program has been plagued by scandal and allegations of illegal practices. In early 1999, the Mexican Congress passed a set of reforms to replace Profoba with a new Bank Savings Protection Institute (IPAB) that is modeled after the Federal Deposit Insurance Corporation in the United States. IPAB is charged with administering a debt-relief package that will discount amounts owed on loans from 16 percent to 60 percent, depending on the type of loan. It is expected that business, agricultural, and small domestic debtors will benefit from the plan.

**ENVIRONMENTAL CONSEQUENCES**

Environmentalists, business representatives, and the governments of the three NAFTA countries agree that environmental contamination has reached serious proportions in northern Mexico, where U.S. businesses have been operating for nearly three decades under the maquiladora program and where industrial development has continued to grow under NAFTA.

The hazardous waste treatment industry was expected to be a major area for U.S. investors under NAFTA. The United States could offer experience and expertise that Mexicans lacked. Sadly, however, "five years into NAFTA, Mexico's hazardous waste industry is in total disarray," as reported by Sam Quínones. Of seven major waste-treatment projects in which tens of millions have been invested, all are "stalled." "As it stands, Mexico has less landfill infrastructure than it had before NAFTA," Quínones related.

A few observers are guardedly optimistic that, in the long term, NAFTA may result in better environmental conditions in Mexico and in the U.S.-Mexican border area. Such optimism rests on the belief that the success of NAFTA itself will help the environment. If jobs are created in Mexico, and wages increase, and Mexico's economy improves, there should be more money available for what is needed environmentally. Money is needed for personnel to enforce Mexico's environmental laws; money is needed for infrastructure, including waste disposal facilities, water treatment and sewage facilities; and technology and equipment are needed to create safer working conditions inside and outside the walls of industrial facilities.

**LOOKING AHEAD**

What happened during the first six years of NAFTA? The effects of NAFTA on trade between Canada and the United States were visible but not unexpected, because the United States and Canada already had a free trade agreement that eliminated nearly all tariffs as of 1998. Meanwhile, Mexico has seen significant increases in trade with the United States and Canada since 1994.

On the other hand, NAFTA has not been a success for labor interests and the environment. The Labor Commission created under the Labor Side Agreement has had little success in improving the status of workers. And the Environmental Commission has had similar limited results. Further, the environmental contamination in Mexico is escalating.

Meanwhile, NAFTA is being watched closely by observers throughout the world, because it is being used as a model for other agreements. For example, in December 1994, the United States and 33 other Western Hemisphere countries met in Miami, Florida, for a "Summit of the Americas." At the summit, the 34 countries agreed to create a Free Trade Area of the Americas (FTAA) by the year 2005. The FTAA will be modeled after NAFTA. As an immediate step, at the close of the 1994 Summit of the Americas, the United States, Canada, and Mexico announced their plans to admit Chile to NAFTA by 1996, but that did not happen for a variety of political and economic reasons.

Therefore, NAFTA's provisions and its implementation will continue to be watched closely. NAFTA must be monitored to determine whether its provisions need modification and to determine whether its provisions provide a suitable model for additional trade agreements, such as the FTAA.

 **№12 The integration of Kazakhstan into the world economy**

The primary goal for Kazakhstan is an effective integration into the world economy, strengthening of Kazakhstan’s position on external market and joining the top world exporters of energy and products of its processing by the means of introduction of advanced technologies of production and provision of energy independence of the country.
The economy of the country is actively aspiring for participation in international division of labor, international investment cooperation and international commodity turnover. For an effective participation of state in the given process it is necessary to keep in mind not only current state at the world markets, modern tendencies and main aspects of development of world economy but also be able to forecast important changes in the world economic processes on the bases of prospective analysis.
In the conditions of an open economy a strategic aim of integration of Kazakhstan into the world economy must be raising of competitiveness of its economy. Competitiveness of production must contribute not only to export but also to successful competition with foreign suppliers of domestic market. Not only rich natural resource and relatively cheap qualified labour but also literate and scientific-technical potential should be viewed as a pre-condition of raising competitiveness of the national economy.
Of no less importance in integration of national economy plays improvement of structure of export in order to provide delivery of competitive produce to the world market with a deeper degree of possessing, where the main executive body must be the state. Presently the national economy is highly vulnerable in the light of dependence on fluctuations in demand and supply of world commodity-raw material markets. According to the forecasts of international experts, the weight and influence of suppliers of fuel and raw material to the world market will be lowered and as a result their revenues will be falling. The main reason of such an outcome, I suppose, will be introduction of progressing resource-preserving technologies in developed countries.
However, presently the main and the only comparative advantage of Kazakhstan are its natural resources. In the last decade in the world economy there was a tendency of growth of production and consumption of energy predominately thanks to nonrenewable energy resources of organic origin: oil, coal and gas. In this light practically in all world markets of raw material there is an increase of level of prices for energy goods. In April-June 2006 there is a tendency of increase in prices for the main types of energy resources.
Such a development of world supply and demand for prices on raw materials allows Kazakhstan to obtain large dividends from its implementation. However, as it was stated above, the tendency of development of world economy are such that gradually an introduction of progressive energy saving technologies in developed countries will be implemented.
A solution to the given situation is an active constructive policy by the state and its influence on economic processes of the country. With this aim implementation of energy policy is planned, which provides for the country’s contribution to international energy security as well as preservation of interests of Kazakhstan in joining the world economic and political setting. The government of the Republic of Kazakhstan is planning to coordinate the energy policy with neighboring states, with members of the Organization of states-exporters of oil (OPEC), as well as states-consumers of energy resources for provision of stability of delivery of energy resources to international markets.
A complex of measures on development of oil and gas and oil-chemical clusters will be developed by the means of implementation of investment projects on deep processes of hydrocarbon raw material and creation of advanced technological industries on production of oil-chemical produce with high added value. In the framework of this aim a special economic zone (SEZ) “National industrial oil-chemical technological park” in the Atyrau oblast will be created and proposals on formation of SEZ “Oil-chemical technological park” in Mangystau oblast will be worked through. The reconstruction of Atyrau oil processing factory will be finished. As a result of adopted measures it is planned that in 2008 increase in oil extraction will reach 70 million tons annually, of gas- up to 36 billion м³ annually, an export potential on hydrocarbon and produce of their processing is increased up to 117% and production of products of reprocessing of oil at the level of European standards (Euro -3) has been reached. Production of electro-energy will increase up to 80 billion kwatt/h with the growth of export potential by two times. Extraction of coal will increase up to 87.5 million tons annually.
Presently implementation of the state program on effective integration into the world economy is on the way as a base of qualitative breakthrough in economic development of the national economy.
With the aim of effective implementation of the state program of development of the country’s economy it is planned to take the following steps:
- Conduct of analytical research of goods market of a number of countries in order to establish administrative, infrastructure barriers that hinder export activities and defining the most prospective markets for Kazakhstani goods;
- Development of the Program of assistance to advancement of export of Kazakhstani goods to external markets;
- Implementation of selective beneficial tax policy, including speedy amortization, beneficial credits and in some cases – direct state financing and state guarantees of foreign credits. A selective protectionism must promote import of goods, domestic production of which is not expedient and to prevent import of goods, production of which in the country can be effective;
- Creation of the system of crediting of export and insurance of export credits, provision of special support for export activities of defense complex, provision of financial support to exporters that participate in foreign fairs and exhibitions, provision of information to them on a state of market of various countries;
- Stimulation of unification of agricultural goods producers into farmer conglomerates and cooperatives, creation in their facilities of modern feeding complexes with a developed export infrastructure;
- Taking measures on formation of national brands, effective organization of exhibitions abroad
- It is planned to create a net of trade missions in countries- main trading partners of Kazakhstan with the aim of strengthening international image of Kazakhstan as a producer of a wide assortment of goods and services of high quality and for the promotion of domestic trade brands.
- Defining and signing primarily international agreements in the framework of regional and integration unions, including on formation of the Common economic zone, aimed at deepening and elimination of barriers in development of trade-economic relations and implementation of infrastructure projects;
- Defining a list of joint investment and innovation projects in the framework of regional coalitions by a united way of their financing through EBD;
- Implementation of the Concept of development of international center of border cooperation “Horgos”.
The objectives of formation of an effective national transport and telecommunication infrastructure will go in line with the aims of effectively joining the world economy by the state. The priority aspects of modernization and development of webs of telecommunication such as creation and launch of the second Kazakhstan satellite of communication and broadcasting “KAZSAT-2”, which will allow Kazakhstan to joint international operators of satellite communication. It is planned to continue construction of the National information superhighway.
In conclusion it can be stated that an effective integration into the world economy will be reached as a result of the conduct of a complex policy on industrial innovation development of the country, aimed at implementation of a cluster initiative and “breakthrough” projects of international importance, as well as modernization of the economic system in accordance with the objective tendencies and needs of the economy in the process of globalization.

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**Theme № 6 Asia-Pacific Economic Cooperation**

***Questions:***

**1. Formation of APEC**

**2. The difference of APEC from other groups of countries**

**3. APEC and the World Economy**

Asia-Pacific Economic Cooperation (APEC) is a forum for 21 Pacific Rim member economies that promotes free trade throughout the Asia-Pacific region. It was established in 1989 in response to the growing interdependence of Asia-Pacific economies and the advent of regional trade blocs in other parts of the world; to fears that highly industrialized Japan (a member of G8) would come to dominate economic activity in the Asia-Pacific region; and to establish new markets for agricultural products and raw materials beyond Europe.

An annual APEC Economic Leaders' Meeting is attended by the heads of government of all APEC members except Taiwan (which is represented by a ministerial-level official under the name Chinese Taipei as economic). The location of the meeting rotates annually among the member economies, and a famous tradition, followed for most (but not all) summits, involves the attending leaders dressing in a national costume of the host country.

**History**

In January 1989, Australian Prime Minister Bob Hawke called for more effective economic cooperation across the Pacific Rim region. This led to the first meeting of APEC in the Australian capital of Canberra in November, chaired by Australian Foreign Affairs Minister Gareth Evans. Attended by ministers from twelve countries, the meeting concluded with commitments for future annual meetings in Singapore and Korea.

Countries of the Association of Southeast Asian Nations (ASEAN) opposed the initial proposal, instead proposing the East Asia Economic Caucus which would exclude non-Asian countries such as the United States, Canada, Australia, and New Zealand. This plan was opposed because of the member countries in the America Region, and strongly criticized by Japan and the United States.

The first APEC Economic Leaders' Meeting occurred in 1993 when U.S. President Bill Clinton, after discussions with Australian Prime Minister Paul Keating, invited the heads of government from member economies to a summit on Blake Island. He believed it would help bring the stalled Uruguay Round of trade talks back on track. At the meeting, some leaders called for continued reduction of barriers to trade and investment, envisioning a community in the Asia-Pacific region that might promote prosperity through cooperation. The APEC Secretariat, based in Singapore, was established to coordinate the activities of the organization.

During the meeting in 1994 in Bogor, Indonesia, APEC leaders adopted the Bogor Goals that aim for free and open trade and investment in the Asia-Pacific by 2010 for industrialized economies and by 2020 for developing economies. In 1995, APEC established a business advisory body named the APEC Business Advisory Council (ABAC), composed of three business executives from each member economy.

In April 2001, the APEC, in collaboration with five other international organizations (Eurostat, IEA, OLADE, OPEC and the UNSD) launched the Joint Oil Data Exercise, which in 2005 became the Joint Organizations Data Initiative (JODI).

**Member economies**

APEC currently has 21 members, including most countries with a coastline on the Pacific Ocean. However, the criterion for membership is that the member is a separate economy, rather than a state. As a result, APEC uses the term member economies rather than member countries to refer to its members. One result of this criterion is that membership of the forum includes Taiwan (officially the Republic of China, participating under the name "Chinese Taipei") alongside People's Republic of China (see Cross-Strait relations), as well as Hong Kong, which entered APEC as a British colony but it is now a Special Administrative Region of the People's Republic of China. APEC also includes three official observers: ASEAN, the Pacific Islands Forum and the Pacific Economic Cooperation Council.

| **Member economy (name as used in APEC)** | **Dateofaccession** | **GDP(PPP) (Millions of Int$) 2014** |
| --- | --- | --- |
| https://upload.wikimedia.org/wikipedia/en/thumb/b/b9/Flag_of_Australia.svg/23px-Flag_of_Australia.svg.png [Australia](https://en.wikipedia.org/wiki/Australia) | November 1989 | 1,099,771 |
| https://upload.wikimedia.org/wikipedia/commons/thumb/9/9c/Flag_of_Brunei.svg/23px-Flag_of_Brunei.svg.png [BruneiDarussalam](https://en.wikipedia.org/wiki/Brunei) | November 1989 | 32,958 |
| https://upload.wikimedia.org/wikipedia/en/thumb/c/cf/Flag_of_Canada.svg/23px-Flag_of_Canada.svg.png [Canada](https://en.wikipedia.org/wiki/Canada) | November 1989 | 1,595,975 |
| https://upload.wikimedia.org/wikipedia/commons/thumb/9/9f/Flag_of_Indonesia.svg/23px-Flag_of_Indonesia.svg.png [Indonesia](https://en.wikipedia.org/wiki/Indonesia) | November 1989 | 2,685,893 |
| https://upload.wikimedia.org/wikipedia/en/thumb/9/9e/Flag_of_Japan.svg/23px-Flag_of_Japan.svg.png [Japan](https://en.wikipedia.org/wiki/Japan) | November 1989 | 4,767,157 |
| https://upload.wikimedia.org/wikipedia/commons/thumb/0/09/Flag_of_South_Korea.svg/23px-Flag_of_South_Korea.svg.png [RepublicofKorea](https://en.wikipedia.org/wiki/South_Korea) | November 1989 | 1,783,950 |
| https://upload.wikimedia.org/wikipedia/commons/thumb/6/66/Flag_of_Malaysia.svg/23px-Flag_of_Malaysia.svg.png [Malaysia](https://en.wikipedia.org/wiki/Malaysia) | November 1989 | 769,448 |
| https://upload.wikimedia.org/wikipedia/commons/thumb/3/3e/Flag_of_New_Zealand.svg/23px-Flag_of_New_Zealand.svg.png [NewZealand](https://en.wikipedia.org/wiki/New_Zealand) | November 1989 | 160,801 |
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| https://upload.wikimedia.org/wikipedia/en/thumb/f/f3/Flag_of_Russia.svg/23px-Flag_of_Russia.svg.png [RussianFederation](https://en.wikipedia.org/wiki/Russia) | November 1998 | 3,576,841 |
| https://upload.wikimedia.org/wikipedia/commons/thumb/2/21/Flag_of_Vietnam.svg/23px-Flag_of_Vietnam.svg.png [VietNam](https://en.wikipedia.org/wiki/Vietnam) | November 1998 | 512,582 |

**Possible enlargement**

India has requested membership in APEC, and received initial support from the United States, Japan and Australia. Officials have decided not to allow India to join for various reasons. India does not border the Pacific Ocean, which all current members do. However, India was invited to be an observer for the first time in November 2011.

Bangladesh, Pakistan, Sri Lanka, Macau, Mongolia, Laos, Cambodia, Costa Rica, Colombia,Panama,and Ecuador, are among a dozen other economies invited for membership in APEC. Colombia applied for APEC's membership as early as in 1995, but its bid was halted as the organization stopped accepting new members from 1993 to 1996, and the moratorium was further prolonged to 2007 due to the 1997 Asian Financial Crisis. Guam has also been actively seeking a separate membership, citing the example of Hong Kong, but the request is opposed by the United States, which currently represents Guam.

**Business Facilitation**

APEC has long been at the forefront of reform efforts in the area of business facilitation. Between 2002 and 2006 the costs of business transactions across the region was reduced by 6%, thanks to the APEC Trade Facilitation Action Plan (TFAPI). Between 2007 and 2010, APEC hopes to achieve an additional 5% reduction in business transaction costs. To this end, a new Trade Facilitation Action Plan has been endorsed. According to a 2008 research brief published by the World Bank as part of its Trade Costs and Facilitation Project, increasing transparency in the region's trading system is critical if APEC is to meet its Bogor Goal targets. The APEC Business Travel Card, a travel document for visa-free business travel within the region is one of the concrete measures to facilitate business. In May 2010 Russia joined the scheme, thus completing the circle.

**Proposed Free Trade Area of the Asia-Pacific**

APEC first formally started discussing the concept of a Free Trade Area of the Asia-Pacific (FTAAP) at its summit in 2006 in Hanoi. However, the proposal for such an area has been around since at least 1966 and Japanese economist Kiyoshi Kojima (ja)'s proposal for a Pacific Free Trade agreement proposal. While it gained little traction, the idea led to the formation of Pacific Trade and Development Conference and then the Pacific Economic Cooperation Council in 1980 and then APEC in 1989.

In the wake of the 2006 summit, economist C. Fred Bergsten advocated a Free Trade Agreement of Asia-Pacific, including the United States amongst the proposed parties to any agreement at that time. His ideas convinced the APEC Business Advisory Council to support this concept. Relatedly, ASEAN and existing free trade agreement (FTA) partners are negotiating as Regional Comprehensive Economic Partnership (RCEP), not officially including Russia. The Trans-Pacific Partnership (TPP) without China or Russia involved has become the US-promoted trade negotiation in the region. With the APEC summit in Beijing in 2014, the two-three plans are all in discussion. President Obama hosted a TPP meeting at the US Embassy in Beijing in advance of the APEC gathering.

The proposal for a FTAAP arose due to the lack of progress in the Doha round of World Trade Organization negotiations, and as a way to overcome the "noodle bowl" effect created by overlapping and conflicting elements of the copious free trade agreements — there were approximately 60 free trade agreements in 2007, with an additional 117 in the process of negotiation in Southeast Asia and the Asia-Pacific region. In 2012, ASEAN+6 countries alone had 339 free trade agreements - many of which were bilateral.

The FTAAP is more ambitious in scope than the Doha round, which limits itself to reducing trade restrictions. The FTAAP would create a free trade zone that would considerably expand commerce and economic growth in the region. The economic expansion and growth in trade could exceed the expectations of other regional free trade areas such as the ASEAN Plus Three (ASEAN + China, South Korea and Japan). Some criticisms include that the diversion of trade within APEC members would create trade imbalances, market conflicts and complications with nations of other regions. The development of the FTAAP is expected to take many years, involving essential studies, evaluations and negotiations between member economies. It is also affected by the absence of political will and popular agitations and lobbying against free trade in domestic politics.

At the 2014 APEC summit in Beijing, APEC leaders agreed to launch "a collective strategic study" on the FTAAP and instruct officials to undertake the study, consult stakeholders and report the result by the end of 2016.APEC Executive Director Alan Bollard revealed in the Elite Talk show that FTAAP will be APEC's big goal out into the future.

The Trans-Pacific Partnership includes 12 of the 21 APEC members and has provisions for the accession of other APEC members, five of which have expressed interest in membership.

**APEC Study Centre Consortium**

In 1993, APEC Leaders decided to establish a network of APEC Study Centres among universities and research institutions in member economies.

Notable centers include:

Australian APEC Study Centre, Royal Melbourne Institute of Technology, Australia

Berkeley APEC Study Center, University of California, Berkeley, United States

Chinese Taipei APEC Study Centre, Taiwan Institute of Economic Research, Taiwan

HKU APEC Study Centre, University of Hong Kong, Hong Kong

Kobe APEC Study Centre, Kobe University, Japan

Nankai APEC Study Centre, Nankai University, China

 Philippine APEC Study Center Network, Philippine Institute for Development Studies, Philippines

The Canadian APEC Study Centre, The Asia Pacific Foundation of Canada, Vancouver, Canada

Indonesian APEC Study Centre, APEC Study Centre University of Indonesia, Indonesia.

**APEC Business Advisory Council**

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The APEC Business Advisory Council (ABAC) was created by the APEC Economic Leaders in November 1995 with the aim of providing advice to the APEC Economic Leaders on ways to achieve the Bogor Goals and other specific business sector priorities, and to provide the business perspective on specific areas of cooperation.

Each economy nominates up to three members from the private sector to ABAC. These business leaders represent a wide range of industry sectors. ABAC provides an annual report to APEC Economic Leaders containing recommendations to improve the business and investment environment in the Asia-Pacific region, and outlining business views about priority regional issues. ABAC is also the only non-governmental organization that is on the official agenda of the APEC Economic Leader's Meeting.

**Annual APEC Economic Leaders' Meetings**

Since its formation in 1989, APEC has held annual meetings with representatives from all member economies. The first four annual meetings were attended by ministerial-level officials. Beginning in 1993, the annual meetings are named APEC Economic Leaders' Meetings and are attended by the heads of government from all member economies except Taiwan, which is represented by a ministerial-level official. The annual Leaders' Meetings are not called summits.

**Meeting developments**

In 1997, the APEC meeting was held in Vancouver. Controversy arose after officers of the Royal Canadian Mounted Police used pepper spray against protesters. The protesters objected to the presence of autocratic leaders such as Indonesian president Suharto.

At the 2001 Leaders' Meeting in Shanghai, APEC leaders pushed for a new round of trade negotiations and support for a program of trade capacity-building assistance, leading to the launch of the Doha Development Agenda a few weeks later. The meeting also endorsed the Shanghai Accord proposed by the United States, emphasizing the implementation of open markets, structural reform, and capacity building. As part of the accord, the meeting committed to develop and implement APEC transparency standards, reduce trade transaction costs in the Asia-Pacific region by 5 percent over 5 years, and pursue trade liberalization policies relating to information technology goods and services.

In 2003, Jemaah Islamiyah leader RiduanIsamuddin had planned to attack the APEC Leaders Meeting to be held in Bangkok in October. He was captured in the city of Ayutthaya, Thailand by Thai police on August 11, 2003, before he could finish planning the attack. Chile became the first South American nation to host the Leaders' Meeting in 2004. The agent of that year was focused on terrorism and commerce, small and medium enterprise development, and contemplation of free agreements and regional trade agreements.

The 2005 Leaders' Meeting was held in Busan, South Korea. The meeting focused on the Doha round of World Trade Organization (WTO) negotiations, leading up to the WTO Ministerial Conference of 2005 held in Hong Kong in December. Weeks earlier, trade negotiations in Paris were held between several WTO members, including the United States and the European Union, centered on reducing agricultural trade barriers. APEC leaders at the summit urged the European Union to agree to reduce farm subsidies. Peaceful protests against APEC were staged in Busan, but the meeting schedule was not affected.

At the Leaders' Meeting held on November 19, 2006 in Hanoi, APEC leaders called for a new start to global free-trade negotiations while condemning terrorism and other threats to security. APEC also criticized North Korea for conducting a nuclear test and a missile test launch that year, urging the country to take "concrete and effective" steps toward nuclear disarmament. Concerns about nuclear proliferation in the region were discussed in addition to economic topics. The United States and Russia signed an agreement as part of Russia's bid to join the World Trade Organization.

The APEC Australia 2007 Leaders' Meeting was held in Sydney from 2–9 September 2007. The political leaders agreed to an "aspirational goal" of a 25% reduction of energy intensity correlative with economic development. Extreme security measures including airborne sharpshooters and extensive steel-and-concrete barricades were deployed against anticipated protesters and potential terrorists. However, protest activities were peaceful and the security envelope was penetrated with ease by a spoof diplomatic motorcade manned by members of the Australian television program The Chaser, one of whom was dressed to resemble the Al-Qaeda leader Osama bin Laden.

**APEC Leaders' Family Photo**

At the end of the APEC Economic Leaders' Meeting, the leaders in attendance gather for what is officially known as the APEC Leaders' Family Photo. A long-standing tradition for this photo involved the attending leaders dressing in a costume that reflects the culture of the host member. The tradition dates back to the first such meeting in 1993 when then-U.S. President Bill Clinton outfitted the leaders in leather bombardier jackets. However, at the 2010 meeting, Japan opted to have the leaders dress in smart casual rather than the traditional kimono. Similarly, when Honolulu was selected in 2009 as the site for the 2011 APEC meeting, U.S. President Barack Obama joked that he looked forward to seeing the leaders dressed in "flowered shirts and grass skirts". However, after viewing previous photos, and concerned that having the leaders dress in aloha shirts might give the wrong impression during a period of economic austerity; Obama decided that it might be time to end the tradition. Leaders were given a specially designed aloha shirt as a gift but were not required to wear it for the photo. However at the 2013 conference in Bali, Indonesia, leaders are toned with Batik outfit.

**Meeting locations**

The location of the meeting is rotated annually among the members.

| **Year** | **#** | **Dates** | **Country** | **City** | **Website** |
| --- | --- | --- | --- | --- | --- |
| **1989** | [**1st**](https://en.wikipedia.org/wiki/APEC_Australia_1989) | **November 6–7** | **Australia**[**Australia**](https://en.wikipedia.org/wiki/Australia) | [**Canberra**](https://en.wikipedia.org/wiki/Canberra) |  |
| **1990** | **2nd** | **July 29–31** | **Singapore**[**Singapore**](https://en.wikipedia.org/wiki/Singapore) | [**Singapore**](https://en.wikipedia.org/wiki/Singapore) |  |
| **1991** | **3rd** | **November 12–14** | **South Korea**[**SouthKorea**](https://en.wikipedia.org/wiki/South_Korea) | [**Seoul**](https://en.wikipedia.org/wiki/Seoul) |  |
| **1992** | **4th** | **September 10–11** | **Thailand**[**Thailand**](https://en.wikipedia.org/wiki/Thailand) | [**Bangkok**](https://en.wikipedia.org/wiki/Bangkok) |  |
| **1993** | **5th** | **November 19–20** | **United States**[**UnitedStates**](https://en.wikipedia.org/wiki/United_States) | [**Seattle**](https://en.wikipedia.org/wiki/Seattle) |  |
| **1994** | **6th** | **November 15–16** | **Indonesia**[**Indonesia**](https://en.wikipedia.org/wiki/Indonesia) | [**Bogor**](https://en.wikipedia.org/wiki/Bogor) |  |
| **1995** | **7th** | **November 18–19** | **Japan**[**Japan**](https://en.wikipedia.org/wiki/Japan) | [**Osaka**](https://en.wikipedia.org/wiki/Osaka) |  |
| **1996** | [**8th**](https://en.wikipedia.org/wiki/APEC_Philippines_1996) | **November 24–25** | **Philippines**[**Philippines**](https://en.wikipedia.org/wiki/Philippines) | [**Subic**](https://en.wikipedia.org/wiki/Subic_Bay_Freeport_Zone) |  |
| **1997** | [**9th**](https://en.wikipedia.org/wiki/APEC_Canada_1997) | **November 24–25** | **Canada**[**Canada**](https://en.wikipedia.org/wiki/Canada) | [**Vancouver**](https://en.wikipedia.org/wiki/Vancouver) |  |
| **1998** | **10th** | **November 17–18** | **Malaysia**[**Malaysia**](https://en.wikipedia.org/wiki/Malaysia) | [**KualaLumpur**](https://en.wikipedia.org/wiki/Kuala_Lumpur) |  |
| **1999** | **11th** | **September 12–13** | **New Zealand**[**NewZealand**](https://en.wikipedia.org/wiki/New_Zealand) | [**Auckland**](https://en.wikipedia.org/wiki/Auckland) |  |
| **2000** | **12th** | **November 15–16** | **Brunei**[**Brunei**](https://en.wikipedia.org/wiki/Brunei) | [**BandarSeriBegawan**](https://en.wikipedia.org/wiki/Bandar_Seri_Begawan) |  |
| **2001** | **13th** | **October 20–21** | **China**[**China**](https://en.wikipedia.org/wiki/China) | [**Shanghai**](https://en.wikipedia.org/wiki/Shanghai) |  |
| **2002** | **14th** | **October 26–27** | **Mexico**[**Mexico**](https://en.wikipedia.org/wiki/Mexico) | [**LosCabos**](https://en.wikipedia.org/wiki/Los_Cabos) |  |
| **2003** | **15th** | **October 20–21** | **Thailand**[**Thailand**](https://en.wikipedia.org/wiki/Thailand) | [**Bangkok**](https://en.wikipedia.org/wiki/Bangkok) |  |
| **2004** | **16th** | **November 20–21** | **Chile**[**Chile**](https://en.wikipedia.org/wiki/Chile) | [**Santiago**](https://en.wikipedia.org/wiki/Santiago) |  |
| **2005** | [**17th**](https://en.wikipedia.org/wiki/APEC_South_Korea_2005) | **November 18–19** | **South Korea**[**SouthKorea**](https://en.wikipedia.org/wiki/South_Korea) | [**Busan**](https://en.wikipedia.org/wiki/Busan) |  |
| **2006** | [**18th**](https://en.wikipedia.org/wiki/APEC_Vietnam_2006) | **November 18–19** | **Vietnam**[**Vietnam**](https://en.wikipedia.org/wiki/Vietnam) | [**Hanoi**](https://en.wikipedia.org/wiki/Hanoi) |  |
| **2007** | [**19th**](https://en.wikipedia.org/wiki/APEC_Australia_2007) | **September 8–9** | **Australia**[**Australia**](https://en.wikipedia.org/wiki/Australia) | [**Sydney**](https://en.wikipedia.org/wiki/Sydney) |  |
| **2008** | [**20th**](https://en.wikipedia.org/wiki/APEC_Peru_2008) | **November 22–23** | **Peru**[**Peru**](https://en.wikipedia.org/wiki/Peru) | [**Lima**](https://en.wikipedia.org/wiki/Lima) |  |
| **2009** | [**21st**](https://en.wikipedia.org/wiki/APEC_Singapore_2009) | **November 14–15** | **Singapore**[**Singapore**](https://en.wikipedia.org/wiki/Singapore) | [**Singapore**](https://en.wikipedia.org/wiki/Singapore) |  |
| **2010** | [**22nd**](https://en.wikipedia.org/wiki/APEC_Japan_2010) | **November 13–14** | **Japan**[**Japan**](https://en.wikipedia.org/wiki/Japan) | [**Yokohama**](https://en.wikipedia.org/wiki/Yokohama) |  |
| **2011** | [**23rd**](https://en.wikipedia.org/wiki/APEC_United_States_2011) | **November 12–13** | **United States**[**UnitedStates**](https://en.wikipedia.org/wiki/United_States) | [**Honolulu**](https://en.wikipedia.org/wiki/Honolulu) |  |
| **2012** | [**24th**](https://en.wikipedia.org/wiki/APEC_Russia_2012) | **September 9–10** | **Russia**[**Russia**](https://en.wikipedia.org/wiki/Russia) | [**Vladivostok**](https://en.wikipedia.org/wiki/Vladivostok) |  |
| **2013** | [**25th**](https://en.wikipedia.org/wiki/APEC_Indonesia_2013) | **October 5–7** | **Indonesia**[**Indonesia**](https://en.wikipedia.org/wiki/Indonesia) | [**Bali**](https://en.wikipedia.org/wiki/Bali) |  |
| **2014** | [**26th**](https://en.wikipedia.org/wiki/APEC_China_2014) | **November 10–11** | **China**[**China**](https://en.wikipedia.org/wiki/China) | [**Beijing**](https://en.wikipedia.org/wiki/Beijing) |  |
| **2015** | [**27th**](https://en.wikipedia.org/wiki/APEC_Philippines_2015) | **November 18–19** | **Philippines**[**Philippines**](https://en.wikipedia.org/wiki/Philippines) | [**Manila**](https://en.wikipedia.org/wiki/Metro_Manila) |  |
| **2016** | [**28th**](https://en.wikipedia.org/wiki/APEC_Peru_2016) | ***November 17–19*** | **Peru**[**Peru**](https://en.wikipedia.org/wiki/Peru) | [**Lima**](https://en.wikipedia.org/wiki/Lima) |  |
| **2017** | **29th** | [**TBA**](https://en.wikipedia.org/wiki/TBA) | **Vietnam**[**Vietnam**](https://en.wikipedia.org/wiki/Vietnam) | [**DaNang**](https://en.wikipedia.org/wiki/Da_Nang) |  |
| **2018** | **30th** | [**TBA**](https://en.wikipedia.org/wiki/TBA) | **Papua New Guinea**[**PapuaNewGuinea**](https://en.wikipedia.org/wiki/Papua_New_Guinea) | [**TBA**](https://en.wikipedia.org/wiki/TBA) |  |
| **2019** | **31st** | [**TBA**](https://en.wikipedia.org/wiki/TBA) | **Chile**[**Chile**](https://en.wikipedia.org/wiki/Chile) | [**TBA**](https://en.wikipedia.org/wiki/TBA) |  |
| **2020** | **32nd** | [**TBA**](https://en.wikipedia.org/wiki/TBA) | **Malaysia**[**Malaysia**](https://en.wikipedia.org/wiki/Malaysia) | [**TBA**](https://en.wikipedia.org/wiki/TBA) |  |
| **2021** | **33rd** | [**TBA**](https://en.wikipedia.org/wiki/TBA) | **New Zealand**[**NewZealand**](https://en.wikipedia.org/wiki/New_Zealand) | [**TBA**](https://en.wikipedia.org/wiki/TBA) |  |
| **2022** | **34th** | [**TBA**](https://en.wikipedia.org/wiki/TBA) | **Thailand**[**Thailand**](https://en.wikipedia.org/wiki/Thailand) | [**TBA**](https://en.wikipedia.org/wiki/TBA) |  |
| **2023** | **35nd** | [**TBA**](https://en.wikipedia.org/wiki/TBA) | [**TBA**](https://en.wikipedia.org/wiki/TBA) | [**TBA**](https://en.wikipedia.org/wiki/TBA) |  |
| **2024** | **36nd** | [**TBA**](https://en.wikipedia.org/wiki/TBA) | [**TBA**](https://en.wikipedia.org/wiki/TBA) | [**TBA**](https://en.wikipedia.org/wiki/TBA) |  |
| **2025** | **37th** | [**TBA**](https://en.wikipedia.org/wiki/TBA) | **South Korea**[**SouthKorea**](https://en.wikipedia.org/wiki/South_Korea) | [**TBA**](https://en.wikipedia.org/wiki/TBA) |  |

**Criticism**

APEC has been criticised for promoting free trade agreements that would impose restrictions on national and local laws, which regulate and ensure labor rights, environmental protection and safe and affordable access to medicine. According to the organization, it is "the premier forum for facilitating economic growth, cooperation, trade and investment in the Asia-Pacific region" established to "further enhance economic growth and prosperity for the region and to strengthen the Asia-Pacific community".However, whether it has accomplished anything constructive remains debatable, especially from the viewpoints of European countries that cannot take part in APEC and Pacific Island nations that cannot participate but will suffer its consequences.

**U.S. Trade and Investment Liberalization Initiatives at APEC**

USTR represents the United States on critical trade and investment liberalization initiatives at APEC, with the goal of delivering for U.S. exporters concrete and meaningful results that break down barriers to trade in the Asia-Pacific, create jobs, promote economic integration, and contribute to global economic growth. Examples of recent trade and investment liberalization initiatives at APEC include:

• Addressing barriers to trade impacting environmental goods and services;

• Advancing next generation trade and investment issues, such as promoting effective, non-discriminatory, and market-driven innovation policies;

• Improving supply chain performance in the Asia-Pacific;

• Promoting good regulatory practices in such areas as public consultations, assessing the impact of regulations, and internal coordination of rule-making;

• Promoting regulatory cooperation in key sectors such as chemicals, life sciences, and autos;

• Working on trade-distorting local content requirements; and

• Promoting trade policies conducive to green growth, such as alignment of standards in the areas of green buildings, smart grid interoperability, and energy-efficiency.

**Declarations and statements by APEC leaders and ministers**

* APEC 2015 Leaders’ Declaration and annexes, Manila, Philippines, 19 November 2015
* APEC Ministerial Meeting Statement and annexes, Manila, Philippines, 17 November 2015
* APEC Ministers Responsible for Trade Statement, Boracay, Philippines 23-24 May 2015
* Statement on supporting the Multilateral Trading System, Boracay, Philippines, 23-24 May 2015
* Statement on the 25th Anniversary of APEC - Shaping the Future through Asia-Pacific Partnership, Beijing, China, 11 November, 2014
* APEC 2014 Leaders’ Declaration and annexes, Beijing, China, 10-11 November 2014
* APEC Ministerial Meeting Statement and annexes, Beijing, China, 7-8 November 2014
* APEC Meeting of Ministers Responsible for Trade Statement, Qingdao, China, 17-18 May 2014
* Statement on Supporting the Multilateral Trading System, Qingdao, China, 17 May 2014

**Media releases by the Minister for Foreign Affairs and Minister for Trade and Investment**

* Visit to Manila for APEC ministerial meeting, Minister for Foreign Affairs, 15 November 2015
* Robb departs for APEC and Indonesia, Minister for Trade and Investment, 15 November 2015
* Infrastructure and APEC focus of Robb’s Philippines visit, Minister for Trade and Investment, 21 May 2015
* Foreign Minister visit to China for APEC Ministerial Meeting, Minister for Foreign Affairs, 6 November 2014
* Robb departs for China FTA and APEC talks, Minister for Trade and Investment, 6 November 2014
* Trade Minister in APEC and TPP talks, Minister for Trade and Investment, 16 May 2014

**APEC Business Advisory Council**

* APEC Business Advisory Council Report to APEC Economic Leaders 2015 [PDF]
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**Theme № 7 The Association of Southeast Asian Nations (ASEAN)**

***Questions:***

**1. Motives of ASEAN creation**

**2. Economic cooperation of participants of group**

The Association of Southeast Asian Nations (ASEAN /ˈɑːsi.ɑːn/ ah-see-ahn, /ˈɑːzi.ɑːn/ ah-zee-ahn) is a political and economic organisation of ten Southeast Asian countries. It was formed on 8 August 1967 by Indonesia, Malaysia, the Philippines, Singapore, and Thailand. Since then, membership has expanded to include Brunei, Cambodia, Laos, Myanmar (Burma), and Vietnam. Its aims include accelerating economic growth, social progress, and sociocultural evolution among its members, alongside protection of regional stability as well as providing a mechanism for member countries to resolve differences peacefully.

ASEAN covers a land area of 4.4 million square kilometres, 3% of the total land area of Earth. ASEAN territorial waters cover an area about three times larger than its land counterpart. Member countries have a combined population of approximately 625 million people, 8.8% of the world's population. In 2015, the organisation's combined nominal GDP had grown to more than US$2.6 trillion. If ASEAN were a single entity, it would rank as the seventh largest economy in the world, behind the USA, China, Japan, Germany, France, and the United Kingdom. ASEAN shares land borders with India, China, Bangladesh, East Timor, and Papua New Guinea, and maritime borders with India, China, and Australia.

**Purpose**

*As set out in the ASEAN Declaration, the aims and purposes of ASEAN are:*

* To accelerate economic growth, social progress, and cultural development in the region.
* To promote regional peace and stability.
* To promote collaboration and mutual assistance on matters of common interest.
* To provide assistance to each other in the form of training and research facilities.
* To collaborate for the better utilisation of agriculture and industry to raise the living standards of the people.
* To promote Southeast Asian studies.
* To maintain close, beneficial co-operation with existing international organisations with similar aims and purposes.

**History**

***Foundation***

ASEAN was preceded by an organisation formed in 1961 called the Association of Southeast Asia (ASA), a group consisting of the Philippines, Malaysia, and Thailand. ASEAN itself was created on 8 August 1967, when the foreign ministers of five countries: Indonesia, Malaysia, the Philippines, Singapore, and Thailand, signed the ASEAN Declaration, more commonly known as the Bangkok Declaration.

The creation of ASEAN was motivated by a common fear of communism, and a thirst for economic development.

ASEAN grew when Brunei Darussalam became its sixth member on 7 January 1984, barely a week after gaining independence.

***Expansion and further integration***

ASEAN achieved greater cohesion in the mid-1970s following the changed balance of power in Southeast Asia after the end of the Vietnam War. The region's dynamic economic growth during the 1970s strengthened the organisation, enabling ASEAN to adopt a unified response to Vietnam's invasion of Cambodia in 1979. ASEAN's first summit meeting, held in Bali, Indonesia in 1976, resulted in an agreement on several industrial projects and the signing of a Treaty of Amity and Cooperation, and a Declaration of Concord. The end of the Cold War between the United States and the Soviet Union at the end of the 1980s allowed ASEAN countries to exercise greater political independence in the region, and in the 1990s ASEAN emerged as a leading voice on regional trade and security issues.

On 28 July 1995, Vietnam became ASEAN's seventh member. Laos and Myanmar (Burma) joined two years later on 23 July 1997. Cambodia was to have joined at the same time as Laos and Burma, but its entry was delayed due to the country's internal political struggle. It later joined on 30 April 1999, following the stabilization of its government.

In 1990, Malaysia proposed the creation of an East Asia Economic Caucus composed of the members of ASEAN as well as the People's Republic of China, Japan, and South Korea, with the intention of counterbalancing the growing influence of the United States in Asia-Pacific Economic Cooperation (APEC) and in the Asian region as a whole. However, the proposal failed because of heavy opposition from the US and Japan. Member states continued to work for further integration, and ASEAN Plus Three was created in 1997.

In 1992, the Common Effective Preferential Tariff (CEPT) scheme was adopted as a schedule for phasing out tariffs with the goal to increase the "region's competitive advantage as a production base geared for the world market". This law would act as the framework for the ASEAN Free Trade Area (AFTA). AFTA is an agreement by member nations concerning local manufacturing in ASEAN countries. The AFTA agreement was signed on 28 January 1992 in Singapore.

After the East Asian Financial Crisis of 1997, a revival of the Malaysian proposal, known as the Chiang Mai Initiative, was put forward in Chiang Mai, Thailand. It called for better integration of the economies of ASEAN as well as the ASEAN Plus Three countries, China, Japan, and South Korea.

The bloc also focused on peace and stability in the region. On 15 December 1995, the Southeast Asian Nuclear-Weapon-Free Zone Treaty was signed with the intention of turning Southeast Asia into a nuclear-weapon-free zone. The treaty took effect on 28 March 1997 after all but one of the member states had ratified it. It became fully effective on 21 June 2001 after the Philippines ratified it, effectively banning all nuclear weapons in the region.

**Charter**

On 15 December 2008, the members of ASEAN met in the Indonesian capital of Jakarta to launch a charter, signed in November 2007, with the aim of moving closer to "an EU-style community". The charter turned ASEAN into a legal entity and aimed to create a single free-trade area for the region encompassing 500 million people. President of Indonesia SusiloBambangYudhoyono stated: "This is a momentous development when ASEAN is consolidating, integrating, and transforming itself into a community. It is achieved while ASEAN seeks a more vigorous role in Asian and global affairs at a time when the international system is experiencing a seismic shift". Referring to climate change and economic upheaval, he concluded: "Southeast Asia is no longer the bitterly divided, war-torn region it was in the 1960s and 1970s".

The 2008 global financial crisis was seen as being a threat to the goals envisioned by the charter, and also set forth the idea of a proposed human rights body to be discussed at a future summit in February 2009. This proposition caused controversy, as the body would not have the power to impose sanctions or punish countries which violated citizens' rights and would therefore be limited in effectiveness.The body was established later in 2009 as the ASEAN Intergovernmental Commission on Human Rights (AICHR). In November 2012, the commission adopted the ASEAN Human Rights Declaration.

**The ASEAN Way**

The 'ASEAN Way' refers to a methodology or approach to solving issues that respects the cultural norms of Southeast Asia. Masilamani and Peterson summarise it as:

A working process or style that is informal and personal. Policymakers constantly utilize compromise, consensus, and consultation in the informal decision-making process... it above all prioritizes a consensus-based, non-conflictual way of addressing problems. Quiet diplomacy allows ASEAN leaders to communicate without bringing the discussions into the public view. Members avoid embarrassment that may lead to further conflict.

Critics object claiming that the ASEAN Way's emphasis on consultation, consensus, and non-interference, forces the organisation to adopt only those policies which satisfy the lowest common denominator. Decision making by consensus requires members to see eye-to-eye before ASEAN can move forward on an issue. Members may not have a common conception of the meaning of the ASEAN Way. Myanmar, Cambodia, and Laos emphasise non-interference while older member countries focus on co-operation and co-ordination. These differences hinder efforts to find common solutions to particular issues, but also make it difficult to determine when collective action is appropriate in a given situation.

**ASEAN Plus Three**

The leaders of each country felt the need to further integrate the nations in the region. Beginning in 1997, the bloc started creating organisations with the intention of achieving this goal. "ASEAN Plus Three" was the first of these and was created to improve existing ties with the People's Republic of China, Japan, and South Korea. This was followed by the even larger East Asia Summit (EAS), which included ASEAN Plus Three countries as well as India, Australia, New Zealand, the United States, and Russia. This new group acted as a prerequisite for the planned East Asia Community which was supposedly patterned after the now-defunct European Community. The ASEAN Eminent Persons Group was created to study the possible successes and failures of this policy as well as the possibility of drafting an ASEAN Charter.

**Economy**

***Overview***

ASEAN seeks economic integration by creating the AEC by the end of 2015. This established a common market. The average economic growth of ASEAN's member nations during 1989–2009 was between 3.8% and 7%. This economic growth was greater than the average growth of the Asia-Pacific Economic Cooperation (APEC), which was 2.8%.

The ASEAN Free Trade Area (AFTA), which was established on 28 January 1992, includes a Common Effective Preferential Tariff (CEPT) to promote the free flow of goods between member states. When the AFTA agreement was originally signed, ASEAN had only six members: Brunei, Indonesia, Malaysia, the Philippines, Singapore, and Thailand. Vietnam joined in 1995, Laos and Burma in 1997, and Cambodia in 1999. The newcomers have not fully met AFTA's obligations, but they are officially considered part of the AFTA as they were required to sign the agreement upon entry into ASEAN, and were given longer time frames in which to meet AFTA's tariff reduction obligations.

The next steps are to create a: single market and production base, a competitive economic region, a region of equitable economic development, and a region that is fully integrated into the global economy.

In February 2016, President Obama initiated the inaugural US-ASEAN Summit at Sunnylands for closer engagement with ASEAN, as China's economic and trade growth have dimmed. The territorial disputes in the South China Sea were also discussed. However, in a final joint statement, the Sunnylands Declaration did not allude to the South China Sea by name, instead calling for: "respect for each nation's sovereignty and for international law". Analysts believe the wording indicated divides within the group on how to respond to China's maritime strategy.

***Internal market***

By the end of 2015, ASEAN plans to establish a common market based upon the four freedoms. The single market will ensure the free flow of goods, services, investment, skilled labour, and the free flow of capital.

Until the end of 2010, intra-ASEAN trade was still low. Trade involved mainly exports to countries outside the region, with the exception of Laos and Myanmar, whose foreign trade was ASEAN-oriented, with 80% and 50% respectively of their exports going to other ASEAN countries.

In 2009, realised foreign direct investment (FDI) was US$37.9 billion and increased two-fold in 2010 to US$75.8 billion. 22% of FDI came from the European Union, followed by ASEAN countries (16%), and by Japan and the USA.

The ASEAN Framework Agreement on Trade in Services (AFAS) was adopted at the ASEAN Summit in Bangkok in December 1995. Under AFAS, ASEAN member states enter into successive rounds of negotiations to liberalise trade in services with the aim of submitting increasingly higher levels of commitment. At present, ASEAN has concluded seven packages of commitments under AFAS.

***Free flow of skilled labour***

Mutual Recognition Agreements (MRAs) have been agreed upon by ASEAN for eight professions: physicians, dentists, nurses, architects, engineers, accountants, surveyors, and tourism professionals. Individuals in these professions will be free to work in any ASEAN nation after the AEC goes into effect on 31 December 2015. Applicants must be licensed and recognised professionals in these fields in their home countries. They can move to other ASEAN countries to practice, but they must pass that country's licensing test. In Thailand, licensing tests will be in the Thai language. In addition, one cannot be an independent practitioner. Any foreign professional intending to work must collaborate with a local business. Given these hurdles, it is unlikely that there will be significant migrations of professionals in the near-term.AChulalongkorn University study predicts that more developed countries stand to benefit the most from the free flow of professionals.

***Free trade***

Free trade initiatives in ASEAN are spearheaded by the implementation of the ASEAN Trade in Goods Agreement (ATIGA) and the Agreement on Customs. These agreements are supported by work done by several sector bodies to plan and to execute free trade measures, guided by the provisions and the requirements of ATIGA and the Agreement on Customs. The progress being made by these sector bodies forms a backbone for achieving the targets of the AEC Blueprint and establishing the ASEAN Economic Community by the end of 2015.

The year 2007 was the 40th anniversary of ASEAN's formation. It also marked 30 years of diplomatic relations with the USA. On 26 August 2007, ASEAN stated that it aims to complete all of its free trade agreements with China, Japan, South Korea, India, Australia, and New Zealand by 2013. This is in line with the start of the ASEAN Economic Community by 2015In November 2007, ASEAN members signed the ASEAN Charter, a constitution governing relations among ASEAN members and establishing ASEAN itself as an international legal entity. During the same year, the Cebu Declaration on East Asian Energy Security was signed (15 January 2007) by ASEAN and the other members of the EAS (Australia, The People's Republic of China, India, Japan, New Zealand, South Korea), which pursues energy security by finding energy alternatives to conventional fuels.

On 27 February 2009, a free trade agreement (FTA) with the ASEAN regional bloc of ten countries and Australia, and its close partner New Zealand was signed. It is believed that this FTA would boost combined GDP across the twelve countries by more than US$48 billion over the period between 2000 and 2020. ASEAN members, together with the group's six major trading partners (Australia, China, India, Japan, New Zealand, South Korea), began the first round of negotiations on 26–28 February 2013, in Bali, Indonesia on the establishment of the Regional Comprehensive Economic Partnership.

**Regional Comprehensive Economic Partnership (RCEP)**

RCEP consists of all ten ASEAN countries plus six countries (China, Japan, South Korea, Australia, India, and New Zealand) which have trade agreements with ASEAN countries. RCEP covers 45% of the world's population and about a third of the world's total GDP. For example, 60% of New Zealand's exports are to RCEP countries. RCEP is an extension of ASEAN plus three, and then ASEAN plus six.

***Monetary union***

The concept of an Asian Currency Unit (ACU) started in the middle of the nineties, prior to the 1997 Asian financial crisis. It is a proposed basket of Asian currencies, similar to the European Currency Unit, which was the precursor of the Euro. The Asian Development Bank is responsible for exploring the feasibility and construction of the basket.

Since the ACU is being considered to be a precursor to a common currency in the future, it has a dynamic outlook of the region.The overall goal of a common currency is to contribute to the financial stability of a regional economy, including price stability. It means lower cost of cross-border business through the elimination of currency risk for the members of the monetary union. Greater flows of intra-regional trade would put pressure on prices, resulting in cheaper goods and services. Individuals benefit not only from the lowering of prices, they save by not having to change money when travelling within the union, by being able to compare prices more readily, and by the reduced cost of transferring money across borders. However, there are conditions for a common currency: the intensity of intra-regional trade and the convergence of macroeconomic conditions. Substantial intra-ASEAN trade and economic integration is an incentive for a monetary union. Intra-ASEAN trade is growing, partly as a result of the ASEAN Free Trade Area (AFTA) and the ASEAN Economic Community.

**Free-trade agreements**

ASEAN has concluded free trade agreements with China (expecting bilateral trade of $500 billion by 2015), Korea, Japan, Australia, New Zealand, and India.ASEAN-India bilateral trade crossed the US$70 billion target in 2012 (target was to reach the level only by 2015).The agreement with People's Republic of China created the ASEAN–China Free Trade Area (ACFTA), which went into full effect on 1 January 2010. In addition, ASEAN is currently negotiating a free trade agreement with the European Union. The Republic of China (Taiwan) has also expressed interest in an agreement with ASEAN but needs to overcome diplomatic objections from China.

**Treaty of Amity & Cooperation**

The Treaty of Amity and Cooperation (TAC) in South-East Asia, signed at the First ASEAN Summit on 24 February 1976, declared that in their relations with one another, the High Contracting Parties should be guided by the following fundamental principles:

* Mutual respect for the independence, sovereignty, equality, territorial integrity, and national identity of all nation;
* The right of every state to lead its national existence free from external interference, subversion or coercion;
* Non-interference in the internal affairs of one another;
* Settlement of differences or disputes by peaceful manner;
* Renunciation of the threat or use of force; and
* Effective co-operation among themselves.

**From CMI to AMRO**

Due to the Asian financial crisis of 1997 to 1998, and the long and difficult negotiations with the International Monetary Fund, ASEAN+3 agreed to set up a mainly bilateral currency swap scheme known as the 2000 Chiang Mai Initiative (CMI) in anticipation of another financial crisis in the future. In 2006 they agreed to meld the CMI with multilateralisation and call it CMIM. On 3 May 2009, they agreed to make a currency pool consisting of contributions: US$38.4 billion each by China and Japan, US$19.2 billion by South Korea, and US$24 billion from all ASEAN members, totalling US$120 billion. A key component has also been added recently, with the establishment of a surveillance unit.

**Single aviation market**

The ASEAN Single Aviation Market (ASEAN-SAM), is the region's aviation policy geared towards the development of a unified and single aviation market in Southeast Asia. The aviation policy was proposed by the ASEAN Air Transport Working Group, supported by the ASEAN Senior Transport Officials Meeting, and endorsed by the ASEAN Transport Ministers. The ASEAN-SAM is expected to liberalise air travel between member-states in the ASEAN region, allowing ASEAN airlines to benefit directly from the growth in air travel, and also free up tourism, trade, investment, and service flows between member states. Since 1 December 2008, restrictions on the third and fourth freedoms of the air between capital cities of member states for air passenger services have been removed, while from 1 January 2009, full liberalisation of air freight services in the region took effect. On 1 January 2011, full liberalisation on fifth freedom traffic rights between all capital cities took effect. The ASEAN Single Aviation Market policy supersedes existing unilateral, bilateral, and multilateral air services agreements among member states which are inconsistent with its provisions.

**Tourism**

With the institutionalisation of visa-free travel between ASEAN member states, intra-ASEAN travel has boomed, a sign that endeavours to form an ASEAN community may bear fruit in years to come. In 2010, 47% or 34 million out of 73 million tourists in ASEAN member-states were from other ASEAN countries.

ASEAN co-operation in tourism was formalised in 1976, following formation of the Sub-Committee on Tourism (SCOT) under the ASEAN Committee on Trade and Tourism. The 1st ASEAN Tourism Forum was held on 18–26 October 1981 in Kuala Lumpur. In 1986, ASEAN Promotional Chapters for Tourism (APCT) were established in Hong Kong, West Germany, the United Kingdom, Australia/New Zealand, Japan, and North America.

Tourism has been one of the key growth sectors in ASEAN and has proven resilient amid global economic challenges. The wide array of tourist attractions across the region drew 81 million tourists to ASEAN in 2011, up by 30% compared to 62 million tourists in 2007. As of 2012, tourism was estimated to account for 4.6% of ASEAN GDP—10.9% when taking into account all indirect contributions. It directly employed 9.3 million people, or 3.2% of total employment, and indirectly supported some 25 million jobs. In addition, the sector accounted for an estimated 8% of total capital investment in the region.

**Foreign affairs and summits**

***ASEAN identity***

ASEAN's planned integration of its ten member nations has challenged its citizens to embrace a regional identity. The call for ASEAN identity delivers a challenge to construct dynamic institutions and foster sufficient amounts of social capital. The underlying assumption is that the creation of a regional identity is of special interest to ASEAN and the intent of the 2020 Vision policy document was to reassert the belief in a regional framework designed as an action plan related to human development and civic empowerment. Accordingly, these assumptions will be the basis for recommendations and strategies in developing a participatory regional identity.

***ASEAN summits***

The organisation holds meetings, known as ASEAN Summits, where heads of government of each member meet to discuss and resolve regional issues, as well as to conduct other meetings with countries outside the bloc to promote external relations.

The first ASEAN summit was held in Bali in 1976. Its third meeting was in Manila in 1987 and during this meeting, it was decided that the leaders would meet every five years. The fourth meeting was held in Singapore in 1992 where the leaders decided to meet more frequently, every three years. In 2001, it was decided to meet annually to address urgent issues affecting the region. Member nations were assigned to be the summit host in alphabetical order except in the case of Burma which dropped its 2006 hosting rights in 2004 due to pressure from the United States and the European Union.

***Other meetings***

Aside from the ones above, other regular meetings are also held. These include the annual ASEAN Ministerial Meeting as well as other smaller committees. Meetings focus mostly on specific topics, such as defence or the environment,and are attended by ministers, instead of heads of government.

The ASEAN Plus Three is a meeting between ASEAN, China, Japan, and South Korea, and is held primarily during each ASEAN Summit. Until now, China, Japan, and South Korea have not yet formed a Free Trade Area (FTA); the meeting about FTA among them will be held at end of 2012.

The Asia–Europe Meeting (ASEM) is an informal dialogue process initiated in 1996 with the intention of strengthening co-operation between the countries of Europe and Asia, especially members of the European Union and ASEAN in particular. ASEAN, represented by its Secretariat, is one of the forty-five ASEM partners. It also appoints a representative to sit on the governing board of Asia-Europe Foundation (ASEF), a socio-cultural organisation associated with the meeting.

***Mass media***

ASEAN member states promote co-operation in information to help build an ASEAN identity. One of the main bodies in ASEAN co-operation in information is the ASEAN Committee on Culture and Information (COCI). Established in 1978, its mission is to promote effective co-operation in the fields of information, as well as culture, through its various projects and activities. The COCI includes representatives from national institutions like the Ministry of Foreign Affairs, Ministries of Culture and Information, national radio and television networks, museums, archives and libraries, among others. Together, they meet once a year to formulate and agree on projects to fulfil their mission.

***ASEAN Media Cooperation***

ASEAN Media Cooperation (AMC) sets digital television standards and policies in preparation for broadcasters to transition from analogue to digital broadcasting. This collaboration was conceptualised during the 11th ASEAN Ministers Responsible for Information (AMRI) Conference in Malaysia on 1 March 2012 where a consensus declared that both new and traditional media were keys to connecting ASEAN peoples and bridging cultural gaps in the region.

***Reinforcing ASEAN relations***

The conduct of the 2nd BIMP-EAGA and IMT-GT Trade Fair and Business Leaders Conference on 22–26 October 2014 in Davao City, Philippines, signified the renewed commitment of the four member countries namely, Brunei, Indonesia, Malaysia, and the Philippines (BIMP) to further the cause of the East ASEAN Growth Area (EAGA) co-operation as a model for the 2015 ASEAN Integration. During the Conference, Deputy Secretary General of ASEAN for the ASEAN Economic Community, Dr. Lim Hong Hin, said that the convergence of the BIMP-EAGA and Indonesia Malaysia Thailand – Growth Triangle (IMT-GT) will amplify the subregions’ full potential and maximise its initial gain towards greater engagement in the larger ASEAN community. The vision of the BIMP-EAGA initiative is to realise socially acceptable and sustainable economic development, and the full participation of the subregion in the ASEAN development process. BIMP-EAGA was proposed in 1992 by then Philippine President Fidel V. Ramos as a major economic initiative in ASEAN. The idea of expanding the economic co-operation among the border areas of Brunei Darussalam, Indonesia, Malaysia, and the Philippines was supported by the leaders of the three countries which eventually led to the creation of BIMP-EAGA launched on 24 March 1994 in Davao City, Mindanao, Philippines. The subregion covers a land-area of 1.54 million square kilometres and a population of 70 million.

The improved regional-subregional collaborations will spur trade, investment, and small and medium-sized enterprise (SME) development through enhanced backward linkages, production system, and forward linkages. The convergence will also facilitate the completion of region wide infrastructure projects such as the Sumatra Port Development, Melaka-PekanBaru Power Interconnection, and Sumatra Toll Roads Project. The subregions’ convergence will create synergy in transport facilitation by forging the Greater Mekong Subregion (GMS) Cross Border Trade Arrangement and BIMP-EAGA Cross Border Arrangement, promote clustering and branding through collaborative tourism promotion, tailored agro-based industries strategies, and addressing environmental issues. The greater co-ordination among the subregions, maximising synergy with the full participation of the stakeholders will ensure equitable economic benefits of the ASEAN countries facing the challenge of globalisation.

**2020 ASEAN Banking Integration Framework**

As the flow of goods, services, investment, capital, and skilled labour between countries is liberalised with the ASEAN Economic Integration in 2015, the need arises for ASEAN banking institutions to accommodate and expand their services to a greater intra-ASEAN market. While the ASEAN financial integration is not going to take effect until 2020, experts from the financial services industry have already forecast a shaky economic transition, especially for smaller players in the banking and financial services industry.

Two separate reports by Standard & Poor's entitled ASEAN Financial Integration: The Long Road to Bank Consolidation and The Philippines’ Banking System: The Good, the Bad and the Ambivalent respectively, outline the challenges ASEAN financial institutions are facing as they prepare for the 2020 banking integration. The Philippines, with its overcrowded banking sector, for example, is among the ASEAN-member countries who are forecast to feel the most pressure as the integration welcomes tighter competition with the entry of bigger, more established foreign banks. To lessen the impact of this consolidation, countries with banking sectors considered smaller by global standards must expand regionally. S&P in a follow up report recently cited the Philippines for: "shoring up its network bases and building up capital ahead of the banking integration – playing defence and strengthening their domestic networks".

**Food security**

ASEAN member nations recognise the importance of strengthening food security to maintain stability and prosperity in the region. The World Food Summit of 1996 defined food security as existing: "when all people at all times have access to sufficient, safe, nutritious food to maintain a healthy and active life".

Part of the aim for ASEAN integration is to achieve food security collectively via trade in rice and maize. Trade facilitation measures and the harmonisation/equivalency of food regulation and control standards will reduce the cost of trade in food products. While specialisation and revealed comparative and competitive indices point to complementarities between trade patterns among the ASEAN member countries, intra-ASEAN trade in agriculture is quite small. However, integration could address this problem. The MARKET project will provide flexible and demand-driven support to the ASEAN Secretariat, while bringing more private-sector and civil-society input into regional agriculture policy dialogue. By building an environment that reduces barriers to trade, ASEAN trade will increase, thereby decreasing the risk of another food price crisis.

As ASEAN moves towards an integrated community in 2015 and beyond, food security should be an integral part of the ASEAN community building agenda and deserves more attention.

**ASEAN Political-Security Community Blueprint**

During the 14th ASEAN Summit held 26 February to 1 March 2009, the ASEAN heads of state/governments adopted the ASEAN Political-Security Community Blueprint (APSC). This document is designed to create a robust political-security environment within ASEAN, with programs and activities outlined to establish the APSC by 2015. It carries forward the principles and purposes of the ASEAN charter, and is based on the ASEAN Security Community Plan of Action, the Vientiane Action Programme, and other relevant decisions.

The APSC aims to create a community that portrays the following characteristics: a rules-based community of shared values and norms; a cohesive, peaceful, stable and resilient region with shared responsibility for comprehensive security; and a dynamic and outward-looking region in an increasingly integrated and interdependent world.

**ASEAN Defence Industry Collaboration**

The ASEAN Defence Industry Collaboration (ADIC) was proposed at the 4th ASEAN Defence Ministers' Meeting on 11 May 2010 in Hanoi. The emergence of this concept was triggered by the fact that majority of the ASEAN member states are regular importers of defence and security equipment. One of the purposes of this concept is to reduce defence imports from non-ASEAN countries by half (i.e., from US$25 billion down to US$12.5 billion a year) and to further develop the defence industry in the region.

The concept was formally adopted during the 5th ASEAN Defensc Ministers' Meeting (ADMM) on 19 May 2011, in Jakarta, Indonesia, in line with the ADMM agreement to enhance security co-operation in the following areas: maritime security, humanitarian assistance and disaster relief, counter terrorism, and military medicine. Its goal points toward actions that will enhance security in each of the ASEAN member state.

Its main focus is to boost the capacity of ASEAN industrially and technologically consistent with the principles of flexibility, non-binding, and voluntary participation among ASEAN member states. The concept revolves around education and capability building programmes to develop the skills and capabilities of manpower, sharing in the production of capital for defence equipment, components, and spares, and the provision of repair and maintenance services to address all the defence and security needs of each country. It also aims to develop the defence trade in the region by encouraging ASEAN member states to participate in the intra-ASEAN defence trade and support trade shows and exhibitions.

**Narrowing the Development Gap**

Narrowing the Development Gap (NDG) is ASEAN's framework for addressing disparities among, and within, member-states where pockets of underdevelopment exist. Under NDG, ASEAN has continued co-ordinating closely with other subregional co-operation frameworks in the region (e.g., BIMP-EAGA, IMT-GT, GMS, Mekong programmes), viewing them as "equal partners in the development of regional production and distribution networks" in the AEC, and as a platform to "mainstream social development issues in developing and implementing projects," in the context of the ASCC.

The six-year IAI Work Plans have been developed to assist the CLMV countries as well as ASEAN's other sub-regions to ensure that the economic wheels of their economies move at an accelerated pace. IAI Work Plan I was implemented from 2002 to 2008, prior to the development of the Roadmap for an ASEAN Community (2009-2015). IAI Work Plan II (2009-2015) supports the goals of the ASEAN Community and is composed of 182 prescribed actions, which includes studies, training programmes, and policy implementation support, conducted through projects supported by ASEAN-6 countries, and ASEAN's Dialogue partners and external parties. The IAI Work Plan is patterned after and supports the key programme areas in the three ASEAN Community Blueprints: ASEAN Political-Security Community Blueprint, ASEAN Economic Community Blueprint, and ASEAN Socio-Cultural Community Blueprint.

The IAI Task Force, composed of representatives of the Committee of Permanent Representatives and its working group from all ten ASEAN member states, is in charge of providing general advice and policy guidelines and directions in the design and implementation of the IAI Work Plan. All ten ASEAN member-states are represented in the IAI Task Force, with the task force chaired by representatives of the four CLMV countries. Chairmanship is rotated annually in alphabetical order by country name.

The ASEAN Secretariat, in particular through the IAI and NDG Division, supports the implementation and management of the IAI Work Plan and coordinates activities related to sub-regional frameworks. This includes servicing meetings, assisting in the formulation, implementation, monitoring and reporting of projects, resource mobilisation, and overall operational co-ordination among various IAI&NDG-related stakeholders. The Division works closely with the Dialogue Partners, and international agencies, to develop strategies and programmes to assist in promoting and implementing IAI and NDG activities in ASEAN.

**ASEAN Communication Master Plan**

The ACPM provides a framework for communicating the character, structure, and overall vision of ASEAN and the ASEAN community to key audiences within the region and globally. The plan seeks to demonstrate the relevance and benefits of the ASEAN through fact-based and compelling communications, recognizing that the ASEAN community is unique and different from other country integration models.

***Education***

While high performing Asian economies and the six oldest ASEAN members have invested heavily in public education at the primary and secondary levels, tertiary education has been left largely to the private sector. Tertiary education in Southeast Asia is, in general, relatively weak in terms of technological capacity and integration such as in credit transfer schemes. Singapore is highly focused on innovation while the rest of the region lags behind. In most cases, universities are focused on teaching and service to government rather than academic research. Universities in Southeast Asia, both in terms of academic salaries and research infrastructure (libraries, laboratories), tend to be poorly supported financially. Moreover, regional academic journals cater to their local audiences and respond less to international standards which makes universal or regional benchmarking difficult.

***ASEAN Scholarship***

The ASEAN Scholarship is a scholarship programoffered by Singapore to the nine other member states for secondary school, junior college, and university education. It covers accommodation, food, medical benefits and accident insurance, school fees, and examination fees. Scholarship recipients, who then perform well on the GCE Advanced Level Examination, may apply for ASEAN undergraduate scholarships, which are tailored specifically to undergraduate institutions in Singapore and other ASEAN member countries. Singapore has used this programm effectively to attract many of the best students from the ASEAN region over the past several years, and scholars for the most part tend to remain in Singapore to pursue undergraduate studies through the ASEAN Undergraduate Scholarship program.

***Culture and sport***

The organisation hosts cultural activities in an attempt to further integrate the region. These include sports and educational activities as well as writing awards. Examples of these include the ASEAN Centre for Biodiversity and the ASEAN Outstanding Scientist and Technologist Award

***Heritage parks***

ASEAN Heritage Parks aim to protect the region's natural treasures. There are now 35 such protected areas, including the Tubbataha Reef Marine Park and the Kinabalu National Park.

***ASEAN competitions***

* ASEAN Para Games logo
* Southeast Asian Games
* ASEAN University Games
* ASEAN School Games
* ASEAN Para Games
* ASEAN Football Championship

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**Theme № 8 Central European Free Trade Agreement**

***Questions:***

**1. The emergence of a free trade zone in Central Europe**

**2. The economic foundations of the group of countries of CEFTA**

**3. Prospects of CEFTA**

The **Central European Free Trade Agreement** (**CEFTA**) is a trade agreement between non-EU countries, members of which are now mostly located in Southeastern Europe. Founded by representatives of Poland, Hungary and former Czechoslovakia, CEFTA expanded to Albania,Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Macedonia, Moldova, Montenegro, Romania, Serbia, Slovakia, [Slovenia](https://en.wikipedia.org/wiki/Slovenia) and United Nations Interim Administration Mission in Kosovo on behalf of the disputed region of Kosovo.

Once a participating country joins the European Union (EU), its CEFTA membership ends. As of 1 July 2013, the parties of the CEFTA agreement are: Albania, Bosnia and Herzegovina, Macedonia, Moldova, Montenegro, Serbia and the United Nations Interim Administration Mission in Kosovo (UNMIK) on behalf of Kosovo.

**Members**

As of 1 July 2013, the parties of the CEFTA agreement are: Albania, Bosnia and Herzegovina, Macedonia, Moldova, Montenegro, Serbia and the United Nations Interim Administration Mission in Kosovo (UNMIK) on behalf of Kosovo.

Former parties are Bulgaria, Croatia, Czech Republic, Hungary, Poland, Romania, Slovakia and Slovenia. Their CEFTA memberships ended when they became member states of the European Union (EU).

**Membership criteria**

Former Poznań Declaration criteria:

* WorldTradeOrganization membership
* European Union Association Agreement with provisions for future full membership
* Free Trade Agreements with the current CEFTA member states

Current criteria since Zagreb meeting in 2005:

* WTO membership *or commitment to respect all WTO regulations*
* *any* EuropeanUnionAssociationAgreement
* Free Trade Agreements with the current CEFTA member states

**History**

**Originalagreement**

The original CEFTA agreement was signed by the Visegrád Group countries, that is by Poland, Hungary and Czech and Slovak republics (at the time parts of the Czech and Slovak Federative Republic) on 21 December 1992 in Kraków, Poland. It came into force in July 1994. Through CEFTA, participating countries hoped to mobilize efforts to integrate into Western European institutions and through this, to join European political, economic, security and legal systems, thereby consolidating democracy and free-market economics.

The agreement was amended by the agreements signed on 11 September 1995 in Brno and on 4 July 2003 in Bled.

Slovenia joined CEFTA in 1996, Romania in 1997, Bulgaria in 1999, Croatia in 2003 and Macedonia in 2006.

**2006 agreement**

All of the parties of the original agreement had now joined the EU and thus left CEFTA. Therefore, it was decided to extend CEFTA to cover the rest of the Balkan states, which already had completed a matrix of bilateral free trade agreements in the framework of the Stability Pact for South Eastern Europe. On 6 April 2006, at the *South East Europe Prime Ministers Summit* in Bucharest, a joint declaration on expansion of CEFTA to Albania, Bosnia and Herzegovina, Moldova, Serbia, Montenegro and UNMIK on behalf of Kosovo was adopted.[] Accession of Ukraine has also been discussed.[3] The new enlarged agreement was initialled on 9 November 2006 in Brussels and was signed on 19 December 2006 at the South East European Prime Ministers Summit in Bucharest.[4] The agreement went into effect on 26 July 2007 for Albania, Kosovo, Macedonia, Moldova and Montenegro, on 22 August for Croatia, on 24 October for Serbia, and on 22 November 2007 for Bosnia and Herzegovina. The aim of the agreement was to establish a free trade zone in the region by 31 December 2010.

After the declaration of independence of Kosovo on 17 February 2008 UNMIK continued to represent Kosovo at all CEFTA meetings. At the end of 2008 Kosovo changed its customs stamps replacing UNMIK with Kosovo. This resulted in a trade blockade from Serbia and Bosnia that do not recognise the Republic of Kosovo.[[5]](https://en.wikipedia.org/wiki/Central_European_Free_Trade_Agreement#cite_note-5) The government in Pristina retaliated by imposing its own blockade on imports from Serbia. This led to clashes at border posts in July 2011.[[6]](https://en.wikipedia.org/wiki/Central_European_Free_Trade_Agreement#cite_note-6)

**Relations with the European Union**

All former participating countries had previously signed association agreements with the EU, so in fact CEFTA has served as a preparation for full[European Union](https://en.wikipedia.org/wiki/European_Union) membership. Poland, the Czech Republic, Hungary, Slovakia, Slovenia joined the EU on 1 May 2004, with Bulgaria and Romania following suit on 1 January 2007. Croatia joined the EU on 1 July 2013.

Albania, Macedonia, Montenegro and Serbia are official candidate countries of the EU.

At the EU's recommendation, the future members prepared for membership by establishing free trade areas. A large proportion of CEFTA foreign trade is with EU countries.

**Central European Free Trade Agreement - CEFTA 2006**

On December 19, 2006, Albania, Bosnia and Herzegovina, Croatia, Macedonia, Moldova, Montenegro, Serbia and the United Nations Interim Administration Mission in Kosovo (UNMIK) on behalf of Kosovo in accordance with United Nations Security Council Resolution 1244 signed an Agreement to amend and enlarge the Central European Free Trade – CEFTA 2006.

Following the necessary ratification processes, CEFTA 2006 entered into force on 26 July 2007 for five signatories (Albania, Macedonia, Moldova, Montenegro and United Nations Interim Administration Mission in Kosovo on behalf of Kosovo in accordance with United Nations Security Council Resolution 1244), for Croatia on 22 August 2007, Serbia on 24 October 2007 and for Bosnia and Herzegovina on 22 November 2007. The speed with which the Parties ratified this ambitious agreement indicates the importance of this Agreement to economic development in the region.

This comprehensive Agreement’s main objectives are, inter alia, to expand trade in goods and services and foster investment by means of fair, stable and predictable rules, eliminate barriers to trade between the Parties, provide appropriate protection of intellectual property rights in accordance with international standards and harmonize provisions on modern trade policy issues such as competition rules and state aid. It also includes clear and effective procedures for dispute settlement and facilitates the gradual establishment of the EU-Western Balkan countries zone of diagonal cumulation of origin, as envisaged in the European Commission’s Communication of 27 January 2006.

The Agreement fully conforms to the WTO rules and procedures and EU regulations. Effectively implemented, the Agreement provides an excellent framework for the Parties to prepare for EU accession, thus continuing the tradition of the original CEFTA, whose founding members are now in the EU.

This website provides a broad range of information on CEFTA 2006 including the [organisational structures](http://www.cefta.int/cefta-structures) that oversee functioning of the Agreement; the [text of the Agreement](http://www.cefta.int/legal-texts) and any decisions taken by the Joint Committee; information on the [new trade topics](http://www.cefta.int/new-trade-topics) that are covered by this agreement and on the various [projects and studies](http://www.cefta.int/cefta-related-projects) that facilitate implementation; and a description of the various [partners](http://www.cefta.int/cefta-partners) that support the CEFTA Parties in their efforts to develop trade and investment.

**Theme № 9 Trends and problems of integration development of the CIS countries**

***Questions:***

**1. Assessment of pre-integration situation in the CIS countries**

**2. Main areas and forms of integration development at the present stage**

**3. Single Information Space - a necessary and important prerequisite for integration and cooperation of enterprises and companies of CIS**

The Commonwealth of Independent States (CIS) remained the most rapidly growing region in the global economy throughout the 2000s. In 2003-2007, it was second only to Asian emerging markets in terms of annual economic growth rates. On the other hand, the region suffered worst from the fallout of the global economic and financial crisis: in 2009 real gross domestic product (GDP) in post-Soviet countries dropped by 6.6%, compared to 3.7% in Central and Eastern Europe, 1.8% in the western hemisphere, and continuing economic growth in some developing countries (IMF, 2010). The economic dynamics varied greatly across the CIS. The worst GDP drop was recorded in Ukraine and Armenia (by 15.1% and 14.2% respectively); these countries were followed by Russia and Moldova (7.9% and 6.5% respectively) in 2009. The Belarusian and Kazakh economies were nearly stagnant. At the same time, Azerbaijan, Turkmenistan and Uzbekistan demonstrated economic growth at over 4%. However, this general GDP performance was the product of complex interaction between very different components. The crisis has the most serious negative influence in investment demand. Investments in fixed assets in 2009 declined in six of the ten region’s countries for which data is available. The largest decline in investments was observed in Ukraine (41% of the previous year’s level), Armenia (37%) and Moldova (35%). In Azerbaijan and Tajikistan, investments dropped by 18% and in Russia by 16% (according to the CIS Interstate Statistics Committee). This decline in investment in national economies was largely attributable to the decrease in foreign capital inflow. According to balance of payments 34 EDB Eurasian Integration Yearbook 2011 Global Crisis and Post-Soviet Regional Integration statistics, direct investments in 2009 dropped by 51% from the 2008 level in Russia, by 20% in Kazakhstan, by 13.6% in Belarus, and by 56% in Ukraine (International Financial Statistics, November 2010). Notably, in 2009 the item Other Investments & Payables in the balance of payments of Russia, Kazakhstan and Ukraine became negative, which indicated not only disruption of capital inflow through this channel (which had been the principal source of foreign investments in the pre-crisis period), but also reversion of capital flows (particularly, repayment of foreign debt). We can identify several directions of the impact of the crisis on investments and the general economic dynamics in CIS countries: 1) reduced opportunities to raise capital or refinance existing debt on global financial markets, which led to a decline in portfolio and other investments. This influence became evident at an early stage of the crisis and first affected the CIS’ most developed and open financial systems (those of Kazakhstan, Russia and Ukraine); 2) decrease of foreign direct investments resulting from challenges faced by parent companies in their home countries and a lack of global demand for the products of recipient companies from the CIS - most of these are from the extractive or metallurgy sectors which were suffering from collapsing prices1; 3) persisting decline in foreign investment due to internal factors (recession in national economies and a lack of domestic demand). This factor was especially critical to investment in companies oriented towards domestic markets. The discussion of the main trends in investment cooperation between the CIS countries during the time of the crisis and a preliminary assessment of the role of the intraregional channel in delivering crisis fallout to these economies are offered below. The hypotheses Prior to the crisis joint investment was the most rapidly growing area of economic cooperation within the CIS. The emerging Russian transnational companies (TNCs) started a massive invasion into post-Soviet markets, and were joined by TNCs from Kazakhstan in the mid-2000s. The preconditions for this boom were the high rates of economic growth in both TNCs’ home countries, which allowed the TNCs to gather momentum for entering regional markets, and recipient countries, which made them attractive targets for investment. 1 According to the IMF, in 2009 annual average prices of oil dropped by 36.3% and prices of metals by 28.6% (IMF, 2010). Eurasian Development Bank 35 Global Crisis and Post-Soviet Regional Integration Aleksandr Libman, Mikhail Golovnin “Trends in Investment Cooperation between CIS Countries and the Global Economic Crisis” This model of regional integration could not escape the influence of the 2008-2010 crisis. Obviously, Russian and Kazakh TNCs had to revise their overseas investment strategies. It is hardly possible to identify any general direction of this transformation. To simplify the task, we offer three hypotheses of how the crisis influences investment cooperation in the CIS; we will term them investment recession; replacement growth; and interstate cooperation. Whereas our first hypothesis is based on the assumption that investment cooperation between CIS countries has declined to some degree, the other two, by contrast, forecast an upsurge or at least sustained continuation of investment activity, however, driven by different factors. Investment recession. The most readily forthcoming assumption is that progress in investment activity has been suspended or even reversed. The crisis reduced the financial potential of Russian and Kazakh companies (particularly, their ability to raise the foreign capital necessary to support their expansion in the CIS or overseas sales), made them more cautious about selecting potential investment targets abroad, and forced them to give up many ambitious projects, while concentrating on consolidation of assets in their home countries. In this case the logical chain appears fairly simple: a decline in business activity and hostile environment causes companies to phase out their international business to the detriment of domestic business and to refrain from embarking on new projects to the detriment of on-going ones. Replacement growth. A drawback to the investment recession hypothesis is that it effectively ignores the possible reaction of intraregional players and businesses from recipient countries to the changing global and regional situation. In recent years the most serious factor restricting Russian expansion was competition from large TNCs from highly industrialised countries. The latter also had to limit their activity, thus vacating a niche for Russian corporations. Similarly, the crisis led to a dramatic depreciation of assets located in the CIS countries and made their owners and beneficiaries more concessive. As a result, although the resources of post-Soviet TNCs formally shrank, in fact they may have even increased as external pressure eased, which in turn would have led to an increase in investments. In other words, the 2008-2010 crisis can be viewed as the “creative destruction” process in which a new system of interrelations emerges and replaces the existing one; the intensity of economic cooperation declines in one place and increases in another. It is important to remember that, whereas the crisis did impede transnational expansion in quantitative terms, it may well be the case that TNCs sacrifice their “image” projects for the sake of transactions that pay back. And this, in a longer term, works to promote regionalisation. We cannot subject this assumption to any reliable 36 EDB Eurasian Integration Yearbook 2011 Global Crisis and Post-Soviet Regional Integration empirical study due to the scarcity of available data, but at least it cannot be discarded. Interstate cooperation. The crisis has affected not only regionalisation: during its two years, some serious positive developments were observed in interstate cooperation both within the framework of formal integration initiatives and on a bilateral basis. The crisis forced states to adopt a more cooperative stance. This was dictated by the need to overcome the crisis fallout (EurAsEC Anti-Crisis Fund) and a broader integration agenda (Customs Union). Generally, an upsurge in formal cooperation in crisis time is a peculiarity of post-Soviet integration (which makes it distinct from many other integration projects) (Libman, Vinokurov, 2010). Whereas in the mid-2000s some CIS governments were becoming increasingly sceptical of foreign investment in general (e.g. in Kazakhstan) (Libman, Ushkalova, 2009) or, more particularly, Russian companies’ involvement in key economic sectors (e.g. in Tajikistan) (Libman, 2009), the recession and need for investments may have reversed this sentiment. In addition, the severe economic crisis of 2008-2009 fostered political changes in Ukraine and created preconditions for the improvement of relations with Russia in 2010 with favourable implications for business. This can be viewed as an indirect positive impact of the crisis. Since April 2010, broader Russian involvement with the Ukrainian economy was discussed at many occasions: primarily regarding access to denationalised Ukrainian assets for Russian companies, and also broader cooperation in key sectors such as nuclear power, aircraft building and ship building (Rosbalt-Ukraine, April 24, 2010; Gritsenko, 2010). An upsurge in interstate cooperation can also influence business activity through other channels. The fact that the government is assuming a more active role in the Russian (and, to a lesser extent, Kazakh) economy is obvious, and the influence of this process on the overseas policies of Russian companies is not uniform. Many observers theorise that the government’s influence on overseas transactions by Russian companies is not significant or at least does not contradict the standard decision-making logic (Vahtra, 2007); the state’s presence in key sectors targeted by foreign expansion (e.g. oil & gas) is limited in principle (Hanson, 2009). However, we can assume that in crisis time at least selected large transactions are being made under government pressure (as the government’s role as the main source of support is increasing), i.e. for political considerations; later we will discuss this factor in more detail. We should stress that all these hypotheses are largely speculative. The investment recession hypothesis is based on the premise that the resources of Russian businesses have shrunk; it is not definite, however, bearing in mind sizeable government support programmes that target large corporations. Eurasian Development Bank 37 Global Crisis and Post-Soviet Regional Integration Aleksandr Libman, Mikhail Golovnin “Trends in Investment Cooperation between CIS Countries and the Global Economic Crisis” The replacement growth hypothesis essentially assumes that companies from post-Soviet states are the only group capable of seizing the vacated niche. But there are a number of other countries whose foreign trade has been affected by the crisis even less than that of Russia, and they are also keen to expand their presence in post-Soviet markets; this is particularly the case for China (SKOLKOVO, 2009). The assessment of formal progress in formal integration is not as easy as it may seem. Firstly, we should remember the example of “integration for survival” in the 1990s, when similar factors (economic hardship) encouraged businesses to actively pretend integration without any real action (Libman, 2007). Secondly, even if we assume that the existing institutions do function (for the Customs Union that statement is fairly true, at least for now); their impact on the business is not yet clear. There are grounds for expecting the emerging system to be overly intricate and plagued by inconsistencies (at least in the medium term), which may impede cooperation. Thirdly, as has been noted on many occasions, a formal institutional environment is no advantage for Russian business: quite the opposite, it functions far more confidently under unclear and poorly formalised rules. Now we will attempt to summarise at least some indirect evidences in support of the above hypotheses. We will focus on the first two hypotheses: interstate cooperation will be discussed only to the extent to which Russian corporations are exposed to political pressure in crisis time. Let us look at official statistics, published news, and information available from corporate websites. These sources should be treated with a degree of caution in the context of our study. Official statistics obviously understates investments in post-Soviet countries; in addition, investments vary considerably from one country to another. It is likely that official figures will include payments under transactions made in the pre-crisis period, i.e. the impact of the crisis will be reflected with a time lag. As for press releases and corporate websites, this information is likely to distort the picture in favour of replacement growth: typically, start-up of a new transaction or project receives much greater coverage than any consequent withdrawal (with the exception of very large transactions). These circumstances should be kept in mind when looking at the empirical data (largely incomplete or indirect) available to us. Finally, we should remember that the outbreak of the crisis coincided with the next phase of quantitative transformation of Russian TNCs, i.e. their geographic reorientation. The notion that the post-Soviet space is an isolated region, the development of which is determined principally by its internal logic has little to do with reality. Informal integration has long since moved beyond the borders of the former Soviet Union, although the scale of this process varies depending on the form of business activity. Whereas 38 EDB Eurasian Integration Yearbook 2011 Global Crisis and Post-Soviet Regional Integration the traditional targets for Russian investment are European and postSoviet countries (SKOLKOVO, 2008; Sethi, 2009), in recent years Russian expansion went further, to Africa and Asia (Kuznetsov, 2010). The fact that this phase coincided with the outbreak of the crisis complicates the task of verifying our hypotheses. Investment cooperation as reflected by national statistics First, let us look at quantitative data on investments in post-Soviet countries. To evaluate Russian investment in the region, we will use two main sources: the Federal State Statistics Service of the Russian Federation, and the balance of payments (as stated by the Central Bank of Russia). As shown in Figure 2.1a, in 2009 both Russian investments in CIS countries and investments by CIS countries in Russia declined significantly (according to data from the Federal State Statistics Service). The decrease Figure 2.1. Inflow of investments from Russia to CIS countries Source: Federal State Statistics Service of Russia; Bank of Russia Note: a) $ billion; b) direct investments, $ million, Central Bank (balance of payments) (а) 12 10 8 6 4 2 0 2000 2005 2006 2007 2008 2009 from Russia to CIS from CIS to Russia (b) 3000 2500 2000 1500 1000 500 0 3500 4000 4500 2005 2006 2007 2008 2009 300 250 200 150 100 50 0 350 400 450 from Russia to CIS from CIS to Russia (right axis) Eurasian Development Bank 39 Global Crisis and Post-Soviet Regional Integration Aleksandr Libman, Mikhail Golovnin “Trends in Investment Cooperation between CIS Countries and the Global Economic Crisis” was about 10% for Russian investments and over 30% for investments by CIS countries. This trend was observed in all post-Soviet states except Tajikistan, Moldova and Turkmenistan (whose investments in the Russian economy increased; however, these three countries together contribute only 2% of all investment). For example, Ukraine’s investments in Russia in 2009 reached only 43% of the 2008 level; the same indices for Kazakhstan and Belarus were 61% and 72%, respectively. Whilst Russian investments in CIS countries increased significantly in 2008, investments by Ukraine and Kazakhstan in Russia declined. Interestingly, if we exclude Belarus from our analysis of 2009, we will obtain a picture of serious decline in Russian investments: 65% of the 2008 level in Ukraine and 51% in Kazakhstan. Thus, quantitative indicators of investment activity clearly speak in favour of the investment recession hypothesis, although this conclusion is better justified for CIS countries than for Russia itself. The crisis also reversed the upward trend in CIS countries’ investments in Russia (Libman, 2008): Russian investments clearly prevailed in the investment balance of 2009, mainly due to a sharp increase in 2008 when other CIS countries were already exposed to the crisis. This is logical, bearing in mind the role of financial system component of the crisis in Kazakhstan and deep economic recession in Ukraine. Russian direct investments data from the balance of payments (see Figure 2.1b) present a somewhat different picture. The 2008-2009 crisis did not suspend the growth of Russian investments in post-Soviet economies, but caused it to slow. Investments from CIS countries did indeed drop in 2008, but then continued to increase. The situation with portfolio investments was not as good (Golovnin, Ushkalova, Yakusheva, 2010). The assets of Russian investors in the CIS shrank from $113 million to $24 million in 2008, but in 2009 increased to $71 million, thus exceeding the 2006 level, yet falling short of the 2007 level. Payables dropped from $192 million in 2007 to $152 million in 2008, and the year 2009 saw net withdrawal of CIS countries’ portfolio investments from Russia, with a slight improvement in the first quarter of 2010 (however, the pre-crisis level was much higher). An analysis of CIS national statistics allows us to look at the situation from a different perspective. According to the National Statistics Committee of Kyrgyzstan (see Figure 2.2a), investments from other CIS countries to this country in 2009 were 10% down, whilst Russian investments increased significantly (by contrast, Russian statistics indicate a significant decrease). Kazakhstan’s standing in the Kyrgyz economy deteriorated: whereas in 2007-2008 it nearly achieved the status of the largest foreign investor, in 2009 its investments in the country shrank dramatically. Notably, the overall investment inflow into Kyrgyzstan continued to grow, but the level of Chinese 40 EDB Eurasian Integration Yearbook 2011 Global Crisis and Post-Soviet Regional Integration Figure 2.2. Inflow of investments and direct investments in Kyrgyzstan Source: National Statistics Committee of Kyrgyzstan Note: a) $ billion, b) $ million (а) 0 0.5 1 1.5 2 2.5 3 3.5 0 0.005 0.01 0.015 0.02 0.025 0.03 0.035 0.04 0.045 2004 2005 2006 2007 2008 2009 CIS Russia Kazakhstan World without CIS China (right axis) (b) CIS Russia (right scale) Kazakhstan World without CIS China (right axis) 2004 2005 2006 2007 2008 2009 0 100 200 300 400 500 600 0 10 20 30 40 50 60 70 Figure 2.3. Accumulated direct investments by Ukraine in Russia and by Russia in Ukraine Source: State Statistics Committee of Ukraine Note: right scale (Accumulated direct investments by Ukraine in Russia, $ million) 3000 2500 2000 1500 1000 500 0 120 100 80 60 40 20 0 140 160 180 01.04.2008 01.06.2008 01.08.2008 01.10.2008 01.12.2008 01.02.2009 01.04.2009 01.06.2009 01.08.2009 01.10.2009 01.12.2009 01.02.2010 01.04.2010 By Russia In Russia Eurasian Development Bank 41 Global Crisis and Post-Soviet Regional Integration Aleksandr Libman, Mikhail Golovnin “Trends in Investment Cooperation between CIS Countries and the Global Economic Crisis” capital decreased, i.e. there were no signs of “seizing the niche”. Direct investments showed comparable dynamics (see Figure 2.2b): investments from CIS countries dropped by 35%, and investments from Kazakhstan (the main source of foreign investments) dropped by more than 40%; the decrease in Chinese investments was not as big, and Russian investments increased slightly. According to Ukrainian statistics (see Figure 2.3), slow but sustained growth in accumulated investments by Russia in Ukraine and by Ukraine in Russia was observed in 2008-2010, except several short periods of decline. The assessment of this data is complicated by the fact that the main investor in Ukraine is Cyprus, which, in the opinion of some experts, masks the inflow of Russian capital, especially into the financial sector (Obozrevatel, June 12, 2010). Figure 2.4. Investment inflow and outflow in/from Kazakhstan ($ million) Source: National Bank of Kazakhstan 1000 900 800 700 600 500 400 300 200 100 0 0 2000 4000 6000 8000 10000 12000 14000 16000 18000 20000 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 CIS Russia China Others (right scale) 1000 900 800 700 600 500 400 300 200 100 0 2004 2005 2006 2007 2008 2009 CIS Russia Kyrgyzstan 42 EDB Eurasian Integration Yearbook 2011 Global Crisis and Post-Soviet Regional Integration Kazakhstan’s statistics are most supportive of the negative expectations of investment recession. Investments by CIS countries in the Kazakh economy dropped sharply, which is attributable mainly to Russian withdrawal. In 2009, Kazakh investments in CIS countries dropped eight times, and investments in Russia nearly ten times (however, investments in Kyrgyzstan grew slightly, but this trend was unsustainable2 and turned into withdrawal in the first quarter of 2010). Total investments in Figure 2.5. The share of Russian (a) and Kazakh (b) investments in total investments in CIS countries Sources: see Figures 2.1-2.4; for Belarus – the National Bank of Belarus Notes: For Ukraine – share in accumulated direct investments as at January 1, of the following year; for Belarus – data on direct investments; the share is calculated as ratio of the Payables (Direct Investments) item of the financial account of the balance of payments in respect of Russia to the credit of the Investments in Domestic Economy (Direct Investments) item of the financial account of the balance of payments. For Russia – data from the Federal State Statistics Service. Data for Belarus is shown in the right scale 0 5 10 15 20 25 120 100 80 60 40 0 20 Ukraine Kyrgyzstan (total investments) Kyrgyzstan (direct investments) Kazakhstan Belarus (direct investments) 2004 2005 2006 2007 2008 2009 (а) % % 2004 2005 2006 2007 2008 2009 0 5 10 15 20 25 30 35 40 45 Kyrgyzstan (total investments) Russia Kyrgyzstan (direct investments) (б) % 2 This contradicts Kyrgyz statistics. Eurasian Development Bank 43 Global Crisis and Post-Soviet Regional Integration Aleksandr Libman, Mikhail Golovnin “Trends in Investment Cooperation between CIS Countries and the Global Economic Crisis” Kazakhstan from other world countries also declined in 2009 compared to 2008, but investments from China slightly increased. In the case of Belarus, we can use data from the balance of payments in respect of Russia that reflects the inflow of direct investments into the country. However, this source contains no indications of decline during the crisis, showing gradual growth from $828.6 million in 2007 to $1.0688 billion in 2008 and $1.4201 billion in 2009. This effect may be attributable to Gazprom’s regular payments for the purchase of Beltransgaz (Heifetz, 2009; Yeremeeva, 2009). In Figure 2.5a we summarise our analysis of the Russian share in total investments in CIS countries. This share increased in three of the four countries under review (Belarus, Kyrgyzstan and Ukraine), and slightly decreased in Kazakhstan. Data on Kazakhstan’s overseas investments (see Figure 2.5b) are available only for Kyrgyzstan and Russia: in both countries Kazakhstan’s share in total investments shrank in 2009. In other words, Russia’s scenario fits the replacement growth hypothesis, whilst pure investment recession is being observed in Kazakhstan. Summing up these quantitative assessments, we should note that the 2008-2009 statistics differ significantly in individual CIS countries and may lead to contradicting conclusions. However, we can say safely that the crisis has resulted in dramatic decrease of Kazakhstan’s investments in post-Soviet countries (especially in Russia; the situation with Kyrgyz assets is somewhat more difficult to assess). Russia’s situation was not as plain: although it had a period of decline in 2009, this decline was less dramatic than in other CIS countries (according to Ukrainian statistics, there were no setbacks at all). On the whole, quantitative data cannot decisively justify the investment recession hypothesis in the case of Russia. Its standing should not be overestimated, since the results of the assessment were strongly influenced by investments in Belarus. However, the Russian share in total investments did increase, which flatly correlates with the replacement growth hypothesis. Finally, the behaviour of external players was also not uniform: China was actively expanding its presence in Kazakhstan but withdrawing from Kyrgyzstan. Another drawback of quantitative analysis is the fact that the crisis has forced businesses to actively employ various non-transparent investment schemes in order to optimise accounts. Of course, under increasing pressure from fiscal authorities (which were concerned about dramatic decline in tax revenue in crisis time) business practices may have ultimately reverted to type, but it is very likely that what we observed in 2009 was not a decline in investments but transfer of a large number of transactions to the informal sector or a boom in offshore schemes (which in any case dominate the mutual investments structure in the CIS). Therefore we 44 EDB Eurasian Integration Yearbook 2011 Global Crisis and Post-Soviet Regional Integration deem it necessary to look into individual transactions and companies in post-Soviet states in the crisis period. Key transactions: general trends The picture resulting from an analysis of individual transactions is somewhat different from that painted by the statistics. In this section we concentrate on Russian investment projects. There is practically no news of any recent investment initiatives from Kazakhstan, and not surprisingly: the country’s strong financial sector which had been the main engine of its expansion in CIS markets fell as the first victim of the global crisis. In essence, Kazakhstan was the only CIS economy that fully suffered the first tide of the crisis in 2007- 2008 (Golovnin, Ushkalova, Yakusheva, 2010:5). To date there are several assessments of Russian TNCs’ response to the crisis from the perspective of expansion beyond the CIS (Kuznetsov, 2009; Vahtra, 2009; SKOLKOVO, 2009). During the first half of 2008 Russian overseas investment activity continued in direct contradiction to the global downward trend. Moreover, according to some sources (Kuznetsov, Chetverikova, 2009), leading TNCs started to reduce staff in Russia in the pre-crisis period whilst hiring more personnel for their overseas subsidiaries. Their standing deteriorated in the second half of 2008, i.e. when the second wave of the crisis reached CIS countries. Many transactions were cancelled or postponed for the indefinite future. Notably, it was the most active players in the past years’ expansion who had to revise their strategies. However, it would be incorrect to speak about a standstill, as overseas assets of Russian companies grew continuously in the face of the crisis. As for situation in the CIS region, at an early stage of the crisis some Russian companies were forced to abandon their projects3, particularly, in construction (PIK, Inteco, Mirax Group) in Ukraine. Thus, in October 2008, Inteco froze its project to construct the Moskovskiy residential district in Kyiv. Mirax Group sold its unfinished Mirax Plaza Ukraine skyscraper in Kyiv to AEON (Pappe, 2009) – the latter is also Russian-controlled. The situation in Russia’s building industry was extremely adverse even against the backdrop of the overall economic recession; incidentally, this industry was hit by the crisis at an early stage. In 2009, Russian construction companies made a number of large transactions in Ukraine: Promyshlenniy Kontsern acquired 99.99% in Planeta-Bud (which had suffered a 57.8% loss of profit)4 in Crimea. As 3 According to some estimates, this trend was attributable to emerging opportunities to buy attractive assets in Russia and therefore was temporary (investory.com.ua, March 23, 2009). 4 It is not clear whether this was a new transaction or redistribution of control: previously 95% of shares was held by Vilmorin Holdings of Cyprus; Promyshlenniy Kontsern declined to comment on its affiliation to this company on account of commercial confidentiality (Interfax-Ukraine, July 29, 2009). Eurasian Development Bank 45 Global Crisis and Post-Soviet Regional Integration Aleksandr Libman, Mikhail Golovnin “Trends in Investment Cooperation between CIS Countries and the Global Economic Crisis” commented by Y. Tsukanov, Director of Link Development, “the building industry is in a miserable condition like no other: demand and prices collapsed together with credit, and prices for building materials hold so far. That is why construction assets are the first to be sold at “crisis” prices. So far, only Russians show interest in these acquisitions: they are ready for our [i.e. Ukrainian] risks” (Kommersant-Ukraine, September 22, 2009). Setbacks were also observed in other sectors: for example, LUKoil cut investment in its petrol stations network in Ukraine (Blyakha, 2009). LUKoil’s forthcoming investment in the Khvalynskoye oilfield and other oil & gas projects in Kazakhstan also came into question (Paramonov, Strokov, Stolpovsky, 2009). In some instances the crisis produced complex effects. In October 2008, EuroChem acquired the government’s block of shares in Sary-Tas (50.7%), establishing EuroChem-Udobreniya LLP to this end, and paid up the company’s debt for fifteen years of standstill. Investment in this project is expected to total $2.5 billion by 2015. The facility, which has remained idle for many years, will be used as a basis for a new industrial complex comprising a mining and ore dressing works and three plants producing phosphate (1 million tons a year), nitrate (0.8 million tons) and combined (0.5 million tons) fertiliser. The company intends to finance this project exclusively from its own funds. Possibly, this sizeable initiative by EuroChem was inspired principally by the favourable situation on the global mineral fertiliser markets in the pre-crisis period (which enabled to company to accumulate enough liquidity to support its investment programme even after the outbreak of the crisis) and lower cost of electricity and labour in Kazakhstan (RBC Daily, October 10, 2008). But EuroChem’s other projects in Kazakhstan were delayed due to the crisis. In February 2009, the company asked the Kazakh government to refrain from putting out to tender the Araltobe and Kestiktobe phosphate deposits (in which the company showed interest in 2008), so as to allow it to return to this matter later, when the situation on the phosphate fertiliser and capital markets improves (Ekspert, March 4, 2009; Novyie khimicheskiye tekhnologii, March 4, 2009). EuroChem finally secured mining rights in respect of these two deposits plus Gimmelfarbskoye in June 2010. However, according to V. Torin, Head of PR & Communications at EuroChem, this delay was due not only to the crisis but also bureaucratic procedures: “the project is fairly big, and unnecessary rush may play a negative role. Support from authorities at all levels and prompt decision-making will be critical to implementation.” (Kursiv, July 1, 2010). It is not really possible to say to what extent the delay was attributable to the crisis or political and bureaucratic reasons. From the very beginning, the Sary-Tas project was positioned as CIS-oriented, and the three abovementioned deposits are 46 EDB Eurasian Integration Yearbook 2011 Global Crisis and Post-Soviet Regional Integration intended to support sales in Kazakhstan or, if domestic demand is not sufficient, elsewhere. Later in 2008-2010 Russian companies implemented a number of large projects in the CIS (this list is less impressive than several years ago; in many cases these were the completion of projects from previous years rather than new ones). In June 2009, Polymetal acquired 100% in the Varvarinskoye gold and copper deposit in Kazakhstan (Three K Exploration and Mining Ltd) from Orsu Metals of Canada (vesti.kz, June 17, 2009). As the company announced, this transaction reached up to $20 million. TNC-ВР purchased two oil bases and 36 petrol stations in Kyiv Oblast and the city of Kyiv from Gepard Group, and now intends to further expand this petrol stations network in Ukraine (covering Dnepropetrovsk and Donetsk). Vimpelcom acquired 7% of shares in the cellular operator Unitel in Uzbekistan, thus securing 100% control over the company (Starostenkova, 2010). Just prior to the crisis, in June 2008, TMK Group was joined by KMK-Kazakhstan, manufacturer of compressor pipes and casing tubing for the oil & gas industry. In autumn of 2008, the construction company Promstroi Group completed acquisition of Kazmekhanomontazh and Avtomatika of Kazakhstan (this evidences the stability of investment activity of small TNCs in crisis time, see Kuznetsov, 2009). Despite the crisis, Russian investors were expanding their presence in Ukraine’s metallurgy. In September 2008 EVRAZ completed the acquisition of Palmrose Ltd (Sukhaya Balka and Petrovsky Dnepropetrovsk Metal Works; shares in Bagleikoks, Dneprokoks and Dneprodzerzhinsk Charred Coal & Chemical Plant) from Privat group that was initiated in April 2008. The total cost of this transaction exceeded $2 billion. In December 2009 a group of Russian investors affiliated with shareholders of Metalloinvest and EVRAZ purchased the controlling block of shares in Industrialny Soyuz Donbassa (ISD). This transaction also exemplifies the complex effects of the crisis: according to available information, in 2008 EVRAZ and ISD were about to complete the transaction, but the progress halted as the crisis started to manifest itself. However, in a year the Russian investors managed to form a large pool (the total transaction amount was $2-2.5 billion, and was financed by Vneshekonombank). In other words, investment recession did take place, but it resulted in temporary suspension of investments rather than repudiation of the project. It is also presumed that the asset was sold at a material discount (due to its indebtedness), which can also be viewed as evidence of replacement growth (Kommersant, January 11, 2010; Bankir, January 17, 2010). Another transaction that has been negotiated since 2008 and continued into the crisis period is the acquisition of KazakhGold of Kazakhstan by Polyus Gold. This transaction deserves closer attention due to its importance. Eurasian Development Bank 47 Global Crisis and Post-Soviet Regional Integration Aleksandr Libman, Mikhail Golovnin “Trends in Investment Cooperation between CIS Countries and the Global Economic Crisis” KazakhGold Group owns Kazakhaltyn, a major Kazakh gold producer, which operates three largest gold mines. The company’s principal shareholder was the Asaubayev family. Since 2005, KazakhGold’s shares have been traded on the London Stock Exchange (LSE). In November 2008, the Kazakh Ministry of Energy and Mineral Resources permitted Polyus Gold to buy 50.1% of shares in the company (under Kazakh law, the state has the pre-emptive right in such cases); and in September 2008 the company’s value was estimated at $746 million (BFM.ru, November 17, 2008). In June 2009, the transaction was officially closed and announced on the LSE: Polyus Gold acted as guarantor under KazakhGold’s $200-million bond issuance with maturity in 2013, and also provided KazakhGold with two loans for a total of $100 million. In June 2010, Polyus Gold announced a reverse takeover that would enable it to register in a foreign jurisdiction and access the LSE (finam.ru, June 30, 2010). But in 2010 it became clear that KazakhGold’s financial statements published by its former owners were materially misleading: its asset value was overstated by 14% and profit by 40%, and net loss was understated by 163% (Kursiv, March 26, 2010; MAonline, July 1, 2010). The Russian party filed a claim with the High Court in London demanding the former owners pay $450 million in damages. In July 2010, the Kazakh government declared that the transaction would be revised on account that Polyus Gold had allegedly paid much less for KazakhGold than the initial assessment of $269 million. The permit for selling KazakhGold shares to Polyus Gold was cancelled, and the Kazakh Ministry of Industry and New Technology forbade Kazakhgold to issue additional shares to Polyus Gold. In conjunction with that, a media campaign against the Russian company was staged in Kazakhstan. Experts believe that this hostile about-turn was provoked by legal action against the Asaubayev family who have close ties with the Kazakh elite. This transaction is very illustrative of risks associated with attempts to enter non-transparent post-Soviet economies (Evrasia Internet, August 10, 2010). On the other hand, the potential for trouble was already there when Polyus Gold’s omitted to do any due diligence prior to the transaction – presumably, in an attempt to outstrip the other bidder, Zijin of China (Gornopromyshlenniy portal Rossii, August 9, 2010). In October 2010, Polyus Gold and KazakhGold admitted that they reached deadlock and the merger process could not be finalised by October 29, 2010, i.e. the proposed closing date of reverse takeover (RBK, October 26, 2010). However, in December 2010, Polyus Gold and the Asaubayev family (AltynGroup Kazakhstan LLP) compromised on the sale of all Polyus Gold assets in Kazakhstan, Kyrgyzstan and Romania to AltynGroup for $509 million (payable in two instalments until March 11, 2011 and June 8, 2012). According to available estimates, this transaction only covers the cost of acquisition of KazakhGold in 2009, but does not compensate Polyus Gold 48 EDB Eurasian Integration Yearbook 2011 Global Crisis and Post-Soviet Regional Integration for investments made in KazakhGold or any associated damage. Ultimately, the Russian investor will acquire the parent company KazakhGold without assets, which can be used as a vehicle for listing on the LSE (through reverse takeover) and then, possibly, merger with a large international gold producer. In other words, the KazakhGold transaction was reduced from an investment project designed as part of expansion in the post-Soviet space to a mere technical procedure of accessing international financial markets (the latter issue is still up to the Kazakh government which has to restore the revoked permit for Polyus Gold to buy KazakhGold shares) (Fincake, December 8, 2010). Polyus Gold’s transaction exemplifies the standard philosophy of post-Soviet business expansion (i.e. reliance on non-transparent arrangements and the manner in which external competition risks are handled), but, for the purposes of our study, it is primarily an example of how a Russian investor completed a promising acquisition that it had deemed strategic in the face of the crisis. Moreover, no crisis developments could make the acquisition of the desired assets by Russian TNC more prudent. Despite the global crisis, the TNC was conducting business as usual, and with a great deal of post-Soviet specific features at that. Financial sector transactions More interesting observations can be made on some landmark transactions in the financial sector. The transactions under review were clearly dictated by economic recession in post-Soviet countries. They allow us to study the role of a political agenda (at least potential) behind them. Remarkably, these two transactions in the banking sector had similar background but brought about very different results, and this adds interest to our comparative analysis (we can even talk about compliance with the most similar different outcomes criterion which is used in comparative studies in social sciences). One of the uncompleted transactions negotiated in 2009 was an inconclusive attempt by Sberbank at buying Bank TuranAlem (BTA) of Kazakhstan. This investment initiative in itself exemplifies the logic of replacement growth: BTA, one of the backbone Kazakh banks, was put up for sale solely due to the serious problems caused by the first tide of the global crisis. In view of the bank’s financial troubles, the Kazakh government resorted to partial nationalisation: 75.1% of BTA shares were purchased by the public holding company Samruk-Kazyna (this contradicted the general government line in banking sector management of the recent two decades which was based on the flat premise of private sector domination). The government announced that its shareholding in the bank would be temporary, 3-5 years at most. Eurasian Development Bank 49 Global Crisis and Post-Soviet Regional Integration Aleksandr Libman, Mikhail Golovnin “Trends in Investment Cooperation between CIS Countries and the Global Economic Crisis” The search for potential buyers began, and Russian Sberbank (which already had a subsidiary bank in Kazakhstan) was most favoured, especially in view of the recent admission of Samruk-Kazyna’s head Kairat Kelimbetov to the Supervisory Board of Sberbank in the summer of 2009. On June 2, 2009, Anvar Saidenov, Chairman of BTA, announced that the bank had received a single official bid from Sberbank. Earlier, in April, news came of Sberbank doing a due diligence exercise in the respect of BTA and negotiations over purchase of all Samruk-Kazyna’s share. In his interview to Kommersant (Kommersant, June 3, 2009), German Gref, President of Sberbank, said that he was awaiting the completion of the restructuring of BTA (whose foreign debt was estimated at $13 billion) and execution of all investment agreements, after which he would consider buying the shares. However, by autumn of 2009, it was rumoured that Sberbank would refuse to buy BTA due to the latter’s poor standing. Observers were speculating about the political aspect of the negotiations, which is relevant to our study, i.e. the stance of the Russian government that was interested in the transaction (of course, acquisition of BTA would be very opportune in the context of the new wave of talks over closer regional integration). Overall, the word is that the political agenda is unlikely to force Sberbank into a clearly uneconomic deal, and the most probable future scenario is “endless talks” without flat refusal (Respublika, September 4, 2009). Finally, in October 2009, BTA signed a memorandum of understanding with a creditors committee on restructuring, which granted the creditors long-term control over the bank, thus making the chances of acquisition even fainter (Zarschikov, 2009). The second similar project in the banking sector was more successful. In December 2008 – January 2009 (i.e. much earlier, during a more acute phase of the crisis) Vneshekonombank purchased Ukrainian Prominvestbank. This transaction has much in common with the inconclusive BTA transaction. Prominvestbank was founded in 1992 on the basis of former Prominvestbank of the Ukrainian Soviet Socialist Republic, and in 2008 ranked sixth in Ukraine in terms of assets. Massive withdrawal of private deposits in the autumn of 2008 (which totalled $1 billion in the first week of October alone) forced the National Bank of Ukraine to introduce provisional administration in Prominvestbank (for the first time in the country). Apparently, this decision was dictated not only by the crisis but also a raider action in 2008 allegedly backed by Russian players (Advisers, March 13, 2010). The search of a potential strategic investor was made in a desperate rush (according to Vladimir Krotyuk, interim administrator and Deputy Chairman of the National Bank of Ukraine, bids from western financial institutions were turned down on account that they requested several months for the decision-making process; see Prostobankir.co.ua, March 4, 2010). Potential buyers included individual investors and private and public banks from Russia and Ukraine (Sberbank, NRB and Alfa Bank were all mentioned). Eventually, Vneshekonombank 50 EDB Eurasian Integration Yearbook 2011 Global Crisis and Post-Soviet Regional Integration won and invested 1.1 billion hryvnias ($158 million) in Prominvestbank’s charter capital. Another 7 billion hryvnias was provided in long-term loans. Vneshekonombank acquired 75% +3 shares in Prominvestbank. On February 10, 2009, Vneshekonombank transferred to Prominvestbank the first $390 million from a subordinated loan, and a week later Prominvestbank announced that its operation stabilised. Vladimir Dmitriyev, Chairman of Vneshekonombank, said that until recently the bank had not seriously considered entering the Ukrainian market, concentrating instead on internal reform and creation of a development bank. But eventually that step was made despite the difficult financial position of the acquired bank and the little promise Ukraine’s banking sector offers at the moment (NewsRu.ua, December 21, 2009). Vneshekonombank’s head explains the choice of Prominvestbank by the role it plays in lending to the Ukrainian industry: it has a large number of clients, and many of them have close ties with Russian manufacturers. Vneshekonombank intends to use Prominvestbank for adjusting settlement with Ukraine (UGMK, April 1, 2009). It is also planned to make the bank one of Ukraine’s top five (RBK-Ukraine, March 5, 2009). Vneshekonombank received a bid to purchase Prominvestbank from Slav AG owned by the Ukrainian politicians and businessmen Sergei and Andrei Klyuyev who also hold shares in Prominvestbank (they were among the potential buyers of the controlling block of shares). Vladimir Dmitriyev jokingly comments that this acquisition was made out of “proletarian internationalism”, meaning that at that difficult time neither private nor public Russian banks had resources necessary for rehabilitation measures5. As we have mentioned above, this transaction closely resembles Sberbank’s BTA project, but there are two material distinctions. First, Vneshekonombank as a public corporation can be expected to be far more politically motivated. Second, Vneshekonombank’s overseas platform is no match for that of Sberbank, although it has a subsidiary in Belarus (since the Soviet period). Therefore, we cannot discard either motive for investment expansion: replacement growth (taking advantage of the critical condition of a potentially lucrative asset, since the transaction was made at the very peak of the crisis) and political interests (which, however, are always important to Vneshekonombank irrespective of the crisis). It is likely that the commercial and political considerations were both present in this case. Comparing the BTA and Prominvestbank projects allows us to make several observations. Russian banks (especially government-owned ones), heavily injected with public funds during the crisis, were well positioned to embark 5 Interview of Vladimir Dmitriyev at Prominvestbank’s website, www.pib.com.ua/pr/biznes 20090608.php.ru, 12.08.2010. Eurasian Development Bank 51 Global Crisis and Post-Soviet Regional Integration Aleksandr Libman, Mikhail Golovnin “Trends in Investment Cooperation between CIS Countries and the Global Economic Crisis” on buying up crisis-stricken assets in CIS countries in accordance with the replacement growth scenario. In many cases they took a very prudent stance on the emerging opportunities, carefully selecting truly promising assets. And in some cases, by contrast, they took fairly high risks. Government control, albeit formal, does not necessarily mean that political considerations will prevail, even in crisis conditions; this depends on the government’s part in an individual company. Some illustrative crisis-time transactions related to the stock market infrastructure. Notably, before the crisis cooperation between stock exchanges and depositories from different CIS countries was rather formal and hardly went beyond memoranda of understanding or membership of business associations (The International Association of CIS Stock Exchanges and the Association of Central Depositories of Eurasia) (Golovnin, 2009). However, the Moscow Interbank Currency Exchange (MICEX) often assumed an active role in promoting financial integration initiatives. The crisis changed the situation dramatically, especially as concerns cooperation between Russian (RTS) and Ukrainian stock exchanges (Golovnin, 2010). Earlier, Russian stock exchanges have made several inconclusive attempts at entering the Ukrainian market through joint projects with local infrastructure organisations. Finally, at an early stage of the crisis (in May 2008) the RTS launched the Ukrainian Stock Exchange jointly with Ukrainian players (this time, we can refer to a “brand new” investment rather than acquisition of an existing asset). Trade on the new exchange opened in March 2009; for the first time in Ukraine, Internet trading facilities were introduced, which at once elevated the new exchange to a leading position and wrecked the monopoly of the First Stock Trading System (FSTS). Notably, the latter had grasped the threat at an early stage, and in June 2008 secured the supply of a new trading platform (also capable of supporting Internet trading) by the MICEX. However, the FSTS failed to outstrip its competitor in launching the new system (this was done in April 2009). As a result, the FSTS lost its position permanently and started to consider selling shares to a foreign strategic investor. According to the FSTS management, the only response to the offer came from the MICEX (Investgazeta, January 25, 2010). In December 2009, the management approved the sale of 50% + 1 share to the MICEX, and the transaction was closed in mid-2010. Thus, the main part of Ukraine’s stock market infrastructure came under the control of Russian capital, including government-owned structures (the principal shareholder of the MICEX is the Central Bank of Russia). The above two transactions, especially the MICEX’s FSTS project, fit the replacement growth scenario. In addition, investments by the Russian stock exchanges are clearly strategic in essence, whereas 52 EDB Eurasian Integration Yearbook 2011 Global Crisis and Post-Soviet Regional Integration Vneshekonombank will most probably sell its Ukrainian asset that does not fully correspond to its core business (and most probably to another Russian player). These transactions pave the way for future financial cooperation between post-Soviet countries, and success of this cooperation will largely depend on Russian stock exchanges’ performance in Ukraine. The first upgrade to the national infrastructure has been already made (the launch of Internet trading). The crisis and entering global markets There are also a number of other examples of how Russian businesses took full advantage of the crisis conditions to improve their international standing. In this case we refer not only to expansion in the CIS but also the associated asset diversification processes. In June 2009, Atomredmetzoloto (ARMZ), a member of Rosatom, secured a strategic alliance with Uranium One of Canada. The company exchanged its 50% stake in the Karatau deposit in Kazakhstan (the remaining 50% is held by Kazatomprom) for 16.6% of additionally issued shares in Uranium One plus $90 million (the latter amount may increase by $60 million depending on Karatau’s performance in the next three years). The Canadian party was granted the pre-emptive right to buy ARMZ assets outside Russia (obviously, Uranium One is chiefly interested in Kazakhstan). ARMZ became the first strategic investor in formerly public Uranium One. Thus, ARMZ secured itself access to Uranium One’s global resources scattered over several continents (ARMZ’s own resources in Russia are very costly to operate due to the harsh climate) (Ekspert, June 16, 2009). ARMZ also strengthened its presence in Kazakhstan where Uranium One operates a number of deposits (Akdalinskoye and Yuzhno-Inkaiskoye (70%) and Kharasanskoye (30%)) that can be developed at a fabulously low cost. Bearing in mind that in June 2010 ARMZ increased its share in Uranium One to at least 50%, this transaction holds even greater promise for the Russian party. It appears that the crisis forced Russian companies to seek expansion beyond their priority target regions of Europe and the CIS. In this particular case, however, internal political developments in Kazakhstan played a role: some time ago Uranium One became involved in a major scandal (the so-called “Dzhakishev case”) relating to unlawful privatisation of a number of uranium deposits. Experts believe that the transaction with ARMZ will provide Uranium One with a degree of protection in Kazakhstan. The latter consideration becomes even more important in view of the fact that the proposed sale of about 20% of shares in Uranium One to Toshiba has not so far been authorised by the Kazakh government (although Toshiba was not refused flatly and, according to its Vice-President Yasuharu Igarashi, is already participating in Uranium One’s operation; the approval process lasts beyond reason) (Kursiv, June 10, 2010). Eurasian Development Bank 53 Global Crisis and Post-Soviet Regional Integration Conclusions Although the cited information is largely incomplete and non-systematic, we can draw certain conclusions. Kazakh companies, one of the two investment forces in the CIS, have acted generally in accordance with the investment recession scenario. Therefore, the formation of the CIS’ second integration core in this country is open to question (Vinokurov, Libman, 2010). In this respect, however, the Kazakh government and TNCs will have the final word. The situation with Russian TNCs is not as simple. Evidence of investment recession, i.e. suspension of announced projects and a decline in the number of new initiatives, is in place. However, not all developments in Russia speak in support of the investment recession hypothesis: later in 2008-2010, Russian TNCs completed several sizable transactions (it does not matter that most of them had been initiated in the pre-crisis period). In other words, Russian investment activity in CIS countries and elsewhere proved resistant to the crisis. Notably, most of the projects suspended in the autumn of 2008 were finalised in 2009, when the peak of the crisis was over (e.g. in metallurgy and mining). We have also found evidence of replacement growth, first of all in the financial and banking sectors (and, partially, in construction and metallurgy); but the outcomes of the reviewed projects were different. The replacement growth logic was clearly visible in projects to diversify the overseas assets of Russian TNCs and promote expansion beyond the post-Soviet space. In this case, however, complex interrelation between crisis developments and changes in the strategy of Russian TNCs makes the analysis of resulting effects a challenging task. In quantitative terms, the Russian share in total investments in those CIS countries for which data is available increased (the only exception was Kyrgyzstan), which also fits the replacement growth hypothesis. The role of interstate cooperation in investment remained insignificant throughout 2008-2009. We have grounds for assuming that the warming of Russian-Ukrainian relations in the spring and summer of 2010 and inception of the Customs Union will give an added impetus to investment cooperation. However, since these changes in international relations coincided with economic recovery in Russia, it is difficult to put a simple valuation on this role. An analysis of the above assumption will only become possible in a few years. A political agenda may have exerted certain influence in some implemented and proposed transactions, but the degree of this influence should not be overstated.

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**Theme № 10 The Shanghai Cooperation Organization: assessment of the current situation and prospects of cooperation**

***Questions:***

**1. Formation of the legal framework of integration cooperation.**

**2. Creation of the SCO Business Council.**

**3. Establishment of joint ventures and representative offices of major industrial companies.**

The Shanghai Cooperation Organisation (SCO) is a [Eurasian](https://en.wikipedia.org/wiki/Eurasia) political, economic and military organisation which was founded in 2001 in [Shanghai](https://en.wikipedia.org/wiki/Shanghai) by the leaders of [China](https://en.wikipedia.org/wiki/China), [Kazakhstan](https://en.wikipedia.org/wiki/Kazakhstan), [Kyrgyzstan](https://en.wikipedia.org/wiki/Kyrgyzstan), [Russia](https://en.wikipedia.org/wiki/Russia), [Tajikistan](https://en.wikipedia.org/wiki/Tajikistan), and[Uzbekistan](https://en.wikipedia.org/wiki/Uzbekistan). These countries, except for Uzbekistan had been members of theShanghai Five, founded in 1996; after the inclusion of Uzbekistan in 2001, the members renamed the organisation. On July 10, 2015, the SCO decided to admit [India](https://en.wikipedia.org/wiki/India) and [Pakistan](https://en.wikipedia.org/wiki/Pakistan) as full members, and they are expected to join by 2016.

## Official names

The official [working languages](https://en.wikipedia.org/wiki/Working_language) of the Shanghai Cooperation Organization are Chinese and [Russian](https://en.wikipedia.org/wiki/Russian_language). The official names of the organization in the two languages (abbreviations in parentheses) are:

**Chinese:**

* [Simplified Chinese](https://en.wikipedia.org/wiki/Simplified_Chinese_characters): 上海合作组织 [ [Listen](https://upload.wikimedia.org/wikipedia/commons/b/b5/Chinese-Shanghai_Cooperation_Organization.ogg) ([help](https://en.wikipedia.org/wiki/Wikipedia%3AMedia_help)·[info](https://en.wikipedia.org/wiki/File%3AChinese-Shanghai_Cooperation_Organization.ogg))] (上合组织)
* [Romanisation](https://en.wikipedia.org/wiki/Pinyin): Shànghǎi Hézuò Zǔzhī (Shànghé Zǔzhī)

[**Russian**](https://en.wikipedia.org/wiki/Russian_language)**:**

* [Cyrillic](https://en.wikipedia.org/wiki/Cyrillic_script): Шанхайская организация сотрудничества (ШОС)
* [Romanisation](https://en.wikipedia.org/wiki/Romanization_of_Russian): Shankhayskaya organizatsiya sotrudnichestva (ShOS)

## Membership

*Main article:*[*Member states of Shanghai Cooperation Organisation*](https://en.wikipedia.org/wiki/Member_states_of_Shanghai_Cooperation_Organisation)

**Member States**

|  |  |  |
| --- | --- | --- |
| **Date** | **Country** | **Enlargement** |
| 26 April 1996 | https://upload.wikimedia.org/wikipedia/commons/thumb/f/fa/Flag_of_the_People%27s_Republic_of_China.svg/23px-Flag_of_the_People%27s_Republic_of_China.svg.png [China](https://en.wikipedia.org/wiki/China) | Founders |
| https://upload.wikimedia.org/wikipedia/commons/thumb/d/d3/Flag_of_Kazakhstan.svg/23px-Flag_of_Kazakhstan.svg.png [Kazakhstan](https://en.wikipedia.org/wiki/Kazakhstan) |
| https://upload.wikimedia.org/wikipedia/commons/thumb/c/c7/Flag_of_Kyrgyzstan.svg/23px-Flag_of_Kyrgyzstan.svg.png [Kyrgyzstan](https://en.wikipedia.org/wiki/Kyrgyzstan) |
| https://upload.wikimedia.org/wikipedia/en/thumb/f/f3/Flag_of_Russia.svg/23px-Flag_of_Russia.svg.png [Russia](https://en.wikipedia.org/wiki/Russia) |
| https://upload.wikimedia.org/wikipedia/commons/thumb/d/d0/Flag_of_Tajikistan.svg/23px-Flag_of_Tajikistan.svg.png [Tajikistan](https://en.wikipedia.org/wiki/Tajikistan) |
| 15 June 2001 | https://upload.wikimedia.org/wikipedia/commons/thumb/8/84/Flag_of_Uzbekistan.svg/23px-Flag_of_Uzbekistan.svg.png [Uzbekistan](https://en.wikipedia.org/wiki/Uzbekistan) | First |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Acceding States**[[3]](https://en.wikipedia.org/wiki/Shanghai_Cooperation_Organisation#cite_note-SCO-3)* https://upload.wikimedia.org/wikipedia/en/thumb/4/41/Flag_of_India.svg/23px-Flag_of_India.svg.png [India](https://en.wikipedia.org/wiki/India)(Membership approved July 2015)[[1]](https://en.wikipedia.org/wiki/Shanghai_Cooperation_Organisation#cite_note-indpak-1)
* https://upload.wikimedia.org/wikipedia/commons/thumb/3/32/Flag_of_Pakistan.svg/23px-Flag_of_Pakistan.svg.png [Pakistan](https://en.wikipedia.org/wiki/Pakistan)(Membership approved July 2015)[[1]](https://en.wikipedia.org/wiki/Shanghai_Cooperation_Organisation#cite_note-indpak-1)
 |  | **Observer States**[[3]](https://en.wikipedia.org/wiki/Shanghai_Cooperation_Organisation#cite_note-SCO-3)* https://upload.wikimedia.org/wikipedia/commons/thumb/9/9a/Flag_of_Afghanistan.svg/23px-Flag_of_Afghanistan.svg.png [Afghanistan](https://en.wikipedia.org/wiki/Afghanistan)[[4]](https://en.wikipedia.org/wiki/Shanghai_Cooperation_Organisation#cite_note-AFGTUR-4)
* https://upload.wikimedia.org/wikipedia/commons/thumb/8/85/Flag_of_Belarus.svg/23px-Flag_of_Belarus.svg.png [Belarus](https://en.wikipedia.org/wiki/Belarus)[[5]](https://en.wikipedia.org/wiki/Shanghai_Cooperation_Organisation#cite_note-BELARUSOBSR-5)
* https://upload.wikimedia.org/wikipedia/commons/thumb/c/ca/Flag_of_Iran.svg/23px-Flag_of_Iran.svg.png [Iran](https://en.wikipedia.org/wiki/Iran)
* https://upload.wikimedia.org/wikipedia/commons/thumb/4/4c/Flag_of_Mongolia.svg/23px-Flag_of_Mongolia.svg.png [Mongolia](https://en.wikipedia.org/wiki/Mongolia)
 |  | **Dialogue Partners**[[3]](https://en.wikipedia.org/wiki/Shanghai_Cooperation_Organisation#cite_note-SCO-3)* https://upload.wikimedia.org/wikipedia/commons/thumb/2/2f/Flag_of_Armenia.svg/23px-Flag_of_Armenia.svg.png [Armenia](https://en.wikipedia.org/wiki/Armenia)
* https://upload.wikimedia.org/wikipedia/commons/thumb/d/dd/Flag_of_Azerbaijan.svg/23px-Flag_of_Azerbaijan.svg.png [Azerbaijan](https://en.wikipedia.org/wiki/Azerbaijan)
* https://upload.wikimedia.org/wikipedia/commons/thumb/8/83/Flag_of_Cambodia.svg/23px-Flag_of_Cambodia.svg.png [Cambodia](https://en.wikipedia.org/wiki/Cambodia)
* https://upload.wikimedia.org/wikipedia/commons/thumb/9/9b/Flag_of_Nepal.svg/16px-Flag_of_Nepal.svg.png   [Nepal](https://en.wikipedia.org/wiki/Nepal)
* https://upload.wikimedia.org/wikipedia/commons/thumb/1/11/Flag_of_Sri_Lanka.svg/23px-Flag_of_Sri_Lanka.svg.png [Sri Lanka](https://en.wikipedia.org/wiki/Sri_Lanka)
* https://upload.wikimedia.org/wikipedia/commons/thumb/b/b4/Flag_of_Turkey.svg/23px-Flag_of_Turkey.svg.png [Turkey](https://en.wikipedia.org/wiki/Turkey)[[4]](https://en.wikipedia.org/wiki/Shanghai_Cooperation_Organisation#cite_note-AFGTUR-4)
 |  | **Guest Attendances*** https://upload.wikimedia.org/wikipedia/commons/thumb/d/dc/Flag_placeholder.svg/23px-Flag_placeholder.svg.png [ASEAN](https://en.wikipedia.org/wiki/Association_of_Southeast_Asian_Nations)
* https://upload.wikimedia.org/wikipedia/commons/thumb/1/11/Flag_of_the_CIS.svg/23px-Flag_of_the_CIS.svg.png [CIS](https://en.wikipedia.org/wiki/Commonwealth_of_Independent_States)
* https://upload.wikimedia.org/wikipedia/commons/thumb/1/1b/Flag_of_Turkmenistan.svg/23px-Flag_of_Turkmenistan.svg.png [Turkmenistan](https://en.wikipedia.org/wiki/Turkmenistan)
 |

## Origins

The Shanghai Five grouping was created 26 April 1996 with the signing of the *Treaty on Deepening Military Trust in Border Regions* in [Shanghai](https://en.wikipedia.org/wiki/Shanghai) by the heads of states of Kazakhstan, the People's Republic of China, Kyrgyzstan, Russia and Tajikistan. According to political scientist [Thomas Ambrosio](https://en.wikipedia.org/wiki/Thomas_Ambrosio), one aim was to ensure that liberal democracy could not gain ground in these countries. On 24 April 1997, the same countries signed the *Treaty on Reduction of Military Forces in Border Regions* in a meeting in [Moscow](https://en.wikipedia.org/wiki/Moscow).

Subsequent annual summits of the Shanghai Five group occurred in [Almaty](https://en.wikipedia.org/wiki/Almaty)(Kazakhstan) in 1998, in [Bishkek](https://en.wikipedia.org/wiki/Bishkek) (Kyrgyzstan) in 1999, and in [Dushanbe](https://en.wikipedia.org/wiki/Dushanbe) (Tajikistan) in 2000. At the Dushanbe summit, members agreed to "oppose intervention in other countries' internal affairs on the pretexts of 'humanitarianism' and 'protecting human rights;' and support the efforts of one another in safeguarding the five countries' national independence, sovereignty, territorial integrity, and social stability.

In 2001, the annual summit returned to Shanghai. There the five member nations first admitted [Uzbekistan](https://en.wikipedia.org/wiki/Uzbekistan) in the Shanghai Five mechanism (thus transforming it into the Shanghai Six). Then all six heads of state signed on 15 June 2001, the*Declaration of Shanghai Cooperation Organisation*, praising the role played thus far by the Shanghai Five mechanism and aiming to transform it to a higher level of cooperation. On 16 July 2001, Russia and the PRC, the organisation's two leading nations, signed the [*Treaty of Good-Neighbourliness and Friendly Cooperation*](https://en.wikipedia.org/wiki/2001_Sino-Russian_Treaty_of_Friendship).

In June 2002, the heads of the SCO member states met in [Saint Petersburg](https://en.wikipedia.org/wiki/Saint_Petersburg), Russia. There they signed the SCO Charter which expounded on the organisation's purposes, principles, structures and form of operation, and established it in international law.

Its six full members account for 60% of the land mass of [Eurasia](https://en.wikipedia.org/wiki/Eurasia) and its population is a quarter of the world's. With observer states included, its affiliates account for about half of the world's population.

In July 2005, at its fifth and watershed summit in [Astana](https://en.wikipedia.org/wiki/Astana), Kazakhstan, with representatives of India, Iran, Mongolia and Pakistan attending an SCO summit for the first time, the president of the host country, Nursultan Nazarbayev, greeted the guests in words that had never before been used in any context: "The leaders of the states sitting at this negotiation table are representatives of half of humanity"

By 2007 the SCO had initiated over twenty large-scale projects related to transportation, energy and telecommunications and held regular meetings of security, military, defence, foreign affairs, economic, cultural, banking and other officials from its member states.

The SCO has established relations with the [United Nations](https://en.wikipedia.org/wiki/United_Nations), where it is an observer in the [General Assembly](https://en.wikipedia.org/wiki/United_Nations_General_Assembly), the [European Union](https://en.wikipedia.org/wiki/European_Union), [Association of Southeast Asian Nations](https://en.wikipedia.org/wiki/Association_of_Southeast_Asian_Nations) ([ASEAN](https://en.wikipedia.org/wiki/Association_of_Southeast_Asian_Nations)), the [Commonwealth of Independent States](https://en.wikipedia.org/wiki/Commonwealth_of_Independent_States) and the [Organisation of Islamic Cooperation](https://en.wikipedia.org/wiki/Organisation_of_Islamic_Cooperation).

## Organisational structure



The Council of Heads of State is the top decision-making body in the SCO. This council meets at the SCO summits, which are held each year in one of the member states' capital cities. The current Council of Heads of State consists of:

* [Almazbek Atambayev](https://en.wikipedia.org/wiki/Almazbek_Atambayev) (Kyrgyzstan)
* [Emomalii Rahmon](https://en.wikipedia.org/wiki/Emomalii_Rahmon) (Tajikistan)
* [Islam Karimov](https://en.wikipedia.org/wiki/Islam_Karimov) (Uzbekistan)
* [Xi Jinping](https://en.wikipedia.org/wiki/Xi_Jinping) (China)
* [Nursultan Nazarbayev](https://en.wikipedia.org/wiki/Nursultan_Nazarbayev) (Kazakhstan)
* [Vladimir Putin](https://en.wikipedia.org/wiki/Vladimir_Putin) (Russia)

The Council of Heads of Government is the second-highest council in the organisation. This council also holds annual summits, at which time members discuss issues of multilateral cooperation. The council also approves the organisation's budget.

The Council of Foreign Ministers also hold regular meetings, where they discuss the current international situation and the SCO's interaction with other international organisations.

The Council of National Coordinators coordinates the multilateral cooperation of member states within the framework of the SCO's charter.

The Secretariat of the SCO is the primary executive body of the organisation. It serves to implement organisational decisions and decrees, drafts proposed documents (such as declarations and agendas), function as a document depository for the organisation, arranges specific activities within the SCO framework, and promotes and disseminates information about the SCO. It is located in Beijing. The current SCO Secretary-General is [Dmitry Fyodorovich Mezentsev](https://en.wikipedia.org/wiki/Dmitry_Mezentsev) of Russia, appointed to the office of Shanghai Cooperation Organisation Secretary-General on 7 June 2012, to hold this position from January 1, 2013 to December 31, 2015.

The Regional Anti-Terrorist Structure (RATS), headquartered in [Tashkent](https://en.wikipedia.org/wiki/Tashkent), Uzbekistan, is a permanent organ of the SCO which serves to promote cooperation of member states against the [three evils](https://en.wikipedia.org/wiki/Three_evils) of [terrorism](https://en.wikipedia.org/wiki/Terrorism), [separatism](https://en.wikipedia.org/wiki/Separatism) and [extremism](https://en.wikipedia.org/wiki/Extremism). The Head of RATS is elected to a three-year term. Each member state also sends a permanent representative to RATS.

## Activities

### Cooperation on security

The SCO is primarily centered on its member nations' [Central Asian](https://en.wikipedia.org/wiki/Central_Asia) security-related concerns, often describing the main threats it confronts as being [terrorism](https://en.wikipedia.org/wiki/Terrorism), [separatism](https://en.wikipedia.org/wiki/Separatism) and [extremism](https://en.wikipedia.org/wiki/Extremism). However evidence is growing that its activities in the area of social development of its member states is increasing fast.[*[citation needed](https://en.wikipedia.org/wiki/Wikipedia%3ACitation_needed%22%20%5Co%20%22Wikipedia%3ACitation%20needed)*][[13]](https://en.wikipedia.org/wiki/Shanghai_Cooperation_Organisation#cite_note-13)

At 16–17 June 2004 SCO summit, held in [Tashkent](https://en.wikipedia.org/wiki/Tashkent), [Uzbekistan](https://en.wikipedia.org/wiki/Uzbekistan), the Regional Antiterrorism Structure (RATS) was established. On 21 April 2006, the SCO announced plans to fight cross-border drug crimes under the counter-terrorism rubric.[[14]](https://en.wikipedia.org/wiki/Shanghai_Cooperation_Organisation#cite_note-14)

[Grigory Logninov](https://en.wikipedia.org/w/index.php?title=Grigory_Logninov&action=edit&redlink=1) claimed in April 2006 that the SCO has no plans to become a military bloc; nonetheless he argued that the increased threats of "terrorism, extremism and separatism" make necessary a full-scale involvement of armed forces.

In October 2007, the SCO signed an agreement with the [Collective Security Treaty Organization](https://en.wikipedia.org/wiki/Collective_Security_Treaty_Organization) (CSTO), in the Tajik capital[Dushanbe](https://en.wikipedia.org/wiki/Dushanbe), to broaden cooperation on issues such as security, crime, and drug trafficking. Joint action plans between the two organisations are planned to be signed by early 2008 in Beijing.

The organisation is also redefining [cyberwarfare](https://en.wikipedia.org/wiki/Cyberwarfare), saying that the dissemination of information "harmful to the spiritual, moral and cultural spheres of other states" should be considered a "security threat". An accord adopted in 2009 defined "information war", in part, as an effort by a state to undermine another's "political, economic, and social systems".

### Military activities

Over the past few years, the organisation's activities have expanded to include increased military cooperation, intelligence sharing, and counterterrorism

There have been a number of SCO joint military exercises. The first of these was held in 2003, with the first phase taking place in Kazakhstan and the second in China. Since then China and Russia have teamed up for large-scale war games in 2005 ([Peace Mission 2005](https://en.wikipedia.org/wiki/Peace_Mission_2005)), 2007 and 2009, under the auspices of the Shanghai Cooperation Organisation. More than 4,000 soldiers participated at the joint military exercises in 2007 (known as "Peace Mission 2007") which took place in Chelyabinsk Russia near the Ural Mountains, as was agreed upon in April 2006 at a meeting of SCO Defence Ministers. Russian Defence Minister [Sergei Ivanov](https://en.wikipedia.org/wiki/Sergei_Ivanov) said that the exercises would be transparent and open to media and the public. Following the war games' successful completion, Russian officials began speaking of India joining such exercises in the future and the SCO taking on a military role. Peace Mission 2010, conducted September 9–25 at Kazakhstan's [Matybulak](https://en.wikipedia.org/w/index.php?title=Matybulak&action=edit&redlink=1) training area, saw over 5,000 personnel from China, Russia, Kazakhstan, Kyrgyzstan and Tajikistan conduct joint planning and operational maneuvers.

The SCO has served as a platform for larger military announcements by members. During the 2007 war games in Russia, with leaders of SCO member states in attendance including Chinese President Hu Jintao, Russia's President Vladimir Putin used the occasion to take advantage of a captive audience: Russian strategic bombers, he said, would resume regular long-range patrols for the first time since the [Cold War](https://en.wikipedia.org/wiki/Cold_War). "Starting today, such tours of duty will be conducted regularly and on the strategic scale", Putin said. "Our pilots have been grounded for too long. They are happy to start a new life".

On June 4, 2014, in the Tajik capital [Dushanbe](https://en.wikipedia.org/wiki/Dushanbe), the idea was brought up to merge the SCO with the [Collective Security Treaty Organization](https://en.wikipedia.org/wiki/Collective_Security_Treaty_Organization). It is still being debated.

### Economic cooperation

All SCO members but China are also members of the [Eurasian Economic Community](https://en.wikipedia.org/wiki/Eurasian_Economic_Community). A Framework Agreement to enhance economic cooperation was signed by the SCO member states on 23 September 2003. At the same meeting the [PRC's Premier](https://en.wikipedia.org/wiki/Premier_of_the_People%27s_Republic_of_China), [Wen Jiabao](https://en.wikipedia.org/wiki/Wen_Jiabao), proposed a long-term objective to establish a [free trade area](https://en.wikipedia.org/wiki/Free_trade_area) in the SCO, while other more immediate measures would be taken to improve the flow of goods in the region. A follow up plan with 100 specific actions was signed one year later, on 23 September 2004.

On 26 October 2005, during the [Moscow](https://en.wikipedia.org/wiki/Moscow) Summit of the SCO, the Secretary General of the Organisation said that the SCO will prioritise joint energy projects; such will include the oil and gas sector, the exploration of new hydrocarbon reserves, and joint use of water resources. The creation of an Inter-bank SCO Council was also agreed upon at that summit in order to fund future joint projects. The first meeting of the SCO Interbank Association was held in Beijing on 21–22 February 2006.On 30 November 2006, at *The SCO: Results and Perspectives*, an international conference held in [Almaty](https://en.wikipedia.org/wiki/Almaty), the representative of the Russian Foreign Ministry announced that Russia is developing plans for an SCO "Energy Club".The need for this "club" was reiterated by Moscow at an SCO summit in November 2007. Other SCO members, however, have not committed themselves to the idea.However, on 28 August 2008 summit it was stated that "Against the backdrop of a slowdown in the growth of world economy pursuing a responsible currency and financial policy, control over the capital flowing, ensuring food and energy security have been gaining special significance".

At the 2007 SCO summit Iranian Vice President Parviz Davudi addressed an initiative that has been garnering greater interest and assuming a heightened sense of urgency when he said, "The Shanghai Cooperation Organisation is a good venue for designing a new banking system which is independent from international banking systems".

The address by Putin also included these comments:

"We now clearly see the defectiveness of the monopoly in world finance and the policy of economic selfishness. To solve the current problem Russia will take part in changing the global financial structure so that it will be able to guarantee stability and prosperity in the world and to ensure progress.

"The world is seeing the emergence of a qualitatively different geo-political situation, with the emergence of new centers of economic growth and political influence.

"We will witness and take part in the transformation of the global and regional security and development architectures adapted to new realities of the 21st century, when stability and prosperity are becoming inseparable notions."



Leaders present at the SCO summit in [Yekaterinburg](https://en.wikipedia.org/wiki/Yekaterinburg), Russia in 2009.

On 16 June 2009, at the Yekaterinburg Summit, China announced plans to provide a US$10 billion loan to SCO member states to shore up the struggling economies of its members amid the global financial crisis. The summit was held together with the first [BRIC](https://en.wikipedia.org/wiki/BRIC) summit, and the China-Russia joint statement said that they want a bigger quota in the[International Monetary Fund](https://en.wikipedia.org/wiki/International_Monetary_Fund).

### Cultural cooperation

Cultural cooperation also occurs in the SCO framework. Culture ministers of the SCO met for the first time in [Beijing](https://en.wikipedia.org/wiki/Beijing) on April 12, 2002, signing a joint statement for continued cooperation. The third meeting of the Culture Ministers took place in [Tashkent](https://en.wikipedia.org/wiki/Tashkent), Uzbekistan, on 27–28 April 2006.

An SCO Arts Festival and Exhibition was held for the first time during the [Astana](https://en.wikipedia.org/wiki/Astana) Summit in 2005. Kazakhstan has also suggested an SCO [folk dance](https://en.wikipedia.org/wiki/Folk_dance) festival to take place in 2008, in [Astana](https://en.wikipedia.org/wiki/Astana).

## Summits



Summit of [Bishkek](https://en.wikipedia.org/wiki/Bishkek) ([Kyrgyzstan](https://en.wikipedia.org/wiki/Kyrgyzstan)) in 2007.

According to the Charter of the SCO, summits of the Council of Heads of State shall be held annually at alternating venues. The locations of these summits follow the alphabetical order of the member state's name in Russian. The charter also dictates that the Council of Heads of Government (that is, the Prime Ministers) shall meet annually in a place decided upon by the council members. The Council of Foreign Ministers is supposed to hold a summit one month before the annual summit of Heads of State. Extraordinary meetings of the Council of Foreign Ministers can be called by any two member states.

### List of summits

## Future membership possibilities

In June 2010, the SCO approved the procedure of admitting new members, though new members have yet to be admitted. Several states, however, participate as [observers](https://en.wikipedia.org/wiki/Observer_status), some of whom have expressed interest in becoming full members in the future. The implications of Iran joining the organization has been given much thought academically. In early September 2013 Armenian Prime Minister [Tigran Sargsyan](https://en.wikipedia.org/wiki/Tigran_Sargsyan) said during his meeting with his Chinese counterpart that[Armenia](https://en.wikipedia.org/wiki/Armenia) would like to obtain an observer status in the SCO.

Except for Afghanistan, the observers are moving towards being accorded full member status. Meanwhile, in 2012[Armenia](https://en.wikipedia.org/wiki/Armenia), [Azerbaijan](https://en.wikipedia.org/wiki/Azerbaijan), [Bangladesh](https://en.wikipedia.org/wiki/Bangladesh), [Belarus](https://en.wikipedia.org/wiki/Belarus), [Nepal](https://en.wikipedia.org/wiki/Nepal) and [Sri Lanka](https://en.wikipedia.org/wiki/Sri_Lanka) applied for observer status within the organization.[Egypt](https://en.wikipedia.org/wiki/Egypt)and [Syria](https://en.wikipedia.org/wiki/Syria) has also submitted an application for observer status, while Egypt, [Maldives](https://en.wikipedia.org/wiki/Maldives) and [Ukraine](https://en.wikipedia.org/wiki/Ukraine) have applied for dialogue partner status.

### Current observers



Putin with representatives from Iran and Mongolia, observers in the SCO, at a meeting of the Council of Heads of Government in 2005.

*  [Afghanistan](https://en.wikipedia.org/wiki/Afghanistan) received observer status at the 2012 SCO summit in Beijing, China on June 6, 2012.
*  [Belarus](https://en.wikipedia.org/wiki/Belarus) was granted dialogue partner status in the Shanghai Cooperation Organisation (SCO) in 2009, and later gained observer status in 2015. In 2008, Belarus applied for partner status in the organisation and was promised Kazakhstan's support towards that goal. However, Russian Defence Minister [Sergei Ivanov](https://en.wikipedia.org/wiki/Sergei_Ivanov) voiced doubt on the probability of Belarus' membership, saying that Belarus was a purely European country. Despite this, Belarus was accepted as a Dialogue Partner at the 2009 SCO Summit in Yekaterinburg, and after applying in 2012, was granted observer status in 2015.
*  [India](https://en.wikipedia.org/wiki/India) has observer status in the SCO. Russia has encouraged India to join the organisation as a full-time member, because they see it as a crucial future strategic partner. China has welcomed India's accession to the SCO. India applied for membership in September 2014, and was approved for membership in July 2015. It is expected to join by 2016.
*  [Iran](https://en.wikipedia.org/wiki/Iran) has observer status in the organisation, and applied for full membership on 24 March 2008. However, because it was under sanctions levied by the United Nations at the time, it was blocked from admission as a new member. The SCO stated that any country under U.N. sanctions could not be admitted. After the UN sanctions were lifted, Chinese president Xi Jinping announced its support for Iran's full membership in SCO during a state visit to Iran in January 2016.
*  [Mongolia](https://en.wikipedia.org/wiki/Mongolia) became the first country to receive observer status at the 2004 Tashkent Summit. Pakistan, India and[Iran](https://en.wikipedia.org/wiki/Iran) received observer status at the 2005 SCO summit in [Astana](https://en.wikipedia.org/wiki/Astana), Kazakhstan on 5 July 2005.
*  [Pakistan](https://en.wikipedia.org/wiki/Pakistan) has observer status in the SCO. Pakistani President [Pervez Musharraf](https://en.wikipedia.org/wiki/Pervez_Musharraf) argued in favour of Pakistan's qualification to join the organisation as a full member during a joint summit with China in 2006. Russia publicly endorsed Pakistan's bid to get full membership of the Shanghai Cooperation Organisation (SCO), as (Russian) Prime Minister Vladimir Putin made this announcement in response to Prime Minister Yousaf Raza Gilani's address at the SCO meeting at the Constantine Palace, 6 November 2011. Russia has taken the stance despite the [strong relations with India](https://en.wikipedia.org/wiki/India%E2%80%93Russia_relations). China has said that it would convey Pakistan's desire to all SCO member states. In turn, Musharraf was formally invited to the sixth summit of the SCO to take place in [Shanghai](https://en.wikipedia.org/wiki/Shanghai) in June. The [Prime Minister of Pakistan](https://en.wikipedia.org/wiki/Prime_Minister_of_Pakistan) [Yousaf Raza Gillani](https://en.wikipedia.org/wiki/Yousaf_Raza_Gillani) once again argued in favour of Pakistan's qualification to join the organisation as a full member. On November 7, 2011, Russia, for the first time, publicly endorsed Pakistan’s bid to get full membership of the Shanghai Cooperation Organization. At the SCO Summit in 2014, China also expressed support for Pakistan's application for full membership. Pakistan applied for membership in 2006, and was approved in July 2015. It is expected to join by 2016.

### Dialogue Partner



Afghan President [Hamid Karzai](https://en.wikipedia.org/wiki/Hamid_Karzai) at an SCO summit in 2004.

The position of Dialogue Partner was created in 2008 in accordance with Article 14 of the SCO Charter of 7 June 2002. This article regards Dialogue Partner as a state or an organisation who shares the goals and principles of the SCO and wishes to establish relations of equal mutually beneficial partnership with the Organisation.

*  [Sri Lanka](https://en.wikipedia.org/wiki/Sri_Lanka) was granted dialogue partner status in the Shanghai Cooperation Organisation (SCO) at the group's 2009 summit in Yekaterinburg.
*  [Turkey](https://en.wikipedia.org/wiki/Turkey), a member of [NATO](https://en.wikipedia.org/wiki/NATO), was granted dialogue partner status in the Shanghai Cooperation Organisation (SCO) at the group's 2012 summit in Beijing. Turkish Prime Minister [Recep Tayyip Erdoğan](https://en.wikipedia.org/wiki/Recep_Tayyip_Erdo%C4%9Fan) has stated that he has jokingly discussed the possibility of abandoning Turkey's [European Union](https://en.wikipedia.org/wiki/European_Union)[membership candidacy](https://en.wikipedia.org/wiki/Accession_of_Turkey_to_the_European_Union) in return for full membership in the Shanghai Cooperation Organisation.

## Relations with the West

Western media observers believe that one of the original purposes of the SCO was to serve as a counterbalance to [NATO](https://en.wikipedia.org/wiki/NATO)and in particular to avoid conflicts that would allow the United States to intervene in areas bordering both [Russia](https://en.wikipedia.org/wiki/Russia) and China. And although not a member state, the President of [Iran](https://en.wikipedia.org/wiki/Iran) [Mahmoud Ahmadinejad](https://en.wikipedia.org/wiki/Mahmoud_Ahmadinejad) used his speeches at the SCO to make verbal attacks against the United States.

The United States applied for observer status in the SCO, but was rejected in 2005.

At the Astana summit in July 2005, with the wars in [Afghanistan](https://en.wikipedia.org/wiki/Afghanistan) and [Iraq](https://en.wikipedia.org/wiki/Iraq) foreshadowing an indefinite presence of U.S. forces in [Uzbekistan](https://en.wikipedia.org/wiki/Uzbekistan) and [Kyrgyzstan](https://en.wikipedia.org/wiki/Kyrgyzstan), the SCO urged the U.S. to set a timetable for withdrawing its troops from SCO member states. Shortly afterwards, Uzbekistan asked the U.S. to leave the [K-2 air base](https://en.wikipedia.org/wiki/Karshi-Khanabad).

The SCO has made no direct comments against the U.S. or its military presence in the region; however, some indirect statements at the past summits have been viewed by the western media as "thinly veiled swipes at Washington".

### Geopolitical aspects of the SCO

There have been many discussions and commentaries about the geopolitical nature of the Shanghai Cooperation Organisation. Matthew Brummer, in the Journal of International Affairs, tracks the implications of SCO expansion into the[Persian Gulf](https://en.wikipedia.org/wiki/Persian_Gulf).

Iranian writer, [Hamid Golpira](https://en.wikipedia.org/wiki/Hamid_Golpira), had this to say on the topic: "According to [Zbigniew Brzezinski](https://en.wikipedia.org/wiki/Zbigniew_Brzezinski)'s theory, control of the[Eurasian](https://en.wikipedia.org/wiki/Eurasia) landmass is the key to global domination and control of Central Asia is the key to control of the Eurasian landmass....Russia and China have been paying attention to Brzezinski's theory, since they formed the Shanghai Cooperation Organisation in 2001, ostensibly to curb extremism in the region and enhance border security, but most probably with the real objective of counterbalancing the activities of the United States and [NATO](https://en.wikipedia.org/wiki/NATO) in [Central Asia](https://en.wikipedia.org/wiki/Central_Asia)".

At a 2005 summit in Kazakhstan the SCO issued a Declaration of Heads of Member States of the Shanghai Cooperation Organisation which addressed their "concerns" and contained an elaboration of the organisation's principles. It included: "The heads of the member states point out that, against the backdrop of a contradictory process of globalisation, multilateral cooperation, which is based on the principles of equal right and mutual respect, non-intervention in internal affairs of sovereign states, non-confrontational way of thinking and consecutive movement towards democratisation of international relations, contributes to overall peace and security, and call upon the international community, irrespective of its differences in ideology and social structure, to form a new concept of security based on mutual trust, mutual benefit, equality and interaction."

In November 2005 Russian Foreign Minister [Sergey Lavrov](https://en.wikipedia.org/wiki/Sergey_Lavrov) reiterated that the "Shanghai Cooperation Organisation (SCO) is working to establish a rational and just world order" and that "The Shanghai Cooperation Organisation provides us with a unique opportunity to take part in the process of forming a fundamentally new model of geopolitical integration".

A Chinese daily expressed the matter in these terms: "The Declaration points out that the SCO member countries have the ability and responsibility to safeguard the security of the Central Asian region, and calls on Western countries to leave Central Asia. That is the most noticeable signal given by the Summit to the world".

Chinese Prime Minister [Wen Jiabao](https://en.wikipedia.org/wiki/Wen_Jiabao) has concluded that the United States is manoeuvring "to preserve its status as the world's sole superpower and will not allow any country the chance to pose a challenge to it".

An article in *The Washington Post* in early 2008 reported that President Vladimir Putin stated that Russia could aim [nuclear missiles](https://en.wikipedia.org/wiki/Nuclear_missile) at Ukraine if Russia's neighbor and former fraternal republic in the Soviet Union joins the NATO alliance and hosts elements of a U.S. missile defence system. "It is horrible to say and even horrible to think that, in response to the deployment of such facilities in Ukrainian territory, which cannot theoretically be ruled out, Russia could target its missile systems at Ukraine", Putin said at a joint news conference with Ukrainian President [Viktor Yushchenko](https://en.wikipedia.org/wiki/Viktor_Yushchenko), who was visiting the[Kremlin](https://en.wikipedia.org/wiki/Moscow_Kremlin). "Imagine this just for a second".

## See also

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| Portal icon | [***China portal***](https://en.wikipedia.org/wiki/Portal%3AChina) |
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* [NATO](https://en.wikipedia.org/wiki/NATO)
* [CSTO (ODKB)](https://en.wikipedia.org/wiki/Collective_Security_Treaty_Organization)
* [Sino-Russian relations since 1991](https://en.wikipedia.org/wiki/Sino-Russian_relations_since_1991)
* [Asia–Europe Meeting](https://en.wikipedia.org/wiki/Asia%E2%80%93Europe_Meeting)
* [Asia Cooperation Dialogue](https://en.wikipedia.org/wiki/Asia_Cooperation_Dialogue)
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**Theme № 11 EurAsEC – integration association for the development of economic cooperation of the Community states**

***Questions:***

**1. Formation of the Union of Central Asian States - the most important factor to accelerate the integration processes in the Eurasian Economic Community**

**2. Status of the integration cooperation of Central Asian Countries**

Центральноазиатский регион (ЦАР) располагает богатейшими запасами минерально-сырьевых и водно-энергетических ресурсов, что предопределяет необходимость углубления интеграционного взаимодействия стран ЦАР в реальном секторе экономики.

Кроме того, государства Центральной Азии обладают ог­ромным транзитным потенциалом, эффективное использование которого станет важным фактором в формировании глобальной коммуникационной инфраструктуры региона.

Серьезной проблемой стран Центральной Азии является распространение угроз терроризма, экстремизма, незаконного оборота наркотиков, поэтому важное значение приобретают объ­единение общих усилий и принятие государствами совместных мер в области укрепления безопасности региона.

Реализация указанных направлений предполагает, прежде всего, эффективное развитие регионального сотрудничества стран ЦАР и формирование в перспективе Союза центрально-азиатских государств.

Таким образом, актуальное значение имеет разработка механизма углубления интеграционного взаимодействия стран Центральной Азии, создания общего рынка товаров и услуг, что станет важным фактором устойчивого развития данных государств.

Проведенный анализ свидетельствует о различном уровне экономического развития государств Центральной Азии.

В Узбекистане, например, достаточно высок уровень госу­дарственного регулирования экономики и требуются активные меры по ее реформированию и созданию благоприятного инвес­тиционного климата.

В Кыргызстане - достаточно сложная социально-политиче­ская обстановка. Постоянная борьба за власть существующих политических группировок отодвигает проблемы экономики, повышения уровня жизни населения на второй план. Неста­бильность политической ситуации негативно отражается на инвестиционном климате страны.

Таджикистан и Туркменистан - беднейшие государства в регио­не. Сохранение высокого уровня внешнего долга Таджикистана, неэффективная структура его экономики препятствуют решению социальных задач, повышению качества экономического роста.

Существующая в Туркменистане политическая система, сформи­ровавшаяся еще во времена правления С. Ниязова, сдерживает раз­витие прав человека, демократии и рыночной экономики в стране.

В Казахстане достигнуты большие успехи в социально-эко­номическом развитии государства. Вместе с тем, экономика республики остается преимущественно сырьевой, сохраняются серьезные проблемы в аграрной сфере. Недостаточное инвести­рование отраслей агропромышленного комплекса, хроническое недоосвоение бюджетных средств, дефицит передовых тех­нологий негативно отражаются на состоянии села и развитии сельскохозяйственных производств.

Недостаточно высок уровень конкурентоспособности пере­рабатывающего сектора экономики Казахстана.

Однако необходимо подчеркнуть, что принимаемые в респуб­лике практические меры по диверсификации и модернизации всех сфер экономики и общественной жизни будут способство­вать стратегической цели страны по вхождению в состав 50-ти конкурентоспособных государств мира и успешной ее интегра­ции в мировую экономику.

Нестабильная социально-политическая обстановка, сложив­шаяся в регионе, усиливает миграционные процессы в направле­нии Казахстана, которые сопровождаются ростом преступности и незаконного оборота наркотиков.

Таким образом, для экономического развития государств Центральноазиатского региона важное значение имеют расши­рение интеграционного сотрудничества, создание условий для свободного движения товаров, капитала, технологий, услуг, со­вершенствование таможенной и тарифной политики этих стран. Только экономическая интеграция стран Центральной Азии, повышение темпов рыночных преобразований и активизация демократических процессов в них будут, на наш взгляд, спо­собствовать промышленному росту государств ЦАР, созданию новых рабочих мест, решению проблем с безработицей, повы­шению уровня жизни населения и, как следствие, стабилизации внутренней обстановки в регионе.

Анализ развития интеграционных процессов в Центрально-азиатском регионе позволил определить следующие положи­тельные тенденции регионального сотрудничества:

1. Сформирована нормативно-правовая база развития интеграционного сотрудничества государств в Центрально-азиатском регионе.

Заключены договоры о вечной дружбе, сотрудничестве и взаим­ной помощи между Казахстаном, Узбекистаном и Кыргызстаном. Реализация этих договоров будет способствовать углублению интеграционного взаимодействия стран Центральной Азии.

2. Созданы межгосударственные координационные со­веты по развитию экономического сотрудничества стран Центральной Азии.

В целях активизации экономического сотрудничества между Казахстаном и Узбекистаном в 2006 г. был создан Межгосу­дарственный координационный совет, в состав которого вошли руководители соответствующих министерств и ведомств двух стран. В июле 2007 г. в Ташкенте состоялось очередное засе­дание данного совета, в ходе которого обсуждались вопросы развития двустороннего сотрудничества в области энергетики, транспорта, сельского хозяйства, рационального использования водных ресурсов. На заседании также состоялась презентация Банка развития Казахстана, что позволило определить инвес­тиционные возможности республики и обсудить наиболее при­оритетные совместные проекты в реальном секторе экономик двух государств.

3. Расширяются связи государств Центральной Азии с международными организациями. Углубленному анализу политических и экономических процессов, протекающих в Центральноазиатском регионе, способствовало сотрудничество государств ЦАС с между­народными организациями. В решении проблем централь-ноазиатской интеграции участвовали ПРООН, Европейская экспертная служба Европейского союза (ЕЭС ЕС), Германский фонд международного развития, Американское Агентство по международному развитию (ЮСАИД). На постоянной основе с ними проводятся конференции, семинары, встречи, выпус­каются совместные издания.

4. Активизируются двусторонние связи между странами региона.

Проводимая Казахстаном политика дальнейшего развития взаимовыгодных связей с соседними странами будет способство­вать активизации сотрудничества между ними в инвестиционной сфере.

Вместе с тем, следует подчеркнуть, что расширение торгово-экономических связей Казахстана и Узбекистана предполагает принятие со стороны Узбекистана эффективных мер по уни­фикации национального законодательства и приведении его в соответствие с нормами рыночной экономики. Не секрет, что действующее банковское законодательство Узбекистана является сдерживающим фактором для развития межгосударственных экономических связей. Зачастую у бизнесменов возникают проблемы, связанные с обналичиванием денежных средств или другими банковскими операциями.

Таким образом, сегодня Казахстан высокими темпами активи­зирует инвестиционное сотрудничество со странами Централь­ной Азии, что соответствует интересам республики. Поскольку Казахстан весьма заинтересован в стабильном развитии соседних государств, это является важным фактором укрепления безо­пасности в регионе и сохранения устойчивого экономического роста самого Казахстана. Нестабильная экономическая ситуация, возникшая у соседей, может стать питательной средой для рас­пространения терроризма и экстремизма в регионе.

**Нерешенными остаются следующие проблемы:**

1. Отсутствие механизма реализации принимаемых ре­шений. В государствах ЦАР низким остается уровень выполнения принятых решений. В частности, проблемным остается вопрос рационального использования водно-энергетических ресурсов стран Централь­ной Азии. В соответствии с указанным выше Соглашением об использовании водно-энергетических ресурсов бассейна реки Сырдарьи, государства региона ежегодно заключают межпра­вительственные соглашения. В рамках данных соглашений Казахстан и Узбекистан принимают на себя обязательства по га­рантированным поставкам в Кыргызстан угля, топочного мазута и газа, Кыргызстан же, в свою очередь, обязуется обеспечивать хозяйства этих государств водными ресурсами в вегетационный период. Однако в реализации данного Соглашения периодически происходят срывы.

В частности, в области таможенной политики проблемным моментом является наличие неэффективной системы таможен­ного контроля энергоресурсов. Действующий в настоящее время порядок таможенного контроля перетоков электроэнергии не способствует эффективному функционированию энергосистем в параллельном режиме. Так, при обмене сторонами регулирующей мощностью и транзите электроэнергии осуществляется таможен­ное оформление перетоков электроэнергии без учета величины сальдо-перетока. Кроме того, в Казахстане осуществляется декларирование регулирующей мощности, что в определенной степени является фактором, негативно влияющим на развитие энергетического сотрудничества государств Центральной Азии и функционирование энергосистем этих стран в параллельном режиме.

В области налоговой политики действуют различные нормы национальных законодательств. Так, в Республике Казахстан, в отличие от других стран Центральной Азии, электроэнергия является подакцизным товаром, что приводит к возникновению определенных правовых коллизий, не способствующих эффек­тивному функционированию энергосистем в параллельном режиме. Согласно принятым двусторонним и многосторонним соглашениям по оказанию помощи в целях ликвидации аварийных и чрезвычайных ситуаций в энергосистемах, государство, где произошла авария, после ее устранения обязано вернуть со ответствующий объем электроэнергии стране ее поставщика.

В настоящее время в рамках ЕврАзЭС разрабатывается проект Концепции формирования единого транспортного про­странства государств ЕврАзЭС, который пока находится на стадии согласования.

В аграрной сфере - также наблюдается несогласованность в рамках реализации отраслевой политики. В частности, Узбеки­станом в середине 1990-х гг. проводилась так называемая поли­тика «зернового самообеспечения», но климатические условия этой страны не способствуют выращиванию зерновых культур, значительно уступая казахстанским. Поэтому данное направле­ние в аграрной политике Узбекистана заведомо является неэф­фективным. И государствам Центральной Азии следовало бы выработать более согласованные подходы в развитии аграрного сектора экономики, формировании регионального разделения труда и специализации сельскохозяйственных производств.

И хотя в последнее время в развитии торгово-экономических связей стран ЦАР наметилась положительная тенденция (табл. 2), экономический потенциал государств Центральной Азии позволяет поднять взаимный товарооборот на более высокий уровень.

**Таблица 2**

**Товарооборот Казахстана с государствами Центральной Азии**

(млн. долл. США)

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Страны ЦАР | 2000 г. | 2001 г. | 2002 г. | 2003 г. | 2004 г. | 2005 г. | 2006 г. | Янв.-май 2007 г. |
| Кыргыз­стан | 90,1 | 119,6 | 139,6 | 205,1 | 313,2 | 334,1 | 406,7 | 178,9 |
| Таджи­кистан | 57,8 | 63,5 | 48,8 | 82,7 | 139,6 | 167,6 | 185,1 | 111,8 |
| Узбеки­стан | 212,5 | 229,0 | 188,5 | 218,7 | 429,3 | 497,1 | 703,8 | 525,3 |
| Туркме­нистан | 50,5 | 91,7 | 89,8 | 86,3 | 101,6 | 68 | 153,3 | 64,8 |

Источник: данные Агентства Республики Казахстан по статистике.

Со вступлением в состав ЕврАзЭС Узбекистана расширяют­ся возможности организации по углублению интеграционного взаимодействия государств Сообщества и, в том числе, стран Центральноазиатского региона, а также расширению торгово-экономических связей между ними, поскольку законодательную основу функционирования данного интеграционного объединения составляют: Соглашения о Таможенном союзе от 6, 20 января 1995 г.; Договор об углублении интеграции в экономической и гума­нитарной областях от 29 марта 1996 г.; Договор о Таможенном союзе и Едином экономическом пространстве от 26 февраля 1999 г.

В соответствии с указанными документами, таможенные пошлины во взаимной торговле не применяются. Членство Узбекистана в ЕврАзЭС обязывает это государство привести национальное законодательство в соответствие с нор­мативными требованиями Сообщества, что позволяет ожидать в перспективе открытия этой страной своего внутреннего рынка, создания благоприятного инвестиционного климата, проведения ею согласованной таможенной политики. Решение указанных задач станет важным фактором развития взаимной торговли между странами ЦАР.

Кроме того, странами Центральной Азии не используются благоприятные возможности, позволяющие развивать перераба­тывающий сектор в пищевой промышленности, и не принима­ются меры по реализации проекта создания Международного продовольственного консорциума.

Указанные выше тенденции свидетельствуют о наличии проблем в развитии интеграционного сотрудничества госу­дарств Центральной Азии, несогласованности действий при проведении ими экономической политики, что противоречит принятым в рамках ЕврАзЭС договорам и соглашениям.

*Основная литература: 1,2,3,4,5* (см.подраздел 1.8)

*Дополнительная литература: 2,6,8,11* (см.подраздел 1.8)

*Периодические издания: 1-7* (см.подраздел 1.8)

*Интернет-источники: 5* (см.подраздел 1.8)

**Theme №12 The integration of Kazakhstan into the world economy**

***Questions:***

**1. Kazakhstan's accession to the WTO is the most important factor of integration into the world economy**

**2. Integration of the Republic of Kazakhstan in the global transport system: possibilities and prospects of development of transport capacity 3. Priorities and stimulation of the development of the export potential of the Republic of Kazakhstan**

В настоящее время в ВТО вступили 148 стран, или 75% всех государств мира, из которых 135 являются торговыми партнерами Казахстана.

Естественно, что Казахстан должен и будет стремиться к уре­гулированию торговых отношений с этими странами на выгодных для себя условиях. Каждое из этих государств может начать по отношению к любым товарам, импортируемым из Казахстана, процедуру антидемпингового разбирательства.

Наша страна уже не первый год сталкивается с подобными расследованиями и мерами, предпринимаемыми в отношении казахстанского экспорта стали, продукции цветной металлургии, ферросилиция, феррохрома, титановой губки, высокообогащенного урана и другой продукции - со стороны США, ЕС, Индии, Мексики, Бразилии, Колумбии и Венесуэлы.

Именно поэтому вступление Казахстана во Всемирную тор­говую организацию, реализующую эффективный механизм ли­берализации мировой торговли и всей связанной с ней системы экономических отношений, является важнейшим приоритетом внешней политики республики, о чем было сказано выше.

Процесс вступления Казахстана в ВТО начался 26 января 1996 г. с подачи в Секретариат ВТО официального заявления. В феврале того же года республике был присвоен статус страны-наблюдателя в ВТО. Одновременно с этим была создана Рабочая группа по вступлению Казахстана в ВТО, в состав которой в настоящее время входят 37 стран - основных торговых партнеров РК (США, ЕС, Канада, Япония, Австралия, Швейцария, Китай, Республика Корея и др.) [55].

Всего за период с 1996 по 2006 г. было проведено 8 заседа­ний Рабочей группы по вступлению Казахстана в ВТО, по 4-м основным направлениям:

* По условиям доступа на казахстанский рынок товаров.
* По условиям доступа на казахстанский рынок услуг.
* По сельскому хозяйству.
* По системным вопросам.

Переговоры по условиям доступа на казахстанский рынок товаров включают в себя определение и согласование со страна­ми - членами Рабочей группы максимальных уровней связывания импортных таможенных пошлин, по которым Казахстан получит право их применения после присоединения к ВТО.

Переговоры по условиям доступа на казахстанский рынок услуг проводятся в целях согласования условий для иностранных поставщиков услуг. Казахстан проводит работы по совершенство­ванию перечня специфических обязательств по услугам с учетом договоренностей, достигнутых со странами - членами ВТО, экономических программ развития секторов услуг и изменений в законодательной базе секторов услуг республики.

В переговорах по сельскому хозяйству, помимо тарифного аспекта, обсуждаются объемы государственной поддержки сель­ского хозяйства и размеры экспортных субсидий.

Учитывая, что сельское хозяйство при вступлении в ВТО - это наиболее приоритетная отрасль, казахстанская сторона ведет активные переговоры по адекватной тарифной защите, мерам внутренней поддержки и экспортных субсидий в области сельскохозяйственного производства.

К тому же Казахстан желает обеспечить себе равные с дру­гими государствами условия конкуренции. Сравнивая размеры финансовой поддержки сельского хозяйства Казахстана с таковой в развитых странах, можно отметить тот факт, что она крайне недостаточна. Например, внутренняя поддержка этой отрасли в США составляет 44%, ЕС - 88% валовой продукции сельского хозяйства. У нас этот показатель значительно ниже.

В настоящее время в Казахстане действует 6 ставок тамо­женных тарифов. Применяются ставки в 5, 10, 15, 20, 25 и 30%. Ими охватываются 5134 наименования казахстанской продукции из более чем 7 тыс., которые фигурируют в таможенной клас­сификации Казахстана (в России их - 10 тыс.). По информации Министерства индустрии и торговли республики, среднеариф­метический тариф - 9,7%. В России этот показатель равен 11%, в ВТО - 10%. Кроме того, 91% всего импорта в Казахстане обла­гается по ставке от 5 до 15%. Таким образом, СТТ в Казахстане либеральнее, чем во многих странах мира.

Следовательно, экономика республики уже открыта, поэтому довод о том, что со вступлением в ВТО казахстанский рынок откроется и отечественный товаропроизводитель будет ущем­лен, не совсем верен. Если бы иностранные компании захотели "завалить" наш рынок своими товарами, то они сделали бы это сегодня. Им ничто не мешает. Сдерживают другие факторы: «узкий» рынок Казахстана с глубоко континентальным геогра­фическим положением. Здесь нет возможности иметь высокие доходы через массовые поставки товаров.

Членство в ВТО усилит положение Казахстана на мировой арене, даст возможность стране быть причастной к мировым хозяйственным делам, вносить свою лепту в решение между­народных экономических проблем и находиться в русле сов­ременного цивилизационного развития человечества, иметь доступ к достижениям в политической, экономической и других важнейших сферах деятельности. Важным моментом является интеграция Казахстана в мировую экономику и обретение права голоса в создании принципов торговли XXI века.

Кроме этого, учитывая геополитическое расположение на стыке Азии и Европы, экономические и военно-политические интересы, а также существующий потенциал республики, можно предполо­жить, что активизация Казахстана в международных экономических отношениях еще более укрепит его место в системе современных международных отношений как срединной региональной державы, играющей ключевую роль в регионе Центральной Азии.

Геополитическое положение Казахстана делает его важнейшим структурообразующим элементом процессов, происходящих в мировом и субрегиональном пространствах. Интересы крупнейших промышленно развитых стран Азиатско-Тихоокеанского региона (АТР), включая Китай, стран Европы, Росси их огромными масштабами и ресурсами превращают Казахе в объект активной внешнеэкономической политики. Способность этих факторов, в свою очередь, во многом обусловливает формирование в пределах Казахстана зоны континентальных и трансконтинентальных экономических преференций.

Вместе с тем, при наличии широкого геополитического выбора, возможностей и альтернатив внешнеэкономического развития, даже самая взвешенная стратегия действий на миро­вой арене не может дать однозначные гарантии успеха. В этих сложных процессах межгосударственного взаимодействия не­обходимо определить рациональную мировую специализацию национального хозяйства с учетом сравнительных издержек и преимуществ, с тем, чтобы эффективнее реализовать потенциал страны, соотнести имеющуюся и возможную пользу, определить потенциальных партнеров и конкурентов.

Интересы Казахстана должны лежать в плоскости развития наукоемкого экспорта, а также транспортно-коммуникационной и энергетической инфраструктуры. Таким образом, одним из элементов или направлений этой специализации, наиболее орга­нично вписывающимся в общую задачу обеспечения устойчивого экономического роста, является развитие сферы транспортных услуг и, в первую очередь, услуг по организации международ­ного транзита.

Исходя из мировых тенденций развития, можно сказать, что будущие перспективы Казахстана во многом будут связаны имен­но с адаптацией сети железных дорог и их служб к возможностям новых транзитных и экспортно-импортных грузопотоков.

Понятие «экспортный потенциал» прочно вошло в жизнь современного общества. Как свидетельствует опыт эффективного экономического развития государств, взявших курс на наращива­ние экспортного потенциала, это - один из определяющих фак­торов развития страны. Наступательная стратегия, реализуемая политикой экспортной ориентации, динамично продвигающей продукцию национальных производителей на внешние рынки, в настоящее время является основным направлением участия большинства стран мирового хозяйства в международном раз­делении труда.

Следует отметить, что произошедшая в последние годы резкая переориентация на развитые страны Запада и падение доли развивающихся стран привели к соответствующему росту доли сырья и практическому отсутствию конечной продукции в экспорте Казахстана.

Нарушение хозяйственных связей, проведение приватиза­ции государственной собственности, снятие ограничений для зарубежных компаний в сфере добычи и транспортировки нефтегазовых ресурсов, с одной стороны, обеспечило страну валютными, инвестиционными, товарными ресурсами, а также научно-техническими и организационными услугами, в резуль­тате чего сформировались крупные национальные компании, но, с другой стороны, способствовало активному проникновению ТНК в сырьевой сектор.

Обладая значительными запасами полезных ископаемых, основываясь на производстве сельскохозяйственной продук­ции, республика еще в дорыночный период стала традицион­ным поставщиком в страны Содружества. И сегодня Казахстан представлен на мировом рынке лишь как экспортер топлива и сырья, поэтому существует вероятность угрозы безопасности национальной экономики.

Таким образом, в настоящее время развитие экспортного потенциала в первую очередь связано с сырьевыми ресурсами. Современное состояние экспортного потенциала Республики Казахстан во многом обусловливается низкой стабильностью внешнего сектора, что таит угрозы для развития экономики Казахстана.

В этой связи перед Республикой Казахстан на современном этапе стоит важная задача формирования экспортоориентирован­ной модели развития экономики на основе передовых, высокотех­нологичных отраслей. Для этого республика должна определить и придерживаться главных направлений во внешнеэкономической стратегии, к которым относятся: рационализация структуры экспорта и импорта; улучшение конкурентоспособности отечест­венных товаров и услуг; развитие экспортоориентированных производств; совершенствование системы экспортно-импортного контроля со стороны государства, развитие нормативно-правовой базы страны.

Таким образом, экспортная политика Казахстана строится на основе структурных сдвигов, происходящих в мировой экономике, и выявлении новых возможностей и конкурентных преимуществ. Реализация данной стратегии предполагает дальнейшее участие Республики Казахстан в интеграционных региональный блоках, проведение институциональных преобразований в внешнеэкономической сфере, что позволит решить задачи создании конкурентоспособной инновационной экономики с учетом требований мирового рынка.

Более эффективное включение Казахстана в систему мирохозяйственных связей возможно при условии ориентации государственного внешнеэкономического регулирования на диверсификацию структуры и повышение конкурентоспособности отечественного производства, концентрации усилии в управлении предприятиями на выпуск продукции, которая была бы сопоставима с зарубежными аналогами по качеству и ценам.

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