

УДК 339.923

ББК У 43

М-21

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Regional Trading Agreements in International Economic Relations. Lviv:
Ivan Franko National University of Lviv Press, 2003. – 97 p.

Published according to the decision of the Scientific Board of the Ivan
Franko National University of Lviv (**Protocol No.____, 28.05.2003**)

The main objectives of this publication are as follows: (1) to explore the economic and political debate surrounding regional economic integration, paying particular attention to the economic and political benefits and costs of integration; (2) to review progress toward regional economic integration around the world; and (3) to examine the WTO rules about regional trading agreements. Particular attention is paid to the integration process in Europe and CIS countries.

The publication is supposed to be useful for scientists, businessmen, lawyers, economists, officials of state authorities, students and postgraduate students.

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This publication was made possible through the joint co-operation of the Ivan Franko National University of Lviv, Ukraine and the Centre for Trade Policy and Law (CTPL), Ottawa, Canada with the financial support of the Government of Canada provided through the Canadian International Development Agency (CIDA).

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ISBN 966-613-257-5

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УДК 339.923
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МАЛЬСЬКИЙ М.З., МИКІЄВИЧ М.М., КОВТУН Л.Р., МОСКАЛИК Р.Я.
Регіональні торговельні угоди в міжнародних економічних відносинах.
Львів: Львівський національний університет імені Івана Франка, 2003.
– 97 с.

Друкується за ухвалою Вченої Ради Львівського національного
університету імені Івана Франка (Протокол №__ від 28.05.2003)

Ця публікація присвячена дослідженню економічних та політичних аспектів регіональних торговельних угод, їх переваг і недоліків; огляд тенденцій розвитку регіональної економічної інтеграції у світі; аналіз положень офіційних документів СОТ про регіональні торговельні угоди. Особлива увага приділяється інтеграційним торговельним угодам в Європі та СНД.

Для наукових працівників і аспірантів, практиків, юристів та економістів, державних службовців, студентів.

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Видано в рамках проекту співпраці між Львівським національним університетом імені Івана Франка та Центром торгової політики та права (Оттава, Канада) за фінансової підтримки уряду Канади через Канадське агентство міжнародного розвитку.

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ISBN 966-613-257-5

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CONTENTS

1. THEORETICAL BACKGROUND: WHAT IS REGIONAL INTEGRATION	7
1.1. What Does Regional Integration Mean	7
1.2. The Spread of RTAs	8
1.3. The Coverage of RTAs	9
1.4. Forms of Regional Integration	10
1.5. Motives for Regional Integration	12
1.6. Benefits of Regional Integration	14
1.7. Regionalism versus Multilateralism	14
1.8. Regionalism versus Nationalism	16
2. THE EUROPEAN UNION	19
2.1. Evolution of the EU	19
2.2. Legal issues of the European Union	22
2.3. Institutions of the EU	23
2.4. Common Policies of the EU	25
2.5. Economic and Monetary Union	26
2.6. Political Union	27
2.7. Common Foreign and Security Policy	28
2.8. Enlargement of the EU	29
2.9. The European Union and the World	31
2.10. Future Prospects	33
3. THE REGIONAL INTEGRATION IN THE POST-SOVIET COUNTRIES	36
3.1. Commonwealth of Independent States (CIS)	36
3.1.1. Collapse of the USSR and Creation of the CIS	36
3.1.2. Goals, Principles and Activities of the CIS	37
3.1.3. The CIS Coordinating Institutions	38
3.1.4. Trade Dynamics of the CIS States	40
3.1.5. Economic Effects of the CIS	42
3.1.6. Why is not the CIS effective?	43
3.1.7. Summit 2003 and Future of the CIS	44

3.2. Black Sea Economic Co-operation (BSEC)	46
3.2.1. What is the Black Sea region?	46
3.2.2. Formation of the BSEC	47
3.2.3. Goals and Principles of the BSEC	47
3.2.4. Organisational Structure and Levels of Economic Cooperation	48
3.2.5. What has BSEC Achieved Since 10 Years?	50
3.2.6. Future Horizons	51
3.3. GUUAM	52
3.3.1. History, Goals and Principles	52
3.3.2. What Unites the GUUAM?	53
3.3.3. Objectives of Cooperation	54
3.3.4. Directions of Cooperation	55
3.3.5. Organisational Structure of the GUUAM .	55
3.3.6. Economic Cooperation	55
3.3.7. Political Cooperation and Cooperation in the Field of Security	56
3.3.8. Future of the GUUAM: Views, Perspectives and Recommendations	57
3.4. Eurasian Economic Community (EURASEC) ...	58
3.4.1. Emergence of the Concept of Eurasianism	58
3.4.2. Creation and Main Principles of the Eurasian Economic Community	59
3.4.3. Governing Bodies of the EURASEC	61
3.4.4. The EURASEC – Alternative of the CIS?	61
3.4.5. Prospects for Policy Harmonisation	62
4. RTAs IN THE AMERICAS	64
4.1. The North American Free Trade Agreement	64
4.1.1. NAFTA's Contents	64
4.1.2. Free Trade Area	65
4.1.3. Principles	65
4.1.4. Benefits for the NAFTA's Countries	67
4.2. The Andean Pact	68

4.3. MERCOSUR	71
4.4. Central American Common Market (CACM)	72
4.5. CARICOM	74
4.6. Free Trade Area of the Americas	75
5. RTAs IN ASIA AND AFRICA	77
5.1. Association of Southeast Asian Nations (ASEAN)	77
5.2. Asia Pacific Economic Cooperation (APEC)	79
6. RTAs IN THE WTO	82
6.1. A note of Caution	82
6.2. The WTO Rules about RTAs	83
6.3. Policy Issues	86
6.4. Negotiations on the RTAs issues	87
Critical Discussion Questions	88
Literature	89
Extra reading	95
Web-based resources	97
Annex	98

1. THEORETICAL BACKGROUND: WHAT IS REGIONAL INTEGRATION

1.1. What Does Regional Economic Integration Mean?

One of the most significant trends in the world economy in recent years has been the accelerated movement toward regional economic integration. **Regional economic integration** can be defined as agreements among countries in a geographic region to reduce, and ultimately remove, tariff and nontariff barriers to the free flow of goods, services and factors of production between each other.¹

During the 1990s and in the beginning of 21 century we can see an unprecedented proliferation of regional arrangements. In Europe, these are mainly centred on the European Union, spreading to the Central and Eastern European countries, the Baltic, Mediterranean states and beyond. In the Americas, two agreements – NAFTA and MERCOSUR – have had a significant impact, but these may be overtaken by the Free Trade Area for the Americas. Along similar lines, 18 Pacific Rim countries, including the NAFTA member states, Japan, and China, have been discussing a possible pan-Pacific free trade area under the auspices of the Asian Pacific Economic Cooperation forum (APEC). There are also active attempts at regional economic integration in Central America, the Andean Region of South America, Southeast Asia and parts of Africa.

Consistent with the predictions of international trade theory, particularly the theory of comparative advantage, the belief has been that agreements designed to promote freer trade within regions will produce gains from trade for all member countries. The General Agreement on Tariffs and Trade and its successor,

the World Trade Organisation, also seek to reduce trade barriers. However, with over 140 member states the WTO has a world-wide perspective. By entering into regional trading agreements, groups of countries aim to reduce trade barriers more rapidly than can be achieved under the auspices of the WTO.

1.2. The Spread of RTAs

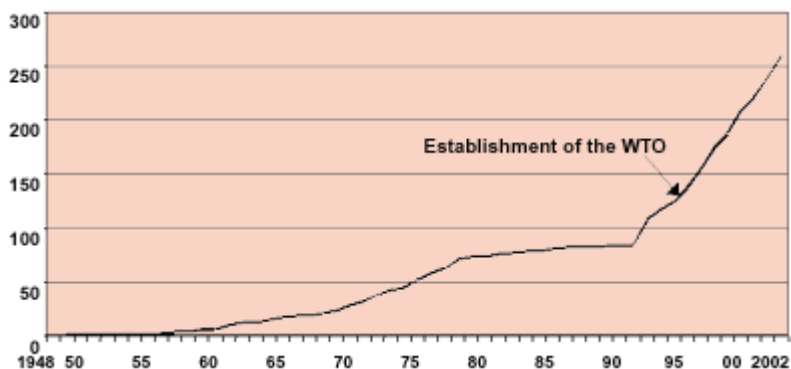
The vast majority of WTO members are party to one or more regional trade agreements. The surge in RTAs has continued unabated since the early 1990s. Some 250 RTAs have been notified to the GATT/WTO up to December 2002. Over 170 RTAs are currently in force; an additional 70 are estimated to be operational although not yet notified.² By the end of 2005, if RTAs reportedly planned or already under negotiation are concluded, the total number of RTAs in force might well approach 300.³

In the period 1948-1994, the GATT received 124 notifications of RTAs (relating to trade in goods), and since the creation of the WTO in 1995, over 130 additional arrangements covering trade in goods or services have been notified (see [Notifications to the GATT/WTO](#))⁴. Not all RTAs notified in the last half century are still in force today. Many of the discontinued RTAs have, however, been superseded by redesigned agreements among the same signatories. The following [chart 1](#) summarizes the status of notifications.

Modern RTAs have a much wider network of participants and involve hundreds million of people. The Free Trade Area of the Americas and the European Union's agreements with Central and Eastern Europe and the Mediterranean each encompass

more than 500 million people. APEC, which does not (yet) allow for the mutual exchange of trade preferences, will cover some 40 per cent of the world's population.

Chart 1. Evolution of Regional Trade Agreements in the world, 1948-2002



Source: WTO Secretariat

1.3. The Coverage of RTAs

An important feature of modern RTAs is more extensive product coverage than in earlier agreements. But very few agreements have 100 per cent product coverage. Many of them have more selective coverage in sensitive sectors (agriculture, textile/clothing).

Another feature of the new RTAs is that many of them go beyond the traditional tariff-cutting exercises. They now may cover services, investment, intellectual property, technical barriers to trade, dispute settlement, supra-national institutional arrangements and so on. Many agreements today contain disciplines limiting the use of quantitative restrictions and subsidies. In one important development, a number of agreements have provisions for the use of competition policy

instruments in place of anti-dumping procedures on trade among the parties, for example the EU, the Australia-New Zealand Agreement on Closer Economic Relations, the Canada-Chile FTA.⁵

On the whole, the wider scope of the new agreements makes sense for participants, allowing for greater efficiency gains than is possible from the elimination of frontier barriers alone.

1.4. Forms of Regional Economic Integration

The traditional forms of economic integration are presented in the table 1.

Table 1. Forms of regional economic integration and their features

Features	FTA	CU	CM	EU	PU
Removal of tariffs among members	x	x	x	x	x
Common external tariffs		x	x	x	x
Free movement of capital and labour			x	x	x
Harmonisation of economic policies (fiscal, monetary)				x	x
Unification of political, security, foreign activities					x

FTA = free trade area, CU = customs union, CM = common market, EU = economic union, PU = political union

Free Trade Area

Free trade area (FTA) is the most popular form of integration. In a free trade area, all barriers to the trade of goods and services among member countries are removed. Each country,

however, is allowed to determine its own trade policies with regard to non-members. Thus, the tariffs placed on the products of non-member countries may vary from member to member. The examples of FTAs are NAFTA, Canada-Chile FTA, GUAAM. The most enduring free trade area in the world is the European Free Trade Association (EFTA).

Customs Union

A customs union eliminates trade barriers between member countries and adopts a common external trade policy. Establishment of a common external trade policy necessitates significant administrative machinery to oversee trade relations with non-members. The EU began as a customs union and has moved beyond this stage. Other customs unions around the world include the current version of the Andean Pact (between Bolivia, Colombia, Ecuador and Peru). The other examples are Russia-Belarus-Kazakhstan-Kyrgyz Republic, European Community-Turkey, European Community-Andorra customs unions.

Common Market

Unlike a customs union, a common market also allows factors of production to move freely between members. Labour and capital are free to move because there are no restrictions on immigration, emigration, or cross-border flows of capital between member countries. Currently, MERCOSUR (Argentina, Brazil, Paraguay and Uruguay) and Central-American Common Market established themselves as common markets.

Economic Union

Unlike a common market, a full economic union also requires a common currency, harmonisation of members' tax rates and a common monetary and fiscal policy. Such a high degree of integration demands a coordinating bureaucracy and the sacrifice of significant amounts of national sovereignty to that bureaucracy. There is only one true economic unions in the world today - the European Union with the single EU currency - EURO.

Political Union

Political integration is defined as "the process whereby political actors in several distinct national settings are persuaded to shift their loyalties, expectations and political activities toward a new centre, whose institutions possess or demand jurisdiction over the pre-existing national states".⁶ The European Union is on the road toward political union. The European Parliament, which is playing an ever more important role in the EU, has been directly elected by citizens of the EU countries. Ultimately, the EU may move toward a similar federal structure.

1.5. Motives for Regional Integration

Together with economic motives political and security considerations have been of significant importance in the decision to form a number of RTAs (table 2).

The Economic Case for Integration

Regional economic integration can be seen as an attempt to achieve more gains from the free flow of trade and investment between countries beyond those attainable under international

agreements such as the WTO. It is easier to establish a free trade and investment regime among a limited number of adjacent countries than among the world community. Problems of coordination and policy harmonisation are largely a function of the number of countries that seek agreement. The greater the number of countries involved, the greater the number of perspectives that must be reconciled, and the harder it will be to reach agreement. Thus, attempts at regional economic integration are motivated by a desire to exploit the gains from free trade and investment.⁷

Table 2. Economic and Political Motives of Regional Integration

	Causes of regionalism	
	Economic	Political
Regionalism as economic integration	(I) Proximity, income convergence, economic growth, opening a country to FDI, intrafirm trade, policy convergence	(III) Preferences favour intraregional over extraregional trade and investment
Regionalism as political cooperation	(II) Governance structures established to manage increased economic interdependence	(IV) Hegemonic power exploited, response to rival blocs. Dependence on domestic coalitions in member countries

Source: Haggard, 1993, p. 49.⁸

The Political Case for Integration

The political case for regional economic integration has also loomed large in most attempts to establish free trade areas, customs unions and the like. By linking neighbouring economies and making them increasingly dependent on each

other, incentives are created for political cooperation between the neighbouring states. In turn, the potential for violent conflict between the states is reduced. In addition, by grouping their economies, the countries can enhance their political weight in the world.⁹

1.6. Benefits from the Regional Integration

Traditional RTAs involve changes in tariff which may increase welfare of the participating states. Almost all empirical studies of European and North American arrangements find positive impacts on member's living standards¹⁰. The fact is also that trade within RTAs has been generally growing much faster than trade from non-members.¹¹

There can be little doubt that the main economic advantages to participants in RTAs would be even greater if the liberalisation were carried out on a wider, multilateral scale. RTAs are a second-best solution. Thus, on the basis of theory, Kemp and Wan note "...there is a big incentive to form and enlarge a customs union until the world is one big customs union, that is, until free trade prevails."¹²

1.7. Regionalism versus Multilateralism

The question as to **whether RTAs pose a threat to the multilateral trading system** was raised in recent decades. There are controversial views in the economic literature on the subject. Let us consider main of them:

Supporters of Multilateralism

Some economists, for instance Bhagwati and Krueger, express strong concerns about the negative effects of growing regionalism and they worry that RTAs divert attention from the multilateral trading system.¹³ Bhagwati, in particular, stresses the benefits of free trade and rejects arguments about the need for an alternative to the GATT for countries which wish to liberalise faster.¹⁴ To his mind all things being equal, free trade and multilateralism remain the first and best option for developing countries.¹⁵ It is more so if they are small and consequently open economies.

Supporters of Regionalism

They think that the economics of free trade under most-favoured nation (MFN) trade liberalisation is superior if the assumptions supporting free and open trade were in place. In more realistic terms, the global economy is far from the ideal conditions. By design or default, the unfortunate mismanagement at the multilateral level has led to frustration and disappointment which together with the evolving new economic, political, social and technological environment has spawned more RTAs.¹⁶

Joint approach

The other researchers as Baldwin, Ethier and Lawrence tend to regard regionalism much more as a complement to multilateralism (building blocks rather than stumbling blocks). Ethier emphasises that "the new regionalism is in good part a direct result of the success of multilateral liberalisation, as well as being the means by which new countries trying to enter the multilateral system (and small countries already in it) compete among themselves for direct investment".¹⁷ Lawrence also makes an important point that the correct comparison is not

between a preferential arrangement and complete multilateral liberalisation, but between two second-best situations of multilateral liberalisation that is only partial with preferential trade liberalisation which could be much more complete.¹⁸

Also some researchers think that it is not yet possible to determine whether regionalism encourages or discourages evolution towards globally freer trade, and there is no reason to expect a single, simple answer.¹⁹

Do RTAs harm third countries and weaken the MFN principle?

RTAs are by their nature discriminatory and hence derogate the MFN principle. It is, therefore, not surprising that trade within such blocs is generally growing faster than trade from non-members (except in the EU where the numbers are the same in the 1990s). But it is hard to find concrete evidence that RTAs have harmed third countries. Trade with non-members is growing at about the same rate as world trade in general, and in some of the smaller, more dynamic RTAs, trade with non-members is growing faster than world trade.²⁰

1.8. Regionalism versus Nationalism

The economic doctrines of many states are based on relative degrees of nationalism and regionalism. In the [figure 1](#) we can see what type of doctrine is prevailing in the regions (regionalism and nationalism on horizontal axis and core and periphery on the vertical axis).

The core has the greatest space for manoeuvre in decision-making with the logic of regionalism increasing in relation to logic of nationalism. The importance of state decreases in

Europe and to a lesser degree, in the US as NAFTA remains a national integration modality.

Figure 1. Types of trade doctrine (regionalism and nationalism) prevailing in the regions.

Europe	North	CORE	America	East Asia
REGIONALISM			NATIONALISM	
South America	Southeast Asia	PERIPHERY	South Asia	Middle East
Caribbean	Southern West Africa		Africa	Central Asia

Based on Source: Schulz, et al, eds, 2001, Figure 13.1, p.265.²¹

State interest and protection of national sovereignty dominate in the East Asia with relatively high decision-making capacity in the international structure. Bilateral cooperation rather than an integrative approach like EU or NAFTA seems suited to East Asia.

The third type of trade doctrine distinguished by little space for manoeuvre in decision-making is caught in internal or regional conflicts in relatively weak, dependent economies. Nationalism and sovereignty remain powerful in Middle East, Central Asia, Balkans and South Asia.

The peripheral fourth is characterised by existing and functional regional arrangement with ambition for further liberalisation. Notwithstanding south-east Asia and Caribbean

recognise the instrumental value of regionalism for development and security management.

2. THE EUROPEAN UNION

2.1. Evolution of the EU

The European Union (EU) was set up after the 2nd World War. The EU was conceived in the search for a model of European integration that would prevent military conflicts in Europe in the future. The idea was first proposed in a speech by the French Foreign Minister - Robert Schuman on 9 May 1950, a date considered as the birthday of what is now the EU.²²

The European Union is an advanced form of multisectoral integration, its competence extending to the economy, industry, politics, citizens' rights and foreign policy of its 15 member States (since May 2004 – 25 member States).

Initially the Community's activities were confined to the creation of a *common market in coal and steel* between the six founder members (Belgium, France, Germany, Italy, Luxembourg and the Netherlands). In that post-war period the Community was primarily seen as a way of securing peace by bringing victors and vanquished together within an institutional structure which would allow them to cooperate as equals.

In 1957, the Six decided to create an *economic community*, built around the free movement of workers, goods and services. Customs duties on manufactured goods were duly abolished and common policies, notably an agricultural policy and a commercial policy, were in place by the end of the decade. The success of the Six led Denmark, Ireland and the United Kingdom to apply for Community membership. They were finally admitted in 1972.

The next step of closer economic integration was the launch of a *European Monetary System* in 1979. It helped stabilise exchange rates and encourage Member States to pursue strict economic policies, enabling them to give each other mutual support and benefit from the discipline imposed by an open economic area.

The Community expanded southwards with the accession of Greece in 1981 and Spain and Portugal in 1986. During this period the Community began to play a more important role internationally, signing new agreements with the countries in the southern Mediterranean and countries in Africa, the Caribbean and the Pacific, which were linked to the Community by four successive Lomé Conventions (1975, 1979, 1984 and 1989).²³

In 1980s the European Commission, chaired by Jacques Delors – a one of the greatest promoters of the EU, proposed to set the task of creating a *single market*. The Single Act, signed in 1986, confirmed this ambitious target and introduced new procedures for adopting associated legislation.

The collapse of the Berlin Wall, followed by German unification on 3 October 1990, and the disintegration of the Soviet Union in December 1991, transformed the political structure of Europe. The Member States determined to strengthen their ties and negotiated a new Treaty. As a result the Treaty on European Union was signed at the Maastricht European Council on 9-10 December 1991, and entered into force on 1 November 1993. This treaty set the Member States an ambitious programme:

- *monetary union by 1999,*
- *new common policies,*
- *European citizenship,*

- *a common foreign and security policy.*

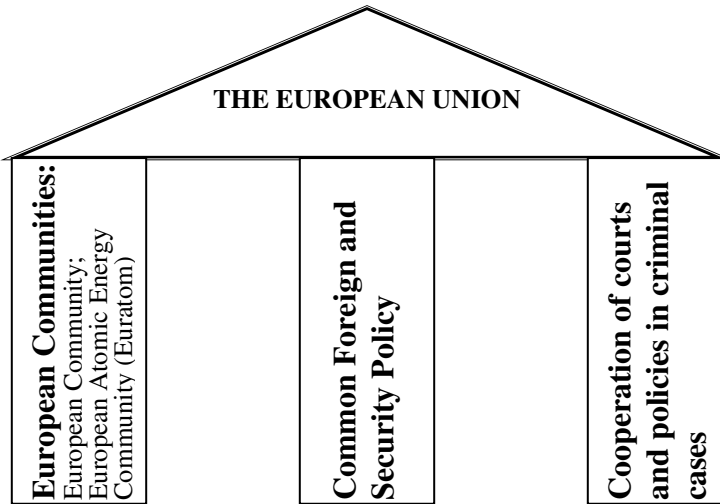
Applying the review clause in the Maastricht Treaty, the Member States negotiated a further treaty, signed in Amsterdam on 2 October 1997, which adapted and strengthened the Union's policies and powers, particularly in *judicial cooperation, the free movement of persons, foreign policy and public health*. The European Parliament was granted new powers, confirming its role as joint legislator. The *single European currency* came into circulation in 1999 and replaced national currencies from 1 January 2002.

In 1995, three further countries - Austria, Finland and Sweden - joined the EU. The other states from Eastern Europe, Mediterranean and Baltic States are decided to enter the EU in May 2004.

What is the European Union now?

The European Union (EU) is currently made up of 15 countries (in 2004 – 25 countries). They form the largest regional economic bloc in the world — 375 million (in 2004 – 460 million). The European Union is a unique organisation. It is *not a new State* that will replace the existing States. But the EU is *more than any other international organisation*: its Member States have gradually transferred specific powers to the European level, so that decisions on of European importance can be made at European level (see [figure 2](#)). The Union is an advanced form of multisectoral integration, its competence extending to the economy, industry, politics, citizens' rights and foreign policy of its Member States. Europe is a continent with many different traditions and languages, but also with shared values.

Figure 2. Three pillars of the EU.



2.2. Legal issues of the European Union

The European Union is based on the rule of law and democracy. Its Member States delegate sovereignty to common institutions representing the interests of the Union as a whole on questions of joint interest. All decisions and procedures are derived from the basic treaties ratified by the Member States. The Treaty of Paris establishing the European Coal and Steel Community (ECSC) (1951) expired in 2002, the Treaty of Rome establishing the European Economic Community (1957) and transformed into European Community (2001), the Treaty of Rome establishing the European Atomic Energy Community (Euratom) (1957), as amended by the Single European Act (1986), the Maastricht Treaty on European Union (1992), the Treaty of Amsterdam (1997), the Treaty of Nice (2001), Treaty

of Accession (2003) ²⁴ form the constitutional basis of the Union, binding its Member States more firmly than any conventional agreement between sovereign States. The European Union generates directly applicable legislation and confers specific rights which can be relied upon by its citizens.

Principal objectives of the Union are to:

- *establish European citizenship* (fundamental human rights; freedom of movement; civil and political rights);
- *ensure freedom, security and justice* (cooperation in the field of justice and home affairs);
- *promote economic and social progress* (single market; Euro, the common currency; job creation; regional development; environment protection);
- *assert Europe's role in the world* (common foreign and security policy).

2.3. Institutions of the EU

The EU is run by five institutions, each playing a specific role:

Council of the European Union is made up of Ministers from the Member States with responsibility for the policy area. The Council enacts Union legislation (regulations, directives and decisions). Also it shares this function with the European Parliament. The Council and Parliament also have joint control over the Union's budget. The Council participates in adoption of international agreements negotiated by the European Commission.

European Parliament is elected by the peoples of the Member States. It provides a democratic forum for debate. It has a

watchdog function and also plays a part in the legislative process. Elections for the European Parliament are held by direct universal suffrage every five years (the first were held in June 1979). Parliament currently has 626 seats. With the prospect of the European Union's enlargement, the number of Parliament's seats will be increased and shared with new EU Member States. Parliament normally meets in plenary session in Strasbourg (France).

European Commission is a driving force and executive body. Commissioners are appointed by the Member States by common accord for a term of five years, and the Commission is subject to confirmation by Parliament. The Commission enjoys a great deal of independence in performing its duties. It represents the Community interest and takes no instructions from individual Member States. The Commission has sole right of initiative and can intervene at any stage in the legislative process to facilitate agreement within the Council or between the Council and Parliament. It also has an executive function in that it implements decisions taken by the Council.

Court of Justice, which sits in Luxembourg, comprises 15 judges and nine advocates-general appointed for a renewable six-year term by agreement between the Member States, which select them "from persons whose independence is beyond doubt". The Court's role is to ensure that Community law is interpreted and implemented in line with the Treaties.

Court of Auditors has the responsibility for sound and lawful management of the EU budget.

Five further bodies are part of the institutional system:

- *European Economic and Social Committee* (expresses the opinions of organised civil society on economic and social issues);
- *Committee of the Regions* (expresses the opinions of regional and local authorities on regional policy, environment, and education);
- *European Ombudsman* (deals with complaints from citizens concerning maladministration by an EU institution or body);
- *European Investment Bank* (contributes to EU objectives by financing public and private long-term investments);
- *European Central Bank* (responsible for monetary policy and foreign exchange operations).

A number of agencies and bodies complete the system.

2.4. Common Policies of the EU

The Community was set the task by the Treaty of Rome of promoting the harmonious development of economic activities, continuous and balanced expansion, increased stability, a rapid rise in living standards and closer relations between its Member States "by establishing a common market and progressively approximating the economic policies of Member States".

Regional policy aimed at developing regions whose development is lagging behind, promoting new activities in industrial areas in decline, helping the long-term unemployed, making it easier for young people to find employment, modernising agriculture and assisting poor rural areas.

Social policy set out the rights to be enjoyed by workers throughout the Community: free movement, fair pay, better working conditions, social security protection, freedom of association and collective bargaining, vocational training, equal treatment for men and women, information, industrial democracy, health protection and safety at the workplace, and protection of children, the elderly and the disabled.

Employment policy. Common efforts are particularly in vocational training, assistance in setting up businesses and improving social dialogue.

Common agricultural policy is designed to reduce cost while maintaining competitiveness. Consumers could be sure of secure supplies at stable prices, protected from dramatic fluctuations on world markets. Today the common agricultural policy is a victim of its own success. A new approach is needed to contain production, which is outstripping consumption - production rose by 2% a year between 1973 and 1988, consumption by no more than 0.5%.²⁵ Surplus production would be a drain on Community resources, hindering the development of other policies.

2.5. Economic and Monetary Union

Economic and monetary union (EMU) is a logical accompaniment to the single market and a major political milestone on the road to a united Europe. Uniting currencies which to the countries of Europe were the symbols and instruments of their sovereignty for several centuries is a venture which has neither a precedent in our history since the Roman Empire, nor any equivalent elsewhere in the world.

The European Monetary System

The European Monetary System (EMS) was the first step to the EMU. The EMS started functioning in 1979. The EMS has created a zone of monetary stability in Europe, encouraging growth and investment. Then the European Currency Unit (ECU) was initiated. It was a basket of the currencies of the Member States. Each currency has a central exchange rate linked to the ECU. This is used to determine central rates for each pair of currencies.

EURO – the single currency

In order to remove the non-tariff barriers to the free movement of goods, capital, services and persons and complete the single market, the *single currency* quickly seemed to be a necessity.

The ten year preparation period comprised the convergence of the rate of inflation, long-term interest rates, national budget deficits and public debt, exchange rate stability, coordination of Member States' monetary policies, promotion of the use of the ECU and creation of the European Central Bank. The Madrid European Council on 15 and 16 December 1995 christened the future European currency the "EURO" and adopted the technical procedure for creating it.

The single currency, EURO was introduced on 1 January 1999 for the administrations, businesses and the banks. On 1 January 2002, the EURO coins and notes went into circulation. On 1 July 2002, the EURO replaced national currencies in the Member States joining the single currency. Not all the EU Members have joined the EURO yet, for instance the United Kingdom, Denmark and Sweden have not joined to EURO.

2.6. Political Union

When the plans for a European Defence Community (EDC) failed in 1954, the Federal Republic of Germany and Italy were invited to join the *Western European Union* (WEU) ²⁶ established by Belgium, France, Luxembourg, the Netherlands and the United Kingdom in 1948 for purposes of collective self-defence. For more than 40 years, however, it was through *NATO* ²⁷, in close alliance with the United States and Canada, that Western Europe guaranteed its own security.

It was not until the Single European Act was signed in 1986 that the existing practice of *European Political Cooperation* (EPC) between the EC Member States was given formal recognition. EPC was seen essentially as a forum for mutual consultation and coordination at intergovernmental level and was therefore the responsibility of the European Council and the Foreign Ministers, the Community institutions such as the Commission and Parliament being involved only indirectly. Nevertheless, EPC has often made it possible for the Member States to adopt a common position within international organisations, such as the United Nations, and has proved useful in ensuring a consistent approach to foreign policy.

2.7. The Common Foreign and Security Policy (CFSP)

The Treaty on European Union forms the basis of a political union built around a common foreign and security policy. The objectives, to quote the Treaty, are as follows:

- to safeguard the common values, fundamental interests and independence of the Union;
- to strengthen the security of the Union and its Member States in all ways;

- to preserve peace and strengthen international security;
- to promote international cooperation;
- to develop and consolidate democracy and the rule of law, and respect for human rights and fundamental freedoms.

As part of the systematic cooperation between Member States, they are mutually informed and consulted on any matter of general interest in the CFSP context. Common positions are adopted as soon as the Council considers it necessary, and this links the Member States' national policies and their position in international circles.

2.8. Enlargement of the EU

The countries of Central and Eastern Europe and the EU

After completion of the internal market and the introduction of the Euro, Eastern enlargement has become the most important challenge for the European Union. The Enlargement of the European Union is a particular challenge for it, considering the large number of prospective Member States, the size of the population and the considerable disparity in development compared with the Community average. The process of deepening and widening integration put substantial adjustment pressure on the economies involved. Future competitiveness of Europe will be strongly dependent on an early perception of the adjustment needs due to Eastern Enlargement – in the countries of transition as well as in the EU.²⁸

The European Council started the process of enlarging the Union, which was to take place "in stages, at a speed appropriate to each prospective Member State depending on

the degree to which it is prepared".²⁹ This decision followed a long process of negotiations with the countries of Central and Eastern Europe, Baltic States, Malta and Cyprus.

On 16 April 2003 in Athens, Greece the *Treaty of Accession* was finally signed by the existing 15 Member States and the 10 acceding countries, i.e. the *Czech Republic, Estonia, Cyprus, Latvia, Lithuania, Hungary, Malta, Poland, Slovenia, Slovakia*.

³⁰ It enlarges the European Union to another 75 million people. At the same time it paves the way for further accessions, in particular those of Romania and Bulgaria scheduled for 2007.

³¹ The table 3 shows the results of the EU enlargement.

Table 3. The potential results of the EU enlargement.

	USA	EU-15	EU-27*
Population, million people	272.6	374.3	479.8
GDP (trillion USD)	8.511	8.053	8.747
GDP per head	31,500	20,927	15,061
Expenses for military sector	267.2	166.3	221.6
Expenses for military sector (% to GDP)	3.4	1.84	1.97
Exports (trillion USD)	0.905	2.032	2.189
Share of the world exports (%)	16.5	37.0	39.9
Imports (trillion USD)	0.76	2.028	2.146
Share of the world imports (%)	13.5	36.0	38.1

* EU-27 means EU-15 plus 10 acceding countries plus Romania and Bulgaria

Source: The European Integration and Ukraine / Edited by V.Y.Novytsky, T.M.Pahomova, V.I.Chuzhykov. Kiev: "Makros", 2002. – P.476 (in Ukrainian).

The States of the Former Soviet Union and the EU

The dismembering of the Soviet Union and the transition of the Newly Independent States (NIS) to a market economy provided the European Union with the opportunity to create firm relationships with Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyz Republic, Moldavia, Russia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan. The EU programmes provide technical and economic assistance for these countries with the aim of transition to a market economy. This programme provides support for many sectors: nuclear safety, energy, the environment, reform of public administration, setting up businesses, etc.

Agreements were made at the same time directly with some countries. The aim of the Agreements on Partnership and Cooperation concluded between the European Union and Ukraine, the European Union and Russia and other NIS is to establish a free-trade area and to encourage these two important partners of the Union to develop a true market economy and stabilise their currencies.³² The Agreement on Partnership and Cooperation between the European Union and Ukraine suppose that legislature of Ukraine will be put in conformity with the EU and WTO rules. The membership in the WTO is the precondition for Ukraine to be the EU member.

However, the NIS can not at the moment belong to the European Union due to the lack of adequate infrastructures, and they must concentrate on their own recovery.

2.9. The European Union and the World

The European Union is the world's leading trade power. The merchandise exports and imports of the EU are 38,3 and 37,2%

of the world total accordingly. The value of exports and imports of commercial services are even higher – 41,9% both of the world total (see annex 1). This trade potential can provide for the EU strong bargaining power during trade negotiations. The important thing is establishment of a European identity on the international scene. The EU is using its bargaining power and Member States' trade policy identity to strengthen its trade positions in the world. For instance:

- *Within GATT, to which the individual Member States were contracting parties but whose major agreements were signed by the Union in its own right.*
- *During the Uruguay round the European Union, negotiating as a bloc, endeavoured throughout to put its stamp on the negotiations and to have its interests prevail.*
- *The debate on agriculture between Europe and America has been lasting for many years. In this debate the Union presented a united front. It was effective in defending the EU viewpoints.*

It is worth mentioning that the EU trade rules, in particular competition, antidumping rules etc., are mainly similar with the WTO rules.

The question now is whether the single market will turn the Union into a protectionist fortress, or whether it will become an open dumping ground, exposed to competition from all sides and unable to protect its own manufacturers. The prospect of a market of 500 million consumers, in which income levels are high and standards harmonised, makes the Union particularly attractive to the world's exporters. But the Union is now capable of persuading its partners to abide by rules designed to ensure competition and reciprocal market access.

The EU now has the potential to become a *political power* too, if it is prepared to exploit all the opportunities created by the Treaty on European Union. By now there is little distinction in practice between the Union's economic and diplomatic activities on the world stage. It is true that political decisions can be taken using an intergovernmental procedure, but Community legislation is then needed to implement them.

2.10. Future Prospects

The future prospects of the EU development, proceeded from the EU achievements at the first decade of the 21st century, can be based on:

- A political, commercial, monetary and strategic Europe has been organised. Following a request reiterated by the European Parliament, the EU is being given a Constitution defining relations between the Union, the Member States and their citizens.
- The European Union will be expanded to the EU of 25 Members in May 2004, the EU of 27 Members by 2007. In the long run the EU can to be expanded by the post-Soviet states, Turkey and others, thus forming the ever largest Union.
- Therefore the way the EU institutions operate will have to be adapted to cope effectively with future accessions. The European Parliament will make full use of its new joint decision-making powers.
- The EU will face the economic advantages of the growing exchange rate of the EURO. The EU will be

very attractive to investors both inside and outside the Union. Other countries and major companies will begin to keep a growing proportion of their reserves in the EUROS, as protection against fluctuations of the US dollar and the yen. The EU has all prospects to remain the strongest economic, trading and monetary power in the world.

- At the same time because of growing value of the EURO the EU loses its trading conditions in the short-term period. The European goods become more expensive in the world markets and the EU huge market becomes more attractive for imports. But in the long run the EU has prospects to be the strongest economic, trading and monetary power in the world.
- Taking into consideration the terrorist demonstrations and war threats in the Middle East the cooperation in the fields of justice and home affairs is to be improved and the common foreign and security policy is to be developed with more credible structures, building on the strengths of the Western European Union (WEU) with a view to eventually developing it into a common institution of the European Union. Interinstitutional agreements will provide "bridges" between Community institutions and procedures and diplomatic cooperation arrangements.
- The Union will play one of the leading role in bringing North and South together thanks to the Lomé Convention and its influence in multilateral organisations such as the WTO, UN and UNCTAD.

It assumes that the existing Member States will be prepared to allow the Union to act as a driving force for the entire continent and that prospective members will commit themselves unreservedly to the political objectives set in the Treaty on European Union. The only way to achieve these ambitions is to continue along the route mapped out for the Community from the beginning.

3. THE REGIONAL INTEGRATION IN THE POST SOVIET COUNTRIES

3.1. Commonwealth of Independent States (CIS)

3.1.1. Collapse of the USSR and Creation of the CIS

During the six year “Perestroyka” period (1985-1991), when Mikhail Gorbachov was the General Secretary of the Soviet Union, the Soviet republics became more and more independent from Moscow Centre. In 1991 the time of the Soviet Union collapse came.

On 8 December 1991 in Viskuli (Belarus), the residence of the Belarusian Government in Belovezhskaya forest preserve, the leaders of the Republic of Belarus, Russian Federation and Ukraine have signed the *Agreement on Establishment of the Commonwealth of Independent States (CIS)*.³³

On 21 December 1991 in Almaty (Kazakhstan) the heads of eleven sovereign states - former soviet republics - Azerbaijan, Armenia, Belarus, Kazakhstan, Kyrgyz Republic, Moldova, Russia, Tajikistan, Turkmenistan, Uzbekistan and Ukraine (except Georgia, Estonia, Latvia and Lithuania) have signed the Protocol to the above Agreement, in which they stressed that their states on equality basis established the Commonwealth of Independent States. It was unanimously announced, that from that day on the Union of Soviet Socialist Republics ceased its existence.³⁴

One of the important public policy consequences of the Soviet Union collapse was that inter-state territorial delimitation among the post-Soviet republics quickly emerged as a major

issue of economic, political and even symbolic significance. The overriding objective that was agreed to by all the state delegations that met in Almaty in December 1991 was twofold. The delegates wanted:

first, to allow the former Soviet republics to pursue genuine political independence;

second, to preserve the "common economic space" of the Soviet period.³⁵

So the countries wanted to move quickly away from one another, but at the same time retain the economic advantages of being able to trade and conduct commerce freely with one another.

Later, in 1993 the Commonwealth was joined by Georgia. Thus, at present the CIS comprises 12 young sovereign states.

3.1.2. Goals, Principles, Activities of the CIS

The Commonwealth of Independent States (CIS) is an alliance of 12 of the 15 former Republics of the Soviet Union. The headquarters of the organisation is in Minsk, Belarus.

The CIS performs its activities on the basis of the Charter, adopted by the Council of Heads of 12 States on 22 January 1993.³⁶ In the document it is stated, that the Commonwealth was formed on the basis of sovereign equality of all its states - participants. The CIS, the Charter stated, serves further development and strengthening of relations of friendship, good neighbourhood, inter-ethnic accord, trust and mutual understanding and cooperation between states.

In September 1993 the heads of states signed the *Treaty on establishment of the Economic Union*, in which they developed the concept of transformation of economic interaction within

the Commonwealth. The Treaty was based on the necessity of formation of the common economic space on the principles of free movement of goods, services, workers, capital; elaboration of concerted money and credit, tax, price, customs and foreign economic policies; creation of favourable conditions for development of direct production links. This Treaty was not implemented in practice.

3.1.3. The CIS Coordinating Institutions

The Commonwealth is not a state, it does not have supranational powers. Interaction of countries in the framework of the CIS is realised through its coordinating institutions:

- *Council of the Heads of the States*. This is a supreme body of the CIS. It discusses and solves principle questions of the Commonwealth connected with the common interests of the states-participants.
- *Council of the Heads of the Governments*. This Council coordinates cooperation of the executive authorities of the states-participants in economic, social and other spheres of their common interests.

Decisions of the Council of the Heads of States and the Council of the Heads of Governments are adopted by consensus. Any state may declare about its lack of interest in one or another question, the fact being not considered as an obstacle for adopting a decision.

- *Inter-Parliamentary Assembly* is a consultative institution to discuss problems of parliamentary cooperation. The Assembly consists of parliamentary delegations of the states-participants of the CIS.

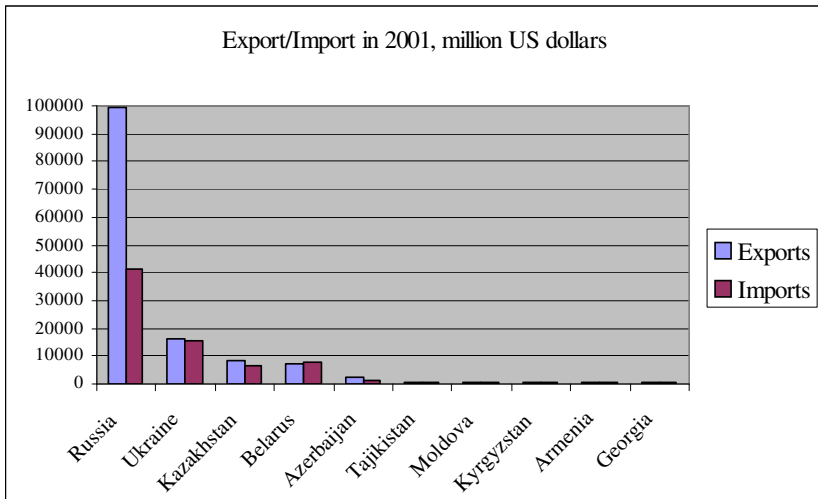
- *Economic Court* functions with the aim of ensuring the meeting of economic commitments in the framework of the CIS agreements and decisions.
- *Executive Committee* is the unite permanently functioning executive, administrative and coordinating body of the CIS. It prepares proposals on extending economic cooperation in the CIS framework.
- *Economic Council* - the main executive body which ensures implementation of the decisions of the Council of the Heads of States and the Council of the Heads of Governments of the CIS on realisation of the Agreement on creation of free trade zone.
- *Council of Collective Security* is a supreme political body of the states participating in the Agreement on Collective Security of 15 May 1992, which provides for implementation of this Agreement.
- *Council of Commander-in-Chief of Frontier Troops* is responsible for guarding outer frontiers of the states-participants and securing stable situation there.
- *Interstate Bank* deals with organisation and implementation of multilateral interstate settlements between central (national) banks of the states-participants.
- *Council of Foreign Ministers.*
- *Council of Defence Ministers.*
- *Others.*

Thus the CIS has very developed organisational structure which consists of many economic, political, judicial and military bodies. But, actually, at present they play slight role in coordinating activities of the CIS states-participants.

3.1.4. Trade Dynamics of the CIS States

The level of trade potential and level of export/import interdependence of the CIS states differs among the CIS countries. The leader is Russia with great positive trade balance (Russian export is twice more than import). The next large trade countries are Ukraine, then Kazakhstan and Belarus (see [chart 2, table 4](#)).

Chart 2. Trade potential of the CIS countries.



Note: Official statistical data of exports/imports of Turkmenistan and Uzbekistan are not presented.

Calculated from the source: <http://www.cisstat.com/eng/mac-08.htm> <http://www.cisstat.com/eng/mac-09.htm>

The interesting thing is that Russia as the main proponent of the CIS is not much connected with the other CIS countries in trade operations. So the share of Russia's exports to the other CIS countries in its total exports is only 15% comparing with CIS average – 21%, share of Russia's imports from the other

CIS countries in its total imports is only 27% comparing with CIS average – 40% (see table 4). Thus the trade incentives of Russia to integrate into the CIS are not dominant. The main goals of Russia can be formation of a political, security and military alliance in the CIS framework.

Table 4. The level of export/import interdependence of the CIS states.

	Share of Trade with the CIS Countries in Total Trade Transactions (in per cent)			
	Exports		Imports	
	2000	2001	2000	2001
Azerbaijan	13	10	32	31
Armenia	24	26	20	25
Belarus	60	60	70	70
Georgia	40	45	35	37
Kazakhstan	26	30	55	52
Kyrgyz Republic	41	35	54	55
Moldova	59	61	34	38
Russia	13	15	34	27
Tajikistan	48	33	83	78
Turkmenistan	52 ¹⁾	52 ¹⁾	38 ¹⁾	38 ¹⁾
Uzbekistan	35 ¹⁾	34 ¹⁾	37 ¹⁾	36 ¹⁾
Ukraine	31	29	58	56
CIS average	20*	21*	45*	40*
¹⁾ According to the data of the countries-importers and the countries-exporters. * Estimate				

Source: <http://www.cisstat.com/eng/mac-08.htm>
<http://www.cisstat.com/eng/mac-09.htm>

On the other hand such states as Ukraine, Kazakhstan, Belarus, Tajikistan and Kyrgyz Republic are closely interdependent in

trade sphere and therefore interested in the trade cooperation and trade liberalisation in the CIS framework.

3.1.5. Economic Effects of the CIS

Since the moment of establishment of the Commonwealth there have been prepared and adopted over 1000 documents,³⁷ many of them applied to economic cooperation. For instance, the heads of states signed the Treaty on Establishment of the Economic Union (1993), however some states joined the Economic Union as an associated member, e.g. Ukraine. All of the CIS states signed the Agreement on Establishment of the Free Trade Zone, adopted a pack of documents on cooperation between the customs services (1994). Also in 1994 the Agreement on Establishment of a Payment Union was signed.

But these CIS agreements that were mainly proposed by Russia, had slight integrative economic results in practice. They incorporated little in the way of effective sanctions and enforcement powers. The agreements expressed intentions, but did little to create working mechanisms.

Besides, as yet there have been no substantive results because individual national governments continue to reject certain provisions and interpret the meaning of the agreements in their own interest.³⁸

Therefore some states retreated to a position of favouring bilateral foreign economic agreements or multilateral sub-regional agreements often with involving of states not participating in the CIS. So the Black Sea Economic Cooperation was created in 1992 which united 11 countries including some the CIS states. A bit later in 1997 Azerbaijan, Georgia, Moldova, Ukraine and Uzbekistan formed a political, economic and strategic alliance (GUUAM). On the other hand

Russia initiated closer integration with Belarus, Kazakhstan, Kyrgyz Republic and Tajikistan with further establishment of the Eurasian Economic Community (EURASEC) in 2000.

Therefore the question is - Why did the post Soviet states escape from the integration in the CIS framework?

3.1.6. Why is not the CIS effective?

As a general rule of international relations, integration arrangements only work when they include mechanisms for the equitable sharing of burdens and distribution of benefits. In many historical cases of successful integration arrangements, these conditions have been met through the influence of one dominant power serving to cajole or coerce or somehow induce compliance with the terms of the cooperation agreement. In the early days of the CIS, Russia appeared to be ready to assume the role of integrator. But legacy of Russia's neo-colonial role in the other CIS countries led to suspicions that defeated even well intentioned efforts at spurring cooperation. Tied to the imperial past, Moscow politicians were less than successful in promoting regional economic cooperation.³⁹

The original goal of creating the Commonwealth of Independent States (CIS) in late 1991 was to ensure the sovereignty of the individual republics. It is clear that the signers of the CIS Charter believed this goal could be accomplished without sacrificing what was referred to at the time as a "unified economic space". Soon after the dissolution of the USSR, however, events disabused the politicians of these illusions. The Soviet successor states very rapidly found themselves at odds with one another on a wide range of trade and security issues. The states that emerged from communism moved toward the market at different rates, creating policy

asymmetries and conflicts. Among the smaller post-Soviet states, incentives for inter-state cooperation were frequently overwhelmed by self-interest and the desire to escape Russian domination. Meanwhile, Russia saw its interests as damaged by the disintegration of Soviet-era commercial relations and the loss of geo-strategic assets. Russia frequently fell back into the habit of trying to play its former role as the "centre". But even when Russia's efforts genuinely may have been aimed primarily at restoring policy harmony, its behaviour was interpreted by its neighbours as motivated more by Moscow's nostalgia for empire than by a desire to restore cooperation.⁴⁰

The lack of cooperation resulted from free-riding and shirking behaviour of all the countries of the former Soviet Union with respect to bearing the burdens and distributing the benefits of voluntary economic cooperation in the CIS structure.

3.1.7. Summit 2003 and Future of the CIS

Since its creation, the Commonwealth of Independent States has proven to be an ineffective organisation that has failed to exert any significant economic or diplomatic clout. Russia is the organisation's dominant member. All the body's previous heads had been from Russia, but until the CIS Summit 2003 which took place in Kyiv (Ukraine) on January 28-29, 2003. At this summit Ukrainian President Leonid Kuchma was proposed by Russian President Putin and unanimously elected as a chairman of the CIS Council. It may be a sign that the CIS is losing its one-side leading force. Ukraine itself has always kept the organisation at a distance, preferring an observer status, and its parliament has never ratified the statutes required for full membership in the CIS.⁴¹ But the Ukrainian President expressed hope that the CIS will be transformed into an instrument to stimulate economic growth for its members.⁴²

Important is also that at the Kyiv Summit not political but economic problems were dominating. The main outcome of the summit is quite palpable plans to set up a free trade zone.⁴³ The documents on formation of a free trade zone within the CIS are supposed to be signed in the next CIS summit in September 2003 in Yalta.⁴⁴

At the same time, it seems that the problem of free trade zone creation (this is the problem on which Ukraine insists so much) can be postponed for some period and solution of the problem to a great extent will depend on position of Russia. Russia's President Putin is willing to promote the recently created the Eurasian Economic Community and involve to it the new members, first of all Ukraine. He said that incorporation of Ukraine into the Eurasian Economic Community would speed up the process of free trade zone creation between Russia and Ukraine. Ukraine itself is not in a hurry about incorporation into this organisation. Ukraine's President Kuchma said that the CIS countries plan to create free trade zone in September 2003 already⁴⁵. So there is still discord on the free trade matter between the main CIS states Russia and Ukraine.

Although some political analysts believe the CIS is incapable of transforming itself into an organisation that could dramatically improve the economies of its participating states, we can see some positive changes in the CIS. The CIS became more democratic - the other state's leader is chairing the Council of the Heads. The second large CIS member Ukraine supported by the other states is insisting on the free trade zone in the framework of the CIS. So it is early to bring in a verdict that the CIS is dead. Let us wait for the next CIS summit in September 2003.

3.2. Black Sea Economic Co-operation (BSEC)

3.2.1. What is the Black Sea region?

The Black Sea region constitutes the heartland in Eurasia. The whole landmass has always been at the cross of East-West, North-South routes. In ancient times a "Black Sea culture" centring on sea-faring and trade flourished which later was influenced also by the Silk Road (from China to Europe), its relics giving rise to some resemblance in this vast region.

Peculiarities of the Black Sea region ⁴⁶:

- an area nearly 20 million km²,
- an market of 330 million people,
- some of the region's countries have a well developed industrial base including high-tech and mining industries, agricultural and agro-processing sectors,
- a foreign trade capacity of over 300 billion US Dollars annually,
- after the Persian Gulf, second largest source of oil, natural gas and coal,
- rich in proven reserves in minerals and metals exploited,
- diversified and creative human resources scientifically qualified and scholarly disciplined,
- abundant labour force skilled and unskilled at costs competitive,
- covers important sea lanes and occupies strategic location in maritime transport, ship-building, repairing and overhauling,
- industries are in need of reconstruction, modernisation and commercialisation,

- a composite of long history, rich cultures, diverse and colourful life styles, wealth of natural landscape, awaiting to be discovered by the world of tourism.

3.2.2. Formation of the BSEC

The Heads of 11 States of the Black Sea region - *Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Moldova, Romania, Russia, Turkey and Ukraine*, meeting in Istanbul, Turkey on 25 June 1992 gave birth to The Black Sea Economic Cooperation (BSEC), thus setting up a regional structure of multilateral cooperation in various fields of economic activity.

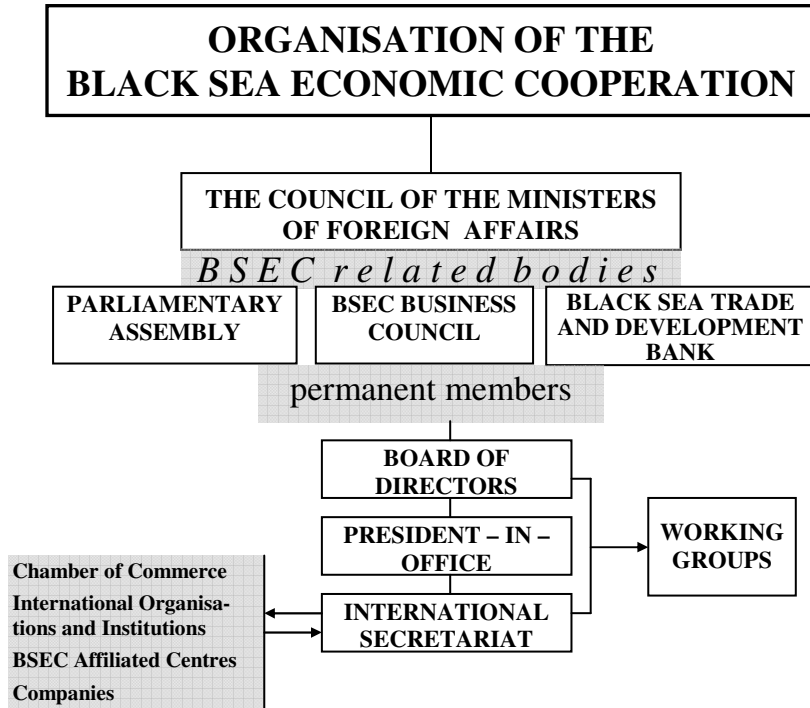
BSEC was transformed into a *regional economic organisation* with an international legal identity at the Summit Meeting in Yalta, on June 5, 1998 when the BSEC Charter was concluded.⁴⁷

3.2.3. Goals, Principles and Fields of Cooperation

The BSEC aims to ensure the Black sea region to become a region of peace, stability and prosperity. Its main principles are based on shared values such as pluralistic democracy, social justice, human rights, rule of law, fundamental freedoms, free market and economic prosperity.

The participating states regard the BSEC as an appropriate forum for the introduction or expansion of common activities in the region and thus for stimulating bilateral and multilateral cooperation in the fields of: economics, technology, environment, health protection and for promoting trade relations.

3.2.4. Organisational Structure *(see figure 3)*



Source: www.bsec-business.org

The BSEC is structured to cooperate on 5 levels ⁴⁸:

1. Cooperation at the Intergovernmental Level

The Council of the Ministers is the highest decision-making body. It consists of the Foreign Ministers of 11 countries and meets twice a year in April and October. The meetings of the Council of Ministers are being held in Member States according to the principle of rotation.

In 1995 the mechanism of "Troika" was introduced as a consulting body composed of the present, former and future chairpersons, for the purpose of ensuring continuity in policies.

The Permanent International Secretariat is the basic organ maintaining coordination among member states, the Working Groups and is located in Istanbul.

2. Cooperation at the Interparliamentary Level

The BSEC Parliamentary Assembly (PABSEC) consists of parliamentarians of member countries, is established in Istanbul and serves as a consultative organ for decision making.

3. Cooperation at the Private Enterprise Level

The BSEC Business Council composes of representatives from the business circles of member states, is run by a Board of Directors and headed by a Secretary General. The Business Council tries to act as a centre to create and support business opportunities within the BSEC process. The BSEC Business Council has a permanent Secretariat stationed in Istanbul.

4. Cooperation at the Banking and Financial Level.

The Black Sea Trade and Development Bank (BSTDB) established in Thessaloniki, Greece, on June 21, 1999, forms the financial pillar of BSEC. The Bank's initial capital is provided on the basis of specified shared-quotas purchased by participating states amounting to 300 million dollars. By the purchase of the remaining shares, this initial capital will be raised to 1.5 billion dollars. Turkey, Greece and Russian

Federation are the main share holders with 16.5% shares respectively. The Bank has succeeded in providing a financial resource of 102 million dollars to different regional projects, particularly those relating to interregional trade.⁴⁹

5. Cooperation at Academic Level

Some institutions (BSEC Working Group on Cooperation in Science and Technology, The BSEC Standing Academic Committee BSEC, The International Centre for Black Sea Studies, The Black Sea Universities Network) were established in order to identify new forms and directions of regional scientific and technological cooperation and apply the achievements of science and technology in priority fields of economic interests.

In addition to these, BSEC has the Statistical Data and Economic Information Coordination Centre and other subsidiary organs.⁵⁰

Also the BSEC strongly supports projects involving environmental rehabilitation in the Black Sea. As a starting point, is the "Black Sea Trans-boundary Diagnostic Analysis" study.

3.1.5. What has BSEC achieved since 10 years?

The majority of the BSEC countries are in transition towards the establishment of a market economy and the creation of a basis for self-sustained economic and social growth. In spite of these challenges BSEC has covered considerable ground which may be summarised as follows:

- Member-States have started work on the harmonisation of foreign trade regimes and the preparation for the

establishment of coastal and free trade zones within the BSEC.

- The BSEC has converted this area of reciprocal non-confidence into an area of confidence which will serve as a basis of future cooperation. The BSEC Members' efforts for economic integration have also served transparency and democracy in the respective countries.

- A permanent dialogue has been established between members through the BSEC. Member-countries with ongoing political conflicts among them have succeeded to seek common economic goals within a common spirit of cooperation.

- Previously untouchable questions such as organised crime, illicit trafficking of narcotic drugs are being handled through the BSEC.

3.2.6. Future Horizons

At this stage of the BSEC existence it is difficult to evaluate the long-term prospects of this. Much will depend on the ability of the participating states to work together and find solutions to common problems. It will also depend on their ability to meet future challenges and to find points of convergence.

Many Participating States depend on outside sources of energy hence they are interested in strengthening long-term interaction with those BSEC countries which possess significant resources of energy for providing sustainable energy supplies as well as in elaborating viable strategies of saving energy and the rational use of organic fuels and electric power.

The economic potential of the states is substantial. They have an often competitive and well educated labour force. The Black

Sea itself is becoming increasingly important as a means of transportation and communication and has traditionally supported substantial fisheries and tourism industries.⁵¹ The construction of pipelines, railroads, highways, ports and other facilities has to be accelerated in order to speed up the flow of passengers, goods and services.

The business communities will undoubtedly profit when the Participating States undertake steps in the direction of harmonising customs tariffs, border formalities and financial and foreign trade legislation. They will be the first beneficiaries of a broader exchange among themselves of statistical data and foreign trade and other economic information.⁵²

Although the BSEC activities are focused in the field of economics, it is expected that the BSEC may facilitate efforts towards the political solution of the conflicts in the region.

3.3. GUUAM

3.3.1. History, Goals and Principles

In 1997, Azerbaijan, Georgia, Moldova and Ukraine formed a political, economic, and strategic alliance designed to strengthen the independence and sovereignty of these former Soviet Union republics. Two years later, Uzbekistan joined the group, but in the beginning of 2002 Uzbekistan suspended its membership in GUUAM and got the only right as an observer.⁵³ The group is called GUUAM - the English acronym for the five-country association.

In 2001 during the Summit in Yalta (Ukraine) GUUAM received the International Regional Organisation status that was stated in the Alta GUUAM Charter.⁵⁴

At the July 2002 Summit in Yalta, GUUAM countries made the great progress in strengthening regional economic cooperation. As a result the Agreement on Establishment of Free Trade Area between Azerbaijan, Georgia, Moldova and Ukraine was signed.

The GUUAM provides an independent forum for 5 countries to discuss and act on both bilateral and multilateral issues.⁵⁵ The countries of the GUUAM pursue a course of rapprochement with West, what is strongly supported by the USA and its NATO allies.⁵⁶

Cooperation within the GUUAM is based on the universally recognised principles and norms of international law, in particular, on the respect for sovereignty, independence, territorial integrity and non-interference in domestic affairs of the Member States.

3.3.2. What unites GUUAM?

The formation and consolidation of the GUUAM is unique in Eurasia because it is a voluntary union of five states stretching from Central Europe to Central Asia. This voluntary nature of the group is of paramount significance for it. The GUUAM is based not so much on pressure from a stronger state, but on an understanding of the member-states' national interests. The establishment of GUUAM radically differs from the integration processes within the CIS, which was created on a negative impulse to restore the past and give Russia political leverage, while the aspirations of GUUAM countries are based on

economic logic and a desire to strengthen regional stability and security.⁵⁷

A common but incorrect assumption regarding GUUAM is its anti-Russian nature. While the group was indeed born from the efforts of member-states to oppose excessive concentrations of Russian troops on their territories, all GUUAM countries recognise Russia's importance and key role in the region.⁵⁸ The grouping emphasises that it is not directed against any country or group of states, but that their cooperation stemmed from similar interests in many priority areas. Particularly, the idea of an Eurasian transportation and energy corridor was crucial, as were new energy routes that would reduce these countries' dependence on Russia for energy supplies and transit.⁵⁹

Countries of the GUUAM spread along the ancient Silk Road (from China to Europe) and make up the backbone of the Transportation Corridor Europe-Caucasus-Asia. As such, they are an important economic gateway to Caucasus and Central Asia.

3.3.3. Objectives of Cooperation of the GUUAM are:

- promoting social and economic development;
- strengthening and expanding trade and economic links;
- development and effective use in the interest of GUUAM states of the transport and communication arteries with corresponding infrastructure situated in their territories;
- strengthening of the regional security;
- developing relations in the field of science and culture and in the humanitarian sphere;

- interacting in the framework of international organisations;
- combating international terrorism, organised crime and drug trafficking.

3.3.4. Directions of Cooperation are:

- economy, science, technology and environment;
- transport, energy and telecommunication infrastructure;
- joint investment and financial projects;
- humanitarian sphere, culture, education, mass media, tourism, youth exchange;
- other directions of mutual interest.

3.3.5. Organisational Structure of the GUUAM

The GUUAM Members convene regular *Summits* at the level of Heads of State at least once a year, and *Sessions of the Ministers for Foreign Affairs* at least twice a year. The GUUAM working body is the *Committee of National Coordinators* (CNC), consisting of national coordinators, one from each Member State. The CNC sessions are conducted quarterly. The decisions within the GUUAM are made by consensus.

3.3.6. Economic Cooperation of GUUAM

Free Trade Area established among Azerbaijan, Georgia, Moldova and Ukraine in 2002 is called to play special role in improving the economic conditions and the most efficient use of commercial potential of the GUUAM Participating States. The Presidents of the countries agreed to attach best efforts for early implementation of necessary domestic procedures and

entry of this Agreement into force. The Agreement is based on the WTO principles.⁶⁰ The other achievements are: establishment of the Business Council of GUUAM Participating States by the Heads of the Chambers of Trade and Commerce; establishment of the GUUAM Informational Office in Kyiv (Ukraine).

The mutual projects of the GUUAM states that are being considered now, are:

- creation the Eurasian Transportation Corridor Europe-Caucasus-Asia (TRACECA).
- development of oil and gas resources of the Caspian Sea region;
- construction of a multiple pipeline transportation system to world markets.

3.3.7. Political Cooperation and Cooperation in the Field of Security

Understandings among the GUUAM member-states were reached to continue close cooperation in the following fields:

- political interaction and cooperation;
- interaction in the field of peaceful settlement of conflicts and cooperation in combating aggressive nationalism, separatism and international terrorism;
- cooperation in the field of peacekeeping activities and other missions with the United Nations, the Organisation for Security and Cooperation in Europe (OSCE) as well as NATO (Partnership for Peace Program), the Council of Europe, the Joint Consultative Group of States-Parties to the Treaty on Conventional Forces in Europe, and Western European Union (WEU). One real world example of this is the Ukrainian

- peacekeeping force deployed in Moldova and the envisaged GUUAM peacekeeping force;
- interaction within the framework of processes of integration to NATO and European structures of security and cooperation.

The GUUAM countries pledged to assist each other in implementation of concrete projects in the field of production and transportation of oil and gas, and the establishment of a special partnership and dialogue with NATO on issues of mutual interest. The essential part of cooperation is the security of the Eurasian corridor.

GUUAM countries agreed to strengthen and improve the mechanisms of consultations and coordination of actions within the framework of international organisations.

3.3.8. The Future of the GUUAM: Views, Perspectives and Recommendations

The international policy analysts agree that the alliance of Azerbaijan, Georgia, Moldova, Ukraine, and Uzbekistan will have a favourable future only if the individual member-states are each successful in pursuing internal reform and if all five nations can work together to develop their disparate economies.⁶¹

For a country willing to join and sharing these principles, the GUUAM's doors should be open. Enlargement of the GUUAM can be a positive development for it. It would also mean expanding 'the anti-imperial change', which the group represents, in the words of Zbigniew Brzezinski.⁶² It would be irresponsible for the region and the GUAM states security to lay an economic and security framework for themselves and

the region that excludes their immediate neighbour, Armenia.
63

Yet, the rule of law should apply in practice. In terms of GUUAM, just as of any other international organisation, it would mean that its members should implement the founding principles mentioned in the Yalta Charter of GUUAM, Agreement on Establishment of Free Trade Area.

The GUUAM's future certainly depends on its members and the progress of the concrete cooperative initiatives they undertake. The transit projects initiated by the GUUAM, keeping their attractiveness, at the same time are losing time to be realised, because of geopolitical instability and financial inability.⁶⁴ Thus, the group's success or failure is also likely to greatly depend on the extent of the western countries support and encouragement. Its member states have shown that, in spite of many challenges, they are willing and able to work together in order to promote positive changes in their region. Hopefully, the GUUAM's western partners are able to recognise the group's promising potential and help to realise it.

3.4. Eurasian Economic Community (EURASEC)

3.4.1. The Emergence of the Concept of Eurasianism

Disappointed by the failure of the CIS arrangements to bring about successful inter-state coordination, some states of the former Soviet Union retreated to a position of favouring bilateral foreign economic agreements or multilateral sub-regional agreements. For example energy-rich Turkmenistan found the bilateral approach attractive. So did Uzbekistan, whose liberalisation agenda was much less ambitious than that

of Kyrgyz Republic and Kazakhstan.⁶⁵ The last was traditionally close to Russian policy and was supporter of integration activities in the Eurasian region. Given these differences of approach, the CIS states began to break ranks to announce separate inter-state agreements.

The Eurasian economic cooperation has its origins in a series of free-trade and customs agreements. In December 1994, Belarus, Kazakhstan and Russia announced the creation of a "customs union". This customs union came into effect on 15 July 1995. Kyrgyz Republic joined the group in December 1995. Tajikistan was formally admitted in February 1999. The treaty was supplemented over the ensuing years by a number of inter-state agreements including signed in 1999 the Agreement on Customs union and United economic space between these five states.⁶⁶

3.4.2. Creation and Main Principles of the Eurasian Economic Community

The Eurasian Economic Community (EURASEC) was established in compliance with the initiative of the President of Kazakhstan Nursultan Nazarbayev on October 10, 2000 in Astana city (Kazakhstan) and came into being on May 31, 2001.⁶⁷ The Community is comprised of Belarus, Kazakhstan, Kyrgyz Republic, Russia and Tajikistan.

The EURASEC – is a continuation of cooperation that was started with signing in 1995 agreements on Customs union between these five states. The transformation of the Customs union to Eurasian economic community does not mean that customs union has exhausted itself. Its functioning revealed the need for the improvement of both structures and policies to achieve the full-fledged customs union.⁶⁸

The EURASEC arrangement differs from its CIS customs union in the respect that is designed to function as a regional international organisation, not merely as an inter-state agreement. The current chair of the Integration Committee, Nigmatzhan Isingarín, has explained that the EURASEC differs from its predecessors in the respect that it has greater enforcement powers than did the previously existing customs union. In the new framework, a member state that refuses to abide by the EURASEC rules can be excluded from the union.⁶⁹

The main purpose of the Eurasian economic community creation is increasing the efficiency of the functioning of the Customs union and United economic space through activation of coordinated customs-tariff policy, united position of state-members in relations with WTO and other international economic organisations.⁷⁰

The EURASEC is designed to cooperate in five broad categories⁷¹ :

- free trade;
- customs;
- common market of products, services and labour;
- and a currency or monetary union.

The EURASEC arrangements include a *weighted voting and financing scheme*. Russia, the group's dominant economic power, has a leading role within EURASEC. It has 40 percent of the voting rights and is supposed to cover 40 percent of the group's budget. Kazakhstan and Belarus each have 20 percent of the vote and cover the same percentage of the budget, while Tajikistan and Kyrgyz Republic have 10 percent each.⁷² The EURASEC Charter specifies that a vote on major policy issues

will require two-thirds agreement. The voting formula would thus imply that, on any given major policy issue, Russia would have to have at least two other states supporting it to win a vote. On the other hand, it also implies that Russia can exercise veto power on major policy issues. So Russia has significant advantages in decision making process in the EURASEC.

3.4.3. The Governing Bodies of the EURASEC

For realisation of tasks and aims of the EURASEC the following governing bodies of the organisation has been created:

- *The Interstate Council* as the highest organ deals with the integration strategy formulation and consisting of the heads of the member-states and prime ministers;
- *Integration Committee* is permanent body of the EURASEC;
- *Interparliamentary Assembly* is the body of cooperation between member-states' parliaments. It considers the issues of harmonisation of national legislation and conformity with the EURASEC treaty;
- *The Court of Community* examines the economic disputes between member states, related to decisions of the EURASEC bodies and the treaty provisions, as well as provides the elucidation and findings related to them.

3.4.4. The EURASEC – Alternative to the CIS?

In the EURASEC states mass media the opinions about the CIS death as the economic integration leverage among post-soviet republics are expressed. It is said that the integration level in the CIS does not satisfy, the closer cooperation is needed among the states. The President of Kazakhstan Nursultan

Nazarbaev, the supporter of the large integration objected to the EURASEC status as the alternative to the CIS. He added that those two organisations have different objectives.⁷³

As the matter of fact it is too early to make final conclusions what of the two integration groups will survive in the post-soviet area and make the second one useless, but it is important to continue consultations and negotiations in order to increase stability in the region.

3.4.5. Prospects for Policy Harmonisation

Critics of the EURASEC argue that the EURASEC superficially appears to solve the problem but in reality only addresses appearances and perceptions. The opinion is that similar arrangements as those in the framework of EURASEC had been tried before in the framework of the CIS and failed.

But there can be reasons to believe that the EURASEC is different. One thing is that the Russian currency - Rouble devaluated in Russia following the financial collapse of 1998 and made Russian manufactured goods more attractive to Central Asian consumers. A second and more powerful argument for greater regional collaboration is the new-found concern of the all the states of the region with border security. As the Uzbekistan President Karimov observed that "the stability of Tajikistan is the stability of Uzbekistan, Kyrgyz Republic and Kazakhstan. The stability of Kazakhstan is the stability of all remaining member countries [of the Central Asian Economic Community]."⁷⁴ Economic integration and common security are co-reinforcing processes. Enhancing regional stability will encourage economic integration and vice versa.

A third and key difference between the EURASEC and earlier arrangements is that the EURASEC will have substantially stronger coordinating powers than its predecessors and will have the ability to impose sanctions on non-cooperating members. The most important failing of the CIS arrangements was that there was no enforcement and sanction provision.

4. REGIONAL ECONOMIC INTEGRATION IN THE AMERICAS

The most significant examples of regional economic integration in the Americas is the North American Free Trade Agreement, the Andean Group and MERCOSUR. There are also plans to establish a hemispherewide Free Trade Area of the Americas by 2005.

4.1. The North American Free Trade Agreement

The governments of the United States and Canada in 1988 agreed to enter into a free trade agreement, which took effect January 1, 1989. This was followed in 1991 by talks among the United States, Canada, and Mexico. As the result the North American Free Trade Agreement for the three countries was established in 1992. Implementation of the North American Free Trade Agreement (NAFTA) began on January 1, 1994. This agreement will remove most barriers to trade and investment among the United States, Canada, and Mexico.

4.1.1. NAFTA's Contents

The agreement became law January 1, 1994. The contents of NAFTA include the following⁷⁵:

- Abolition within 10 years of tariffs on 99 percent of the goods traded between Mexico, Canada and the United States.
- Removal of most barriers on the cross-border flow of services, allowing financial institutions, for example, unrestricted access to the Mexican market by 2000.
- Protection of intellectual property rights.

- Removal of most restrictions on foreign direct investment between the three member countries, although special treatment (protection) will be given to Mexican energy and railway industries, American airline and radio communications industries, and Canadian culture.
- Application of national environmental standards, provided such standards have a scientific basis. Lowering of standards to lure investment is described as being inappropriate.
- Establishment of two commissions with the power to impose fines and remove trade privileges when environmental standards or legislation involving health and safety, minimum wages, or child labour are ignored.

4.1.2. Free Trade Area

Full tariff liberalisation between Canada and the United States was achieved on 1 January, 1998. The vast majority of tariffs between Canada and Mexico and between the United States and Mexico shall be eliminated by January 1 2003. A small number of tariffs will remain in effect until January 1, 2008. The elimination of tariffs is subject to the retention by Canada and the US of their rights and obligations under the GATT and agreements negotiated under the GATT with respect to agricultural products, including their rights and obligations under GATT Article XI.⁷⁶

4.1.3. Principles

The NAFTA is based on the fundamental principles of:

- national treatment, MFN treatment and transparency;

- a commitment to facilitate the cross-border movement of goods and services;
- a commitment to provide adequate and effective protection and enforcement of intellectual property rights;
- a statement calling for effective domestic procedures for the implementation and application of the Agreement;
- and a rule of interpretation requiring the Parties to apply the Agreement in the light of its objectives and in accordance with international law.

Investments issues

Also the NAFTA requires a Party to accord to investors of another Party and to investments of investors of another Party treatment no less favourable than it accords to investors/investments of any other Party or of a non-Party. Similarly, the NAFTA provides that each Party shall accord to service providers of another Party treatment no less favourable than it accords to service providers of any other Party or of a non-Party.⁷⁷

Provisions on Agriculture

Under the NAFTA, all non-tariff barriers to agricultural trade between the United States and Mexico were eliminated. In addition, many tariffs were eliminated immediately, with others being phased out over periods of 5 to 15 years. All agricultural provisions will be implemented by the year 2008. For import-sensitive industries, long transition periods and special safeguards will allow for an orderly adjustment to free trade with Mexico.

4.1.4. Benefits for the NAFTA's Countries

Proponents argue that NAFTA should be viewed as an opportunity to create an enlarged and more efficient productive base for the entire region. One short-term effect of NAFTA was that many US and Canadian firms moved their production to Mexico to take advantage of lower labour costs. Mexico benefits because it gets much-needed investment and employment. The United States and Canada benefit because the increased incomes of the Mexicans allow them to import more US and Canadian goods, thereby increasing demand and making up for the jobs lost in industries that moved production to Mexico. The US and Canadian consumers benefit from the lower prices of products produced in Mexico. In addition, the international competitiveness of US and Canadian firms that move production to Mexico to take advantage of lower labour costs is enhanced, enabling them to better compete with Asian and European rivals.

From 1993 (the year preceding the start of NAFTA implementation) to 2001, trade among the NAFTA nations climbed 109 percent, from US\$297 billion to US\$622 billion. Each day the NAFTA parties conduct nearly US\$1.7 billion in trilateral trade. Thanks to NAFTA, North America is one of the most competitive, prosperous and economically integrated regions in the world.⁷⁸

- *Canada* – From 1993 to 2001, Canada's merchandise exports to its NAFTA partners climbed 95 per-cent, from US\$117 billion in 1993 to US\$229 billion in 2001. By contrast such exports to the rest of the world in the period increased only five percent.
- *Mexico* - Mexico exported US\$139 billion to its NAFTA partners in 2001, an increase of 225 percent from 1993. By

comparison, exports to the rest of the world increased 93 percent over the same period. Growth in Mexican exports accounted for more than half of the increase in Mexico's real gross domestic product during the period from 1993 to 2001.

- *The United States* - U.S. merchandise exports to NAFTA partners nearly doubled between 1993 and 2001, from US\$142 billion to US\$265 billion. This was significantly higher than the 44 percent growth in exports to the rest of the world.

Between 1994 and 2000, FDI inflows in the NAFTA countries reached US\$1.3 trillion, or about 28 percent of the world total, spurring economic development and growth throughout North America. Between 1994 and 2000, the United States received large flows of foreign capital, approximately US\$110.2 billion per year. During the first seven years of NAFTA, annual FDI inflows in Canada averaged US\$21.4 billion, almost four times the average registered over the seven pre-NAFTA years. From 1994 to 2000, Mexico's annual average capital inflow reached US\$11.7 billion, three times the annual amount received in the seven years prior to the Agreement.⁷⁹

4.2. The Andean Pact

The Andean Pact was formed in 1969 when Bolivia, Chile, Ecuador, Colombia and Peru signed the Cartagena Agreement. The Andean Pact was largely based on the EU model, but it has been far less successful at achieving its stated goals. The integration steps begun in 1969 included an internal tariff reduction program, a common external tariff, a transportation policy, a common industrial policy and special concessions for the smallest members – Bolivia and Ecuador.

By the mid-1980s, the Andean Pact had failed to achieve any of its stated objectives. There was no tariff-free trade between member countries, no common external tariff and no harmonisation of economic policies. The attempt to achieve cooperation between member countries seems to have been hindered by political and economic problems. The tide began to turn in the late 1980s when, after years of economic decline, the governments of Latin America began to adopt free market economic policies. In 1990, the heads of the five current members of the Andean Pact – Bolivia, Ecuador, Peru, Colombia and Venezuela – met in the Galápagos Islands. The resulting Galápagos Declaration effectively re-launched the Andean Pact.

Customs Union

Under the 1991 Act of Barahona it was agreed that an Andean Common External Tariff and Free Trade Area would come into effect on 1 January 1992 (1 June 1992 for Ecuador and Peru). Agreement on the level of the common external tariff, however, was not reached in the time frame established by the Act of Barahona, except for Colombia and Venezuela. Peru preferred a flat rate of 15 percent, while other members preferred a different structure. Bolivia, for its part, had been authorized by the Act of Barahona to keep its rate of 10 per cent. In 1994, the members of the Andean Pact agreed on a four-tier external tariff structure of 5, 10, 15, and 20 percent (Ecuador benefits from an exceptions list of 600 items for a transition period of four years), which came into force at the beginning of 1995, but is applied only for Colombia, Ecuador and Venezuela and contains a number of exceptions to be phased out over a period of four years.⁸⁰

Obligations

The states-participants of the Andean Group must consult with the mutual organ - commission prior to making any commitment on tariffs with countries outside of the sub-region. Unilateral changes regarding the Common External Tariff are not allowed. The commission has the power to issue a decision with respect to such consultations and “shall establish the terms that shall be obligatory with respect to such commitments of a tariff nature.”⁸¹

The Andean Pact establishes the basic obligations with respect to the harmonization of economic policies and coordination of development plans and industrial development programs respectively. It obligates members to progressively adopt strategies aimed at reaching subregional development. Economic policy harmonization is called for in: industrial development; agricultural and agro-industrial programs, infrastructure development; exchange, monetary, financial and fiscal policies (including the treatment afforded to subregional and foreign investment). Common policies are also called for in the area of treatment of trademarks, patents, licenses and royalties. Chapter IV calls for joint industrial development, but for all practical purposes these have been abandoned by all the Andean countries.

Future

Significant differences between member countries still exist that may make harmonisation of policies and close integration difficult. This has led some to argue that the Andean Pact is more formal than real. However, the outlook for the Andean Pact started to change in 1998 when the group entered into

negotiations with MERCOSUR to establish a South American free trade area.

4.3. MERCOSUR

MERCOSUR originated in 1988s a free trade pact between Brazil and Argentina. The modest reductions in tariffs and quotas accompanying this pact reportedly helped to expand trade between the two countries in the late 1980s. Encouraged by this success, the pact was expanded in 1990 to include Paraguay and Uruguay. The initial aim was to establish a full free trade area by the end of 1994 and a common market sometime thereafter. The four countries of MERCOSUR have a combined population of 200 million but its share in the world trade is still little (1.5% of the world merchandise exports and 1.3 of the world merchandise imports – see [annex 1](#)).

In December 1995, MERCOSUR's members agreed to a five-year program under which they hoped to perfect their free trade area and move toward a full customs union. Following the entry into force of the Common External Tariff on January 1, 1995, the MERCOSUR countries maintain a common commercial policy. Also, the four member states of MERCOSUR have now formally committed themselves to establishing a wider free trade area, the South American Free Trade Area (SAFTA).

Common Market

The objective of the Treaty of Asuncion is the constitution of a Common Market (Article 1). During the transition period, which ended on December 31, 1994, the Parties adopted a program of trade liberalization. Within the framework of the

program for trade liberalization, the process of integration is to be achieved by means of coordinated, progressive automatic reductions of customs tariffs, the elimination of non-tariff barriers and other restrictions to trade, a common external tariff, and macroeconomic policy coordination. The Common External Tariff entered into force on January 1, 1995 and contains some exceptions that have to converge on January 1, 2001 except in a small number of cases where the period of convergence will be extended until the year 2006. Paraguay and Uruguay may have an extra year to achieve the goal of a zero tariff for interzonal trade.

To date the process of macroeconomic coordination has not taken the form of specific agreements, although frequent contacts at different levels among the economic authorities of the Parties have allowed the initial outline of macroeconomic coordination to be defined.

4.4. Central American Common Market (CACM)

THE CENTRAL AMERICAN COMMON MARKET (CACM), established by Guatemala, Honduras, El Salvador, and Nicaragua (and later joined by Costa Rica) with the signing of the General Treaty of Central American Economic Integration (Tratado General de Integraciyn Econymica Centroamericana) in Managua in 1960,⁸² was one of four regional economic integration organizations created during the Latin American export boom of the 1960s. The CACM and the three other Latin American trading blocs, the Latin American Free Trade Area, the Caribbean Free Trade Association (CARIFTA), and the Andean Group, were generally alike in their initial endorsement of regional integration behind

temporary protectionist barriers as a way to continue import-substitution industrialization.

From the very beginning the CAMC developed dramatically. The CACM stagnated throughout the 1970s and virtually collapsed during the prolonged Central American political and debt crises of the 1980s, revitalizing only after its overhaul and the partial inclusion of Panama in the early 1990s.⁸³

Further progress toward integration was made at the tenth Central American presidential summit, held in San Salvador, El Salvador, in July 1991, when the five original participants agreed to include Panama in certain aspects of the new economic community. The summit, held in Tegucigalpa, Honduras, modified several CACM institutions and incorporated them into the System of Central American Integration (SICA), an umbrella organization encompassing both political and economic integration efforts. Honduras fully rejoined the integration process in February 1992, upon the signing of the Transitional Multilateral Free Trade Agreement with the other Central American republics.

Central American integration was given a further boost with the signing of the North American Free Trade Agreement (NAFTA) among Canada, Mexico, and the United States. In August 1992, a Framework Free Trade Agreement was signed among the five Central American republics and Mexico, establishing the procedures for the formation of a free-trade area projected to enter into force in December 1996. Inclusion of Central America in a free-trade area with Colombia and Venezuela was also foreseen in the Caracas Commitment adopted at a regional summit in February 1993. Guatemala's recognition of Belize in September 1991 made it possible to begin free-trade agreement talks with the Caribbean Community (CARICOM), the successor to CARIFTA. Central

America's economic convergence with NAFTA, the G-3 (Mexico, Colombia, and Venezuela), and CARICOM is expected to further the objectives of the United States - sponsored Enterprise for the Americas Initiative, which foresees the eventual formation of a Western Hemisphere free-trade zone.

4.5. CARICOM

The Caribbean Free Trade Agreement (CARIFTA) was formed in 1968. Its members had the objective of increasing employment opportunities in the region by integrating, where possible, their primarily agricultural island economies. The members implemented a free trade area, with special treatment for agricultural imports.

Common Market

In 1973, its members established the Caribbean Community and Common Market (CARICOM). The Treaty provided for rights of common market establishment between members and coordination of economic policies and development of special measures for the less-developed members. One objective of CARICOM was to achieve economies of scale in the regional production of services, such as transportation, education and health, and to pool financial resources for investment in a regional development bank. The Treaty provided for the establishment of a common external tariff, but the original timetable was not met. A common external tariff has been established, but it is not uniformly applied by the members of CARICOM due to disagreements on the levels of tariffs applied to certain products. While the Treaty allows Members to pursue an independent commercial policy. Members are

required to transmit to the Secretariat the particulars of any trade or aid agreements entered into after the Treaty comes into force. Such agreements should not be incompatible with the existing obligations of Members.

The *objectives* of the Common Market include:

- strengthening coordination and regulation of economic and trade relations among Member states in order to promote balanced development;
- expansion and integration of economic activities, taking into account the need to provide special opportunities for the Less Developed Countries;
- the achievement of a greater measure of economic independence and enhanced effectiveness of Members in dealing with other countries or institutions.

4.6. Free Trade Area of the Americas

At a hemispherewide "Summit of the Americas" in December 1994 a proposal was made to establish a Free Trade Area of the Americas (FTAA). It took over three years for talks to be begin, but in April 1998, 34 heads of state travelled to Santiago, Chile, for the second Summit of the Americas where they formally inaugurated talks to establish an FTAA by 2005. The talks will continue for seven years and will address a wide range of economic, political and environmental issues related to cross-border trade and investment. Although the United States was an early advocate of an FTAA, at this point support from the United States seems to be mixed. Since the United States has by far the largest economy in the region, strong US support is a pre-condition for establishment of an FTAA.

If an FTAA is established, it will have major implications for cross-border trade and investment flows within the hemisphere, but at this point it is a long way off.

5. REGIONAL TRADING AGREEMENTS IN ASIA AND AFRICA

There are a number of groupings throughout Asia and Africa, few exist in anything other than name. The most significant of them are: the Association of Southeast Asian Nations (ASEAN), the Asian Pacific Economic Cooperation (APEC) forum. The other Asian experiences are in AFTA, South Asian Association for Regional Cooperation (SAARC) and its South Asian Preferential Trading Arrangement (SAPTA). Also there are examples of cross-regional FTAs including Asia-Europe Meeting (ASEM) – a forum of ‘equal partners’ heads of state or government from 10 countries of Asia (China, Japan, South Korea, Brunei Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam) and from the 15 member states of the European Union.⁸⁴

With concerted unilateralism, Asia is still state-centric⁸⁵. Asianism is neither an economic nor a political model yet as East Asia is culturally and socially diverse. Identity and ideology are harder to grasp with economic and political diversity. There is no Asian regionalism based strictly on regional identity or ideology, except perhaps for the original ASEAN-6. Even that may have diluted as ASEAN-10 comprising six relatively more developed and rich states and four poorer transition economies, was forged by politics and security first, scale economies, second⁸⁶.

5.1. Association of Southeast Asian Nations (ASEAN)

The Association of Southeast Asian Nations or ASEAN was established on 8 August 1967 in Bangkok by the five original Member Countries, namely, Indonesia, Malaysia, Philippines,

Singapore, and Thailand. Brunei Darussalam joined on 8 January 1984, Vietnam on 28 July 1995, Laos and Myanmar on 23 July 1997, and Cambodia on 30 April 1999.

The ASEAN region has a population of about 500 million, a combined gross domestic product of US\$737 billion, and a total trade of US\$ 720 billion.⁸⁷

Economic Cooperation

The basic objectives of ASEAN are to foster freer trade between member countries and to achieve cooperation in their industrial policies. However progress has been very limited. For example, only 5 percent of intra-ASEAN trade currently consists of goods whose tariffs have been reduced through an ASEAN preferential trade arrangement.⁸⁸ One of the reasons of slight economic cooperation was the financial crisis that swept through Southeast Asia in 1997 hit several ASEAN countries particularly hard Indonesia, Malaysia and Thailand.

Nevertheless ASEAN states continued attempts to foster cooperation. Thus in 1997, the ASEAN leaders adopted the ASEAN Vision 2020, which called for ASEAN Partnership in Dynamic Development aimed at forging closer economic integration within the region.⁸⁹ The vision statement also resolved to create a stable, prosperous and highly competitive ASEAN Economic Region, in which there is a free flow of goods, services, investments, capital, and equitable economic development and reduced poverty and socio-economic disparities. The Ha Noi Plan of Action, adopted in 1998, serves as the first in a series of plans of action leading up to the realization of the ASEAN vision.⁹⁰ In addition to trade and investment liberalization, regional economic integration is being pursued through the development of Trans-ASEAN

transportation network consisting of major inter-state highway and railway networks, principal ports and sea lanes for maritime traffic, inland waterway transport, and major civil aviation links. ASEAN is promoting the interoperability and interconnectivity of the national telecommunications equipment and services. Building of Trans-ASEAN energy networks, which consist of the ASEAN Power Grid and the Trans-ASEAN Gas Pipeline Projects are also being developed.⁹¹

Political Cooperation

The Treaty of Amity and Cooperation (TAC)⁹² in Southeast Asia, signed at the ASEAN Summit in 1976 stated that ASEAN political and security dialogue and cooperation should aim to promote regional peace and stability by enhancing regional resilience. Regional resilience shall be achieved by cooperating in all fields based on the principles of self-confidence, self-reliance, mutual respect, cooperation, and solidarity, which shall constitute the foundation for a strong and viable community of nations in Southeast Asia.

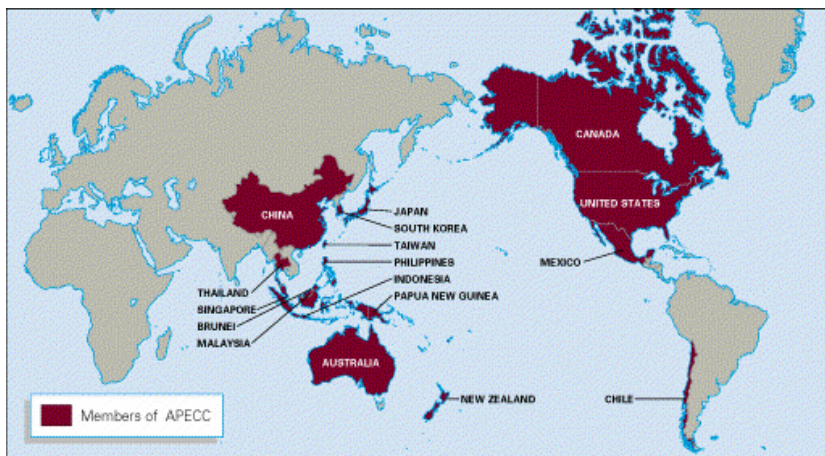
Most ASEAN Member Countries also participate actively in the activities of the Asia-Pacific Economic Cooperation (APEC), the Asia-Europe Meeting (ASEM), the East Asia-Latin America Forum (EALAF).

5.2. Asia Pacific Economic Cooperation (APEC)

Asia Pacific Economic Cooperation (APEC) was founded in 1990 at the suggestion of Australia. APEC currently has 18 member states including such economic powerhouses as the United States, Japan and China (see Map). Collectively the 18

member states account for half of the world's GNP, 40 percent of world trade and most of the growth in the world economy.

Map 1. Asia Pacific Economic Cooperation



The stated aim of APEC is to increase multilateral cooperation in view of the economic rise of the Pacific nations and the growing interdependence within the region. The US support for APEC was also based on the belief that it might prove a viable strategy for heading off any moves to create Asian groupings from which it would be excluded.

Interest in APEC was heightened considerably in November 1993 when the heads of APEC member states met for the first time at a two-day conference in Seattle. Debate before the meeting speculated on the likely future role of APEC. One view was that APEC should commit itself to the ultimate formation of a free trade area. Such a move would transform the Pacific Rim from a geographical expression into the world's largest free trade area. Another view was that APEC would produce no more than hot air and lots of photo opportunities

for the leaders involved. As it turned out, the APEC meeting produced little more than some vague commitments from member states to work closely together for greater economic integration and a general lowering of trade barriers. However, significantly, member states did not rule out the possibility of closer economic cooperation in the future.⁹³

The heads of state met again in November 1994 in Jakarta, Indonesia. This time they agreed to take more concrete steps, and the joint statement at the end of the meeting formally committed APEC's industrialised members to remove their trade and investment barriers by 2010 and for developing economies to do so by 2020. However, the plan is vague and commits APEC to doing no more than holding further talks. Despite the slow progress, APEC is worth watching. If it eventually does transform itself into a free trade area, it will probably be the world's largest.⁹⁴

6. RTAs IN THE WTO

6.1. A note of Caution

RTAs can complement the multilateral trading system, help to build and strengthen it. But by their very nature RTAs are discriminatory: they are a departure from the MFN principle, a cornerstone of the multilateral trading system. Their effects on global trade liberalisation and economic growth are not clear given that the regional economic impact of RTAs is *ex ante* inherently ambiguous. Though RTAs are designed to the advantage of signatory countries, expected benefits may be undercut if distortions in resource allocation, as well as trade and investment diversion, potentially present in any RTA process, are not minimised, if not eliminated altogether. An RTA's net economic impact will certainly depend on its own architecture and the choice of its major internal parameters (in particular, the depth of trade liberalisation and sectoral coverage). Concurrent MFN trade liberalisation by RTA parties, either unilaterally or in the context of multilateral trade negotiations, can play an important role in defusing potential distortions, both at the regional and at the global level.

The increase in RTAs, coupled with the preference shown for concluding bilateral free-trade agreements, has produced the phenomenon of overlapping membership. Because each RTA will tend to develop its own mini-trade regime, the coexistence in a single country of differing trade rules applying to different RTA partners has become a frequent feature. This can hamper trade flows merely by the costs involved for traders in meeting multiple sets of trade rules.

The proliferation of RTAs, especially as their scope broadens

to include policy areas not regulated multilaterally, increases the risks of inconsistencies in the rules and procedures among RTAs themselves, and between RTAs and the multilateral framework. This is likely to give rise to regulatory confusion, distortion of regional markets, and severe implementation problems, especially where there are overlapping RTAs.⁹⁵

6.2. The WTO rules about RTAs

When a WTO member enters into a regional integration arrangement through which it grants more favourable conditions to its trade with other parties to that arrangement than to other WTO members' trade, it departs from the guiding principle of non-discrimination defined in Article I of GATT, Article II of GATS, and elsewhere.

Despite the fact that they contravene the most-favoured-nation (MFN) principle of non-discrimination, RTAs are accepted by the WTO under specific conditions which are spelled out in three sets of rules (see Box 1).

Box 1. Three exceptions to MFN treatment in the WTO framework:

- [Paragraphs 4 to 10 of Article XXIV of GATT](#) (as clarified in the Understanding on the Interpretation of Article XXIV of the GATT 1994) which permits customs unions and free trade areas, provided that restrictions 'are eliminated on substantially all the trade between the constituent territories' and the process is completed within a reasonable period of time (defined in the WTO as normally ten years). Proposals require unanimous support to be adopted.

- the so-called [Enabling Clause](#) (i.e., the 1979 Decision on Differential and More Favourable Treatment, Reciprocity and Fuller Participation of Developing Countries) refers to preferential trade arrangements in trade in goods between developing country Members;
- [Article V of GATS](#) governs the conclusion of RTAs in the area of trade in services, for both developed and developing countries.

Other non-generalised preferential schemes, for example non-reciprocal preferential agreements involving developing and developed countries, require Members to seek a waiver from WTO rules. Such waivers require the approval of three quarters of WTO Members. Examples of such agreements which are currently in force include the US — Caribbean Basin Economic Recovery Act (CBERA), the CARIBCAN agreement whereby Canada offers duty-free non-reciprocal access to most Caribbean countries, Turkey-Preferential treatment for Bosnia-Herzegovina and the EC-ACP Partnership Agreement.⁹⁶

To a certain extent these rules are more stringent than the old regime under the GATT, but it is attitudes rather than rules that have changed most. This hardening is important because not all RTAs have been formally attached to one of these rules, and their legal status may remain undefined until challenged under the WTO's dispute settlement mechanism. Such uncertainty may persist: the WTO is still appraising a backlog of RTAs notified under the GATT and so subject to the old rules.

Within the GATT and the WTO, the examination of specific RTAs has been plagued by disagreement about the interpretation of certain elements of the rules relating to RTAs as well as by certain procedural aspects. On the procedural

side, in an effort to streamline the examination process, the General Council of the WTO replaced the previous system of separate working parties with the establishment of the Committee on Regional Trade Agreements (CRTA) in February 1996. The mandate of the CRTA is to carry out the examination of agreements referred to it by the Council for Trade in Goods (CTG) (agreements under Article XXIV of the GATT 1994), the Council for Trade in Services (CTS) (agreements under Article V of the GATS) and the Committee on Trade and Development (CTD) (agreements between developing countries, established under the Enabling Clause⁹⁷). The CRTA is also charged to make recommendations on the reporting requirements for each type of agreement and to develop procedures to facilitate and improve the examination process.

The current state of play in the CRTA (October 1999) is that 118 RTAs have been notified to the GATT/WTO and are still in force: 93 under GATT Article XXIV; 14 under the Enabling Clause; and eleven under GATS Article V.⁹⁸

On the goods side, probably the most important single issue relates to the interpretation of the term "substantially all the trade", which relates to the requirement that "duties and other restrictive regulations of commerce ... are eliminated on substantially all the trade between the constituent territories" as defined in GATT Article XXIV:8.9. This is particularly relevant for those agreements where the coverage of agriculture is presently limited, for example, many of the RTAs formed by European countries. The debate on "substantially all the trade" has centred on two possible interpretations which are not mutually exclusive. The first, a *quantitative* approach, favours the definition of a statistical benchmark, such as a certain percentage of trade between the parties. The second, a

qualitative approach, would require that no sector (or at least no major sector) be excluded from intra-RTA trade liberalisation. A number of participants in existing RTAs argue that account should be taken of whether an RTA facilitates trade in a sector even where trade barriers are not fully eliminated; others consider that trade not covered by elimination of duties and other restrictive regulations of commerce remains subject to the MFN principle, and that partial duty reduction is not permitted under Article XXIV.

6.3. Policy issues

Although the WTO concluded in 1995 that often ‘regional and multilateral integration initiatives are complements rather than alternatives’,⁹⁹ it has put forward a set of reforms to reduce conflict (see Box 2).

Box 2. Improved co-ordination in the WTO

The WTO has proposed changes to reduce the danger of ‘stumbling blocks’, and to enhance the likelihood that RTAs will be multilaterally and developmentally compatible. These are:

- *pre-notification* of proposed RTAs before the formal start of domestic approval, to allow for change;
- *clarification* of Article XXIV, especially in relation to the meaning of ‘substantially all’ trade and for hub-and-spoke agreements;
- *surveillance* of the implementation of RTAs.

More broadly, the policy issues to be addressed over the coming decade are likely to include:

- *regulating overlapping memberships*, without disrupting commerce by, for instance, over-complex origin rules;
- *building on RTA innovations* in a consensual fashion. Agreements on new issues reached in limited fora may be perceived as setting a standard to which non-participants will be expected to adhere later on;
- *preventing competition between large regions* arising either deliberately or simply by accident as the RTAs adopt incompatible rules and standards.

In the meantime, proposed RTAs can be rated developmentally against a set of positive and negative criteria. A multilateral agreement scores more highly on all development criteria and is preferable to a regional one covering the same ground. Moreover, developing countries, as small weak players, tend to be better protected by a multilateral agreement. But if the policy changes planned can be generalised in the nearest future, the RTAs will have proved to be building not stumbling blocks.¹⁰⁰

6.4. Negotiations on the RTAs issues

WTO Members agreed at Doha to initiate negotiations aimed at clarifying and improving disciplines and procedures under the existing WTO provisions applying to regional trade agreements, taking into account developmental aspects. These negotiations are scheduled for completion by 1 January 2005, with a stock taking due at the Ministerial Conference in Cancún in September 2003.¹⁰¹

CRITICAL DISCUSSION QUESTIONS

1. What are the economic and political arguments for regional economic integration, and namely for: the EU, CIS, BSEC, GUUAM, EURASEC, NAFTA, MERCOSUR, CAMC, CARICOM, ASEAN and APEC?
2. What is your opinion about the trade policy choice-making: multilateralism-regionalism-nationalism? What are your arguments for and against?
3. What are the effects of creation of the EU with single market and currency for the EU and in the world? Why?
4. How should the US business circles that currently exports to Western Europe respond to the creation of the EU with single market and currency?
5. What are the economic and political effects of the enlargement of the EU for the EU and for the world?
6. What is your forecast about the regional economic integration in the post-Soviet area? Which of the existing blocks of the region will have future developments: the CIS, GUUAM, BSEC, EURASEC or any else? Why?
7. NAFTA is likely to produce net benefits for the US economy. Discuss.
8. What are the prospects of the FTAA creation? What are economic and political interests of the main players in the region: Canada, the USA, CACM countries, MERCOSUR and Andean Group?
9. What is the WTO's attitude towards the RTAs?

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 - > [Download](#): “RTAs and contingent protection: Are anti-dumping measures (ADMs) really an issue?”, Word format, 1486KB
 - Rolf Adlung, Counsellor, Trade in Services Division, WTO
 - > [Download](#): “Regional agreements and trade in services: Policy issues”, Word format, 361KB (Paper provided by Aaditya Mattoo and Carsten Fink, Development Research Group, World Bank)
 - Kyung Kwak and Gabrielle Marceau
 - > [Download](#): “Overlaps and conflicts of jurisdiction between the WTO and RTAs”, pdf format, 154KB
 - John Gilbert, Robert Scollay and Bijit Bora
 - > [Download](#): “Assessing regional trading arrangements in the Asia-Pacific”, pdf format, 212KB

Web-based resources:

<http://europa.eu.int> – European Union.

<http://www.weu.int> – Western European Union.

<http://www.coe.int> – Council of Europe.

<http://www.osce.org> – Organisation for Security and Cooperation in Europe

<http://www.ebrd.org> – European Bank for Reconstruction and Development

<http://www.baltinfo.org> – Conference of the Baltic States.

<http://www.africa-union.org> – African Union.

<http://www.aladi.org> – Association of Latinamerican Integration.

<http://www.acs-aec.org> – Association of Caribbean States.

http://www.wto.org/english/tratop_e/region_e/ – World Trade Organisation, RTAs issues.

<http://www.un.org> – United Nations.

<http://www.oecd.org> – Organisation of Economic Cooperation and Development.

<http://www.nato.int> - NATO.

<http://www.nafta-sec-alena.org/english/index.htm> - NAFTA

<http://www.apecsec.org.sg> - Asia Pacific Economic Cooperation (APEC)

<http://www.bsec.gov.tr> - Black Sea Economic Cooperation (BSEC).

<http://www.guam.org> - GUUAM.

http://www.cis.minsk.by/english/engl_cis.htm - Commonwealth of Independent States.

<http://www.cisstat.com> – Commonwealth of Independent States, Statistics.

http://www.mpa.eurasec.ru/en_index.htm – Eurasian Economic Community (EURASEC).

<http://www.aseansec.org> - ASEAN

**Annex 1. World merchandise and commercial services
exports/imports by region, 2001**

	Value of merchandise exports		Value of merchandise imports		Value of exports of commercial services		Value of imports of commercial services	
	Billio n USD	%	Billio n USD	%	Billio n USD	%	Billio n USD	%
World	5984	100,0	6270	100,0	1460	100,0	1445	100,0
North America	991	16,6	1408	22,5	299	20,5	229	15,9
United States	731	12,2	1180	18,8	263	18,1	188	13,0
Latin America	347	5,8	380	6,1	58	4,0	71	4,9
Mexico	159	2,6	176	2,8	13	0,9	17	1,1
Western Europe	2485	41,5	2524	40,3	679	46,5	647	44,8
European Union (15)	2291	38,3	2334	37,2	612	41,9	605	41,9
C./E. Europe/Baltic States/CIS	286	4,8	267	4,3	56	3,8	59	4,1
Africa	141	2,4	136	2,2	31	2,1	37	2,6
South Africa	29	0,5	28	0,5	5	0,3	5	0,4
Middle East	237	4,0	180	2,9	33	2,2	45	3,1
Asia	1497	25,0	1375	21,9	303	20,8	355	24,6
Japan	403	6,7	349	5,6	64	4,4	107	7,4
China	266	4,4	244	3,9	33	2,3	39	2,7
Memorandum item:								
NAFTA (3)	1149	19,2	1578	25,2				
MERCOSUR (4)	88	1,5	84	1,3				
ASEAN (10)	385	6,4	336	5,4				

Based on Source: The WTO Annual Report 2002. International Trade Statistics. – World Trade Organisation, 2002 /

http://www.wto.org/english/res_e/statis_e/its2002_e/its02_byregion_e.htm