

**STATEMENT BY MR. VLADIMIR GUTNIK,
HEAD OF THE CENTRE FOR EUROPEAN RESEARCH OF
THE INSTITUTE OF WORLD ECONOMY AND INTERNATIONAL
RELATIONS OF THE RUSSIAN ACADEMY OF SCIENCES, AT
THE SPECIAL SESSION ON INTEGRATION PROCESSES IN THE
OSCE REGION AT THE TWELFTH MEETING OF THE
OSCE ECONOMIC FORUM**

Prague, 4 June 2004

Integration processes in the OSCE area: opportunities and risks

In the second half of the twentieth century integration processes enveloped virtually every region of our planet. They reflected the growing interdependence of national economies in a globalizing world. Political and geostrategic considerations of individual countries have played quite an important role in the establishment of integration associations; however, the principal driving force behind this process was economic co-operation. The internationalization of manufacturing is currently interwoven with increasing competition on global markets, and the role of external economic factors in the development of countries and regions is increasing significantly.

At the start of the twenty-first century, the process of international economic integration did not merely intensify but entered a qualitatively new stage. The European Union (EU), created in the 1950s–60s as a “common market”, has now turned into a multilateral and relatively complete integration system. The economic and monetary union which emerged at the end of the last decade is creating radically new conditions for the mutual adaptation of national socio-economic systems, giving them greater structural and institutional uniformity. More than half of the foreign trade turnover of the EU member countries takes place within the group, and more than 60 per cent of this is intra-branch trade between countries with similar manufacturing structures. To the common foreign trade policy there has now been added a unified monetary policy. A single European currency has been established along with the European Central Bank. This, in turn, requires closer co-ordination of financial policy. A tendency is developing towards convergence in the social sphere and labour markets, and in competition and innovation policy. Consequently, there is not only a merging of markets, a unified economic policy is also taking shape with the creation of supranational institutions, although this process brings a risk of reduced flexibility and freedom of action for national governments, as we have seen, for example, in connection with the Stability and Growth Pact.

The North American Free Trade Agreement (NAFTA) represents a different kind of integration focused on the development of a free trade zone employing every possible means.

However, this group too is concerned not only with the growth of mutual trade but also with a convergence of economic institutions and standards and guidelines for economic activity.

The Commonwealth of Independent States (CIS) was an attempt at integrating the countries of the former USSR so as to prevent complete collapse of the old economic ties and to identify and preserve effective areas of co-operation. The CIS has been able to perform an important function: it put a stop to centrifugal tendencies in the post-Soviet region and provided a basis for the establishment of new economic and political integration structures among its members. By restoring traditional ties and expanding markets, Russia and the other members of the CIS pooled resources and devised new mechanisms for the transition to more highly developed and secure forms of integration — the Eurasian Economic Community (EURASEC) and the Common Economic Space (CES). Shared cultural and social traditions, lasting contacts and a still interconnected infrastructure objectively strengthen integration trends which are becoming more pronounced as the economies of the member countries grow.

Mention should also be made of certain smaller but still extremely important integration groups in the context of European relations, such as the Barents Euro-Arctic Council (BEAC) and the Organization of the Black Sea Economic Co-operation (BSEC). These are forums for regional co-operation, carrying out specific projects that are particularly important for these territories — ranging from radiological safety in the Barents Sea to the creation of the Black Sea Ring transport corridor. Entrepreneurship support (primarily for small businesses), the training of qualified personnel and improved environmental protection are some of the most important areas of work for these organizations. Recently, greater attention has also been given to such joint activities as the fight against organized crime, illicit trafficking in narcotic drugs and arms smuggling. Also of no small importance are BSEC projects aimed at improving the situation of the indigenous population of the North.

The work of integration associations is an example of economic optimization and a mechanism for resolving common problems (ranging from environmental issues to investment problems). It also provides an answer to the challenges of globalization and is the best way of adapting to the new global economic conditions.

There are, however, new problems and risks associated with the development of regional integration. The expansion of integration associations may increase their internal heterogeneity and further complicate the structure of inter-State regulatory bodies and the regulatory framework. Supranational control does not always respond flexibly to the different levels of development in individual countries.

Because of the division of countries into integration groups, there is a high risk that new dividing lines, potentially dangerous for regional stability and good neighbourly relations, will emerge and deepen. The interests of countries who are immediate neighbours of integration associations must be taken into account and any negative aspects that may emerge must be dealt with in good time. The extremely long list of Russian concerns regarding the forthcoming enlargement of the EU to the East was made known as long ago as 1999, but it was only in the spring of 2004 that the parties actually began to discuss them and adopt the necessary decisions. Certain aspects of EU enlargement still mean additional expenses for Russia (for example, problems regarding standardization and certification and deliveries of nuclear fuel). Experience has shown that even the most difficult problems can be solved if people are prepared to compromise and the necessary political will is present.

The special significance of the problem of integration for the OSCE area is primarily due to the fact that there are a number of powerful and influential integration unions within the OSCE area. In addition, questions regarding relations between the different unions themselves and the establishment of broad economic areas are appearing on the agenda more and more frequently. It is time for us to rise above the old problems and fix our eyes and thoughts on the future. What will Europe and the entire OSCE area look like in 20 to 50 years' time? What do we need to do to overcome more quickly the conflicts, disunity and unnecessary barriers and to build smoothly working international systems in the areas of investment, trade, finance, transport and the environment and to achieve general prosperity?

Within its economic dimension, the OSCE can and must play an important role in expanding co-operation between various integration groups and helping to find solutions to common problems and devise new mechanisms for interaction. In so doing, it would be a wise idea to avoid praising some integration associations excessively while disparaging others. It is better to maintain their diversity and search for ways of ensuring the complementarity and harmonization of these associations.

In that connection, various non-governmental and public organizations (committees, foundations, etc.) can play an important role, and are in fact already doing so. They conduct keen and open discussions and campaigns that frequently eliminate problems. For the work of these public groups and committees to be effective, there is a need for a qualitative improvement in the level of information available to the public and greater transparency in the work of official bodies, and this is something with which the OSCE could help.

Academia must pay greater attention to the problems of integration, analysing the strengths and weaknesses of proposed projects and also developing new ideas. Entrepreneurs are helping to develop integration, first and foremost, by intensifying their foreign economic ties. The joint discussion of and search for solutions by business representatives from a number of countries may prove extremely effective.

As for the significance of regional integration in the OSCE area and the possibilities for the Organization to direct and stimulate this process, several points can be made.

1. It would make sense for the OSCE to monitor integration processes (integration projects) and assess the latter on the basis of the following criteria:
 - *Absolute and relative indicators of the intensification of economic ties* (increase in the volume and proportion of reciprocal foreign trade turnover of the countries participating in an integration project, increased importance of export-import operations involving the supply of advanced (science-intensive) products, increase in the volume and diversification of the structure of foreign investment, positive trends in transborder tourist and business trips, etc.);
 - *Qualitative indicators of the results of the development of an integration project* (accelerated production of goods and services in the countries participating in a project, reduced unemployment in those countries, more rapid increase in the standard of living in comparison with other countries, identifiable improvements especially in the border regions most involved in the implementation of integration projects compared to the rest of the country);

- *Indicators of the indirect long-term effect of an integration project* (reduction in inter-State and interregional differences in levels of economic development and quality of life (including environmental criteria) throughout the integration group, elimination of hot spots of political and economic instability in OSCE countries and, what is more, greater mutual understanding and increased confidence between European peoples as reflected in sociological surveys).
2. The principal challenges of globalization in the economic sphere can be linked to growing uncertainty (first, increasingly large amounts of information need to be digested for a successful economic strategy to be implemented in today's world and, second, in a globalizing world there is a need to adapt to new phenomena, for example to financial shocks). In that connection, foreign activity is almost always associated with greater uncertainty than are activities within the national economy. The development of integration projects in the OSCE area is conducive to the gradual formation of a pan-European single domestic market and allows private entrepreneurs to gain a better and more detailed understanding of their foreign partners while enabling the State bodies of the various countries to co-ordinate their economic policy. In this way, *integration development reduces the level of economic uncertainty*.
3. The following points can be singled out as conditions for successful integration in the OSCE area:
- *A similar view among the countries of problems, the solution of which is regarded as an important task by all partners* (and therefore an achievable balance of interests); a consolidation of the efforts of several countries will objectively help to solve these problems as quickly as possible;
 - *The absence of large gaps between the economic development of the various countries participating in integration projects* — in particular, the existence of many potential “donors” in one integration group means that the overall burden is not beyond their capabilities and reduces the risk of a clear-cut economic and political “centre — periphery” model emerging
 - For local integration projects involving neighbouring countries (and more frequently individual regions thereof), *the formulation of a definite goal which is understood by all participants and supported by a substantial portion of the population* and, what is more, need not be purely economic (this is seen most clearly in the development of the European regions, and even beyond the borders of the European Union — and in many cases it is prompted by a desire to unite economic areas or ethno-cultural spaces separated by State borders).
4. The creation of common economic spaces within the framework of the OSCE is the most important goal to be achieved in the medium term.

Russia believes it is necessary to create overlapping common economic spaces in the East and West of the continent. This is reflected in the parallel formation of similar associations — the Common Economic Space (CES) and the Common European Economic Space (CEES). Both provide for the realization of four freedoms (free movement of goods, services, capital and people), the removal of numerous administrative barriers, the

convergence of economic norms and regulations (and where necessary the harmonization of legislation). It is important that these common spaces should not be restricted to the creation of free trade zones but should also ensure more progressive and effective forms of interaction: investment collaboration, production co-operation at the micro level and the implementation of joint projects.

Although the idea of a common economic space of four CIS countries — Russia, Ukraine, Belarus and Kazakhstan — arose only at the beginning of 2003, work has already been completed on a set of measures for its establishment. The Agreement on the Establishment of the CES has been ratified by the parliaments of the four countries, and preparations have begun for specific agreements and laws. This confirms that there is a practical interest in this kind of economic integration structure on the part of all four countries. In addition to the four freedoms, the CES also provides for the creation of unified mechanisms of economic regulation, a common foreign trade policy and a co-ordinated tax and financial policy. The association may be up and running as early as 2005.

The idea of creating a Common European Economic Space, which emerged in 2001, is gradually acquiring more concrete form. It includes among other things the formation of a free trade zone between Russia and the EU. But the interpretation of the CEES is gradually becoming more intricate and complex. At the summit meetings held in St. Petersburg and Rome in 2003, a strategic line was consolidated involving the formation of four common areas: economies and trade, domestic and foreign security, freedom and justice, science and culture. These areas should support one another and ensure reliable stability in co-operation.

5. Interregional and transborder economic ties are conducive to genuine realization of the concept of “a Europe of regions” and place European integration on a higher level. The transfer of integration efforts from the inter-State level to contacts between whole territories is making the idea of European integration something people can understand and helping to develop new forms of economic co-operation.

The broad institutional basis, comprehensive nature and flexibility of the OSCE along with its creative potential make this Organization an important instrument for directing and stimulating economic integration linked with the goal of ensuring security, environmental balance and the rights and freedoms of the individual. This link affords the best possibility of achieving one of the central aims of the OSCE — a Europe free of dividing lines.