CICLO DEL
DOTTORATO DI RICERCA IN

POLITICHE TRANSFRONTALIERE PER LA VITA QUOTIDIANA
TRANSBORDER POLICIES FOR DAILY LIFE

INTERNATIONAL MANAGEMENT AT THE END OF XXI CENTURY
(MANAGERIAL STYLES UE AND USA)

(SETTORE SCIENTIFICO DISCIPLINARE
STORIA DELLE RELAZIONI INTERNAZIONALI)

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INTRODUCTION

Argument

The study of international relations derives from the history of diplomacy and international law. Today the subject is as interdisciplinary as it deals with time elements (history)-events, space dimensions (geography)-place, power (political sciences)-state/actor, economic state (economic sciences)-market, social behavior (sociology)-social system, culture (anthropology)-cultural system, personality of actors (psychology)-individuality.¹

Because we live in a fast changing world where a partnership of the nations is tending to be based on consultation, cooperation and collective action, commitment for a universal “good” which has as a purpose peace, prosperity, democracy and reducing terrorism and as an international community, one of the priorities of many states, amongst which we can easily mention the United States as the promoter of a new world order and along with it the European Union which has gain more and more power and out speaks its values in the international scene.

The subject itself of the thesis is of a big importance due to its perspectives on global-national duality. The interest in updating and intruding in this issue is represented by the way state-actors relate to this consequence of globalization, how they reach competitiveness, how the reorganize and how they promote themselves. It was intriguing indeed setting USA and UE as the “leading actors” in this analysis. It is targeted to be a research study that can mirror the increased integration, the fast changing international scenarios, the complexity of the world economy, and relating these aspects with two of the biggest world powers.

The analysis is even more challenging as the present international relations are influenced by a crisis that began as a financial crisis in a handful of industrialized economies continues to spill over into the real economy, engendering massive contractions in consumer demand, rising unemployment, and mounting protectionist pressures worldwide. Developing countries have not been spared from its fallout; many are now facing slumping demand for their export products along with falling commodity prices, significant reductions in foreign investment and remittances, and a more general liquidity shortage.

¹V. Puscas- Relatii Internationale/Transnationale, Cluj-Napoca, Ed. Sincron, 2005, pg 19
The strong interdependence among the world’s economies makes this a truly global economic crisis in every sense. Policymakers are presently struggling with ways of managing these new economic challenges while preparing their economies to perform well in a future economic landscape characterized by growing uncertainty. In a difficult global economic environment, it is more important than ever for countries to put into place strong fundamentals underpinning economic growth and development.

The paper seeks to bring its contribution to enhancing the understanding states managerial styles, their vision, resources, commitments interests, agreements, their international relation, the power they have, they lack, the interdependence between them, world system of analysis and its evolution, the impact of the financial crisis, which countries are more successful than others in raising income levels and opportunities for their respective populations. And in this global perspective there were set two important actors: European Union and United States of America, that have been investigated from their political, social, economical point of view, relating them to global competitiveness, as a preset challenge of the international system.

Some of the present changes go far back in time, when through the 1980’s the Third World was disciplined by changing its revolutionary projects regarding national development with taking part into economic strategies by some institutional organizations. The large diversity of countries form the Third World, ranged widely from economically primitive to economically advanced and from politically non-aligned to Soviet or Western leaning. The only characteristic common the third world countries had, was that their governments “demand and receive Western aid”.2

United States on international scene don’t have a favorable position anymore to establish the” global agenda anymore, so it has shrine its power to shape the rest of the world”). As an external policy America is very powerful. The American military power will definitely remain at the top for the following decades, and the military participation in small scale conflicts will still be part of the American foreign policy.

The new power centers common for the beginning of 21st century Western Europe, Japan, China and India, are on the track of changing the world’s former order, but will live sufficient room for the older powerful states.

The common values restricted the nations’ pretentions while the equilibrium limited the capacity of insisting on it. Controlling the power of central administration has always been a great preoccupation of occidental theoreticians while, in the majority of other societies the politic theory tried to undermine the state’s authority. Wherever equilibrium is established between values and necessities the foreign policy must begin with what it represents a vital interest.

International commerce has been thought to have a potentially pacifying effect on international life. Economic interaction is the guarantee for the development of regions or of the world. The economic interconnection lead to changes in the world’s actors and changed also the nature of their interest. We must always be aware of the implication in international relations of the states as economic actors.

XX century ended at the beginning of 90’s with the strategic end provoked by URSS’ implosion. This event marked first a profound geostrategic transformation and redefined the nature of international relations. The main actors, the states, saw the old players occupying a more and more important seat on international scene and they already request secondary positions. These non-state actors shake the existing order, modify the rules of the game, while the former „leading actors” try to resist to transformation. In the year 2000 the world suffered still from the end of Cold War. It is a world in full mutation, in which the elements of the past are mixed with those of the present and future. The world is being governed by the force balance. The power and influence of the most powerful states dictate the nature of international relations. Globalization had effects on state not only from economic point of view but also it became a “measure of transformation” for the states. So states, primarily known for their economic functions, some of these functions being later on delegated to other states or to the global market, follow its domestic economic interest, acting globally as a consequence of this priority. Since the 1980 with the free market liberalism, the competitiveness of every state has become an integrating part of states’ policy and with this economic integration some states faced a certain

3 Clark Ian- “Globalization and International Relations theory”, Ed. Oxford, pg. 90
erosion of national sovereignty. So states “are not only the vehicles of globalization, but are also themselves reconstituted by it”4.

This divided world doesn’t correspond to the religious separation, or to the antagonisms of millenary civilization, not even to the strict opposition between poor and reach. This new world order it is developed on the increasing divergences on the founding principles of international political life; starting with 1945: territorial sovereignty, national independence, intangibility of the frontiers. We can distinguish two poles in this new divided world. On one hand there is USA and its affirmation of a political and economical model, which combines democracy and a liberalism not so well organized from sociological point of view. USA has developed a strong network of partners and allies in Europe, Asia and Middle Orient, and holds a strong military force. The United States don’t seek an imperial vocation, but a sort of a leadership. This leads to a general distrust, given also to the lack of a clear doctrine established by the USA, but an opportunistic strategy that follows its interest and some conjectural variations of its external policy.

On the other hand there are the worried states after the Cold War. This developed a strategically-political speech which claims multipolarity, in the detriment of a unipolar world under USA’s hegemony, countries like China, Russia, India, and their partners from Central Asia.

Rochester and Pearson5 sustain that international contemporary system( after 1989) it is very ambiguous and we deal with a diffusion of power and a certain fluidity of alliances, a complicated interdependence network associated to national security; the importance on non-state actors increases, and therefore the connections at sub national, transnational, intergovernmental levels.

When we talk about international system and its interdependencies, there is obvious some asymmetries, and the need for a stronger presence of some states on the international scene, which would explain also the association of some states, especially in economic groups, that can assure them the presence in the international system. The growing importance of international organizations and non-state actors (sub national and transnational), makes the integration process

4 Ibidem- pg 93
in the system, even more necessarily. The existence of some un-adapted countries, refusing globalization had no influence as the international system gathers all the state-actors and requires not just presence, but performance, in order to assure its stability.

Even if today international relations know other actors as well, mainly collected from the different structures of societies, like public opinion, transnational corporations, mass-media, international ideologies, parties and religion, the state remain the privileged actor of international relations, the one that participates at elaboration and application of international law norms, which leads to putting into practice some regulations of specific domains (economic, cultural, etc), in components of international relations.

International relations are the expression of certain force balance that can be translated into the power that some elements of the system have, to give orientation, features and the capacity to influence or determine the behavior of other elements. In reality of international relations these are the consequences of a balance of power.

We can say that international order is the result of actors’ identity, especially their power and the set of values they promote and also the quality of the relationship between them, envisaging the stability of the system. Defarges\(^6\) considers that we can distinguish two types of order through history: empire – when a unique center governs its different components and equilibrium- when more powers opposing or in the same line, doesn’t want to dominate the others. In this two cases it is important that the hierarchies be stable and clear and that the actors accept them. The most important test of power is war, because the greatness of a state relies in its political-military force that can commit to a conflict. The order is then set by the winner. In the same time the military force relies on scientific and technical development, that means industrial, economical, financial and human resources.

The new world order is a transition product from the old order to a new one, that will represent instauration in international relations of justice, democracy and prosperity principles, which illustrates nonetheless USA’s interests and values, along with the ones of humanity. Even if in the past USA could adopt a isolationist politic, or to interfere in those areas that reflected better its interests, now, it still active, cause the objective is to sustain American peace interest

(humanitarian intervention, eliminating unconventional conflict sources, elaborating a new strategic concept for NATO, establishing new partnerships (peace, strategic ones).

The new about the new world order is the fact that for the first time USA cannot retire and cannot govern the world. J.F Kennedy declared in 1961 that USA is strong enough to “pay any price and to wear any burden” to assure the success of freedom. After five decades USA can no longer insist on immediate attainment of all its wishes. Other states reached the status- great power. USA is now in the situation of reaching its goals in stages, objectives that now are a mix between American values and geopolitical needs.

E.Wallerstein agrees that we assist at the reorganization of inter-state developing process determined by the typology of resulted relations by reorganizing global economy, the evolution of old and new political-military alliances, the eventuality of new ideologies. It is also important to monitor the options, evolutions, relations USA, Japan, China, and UE. The interactions in the international system will receive features from the evolution of global economy. 7

Like a law of nature, in every century there is a country that influences international system by power, will and intellectual impulse according to its own values. In the 17th century France has introduced the modern approach of international relations based on nation state. In the 18th century Great Britain elaborated the concept of power equilibrium that governed the European diplomacy for the next 200 years. In the 19th century Austria reconstructed Europe’s unity and Germany removed it, re-dimensioning European diplomacy that of a strong political game, played with composure. In the 20th century USA has determinately influenced international relations. It has insisted on the inadmissibility of interference within internal affairs of other states and claimed that its values are universally valid. “USA has been pragmatic in guiding its own diplomacy and ideologist in respecting and following it historical moral beliefs”8.

The features USA gained throughout history got to two contradictory attitudes toward external politics. The first is that USA serves best its values perfecting its democracy at home; and the second is that USA’s values leads to a world crusade, so its position was between isolationism

and commitment, even if after the World War II the relations were more based on interdependence. So a new international order could function if it is based on democracy, free commercial trades, and international laws, but it is rather a utopia than a possibility. USA had the best governance system in the world and the rest of the world could have reached peace and prosperity only by abandoning traditional diplomacy and adopt United States’ respect for democracy and international laws.

Europe on the other hand adopted the policy of balance of power, when its dream of medieval empire crashed, and a lot of other states with an equal power came out.

USA has never belonged to a balance of power system. The relative power of USA diminished gradually. The absence of a clear adversary produced an internal pressure oriented towards switching the resources to other priorities. When there is no threat and every country perceives its dangers from national perspective, those states that had the American protection will be forces to assume a greater responsibility for their own security. Therefore the operation of the new system will go towards a balance position even in the military field, even if it can take several decades to get there. These tendencies will be more pronounced in economy where the American superiority is already in decline, and competing with USA has become a less adventurous thing.

The international system of the 21st century is marked by an apparent contradiction: fragmentation and globalization. At the level of relationships between states the new order will look more alike the European state system for the 18th and 19th century. The system now deals with at least six great powers: USA, EU, China, Japan, Russia, India and lots of small and medium countries.

Now for the first time the international relations became really global. Communications are instant; the world economy operates on all continents simultaneously. The nuclear proliferation, the environment, the demographic explosion and economic interdependence can be discussed only at global scale\textsuperscript{9}.

The international systems have a precarious life. Every global order aspires to immanency. The composing elements are on a constant flow, and by every century, the life of international

\textsuperscript{9} Ibidem, pg. 20-21.
systems has gotten shorter. The order after the Westphalia Peace held 150 years. The one after the Vienna Congress 100 years, the order which followed the Cold War ended after 40 years. So we are facing a rapidness of interaction, of changing objectives so profound and globally.

The European nation of 19th century was based on common language and culture and due to the time technology, it was settled the perfect setup for security, economic growth, and influence on international events.

The discussions on continental states, that are the unit bases for the new world order, are India, China, EU, USA and Russian federacy. These states have radically modified the substance, the method and the spread of international relations. Before the modern period, the different continents reached their activities, mainly being isolated from the others. Once the expanded technology incidence, the future of these continents was determined by the European powers “concert”. So we are dealing with big power centers, spread all over the world, a world where events can be lived instantaneously and simultaneously by leaders and their audience.10

Europe can become a very strong “global center” based on its monetary system that has to be strong enough and of course an efficient management of relations with central-south-eastern area and ex-soviet space. For Africa and Latin America there are still question marks regarding their evolution. Significant changes will involve Middle Orient, India, and China. And some of the rising problems of 21st century are: demographic and ecologic evolution, North-South relation, the consequences of hyper industrialism, relation between cultural ideas and communicational means, proliferation of guns.

First the new world order can be defined by complexity and unpredictability of the relations (security, economic, cultural, ecologic, etc). The tendency is that toward rationalism, but the international system, even if only at the beginning, it will be structured by interaction strategies, negotiation methods, increasing positive data, and not the dangers, by important actors’ behavior, by a proper international management.

10 H.Kissinger Diplomatia, Ed.All Bucuresti,1998 pg 730
I. METHODOLOGY

This chapter presents the research methods, the study area; the subjects for analysis the design of the thesis, and some starting hypothesis. The purpose of this thesis is to emphasize the general concepts of international management with notions of organizational sociology that translates in a closer view to the UE and USA external and security policy. The subject has been chosen to give an up to date perspective on nowadays international importance issues.

The target of the study is to launch imminent conclusions on the global evolution and to set some features for the developing international management, and then to conclude with the shaping of “new” international managerial styles.

1. The Research Method

This study will make use of the descriptive correlation method of research as it was aimed in the evaluation of international management scene. Data collection will consist of gathering information on international relations management and the present situation between the states, all sorts of interstate collaborations, projects, trends, types of state actors, international institutions that support the international cooperation, etc.

The research will incorporate surveys of current agreements, state and non state organizations, projects, etc. to identify areas of concern and beliefs or attitudes regarding the continuously changing international “scenery”. Data generated from this research will be compared to the data generated by studies of other projects that have been researched, the results of which are correlated with the literature review used.

In order to answer the research questions posed at the outset of this study, specific criteria for subject inclusion must be established. Data collection consists of gathering prolific materials, comparing the inherent characteristics (the management of the cooperation, the management of conflict and the management of crisis) of two of the most important powers in the world: USA and UE.
2. The Study Area

The study itself is an interdisciplinary one, therefore, several domains have been reached in the research exercise and analysis of thesis’ subject: political science, sociology, organizational psychology, external and security policy, economy, culture.

Although many papers have aimed at describing the evolution of the International Management field, most of them have applied a subjective approach. Instead of trying to establish the most current research lines or interests, the thesis investigates the global structure that serves as a basis for the international management research. To achieve this aim, it has been tried to identify the main research trends used in the most relevant international management journals, books, articles. By means of the present analysis, it is intended to analyze the most recent publications, mainly, from 2000 to present, identifying the main trends and analyzing their dissemination present paradigms. The paper follows the sociological method, the qualitative approach, and seeks to determine leadership profiles by the use of organizational psychology, and speech construction in the characterization of state actors.

International management research seems to be victim of an identity crisis. It is not clear what makes international management different enough to regard it a separate research field. In this paper it is argued that this has to do with the tendency in international management research to adopt a methodology akin to the logical-empiricism of the natural sciences (the word ‘methodology is used here to refer to the ontological and epistemological assumptions on which research is based). If the challenges formed by the unique character of the field of international management are thought through radically, this leads to a turn away from the logical-empiricist model, and towards a methodology which does justice to the fundamental problems of bridging distance which are typical for international management. This distance can be of a geographical, social, political, economic, cultural or linguistic nature. The problem of bridging distances exists for practitioners of international management, as well as for researchers in this field. The problem of bridging the distance between the cause and the effect to be interpreted is discussed as a particular methodology for international management research.
The analysis starts with a review of the management field and the various meanings given to international when it prefaces the word management. There is also a review of the paradigms associated with international management inquiry and find them helpful for defining the domain of international relations inquiry. Finally, it is concluded that a distinction needs to be made between international management inquiries, one that extends beyond national borders. Internationalized management inquiry seeks to verify culture-bound management theories, concepts, and principles. International management inquiry adds either distinctive or unique knowledge to the body of management knowledge.

What justifies international management as a field of study? What differentiates international management from international business? These issues are to be discussed further on after the descriptive part of the thesis as coercive results.

The thesis aims to apply social science theory to the analysis of the conduct and management of international actors; to present and criticize concepts such as globalization, regionalization, national competitiveness, trans-nationality, cooperation, union, agreements, etc. in the context of international management structures and processes; to delineate the international political, economic, social and legal structures and environments within which the activity of management evolves.

The topics to be covered will include: the nature of the contemporary global political economy; the globalization of state-power management, interrelating and dividing and sharing global responsibility; global competition; the transnational cooperation in the global economy; the tension between globalization and regionalization; the international trading order; the international monetary regime; the impact of culture on global business; the changing position of the state in the global economy; the new diplomacy of states and international organizations.

This paper will seek to explore the possibilities of linking content analysis with discursive approaches, as applicable to research conducted in the field of International Relations. The point of departure is the critique of content analysis stemming from discourse analytical approaches, and the tendency to couple content analysis with often only vague discussions of context. The paper will attempt to take a more pragmatic approach to this problem.
By engaging the research purpose in an overall analysis where the study of present global scene preceded by the historical facts as its source of validity, the study will lead to more constructive results that can decelerate the inductive information and transform it in a deductive reception.

International relations represents the study of foreign affairs and global issues among states within the international system, including the roles of states, inter-governmental organizations, non-governmental organizations, and multinational corporations. It is both an academic and public policy field, and can be either positive or normative as both seek to analyze as well as formulate the foreign policy of particular states. It is a political science and an interdisciplinary field of study. Apart from political science, international relations management draws upon such diverse fields as economics, history, international law, philosophy, geography, sociology, anthropology, psychology, and cultural studies. It involves a diverse range of issues including but not limited to: globalization, state sovereignty, ecological sustainability, nuclear proliferation, nationalism, economic development, global finance, terrorism, organized crime, human security, foreign interventionism and human rights.

Further, a handful of states have moved beyond the nation-state system and can be considered "post-modern". The ability of contemporary international relations discourse to explain the relations of these different types of states is disputed. "Levels of analysis" is a way of looking at the international system, which includes the individual level, the domestic nation-state as a unit, the international level of transnational and intergovernmental affairs, and the global level.

A key difference between the two big state actors in the present scene and how their power is exercised, what is meant by “power”; what makes it up, how it is experienced and how it is reproduced, state interactions, size of military forces, and balance of powers, giving a new approach to the contemporary international pulse.

International relations theories can be roughly divided into one of two epistemological camps: "positivist" and "post-positivist". Positivist theories aim to replicate the methods of the natural sciences by analyzing the impact of material forces. They typically focus on features of international relations such as state interactions, size of military forces, balance of powers etc. Post-positivist epistemology rejects the idea that the social world can be studied in an objective
and value-free way. It rejects the central ideas of neo-realism/liberalism, such as rational choice theory, on the grounds that the scientific method cannot be applied to the social world and that a 'science' of international relations is impossible.

Poststructuralist theories of international relations that developed in the 1980’s from postmodernist studies in political science are also important for the presentation of the international theories. Post-structuralism explores the deconstruction of concepts traditionally not problematic in international relations, such as “power” and “agency” and examines how the construction of these concepts shapes international relations. The examination of “narratives” plays an important part in poststructuralist analysis.

The concepts in international relations are sketched in the following of the international theories: conjunction, systemic level concepts, polarity, interdependence, dependency, diplomatic systemic tools just to give a wider perspective on the theoretical background that has developed the international society. Then the unit level concepts often referred to as the state level, as it locates its explanation at the level of the state, rather than the international system (regime type, revisionism/status quo, religion). Here it can be added the sub unit level concepts which can be useful both for explaining factors in International Relations that other theories fail to explain, and for moving away from a state-centric view of international relations. (Some of them are: psychological factors, bureaucratic policies, religious, ethnic, and secessionist groups; science, technology and international relations, international political economy, and economic factors in international relations).

In addition to this, international institutions form a vital part of contemporary International Relations. Much interaction at the system level is governed by them, and they outlaw some traditional institutions and practices of International Relations, such as the use of war (except in self-defense). And here we mention the important role international organizations play in this whole global picture. As humanity enters new dimensions of civilization, some scientists and political theorists see a global hierarchy of institutions replacing the existing system of sovereign nation-states as the primary political community.
The subject it is of big importance due to the role it plays in the decision making process, for the international conjuncture, for the freedom of action and equality. Therefore it’s precisely the investigation of the state-actors in the world that sets the different types of results and conclusions. International relations management viewed as a broad concept that defines and shapes the international political scene and state management styles. Afterwards the interest leans on the “power” argument- as a degree of resources, capabilities and influence in international affairs. So we can talk about hard actors, soft actors, about the states and their growing interdependence, the mutual responsibility and dependency on others, the external policies that become the peers of the current international system.

It is also important to be seen the role that the international institutions play, and the widespread acceptance of a number of operating principles in the international system, reinforces ideas that relations are characterized by interdependence.

The two actors that make the subject of the analysis USA and EU are investigated from different perspectives, the diplomacy aspect, and their globalization level, their ideologies, their beliefs and culture mergence, religion, their social political and economical systems, their vision and also in correlation with other significant actors.

Still the main interest point in the whole analysis remains the foreign policy making, along with the security policy, and the international institutions that form a vital part of contemporary international relations and their interaction at the system level. Security policy is a high level definition of secure behavior. It reflects the requirement to maintain the survival of the nation-state through the use of economic, military, political power and the exercise of diplomacy. So the study of the external policies both of EU and USA, will include the measures taken to ensure national security: using of diplomacy to rally allies and isolated threats, marshalling economic power to facilitate cooperation, maintaining effective armed forces, the implementation of civil defense, emergency measures(anti-terrorism), resilience and redundancy of critical infrastructure, the use of intelligence services- to detect and defeat, or avoid threats and espionage, and the protection of classified information, the use of counterintelligence or secret police for the internal threats.
The study case will emphasize the global competitiveness of the European and American system, its interference in the worldwide concern on the global evolution, the implications different level of collaboration have, some predictions in international system, and to conclude, identifying some future directions of the international managerial styles.

3. Current aspects

The present international system refers to three different dimensions: the system, the state and society and thirdly the individual. The actors are: the states (nations), non-governmental organizations (transnational corporations), intergovernmental organizations, and actors-networks. The role of state actors is to express and represent population belonging to a certain territory, is capable to combat threats( including war), the governments are responsible for the population’s welfare and security, only governments are enhancing sovereignty.

The role of non-state actors is to: introduce an issue on the international diplomatic agenda, presenting to the citizens some regional or global issues, to make lobby for governments or international organizations in the scope of satisfying its own interests and the role for a direct action, sometimes even by the use of force.

The structure of an international system has to do with the distribution of power, or the “balance of power”. It means how the power is distributed at regional and global level, then the status-quo of the balance of power, and of course the system itself.

It is interesting to see also the existing connections between states and the different forms of interaction: commercial interaction, academic and scientific conferences, foreign investments, sport competitions, different non-governmental conferences, governmental meetings, inter-governmental organizations, and wars.

The external policy is very important for each state because it expresses globally its interests as a nation, the political diplomatic and economic instruments. So states from this point of view are creative, dynamic, on the international scene, or there are those state-actors who prefer to remain reactive.
According to Holsti there are four common purposes to the contemporary states: national security (diminishing the vulnerabilities), autonomy (acting according to their interests), state and citizens’ welfare, the status (position of the state in a certain time period).

Operational methods in external policy deal with searching for common interests and goals (multilateralism_- the state is involved in global or regional relations, with bilateral expression (state to state).

The interdependence is frequently associated with international relations. The importance of this interdependence has its origins at the beginning of international commerce; analyzing the interdependence between states means observing the national economy and its sensitivity to certain fluctuations, the way they relate to global competitiveness. Its level reveals the level of integration in the international system. So as a normal consequence of the growth of this interdependence is the proliferation of commercial agreements.
II. THE ROLE OF INTERNATIONAL MANAGEMENT

1. Presentation

The need to see how the emergence of a global economy and a globe trade market has transformed the world into one massive business division it is still one of the main preoccupations, also regarding diverse work force in a global context and in particular how the diversity will represent a challenge for the future.

In our rapidly changing world the demand on countries to produce, expand, develop and advance has become overwhelming. International competition for goods and services has passed many borders.

The role of management in such a dynamic environment is very important. The new changing waves in international economy rely on these international dimensions of business, the ability of a country to be competitive at the international level that will influence the demand for goods and services all over the world.

International management seen as a process of applying management concepts and techniques at a multinational level, at a structure composed from different cultures\(^{11}\), was generated by globalization and internationalization with the purpose to develop and to maintain a competitive advantage. Cultural impact on international management is given by the basic beliefs and conceptions of people. Here rises the importance of intercultural studies with its attitude similarities and differences.

International business management refers to the changes of the international system by its international organizations and institutions, to the manner in which states agree upon international rules, and upon solutions to international problems, and to an efficient use of material, organizational and human resources. Governance sees international management not as a result but as a continuous problem solving process, with the involvement of all types of actors.

In this sense, international politics has two main subjects: conflict and cooperation. The sources of cooperation can be: governments, cooperation exigency through communication, trade, and institutionalization, the necessity of coordination instruments, competition that doesn’t exclude

cooperation, common interests, problems and threats, multiplication and complexity of relations between actors. The forms of cooperation are bilateral- between state and non-state actors, multilateral and international regimes- set of norms principles that guide transactions and problem solutions that affect more states. We can talk also about a security through cooperation that can be identified through states that eliminated the use of force in their agreements. If cooperation has been mentioned there is also need to sketch conflict and crisis management. In international relations there are actions, interactions, harmony, dependence, dominance and conflict relations. The conflict is the consequence of the will of space control (territory, strategically territory, frontiers), of state creation (national freedom, national unification, secession) and ideology (government composition, ideology differences, ideological protection).

The possible results of international conflicts are: avoiding or annulling initial conflict position, conquest by use of force, submission by stopping opponent part under threat, compromise by both parties admitting partial withdrawal of initial objectives, legal decisions or a passive regulation- when states accept a new status quo as a consequence of the conflict situation’s length. That is why in solving the international conflicts, international organizations along peace keeping organizations play a very important role. The conditions of peace follow different level interest: state, regional and global interest and it can involve: institutions, states, nongovernmental organizations, persons or groups.

There are some considerations on international competitiveness just like in the case of American products, that were widely known and just the label “made in USA” was a guarantee of quality and durability. So there was no real interest or need to compete in international markets. The United States was rich in natural resources and this led to a degree of independence and self-sufficiency. USA also had the largest consumer market and was on the top of world’s technology and management. This combination enabled the United States to become one of the most productive of all industrialized nations. Increasing productivity assured a high standard of living and made U.S economy one of the most developed in history. But the management abroad lacked. Business was concentrated between the country’s borders and not concerned with the rest of the world. The world has advanced dramatically in all areas of life, mostly communication and travel, shortening the time and space through all the innovations in these two fields. This meant only favoring the trade sector and spreading commerce all over.
With the growth of international trade and investment, and the emergence of Multinational Corporation, the utilization of resources has become more efficient. This brought economic progress and an increasing prosperity for many nations. Still there were some difficulties that came along with all these developments. We can mention cultural differences, trade policies, the division of economic benefits.

It is obvious that today there are different power holders and a pertinent hierarchy it’s almost impossible to do. However the international system is stratified in term of power but the “stratification does not lend itself to predicting winners and losers quite as easily as in the past”\(^1\).

We can define power as a sum of capacities and resources one state can employ and mobilize, but it would be more helpful if we were to express to power as an influence relationship, meaning the manner in which a state can influence others not only in base of the resources one state has, but also in base of those factors, (resources, availability, interest, importance, relationship, etc), better sais a situation-specific.

The contemporary international system is stratified in terms not only of power but also of wealth. The less developed countries today include a wide assortment of states: the “nouveau riche” but still in many economic ways underdeveloped, and politically fragile, OPEC countries such as Saudi Arabia, that are becoming highly industrialized, and are classified by the World Bank as “upper-middle income”, or in some cases “high income” economies, such as Brazil, Mexico, South Korea and Singapore, another group including Thailand, Malaysia and Indonesia; the group of the “forth world” Bangladesh, Ethiopia, and other that don’t belong to any of these categories. The developed countries range from the most highly developed and wealthiest market economies such as USA, Japan, and most members of the European Union to the less wealthy countries of the eastern European economies.

Two authors have suggested that the world can be divided in seven groups of nations:\(^{12}\)

“Almost four fifths of the measured economic activity on earth is still generated by two dozen richer countries: USA, Japan, Canada, Australia, New Zeeland, South Africa, and the nations of Western Europe.

Eight countries, though still poor by many measures, have entered the industrial age to become large scale manufacturers of a broad range of products. This group is represented by those countries aspiring to become middle class in the global economic hierarchy: Brazil Mexico, Argentina, India, and the so called “Asian tigers”: Singapore and South Korea.

A third group of nations has achieved some limited industrialization but they are still predominantly dependent on agriculture, and only few of them have real perspectives of becoming members of the industrialized world soon: China, Thailand, Indonesia, Malaysia.

The former communist countries of Eastern Europe make up a fourth group of producers for the global market. Despite the relatively high state of industrialization most of them find it rather difficult to compete for foreign investment, with Asia, Latin America countries, etc.

Most of the dozen oil-exporting countries belonging to OPEC constitute a fifth set of countries. The sixth set is made up of forty poor countries that are situated just above the bottom of the global economic pyramid; these countries rely on the production and export of primary commodities, such as Bolivia, Ghana, and Zambia.

The poorest of the poor are forty-seven least developed countries, almost all of them in Africa and these make up the seventh group. They are so poor that the only economic connection they have with the rest of the world is pretty much limited to cashing relief checks and opening bags of food from government and private relief agencies”.

2. Concepts in international relations

*Conjuncture*

In decision making in international relations, the concept of International Conjuncture, together with freedom of action and equality are important elements. Decision makers must take into account the set of international conditions in taking initiatives that would create different types of responses.
**Systemic level concepts**

International relations are often viewed in terms of levels of analysis, the systemic level concepts are those broad concepts that define and shape an international milieu, characterized by Anarchy.

Darkest blue countries most often considered to be superpowers, dark blue countries most often considered to be great powers, pale blue countries most often considered to be middle powers, and palest blue countries also sometimes considered to be middle powers.

The concept of power in international relations can be described as the degree of resources, capabilities, and influence in international affairs. It is often divided up into the concepts of hard power and soft power, hard power relating primarily to coercive power, such as the use of force, and soft power commonly covering economics, diplomacy and cultural influence. However, there is no clear dividing line between the two forms of power.

**Polarity**

Polarity in International Relations refers to the arrangement of power within the international system. The concept arose from bipolarity during the Cold War, with the international system dominated by the conflict between two superpowers, and has been applied retrospectively. Consequently, the international system prior to 1945 can be described as multi-polar, with power being shared among Great powers. The world in 1910 was multipolar with many empires.

The collapse of the Soviet Union in 1991 had led to what some would call unipolarity, with the United States as a sole superpower. However, due to China's surge of economic success after joining the World Trade Organization in 2001, combined with the respectable international position they hold within political spheres and the power that the Chinese Government exerts over their people (consisting of the largest population in the world), there is debate over whether China is now a superpower or a possible candidate in the future. Several theories of international relations draw upon the idea of polarity. The balance of power was a concept prevalent in Europe prior to the First World War, the thought being that by balancing power blocs it would create stability and prevent war. Theories of the balance of power gained prominence again during the Cold War, being a central mechanism of Kenneth Waltz's Neorealism. Here, the concepts of
balancing (rising in power to counter another) and band wagonning (siding with another) are developed.

Hegemonic stability theory (developed by Robert Gilpin\textsuperscript{13}) also draws upon the idea of Polarity, specifically the state of unipolarity. Hegemony is the preponderance of power at one pole in the international system, and the theory argues this is a stable configuration because of mutual gains by both the dominant power and others in the international system. This is contrary to many Neorealist arguments, particularly made by Kenneth Waltz, stating that the end of the Cold War and the state of unipolarity is an unstable configuration that will inevitably change.

This can be expressed in Power transition theory, which states that it is likely that a great power would challenge a hegemon after a certain period, resulting in a major war. It suggests that while hegemony can control the occurrence of wars, it also results in the creation of one. Its main proponent, A.F.K. Organski, argued this based on the occurrence of previous wars during British, Portuguese and Dutch hegemony.

\textit{Interdependence}

Many advocate that the current international system is characterized by growing interdependence; the mutual responsibility and dependency on others. Advocates of this point are represented by growing globalization, particularly with international economic interaction. The role of international institutions, and widespread acceptance of a number of operating principles in the international system, reinforces ideas that relations are characterized by interdependence.

\textit{Dependency}

Military exercises often help increase strategic cooperation between countries. Shown here are Indian Navy, Japan Maritime Self-Defense Force and U.S Navy ships in formation, during a trilateral exercise in 2007.

Dependency theory is a theory most commonly associated with Marxism, stating that a set of Core states exploit a set of weaker Periphery states for their prosperity. Various versions of the

\textsuperscript{13} R.Gilpin- \textit{The rise of the American hegemony}, 2002, page 165
theory suggest that this is either an inevitability (standard dependency theory), or use the theory to highlight the necessity for change (Neo-Marxist).

**Systemic tools of international relations**

Diplomacy is the practice of communication and negotiation between representatives of states. To some extent, all other tools of international relations can be considered the failure of diplomacy. Keeping in mind, the use of other tools are part of the communication and negotiation inherent within diplomacy. Sanctions, force, and adjusting trade regulations, while not typically considered part of diplomacy, are actually valuable tools in the interest of leverage and placement in negotiations.

Sanctions are usually a first resort after the failure of diplomacy, and are one of the main tools used to enforce treaties. They can take the form of diplomatic or economic sanctions and involve the cutting of ties and imposition of barriers to communication or trade.

War, the use of force, is often thought of as the ultimate tool of international relations. A widely accepted definition is that given by Clausewitz, with war being "the continuation of politics by other means". There is a growing study into 'new wars' involving actors other than states. The study of war in International Relations is covered by the disciplines of 'War Studies' and “Strategic studies”.

The mobilization of international shame can also be thought of as a tool of International Relations. This is attempting to alter states' actions through 'naming and shaming' at the international level. This is mostly done by the large human rights NGOs such as Amnesty International or Human Rights Watch. A prominent use of was the UN Commission on Human Rights 1235 procedure, which publicly exposes state's human rights violations. The current Human Rights Council has yet to use this Mechanism.

As an example of the allotment of economic and of diplomatic benefits is the European Union's enlargement policy. Candidate countries are allowed entry into the EU only after the fulfillment of the Copenhagen criteria.
As a level of analysis the unit level is often referred to as the state level, as it locates its explanation at the level of the state, rather than the international system.

It is often considered that a state's form of government can dictate the way that a state interacts with others in the international system. Democratic Peace Theory is a theory that suggests that the nature of democracy means that democratic countries will not go to war with each other. The justifications for this are that democracies externalize their norms and only go to war for just causes, and that democracy encourages mutual trust and respect. Communism justifies a world revolution, which similarly would lead to peaceful coexistence, based on a proletarian global society.

States can be classified by whether they accept the international status quo, or are revisionist, or they want change. Revisionist states seek to fundamentally change the rules and practices of international relations, feeling disadvantaged by the status quo. They see the international system as a largely western creation which serves to reinforce current realities. Japan is an example of a state that has gone from being a revisionist state to one that is satisfied with the status quo, because the status quo is now beneficial to it.

It is often considered that religion can have an effect on the way a state acts within the international system. Religion is visible as an organizing principle particularly for Islamic states, whereas secularism sits at the other end of the spectrum, with the separation of state and religion being responsible for the Liberal international relations theory.

The level beneath the unit- state level can be useful both for explaining factors in International Relations that other theories fail to explain, and for moving away from a state-centric view of international relations.

Psychological factors in International Relations - Evaluating psychological factors in international relations comes from the understanding that a state is not a “box” as proposed by Realism, and that there may be other influences on foreign policy decisions. Examining the role of personalities in the decision making process can have some explanatory power, as can the role of misperception between various actors. A prominent application of sub-unit level psychological factors in international relations is the concept of Group think, another is the propensity of policymakers to think in terms of analogies.
Bureaucratic politics - Looks at the role of the bureaucracy in decision making, and sees decisions as a result of bureaucratic in-fighting, and as having been shaped by various constraints.

Religious, Ethnic, and secessionist groups - these aspects of the sub-unit level have explanatory power with regards to ethnic conflicts, religious wars, transnational Diaspora and other actors which do not want to fit with the defined state boundaries. This is a particularity in the context of the pre-modern world of weak states.

Science, technology and international relations- and how they impact the global health, business, environment, technology, and development are seen as international political economy and economic factors in international relations.

International institutions form a vital part of contemporary International Relations. Much interaction at the system level is governed by them, and they outlaw some traditional institutions and practices of International Relations, such as the use of war. As humanity enters the Planetary phase of civilization, some scientists and political theorists see a global hierarchy of institutions replacing the existing system of sovereign nation-states as the primary political community. They argue that nations are an imagined community that cannot resolve such modern challenges as strangers in a homogeneous community, the legal and political status of stateless people and refugees, and the need to address worldwide concerns like climate change and pandemics.

Futurist Paul Raskin\textsuperscript{14} has hypothesized that a new, more legitimate form of global politics could be based on “constrained pluralism.” This principle guides the formation of institutions based on three characteristics: irreducibility, where some issues must be adjudicated at the global level; subsidiarity, which limits the scope of global authority to truly global issues while smaller-scope issues are regulated at lower levels; and heterogeneity, which allows for diverse forms of local and regional institutions as long as they meet global obligations.

Homogeneity of an international system is given by the equivalence and unequivocal of comparison criteria and the rules that lead, the norms they agree upon. In this sense we can talk about international regime. In international relations there is no unitary state behavior rules and

\textsuperscript{14} Rakin Paul, D Gilberto Global sustainability: behind the curve, 2002, pg18
norms regime. Still there are some regulatory norms for different sectors of relations, with the intention to attract as many agents as possible, like commerce, finances, culture, and conserving their values. So there is a new organization of international relations, a sub systemic one, as an expression of territorial and regional integration.

The international system is anarchic\footnote{http://www.irtheory.com/know.htm} and required the regulation of states behavior and accomplishing a new world order. The true problem is building a system that can allow every actor to act according to its interest and respecting security conditions, the identity, and security of other participating actors from the system are important, in order to assure an international order.

Ph.M.Defarges\footnote{Defarges, Ph.-M., Les grands concepts de la politique internationale, Hachette, Paris, 1995, pg 79} sustains that every international order is based on three elements: a common reference framework leading them towards an action in certain limits, an accepted hierarchy of those power that separates them in strong and weak, and exchange mechanisms, communication, consultation in order to allow tension and crisis management. So every world order can be: imperfect- because the international system is not homogeneous, consequently in international system there are sub systems developing, that follow a specific order; precarious- because it’s the expression of a power equilibrium that is constantly reconstructing, eroding a order can be explained by modifying power hierarchies but also by changing the determinant criteria, by the intervention of some actors with a disturbing role, through internal social changes, promoting new values and interests that finally will claim a new world order; reversible because no order can stop history by no force; and equivocal because it emphasizes some characteristics of the system, ignoring others, that can question its time evolution.

The structuralist approach imagines several situations of international system that have equivalents in real life. The ideal case of a stable structure of international system and peace keeping is that in which every participant at international relations is a pole. This is the multipolar system that sets complex interactions sustained by a flexible democracy, with interest
interconnections some common, some divergent that would generate pressure and cross-pressure and cross-allegiance. The tensions, the cleavages, the polarization wouldn’t be so general; the international relations would be dynamic and fluid to not jeopardize the system stability. The variety of possible combinations would reduce the risk of a generalized war and a rigid structure, keeping the stability of the system. The “flexibility of a multipolar system”\textsuperscript{17} requires inspired alliances determined by the balance of powers and matching economic and ideological interests depends on this flexibility. Interweaving the contradictory interests can interfere in system’s flexibility or stability by forming alliances necessary to its balance. The stability of a multipolar system is increased by the fact that states are more attentive to all the actors within the system, their power and their relations. Communication could be clear and misunderstanding can be avoided. A mutual trust could lead to reducing arming and to multiplication of state alliances.

\textsuperscript{17} Glenn Herald Snyder-Alliance politics, http://books.google.ro/books?id=ooRnP0_53WcC&pg=PA27&lpg=PA27&dq=The+%E2%80%9Cflexibility+of+a+multiplolar+system&source=bib&ots=TMcptqbp7Y&sig=BvjqVnFPn0Qmyoe_wdNrwCdD1&hl=ro&ei=MX3RS8jOQ56UOCVjpa8O&sa=X&oi=book_result&ct=result&resnum=1&ved=0CAYQ6AEwAA#v=onepage&q=The%E2%80%9Cflexibility%20of%20a%20multipolar%20system&f=false
III. DESCRIPTION

1. European Union

1.1 Presentation

The European Union needs no introduction. Over half a century, it has brought political stability and economic prosperity to its citizens. It has created a frontier-free single market and a single currency, the euro. It has reunited a fractured continent. The European Union is a major economic and commercial power and the world’s biggest donor of development aid to poorer countries. Its membership has grown from six to 27 nations, bringing the EU’s population to nearly half a billion.

Though richly diverse, EU countries are united in their commitment to peace, democracy, the rule of law and respect for human rights. They seek to uphold these values in Europe and beyond, to build and share prosperity, and to exert their collective influence by acting together on the world stage. The European Union has been targeted as an emerging superpower since long time ago. So in the 21st century EU is a strong international power and tries its best to remain in these tracks.

The opening of internal borders between EU member states is a very tangible benefit for ordinary people, allowing them to travel freely without being subject to border controls.

However, this freedom of internal movement must go hand in hand\(^\text{18}\) with increased controls at the EU’s external borders so as to combat effectively the trafficking of people and drugs, organized crime, illegal immigration and terrorism. The EU countries cooperate in the area of policing and justice so as to make Europe safer and more secure. European citizens are entitled to live in freedom, without fear of persecution or violence, anywhere in the European Union. Yet international crime and terrorism are among the main concerns of Europeans today.

Integration in the field of justice and home affairs was not envisaged in the Treaty establishing the European Community. During the years, it was very clear that freedom of movement had to

\(^ {18}\) http://europa.eu/index_en.htm
mean giving everyone, everywhere in the EU, the same protection and the same access to justice. So an area of freedom, security and justice was created gradually over the years through amendments to the original Treaties under the Single European Act, the Treaty on European Union (Maastricht Treaty) and the Amsterdam Treaty.

European Union activity\textsuperscript{19}

The European Union acts in a wide range of policy areas — economic, social, regulatory and financial — where its action is beneficial to the member states. These include solidarity policies or cohesion policies in regional, agricultural and social affairs; innovation policies, which bring state-of-the-art technologies to fields such as environmental protection, research and development and energy.

The Union funds these policies through an annual budget of more than €120 billion, which is largely paid for by the member states. It represents a small proportion of the EU’s collective wealth (a maximum of 1.24 % of the combined gross national income of all member states).

The free movement of people within the EU raises security issues for the member governments, since they no longer control internal EU borders. To compensate for this, extra security measures have to be put in place at the EU’s external borders. Moreover, since criminals can also exploit freedom of movement within the EU, national police forces and judicial authorities have to work together to combat cross-border crime.

One of the most important moves to make life easier for travelers in the European Union took place in 1985, when the governments of Belgium, France, Germany, Luxembourg and the Netherlands signed an agreement in a small Luxembourg border town called Schengen. They agreed to abolish all checks on people, regardless of nationality, at their shared borders, to harmonise controls at their borders with non-EU countries and to introduce a common policy on visas. They thus formed an area without internal frontiers known as the Schengen Area.

\textsuperscript{19} idem
The Schengen package and the secondary legislation derived from it have since become an integral part of the EU Treaties, and the Schengen Area has gradually expanded. By the end of 2007, all members were part of the Schengen area except Ireland, the United Kingdom, Cyprus, Bulgaria and Romania, together with non-EU countries Iceland and Norway, who also fully apply the Schengen rules.

The European Union encouraged German unification after the fall of the Berlin Wall in 1989. When the Soviet empire crumbled in 1991, the former communist countries of central and Eastern Europe, after decades under the authoritarian yoke of the Warsaw Pact, decided that their future lay within the family of democratic European nations. The enlargement process continues to this day. Entry negotiations began with Turkey and Croatia in October 2005, while several countries in the Balkans have set out along the road that could one day lead to EU membership.

Identity and diversity in globalised world is an important focusing point in EU’s agenda. Europe’s post-industrial societies are becoming increasingly complex. Standards of living have risen steadily, but there are still significant gaps between rich and poor. Enlargement has widened the gap since countries have joined with living standards below the EU average. It is important for EU countries to work together to narrow the gap.

But these efforts have not been made at the expense of compromising the separate cultural or linguistic characteristics of EU countries. On the contrary — many EU activities help to create new economic growth based on regional specialties and the rich diversity of traditions and cultures.

Half a century of European integration has shown that the EU as a whole is greater than the sum of its parts: it has much more economic, social, technological, commercial and political clout than if its member states had to act individually. There is added value in acting together and speaking with a single voice as the European Union.

Because the EU is the world’s leading trading power and therefore plays a decisive role in international negotiations, such as those at the 149-country World Trade Organization, as well as in the implementation of the Kyoto protocol on air pollution and climate change; The European Union takes a clear position when it comes to sensitive issues affecting ordinary people, such as environmental protection, renewable energy resources, the ‘precautionary
principle’ in food safety, the ethical aspects of biotechnology and the need to protect endangered species and it launched important initiatives for sustainable development on the whole planet, in connection with the ‘Earth Summit’ in 2002 in Johannesburg.

The old saying ‘unity is strength’ is as relevant as ever to today’s Europeans. But the process of European integration has not smothered the different ways of life, traditions and cultures of its peoples. Indeed, the EU makes its diversity one of its key values.

The EU wishes to promote humanitarian and progressive values, and ensure that mankind is the beneficiary, rather than the victim, of the great global changes that are taking place. People’s needs cannot be met simply by market forces or imposed by unilateral action.

So the EU stands for a view of humanity and a model of society that the great majority of its citizens support. Europeans cherish their rich heritage of values, which includes a belief in human rights, social solidarity, free enterprise, a fair distribution of the fruits of economic growth, the right to a protected environment, respect for cultural, linguistic and religious diversity and a harmonious blend of tradition and progress.

The Charter of Fundamental Rights of the European Union, which was proclaimed in Nice in December 2000, sets out all the rights recognized today by the EU’s member states and their citizens. These values can create a feeling of kinship between Europeans. To take just one example, all EU countries have abolished the death penalty.

1.2 Policies/Programs

Asylum and immigration policy

Europe is proud of its humanitarian tradition of welcoming foreigners and offering asylum to refugees fleeing danger and persecution. Today, EU governments face the pressing question of how to deal with rising numbers of immigrants, both legal and illegal, in an area without internal frontiers.

EU governments have agreed to harmonize their rules so that applications for asylum can be processed in accordance with a set of basic principles uniformly recognized throughout the European Union. In 1999, they set themselves the goal of adopting a common asylum procedure
and giving equal status throughout the Union to persons who have been granted asylum. Some technical measures were adopted, such as minimum standards for the admission of asylum-seekers and for the granting of refugee status.

A European Fund for Refugees was established, with a budget of €114 million a year. Despite this large-scale cooperation between national governments, a true EU asylum and immigration policy still has to be put in place.

**Fighting international crime and terrorism**

To make an asylum and immigration policy viable, the EU must have an effective system for managing migration flows, carrying out checks at its external borders and preventing illegal immigration. A coordinated effort is needed to combat criminal gangs who run people-trafficking networks and who exploit vulnerable human beings, particularly women and children.

Organized crime is becoming ever more sophisticated and regularly uses European or international networks for its activities. Terrorism has clearly shown that it can strike, with great brutality, anywhere in the world.

This is why the Schengen information system was set up. This is a complex database which enables police forces and judicial authorities to exchange information on people for whom an arrest warrant or extradition request has been issued, and on stolen property such as vehicles or works of art.

One of the best ways of catching criminals is to track their problematic gains. For this reason, and to cut off the funding of criminal and terrorist organizations, the EU has brought in legislation to prevent money laundering.

The greatest advance made in recent years in the field of cooperation between law enforcement authorities was the creation of Europol an EU body based in The Hague and staffed by police and customs officers. It tackles a wide range of international crime: drug trafficking, trade in stolen vehicles, people trafficking and illegal immigration networks, the sexual exploitation of women and children, pornography, forgery, the trafficking of radioactive and nuclear material, terrorism, money-laundering and counterfeiting the euro.
At present, many different judicial systems operate side by side in the European Union, each within national borders. If the Union wants its people to share the same concept of justice, its justice system must make their daily lives easier rather than more complicated.

The most significant example of practical cooperation in this field is the work done by Euro just, a central coordinating structure established in The Hague in 2003. Its purpose is to enable the national investigating and prosecuting authorities to work together on criminal investigations involving several EU countries. The European arrest warrant, operational since January 2004, is intended to replace long extradition procedures.

International crime and terrorism do not respect national boundaries. This means that a common EU criminal justice policy is required, since cooperation between the courts in different countries can be hampered by their differing definitions of certain criminal acts. The objective is to give the EU a common framework for fighting terrorism, so as to guarantee its citizens a high level of protection and step up international cooperation in this area.

In the area of civil law, the EU has adopted legislation to facilitate the application of court rulings in cross-border cases involving divorce, separation, child custody and maintenance claims so that judgments in one country are applicable in another. The EU has established common procedures to simplify and speed up the settlement of cross-border cases in small and uncontested civil claims like debt recovery and bankruptcy.

**Europe’s mission in the 21st century is to:**

- provide peace, prosperity and stability for its peoples;
- overcome the divisions on the continent;
- ensure that its people can live in safety;
- promote balanced economic and social development;
- meet the challenges of globalization and preserve the diversity of the peoples of Europe;
- uphold the values that Europeans share, such as sustainable development and a sound environment, respect for human rights and the social market economy.
**Peace and stability**

Before becoming a real political objective, the idea of uniting Europe was just a dream in the minds of philosophers and visionaries. Victor Hugo, for example, imagined a peaceful “United States of Europe” inspired by humanistic ideals. The dream was shattered by the terrible wars that ravaged the continent during the first half of the 20th century.

However, a new kind of hope emerged from the rubble of World War Two. People who had resisted totalitarianism during the war were determined to put an end to international hatred and rivalry in Europe and create the conditions for lasting peace. Between 1945 and 1950, a handful of courageous statesmen including Robert Schuman, Konrad Adenauer, Alcide de Gasperi and Winston Churchill set about persuading their peoples to enter a new era. New structures would be created in Western Europe, based on shared interests and founded upon treaties guaranteeing the rule of law and equality between all countries.

Robert Schuman (French foreign minister) took up an idea originally conceived by Jean Monnet and, on 9 May 1950, proposed establishing a European Coal and Steel Community (ECSC). In countries which had once fought each other, the production of coal and steel would be pooled under a common High Authority. In a practical but also richly symbolic way, the raw materials of war were being turned into instruments of reconciliation and peace.

**Safety and security**

Europe in the 21st century still faces safety and security issues. The EU has to take effective action to ensure the safety and security of its members. It has to work constructively with the regions just beyond its borders: the Balkans, North Africa, the Caucasus and the Middle East. It must also protect its military and strategic interests by working with its allies, especially within NATO, and by developing a genuine common European security and defense policy.

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Internal security and external security are two sides of the same coin. The fight against terrorism and organized crime requires the police forces of all EU countries to work together closely. Making the EU an ‘area of freedom, security and justice’ where everyone has equal access to justice and is equally protected by the law is a new challenge that requires close cooperation between governments. Bodies like Europol, the European Police Office, and Eurojust, which promotes cooperation between prosecutors, judges and police officers in different EU countries, also have a more active and effective role to play.

The European Union was created to achieve the political goal of peace, but its dynamism and success spring from its involvement in economics. EU countries account for an ever smaller percentage of the world’s population. They must therefore continue pulling together if they are to ensure economic growth and be able to compete on the world stage with other major economies. No individual EU country is strong enough to go it alone in world trade. The European single market provides companies with a vital platform for competing effectively on world markets.

But Europe-wide free competition must be counterbalanced by Europe-wide solidarity. This has clear tangible benefits for European citizens: when they fall victim to floods and other natural disasters, they receive assistance from the EU budget. The Structural Funds, managed by the European Commission, encourage and supplement the efforts of the EU’s national and regional authorities to reduce inequalities between different parts of Europe. Money from the EU budget and loans from the European Investment Bank (EIB) are used to improve Europe’s transport infrastructure (for example, to extend the network of motorways and high-speed railways), thus providing better access to outlying regions and boosting trans-European trade. The EU’s economic success will be measured in part by the ability of its single market of half a billion consumers to benefit as many people and businesses as possible.

**Solidarity policies**

The main purpose of the solidarity policies is to support the completion of the single market and to correct any imbalances by means of structural measures to help regions lagging behind or industrial sectors encountering difficulties. The need for solidarity between EU countries and between regions became even more acute following the recent entry of 12 newcomers with incomes well below the EU average. The EU must also play its part in helping to restructure
sectors of the economy which have been badly affected by fast-growing international competition.

The EU’s regional policy is based on transfers of funds from rich to poor countries. The money is used to boost development in regions lagging behind, to rejuvenate industrial regions in decline, to help young people and the long-term unemployed find work, to modernize farming and to help less-favored rural areas.

The funds earmarked for regional activities in the 2007–2013 budgets are targeted at three objectives.

- **Convergence.** The aim here is to help the least-developed countries and regions catch up more quickly with the EU average by improving conditions for growth and employment. This is done by investing in physical and human capital, innovation, the knowledge society, adaptation to change, the environment and administrative efficiency.

- **Regional competitiveness and employment.** The objective is to increase the competitiveness, employment levels and attractiveness of regions other than the least-developed ones. The way to make this happen is to anticipate economic and social changes and promote innovation, entrepreneurship, environmental protection, accessibility, adaptability and the development of inclusive job markets.

- **European territorial cooperation.** The aim of this new objective is to increase cross-border, transnational and interregional cooperation. It aims to promote joint solutions to problems that are shared by neighbouring authorities in sectors such as urban, rural and coastal development, the cultivation of economic relations, and networking between small and medium-sized enterprises (SMEs).

These objectives will be financed by specific EU funds, which will top up or stimulate investment by the private sector and by national and regional government. These funds are known as the Structural Funds and the Cohesion Fund.

- The European Regional Development Fund is the first Structural Fund and provides funding to strengthen economic, social and territorial cohesion by reducing differences between regions and supporting the structural development and adjustment of regional economies, including the redevelopment of declining industrial regions.
• The European Social Fund (ESF), the second Structural Fund, provides funding for vocational training and job-creation initiatives.

• In addition to the Structural Funds, there is a Cohesion Fund, which is used to finance transport infrastructure and environmental projects in EU countries whose GDP per capita is lower than 90% of the EU average.

The aims of the common agricultural policy, as set out in the original Treaty of Rome from 1957, have largely been achieved: a fair standard of living has been ensured for the farming community; markets have been stabilized; supplies reach consumers at reasonable prices; farming infrastructure has been modernized. Other principles adopted over the course of time have also worked well. Consumers enjoy security of supply and the prices of agricultural products are kept stable, protected from fluctuations on the world market.

There were problems with this policy due to its success, cause production grew far faster than consumption, placing a heavy burden on the EU budget. In order to resolve this problem, agriculture policy had to be redefined. This reform is beginning to show results. Production has been curbed. Farmers are being encouraged to use sustainable farming practices that safeguard the environment, preserve the countryside and contribute to improving food quality and safety.

The new role of the farming community is to ensure a certain amount of economic activity in every rural area and to protect the diversity of Europe’s countryside. This diversity and the recognition of a ‘rural way of life’ — people living in harmony with the land — are an important part of Europe’s identity.

The European Union wants the World Trade Organization to put more emphasis on food quality, the precautionary principle and animal welfare. The European Union has also begun reforming its fisheries policy. The aim here is to reduce the overcapacity in fishing fleets, to preserve fish stocks and to provide financial assistance to allow fishing communities to develop other economic activities.

Social dimension of the EU is in the aim of the EU’s social policy to correct the most glaring inequalities in European society. The European Social Fund (ESF) was established in 1961 to
promote job creation and help workers move from one type of work and/or one geographical area to another.

Financial aid is not the only way in which the EU seeks to improve social conditions in Europe. Aid alone could never solve all the problems caused by economic recession or by regional under-development. The dynamic effects of growth must, above all, encourage social progress. This goes hand in hand with legislation that guarantees a solid set of minimum rights. Some of these rights are enshrined in the Treaties, e.g. the right of women and men to equal pay for equal work. Others are set out in directives concerning the protection of workers (health and safety at work) and essential safety standards.

In 1991, the Maastricht European Council adopted the Community Charter of Basic Social Rights, setting out the rights that all workers in the EU should enjoy: free movement; fair pay; improved working conditions; social protection; the right to form associations and to undertake collective bargaining; the right to vocational training; equal treatment of women and men; worker information, consultation and participation; health protection and safety at the workplace; protection for children, the elderly and the disabled. At Amsterdam in June 1997, this Charter became an integral part of the Treaty and is now applicable in all the member states.

**Innovation policies**

The European Union’s activities impact on the day-to-day life of its citizens by addressing the real challenges facing society: environmental protection, health, technological innovation, energy, etc.

EU’s environmental policy developed in the activity and an action programme entitled ‘Environment 2010’\(^\text{22}\): our future, our choice‘. This covers the period from 2001 to 2010 and emphasises the need to:

- mitigate and slow down climate change and global warming;
- protect natural habitats and wild fauna and flora;
- deal with problems linked to environment and health;
- preserve natural resources and manage waste efficiently.

Throughout the period covered by this programme and the five programmes preceding it, and in more than 30 years of setting standards, the EU has put in place a comprehensive system of environmental protection.

The problems being tackled are extremely varied: noise, waste, the protection of natural habitats, exhaust gases, chemicals, industrial accidents, the cleanliness of bathing water and the creation of a European information and assistance network for emergencies, which would take action in the event of environmental disasters such as oil spills or forest fires.

More recently, concerns about the health effects of pollution have been examined in an environment and health action plan for the 2004–10 period. This plan establishes the link between health, the environment and research policy.

European regulation provides the same level of protection throughout the EU, but is flexible enough to take account of local circumstances. It is also constantly being updated. For example, it has been decided to rework the legislation concerning chemicals and replace earlier rules, which were developed on a piecemeal basis, with a single system for the registration, evaluation and authorization of chemicals (REACH).

This system is based on a central database being run by a new European Chemicals Agency, located in Helsinki. The aim is to avoid contamination of the air, water, soil or buildings, to preserve biodiversity and to improve the health and safety of EU citizens while at the same time maintaining the competitiveness of European industry.

b) Technological innovation

The founders of the European Union rightly saw that Europe’s future prosperity would depend on its ability to remain a world leader in technology. They saw the advantages to be gained from joint European research. So, in 1958, alongside the EEC, they established Euratom — the European Atomic Energy Community. Its aim was for EU countries together to exploit nuclear energy for peaceful purposes. As part of this, the Joint Research Centre (JRC) was created consisting of nine institutes at four locations: Ispra (Italy), Karlsruhe (Germany), Petten (the Netherlands) and Geel (Belgium).
However, as innovation gathered pace, European research had to diversify, bringing together as wide a variety of scientists and research workers as possible. The EU had to find new ways of funding their work and new industrial applications for their discoveries.

Joint research at EU level is designed to complement national research programmes. It focuses on projects that bring together a number of laboratories in several EU countries. It also supports fundamental research in fields such as controlled thermonuclear fusion (a potentially inexhaustible source of energy for the 21st century). Moreover, it encourages research and technological development in key industries such as electronics and computers, which face stiff competition from outside Europe.

The main vehicle for funding EU research is a series of framework programmes. The seventh research and technological development framework programme covers the 2007–2013 period. The biggest share of the €50 billion plus budget will go on areas like health, food and agriculture, information and communications technology, nanosciences, energy, the environment, transport, security and space and socioeconomic sciences. Additional programmes will promote ideas, people and capacities, via research work at the frontiers of knowledge, support for researchers and their career development and international cooperation.

c) Energy

Fossil fuels — oil, natural gas and coal — account for 80 % of energy consumption in the EU. A large and growing proportion of these fossil fuels are imported from outside the EU. At present, 50 % of gas and oil is imported, and this dependence could grow to 70 % by 2030. The EU will thus be more vulnerable to cuts in supply or price hikes caused by international crises. Another reason to reduce its consumption of fossil fuels is to reverse the process of global warming.

Various steps will have to be taken in future, such as saving energy by using it more intelligently, developing alternative energy sources(particularly renewable energy sources in Europe), and increasing international cooperation. Energy consumption could fall by one fifth by 2020 if consumers changed their behaviour and if technologies that improve energy efficiency were fully used.
The EU budget

To fund its policies, the European Union has an annual budget of more than €120 billion. This budget is financed by what is called the EU’s ‘own resources’, which cannot exceed an amount equivalent to 1.24% of the total gross national income of all the member states.

These resources are mainly drawn from:

- customs duties on products imported from outside the EU, including farm levies;
- a percentage of the value-added tax applied to goods and services throughout the EU;
- contributions from the member states in line with their respective wealth.

Each annual budget is part of a seven-year budget cycle known as the ‘financial perspective’. The financial perspectives are drawn up by the European Commission and require unanimous approval from the member states and negotiation and agreement with the European Parliament. Under the 2007–13 financial perspective, the total budget for this period is €864.4 billion.

1.3. European Management

EU on the global scene

- The EU has more influence on the world stage when it speaks with a single voice in international affairs. Trade negotiations are a good example of this.
- In the area of defense, each country remains sovereign, whether a member of NATO or neutral. However, the EU member states are developing military cooperation for peacekeeping missions.
- For reasons of history and geographic proximity, the southern Mediterranean and Africa are areas to which the EU gives close attention (development aid policies, trade preferences, food aid and human rights).
- In economic, trade and monetary terms, the European Union has become a major world power. However, some have described the EU as an economic giant but a political dwarf. This is an exaggeration. It has considerable influence within international organisations such as the World Trade Organisation (WTO) and the specialised bodies of the United Nations (UN), and at world summits on the environment and development.
Nevertheless, it is true that the EU and its members have a long way to go, in diplomatic and political terms, before they can speak with one voice on major world issues like peace and stability, relations with the United States, terrorism, the Middle East and the role of the UN Security Council. What is more, the cornerstone of national sovereignty, namely military defense systems, remain in the hands of national governments, whose ties are those forged within alliances such as NATO.

The (common) defense policy

The common foreign and security policy (CFSP) and the European security and defense policy (ESDP), introduced by the Treaties of Maastricht (1992), Amsterdam (1997) and Nice (2001), define the EU’s main tasks in the area of defense. The EU has thereby developed its ‘second pillar’, the policy domain in which action is decided by intergovernmental agreement and in which the Commission and the Parliament play only a minor role. Decisions in this domain are taken by consensus, although individual states can abstain.

More than half a century of Cold War has ended — Russia has a new orientation and the former communist countries have joined NATO and the EU almost simultaneously. The continent of Europe is coming together peacefully, and European countries are working together to fight international crime, people trafficking, illegal immigration and money laundering.

The enlarged EU has established a partnership structure with its neighbours, some of whom have medium-term prospects of joining the European Union.

The United States have accepted that, for military action in which the Americans are not involved, Europe can use some of NATO’s logistical capacity such as its intelligence, communications, command facilities and transport capabilities.

The terrorist violence that has scarred the world since the 11 September 2001 attacks on New York and Washington and the bombings in Madrid in 2004 and London in 2005 has profoundly altered the strategic landscape. European countries have to work more closely together to uncover information that will help prevent terrorists and their backers from carrying out attacks. Cooperation with the United States and all countries that support democracy and human rights now goes beyond the framework of traditional defensive alliances.
Under the Amsterdam Treaty, Javier Solana was appointed the EU’s first High Representative for the Common Foreign and Security Policy (CFSP) in 1999.

EU member states have set a specific goal as part of the task of establishing a European security and defense policy. This is to be able to deploy a rapid reaction force with naval and air support and sustain it for one year. This rapid reaction force will not yet be a real European army. Instead it will be made up of contingents from the existing national armed forces.

However, following the establishment of a Political and Security Committee (PSC), a European Union Military Committee (EUMC) and a European Union Military Staff (EUMS), under the authority of the Council and located in Brussels, the Union already has a political and military tool for carrying out the missions that it has set for itself: humanitarian missions outside Europe, peacekeeping operations and other crisis-management tasks.

As military technology becomes ever more sophisticated and expensive, EU governments are finding it increasingly necessary to work together on arms manufacture. Moreover, if their armed forces are to carry out joint missions, their systems must be interoperable and their equipment sufficiently standardized. The European Council in Thessaloniki decided, in 2003, to establish a European Defense Agency.

Since 2003, the EU has undertaken a series of peacekeeping and crisis management missions. The most important of these has been in Bosnia and Herzegovina where a European Union military force (EUFOR) of 7 000 troops replaced NATO peacekeeping forces in December 2004.

**Cooperation Management - A trade policy that is open to the world**

The European Union supports the rules-based system of the World Trade Organisation, which provides a degree of legal certainty and transparency in the conduct of international trade. The WTO sets conditions under which its members can defend themselves against unfair practices like dumping (selling below cost) through which exporters compete against their rivals. It also provides a procedure for settling disputes that arise between two or more trading partners.

- The EU’s trade policy is closely linked to its development policy. Under its general system of preferences (GSP), the EU has granted duty-free or cut-rate preferential access
to its market for most of the imports from developing countries and economies in transition. It goes even further for the world’s 49 poorest countries. All of their exports, with the sole exception of arms, enjoy duty-free entry to the EU market under a programme launched in 2001.

- The EU does not, however, have specific trade agreements with its major trading partners among the developed countries like the United States and Japan. Here, trade relations are handled through the WTO mechanisms. The United States and the European Union are seeking to develop relations founded on equality and partnership. However, EU countries are not always in agreement on the type of diplomatic, political and military ties to establish with the United States.

- The European Union is increasing its trade with the emerging powers in other parts of the world, from China and India to Central and South America. Trade agreements with these countries also involve technical and cultural cooperation.

**Relations between the EU and the Mediterranean countries**

Given their geographical proximity, historical and cultural ties, and current and future migration flows, the countries on the southern shores of the Mediterranean are partners of prime importance. This is why the EU has traditionally chosen to pursue a policy of regional integration.

In November 1995, the EU laid the foundations for a new Euro-Mediterranean partnership at the Barcelona Conference, which was attended by all the EU member states and the Mediterranean countries (except for Albania, Libya and the countries of former Yugoslavia). This conference made it possible to trace the outline of a new partnership involving:

- political dialogue between the participating countries and a security partnership based, in particular, on mechanisms for arms control and the peaceful resolution of conflicts;
- stepping up economic and trading relations between the two regions: the key to this is the creation of a Euro-Mediterranean free trade area by 2010;
- partnership in social and cultural fields.
The EU granted financial assistance to the tune of €5.3 billion to the Mediterranean countries in 2000–06. This aid continues in the budget period 2007–13, under the European Neighbourhood and Partnership Instrument (ENPI) which merges into one the previously separate support programmes for the Mediterranean countries and for its other neighbours among the successor states of the former Soviet Union.

**Africa**

Relations between Europe and sub-Saharan Africa go back a long way. Under the Treaty of Rome in 1957, the then colonies and overseas territories of member states became associates of the Community. Decolonisation, which began in the early 1960s, turned this link into a different kind of association, one between sovereign countries.

The Cotonou Agreement, signed in 2000 in Cotonou, the capital of Benin, marked a new stage in the EU’s development policy. This agreement between the European Union and the African, Caribbean and Pacific (ACP) countries is the most ambitious and far-reaching trade and aid agreement ever concluded between developed and developing countries. It followed on from the Lomé Convention, which was signed in 1975 in Lomé, the capital of Togo, and subsequently updated at regular intervals.

The basic aim of this wide-ranging trade and aid agreement remains the same as that of the Lomé Convention: ‘to promote and expedite the economic, cultural and social development of the ACP states and to consolidate and diversify their relations with the European Union and its member states in a spirit of solidarity and mutual interest.

The new agreement goes significantly further than earlier agreements, since it has moved from trade relations based on market access to trade relations in a wider sense. It also introduces new procedures for dealing with human rights abuses.

The European Union has granted special trading concessions to the least developed countries, 39 of which are signatories to the Cotonou Agreement. Since 2005, they have been able to export practically any type of product to the EU, duty free. The European Development Fund finances the ACP support programmes, paying out between two and three billion euro a year.
Future directions

When we think of the future of EU, we can say that European integration will continue in the fields in which the member states consider it is in their best interests to work together within the traditional EU framework (on issues like trade, globalization, the single market, regional and social development, research and development, measures to promote growth and jobs and many others.)

The institutional process of updating the rules governing the relations between the member countries and the EU and between the EU and its citizens has recently come to an end. A new treaty, the Lisbon Treaty, has been signed by the EU leaders. If ratified by all member states, it is expected to provide the Union with the legal framework and tools necessary to meet future challenges and citizens’ demands.

A day will come when all the nations of this continent, without losing their distinct qualities or their glorious individuality, will fuse together in a higher unity and form the European brotherhood. A day will come when the only battlefield will be the marketplace for competing ideas. A day will come when bullets and bombs will be replaced by votes.

Victor Hugo spoke those prophetic words in 1849, but it took more than a century for his utopian predictions to start coming true. During that time, two world wars and countless other conflicts on European soil caused millions of deaths and there were times when all hope seemed lost. Today, the first decade of the 21st century offers brighter prospects, but it also brings Europe new difficulties and challenges.

A major enlargement of the Union has gone ahead. As a politician from a new member state put it, ‘Europe has finally managed to reconcile its history with its geography’. In future, the European Union will continue to welcome new members. In the meantime, its leaders, listening carefully to public opinion, will have to decide where to draw the Union’s geographical, political and cultural boundaries.

The European Union is a pact between sovereign nations which have resolved to share a common destiny and to pool an increasing share of their sovereignty. It touches on things that Europeans care most deeply about: peace, economic and physical wellbeing, security,
participatory democracy, justice and solidarity. This pact is being strengthened and confirmed all across Europe: half a billion people have chosen to live under the rule of law and in accordance with age-old values centered on humanity and human dignity.

The current technological revolution is radically transforming life in the industrialized world, including Europe. It is vital to understand that this creates new challenges that transcend traditional frontiers. Sustainable development, population trends, economic dynamism, social solidarity and an ethical response to progress in the life sciences are issues that can no longer be effectively dealt with at national level. We must also show consideration to future generations.

The process of European integration now affects the whole continent, which, in turn, is part of a rapidly and radically changing world that needs to find new stability. Europe is affected by events on other continents, whether it be relations with the Islamic world, disease and famine in Africa, unilateralist tendencies in the United States, the dynamic economic growth in Asia or the global relocation of industries and jobs. Europe must not only concentrate on its own development but also embrace globalization.

The EU institutions have proved their worth, but they must be adapted to cope with the enlargement of the Union and the increasing number of tasks for which it is responsible. The bigger the number of members, the greater the centrifugal forces that threaten to tear it apart. Short-term interests can all too easily derail long-term priorities. That is why everyone involved in this unprecedented adventure must shoulder their responsibilities to make sure the EU’s institutional system can continue to work effectively. Any definitive change in the present system must ensure plurality and respect the differences that are the most precious assets of Europe’s nations. Reforms must also concentrate on the decision-making process. Insisting on unanimous agreement in all cases would simply lead to paralysis. The only kind of system that will work is a political and legal system based on majority voting, with checks and balances built in.

The practical changes to adapt the structure of an EU originally meant for six members to one of 27 were incorporated into the Lisbon Treaty, which was agreed in 2007, but will not come into force until it has been ratified by all member states. It will make the EU more democratic and transparent, introduce simplified working methods and voting rules, ensure our fundamental rights through a charter, and allow the EU to speak with one voice on global issues.
Background of Lisbon Treaty\textsuperscript{23} it is still of very much importance even today, even it was set with the intention to meet the challenges of the arrival of new members from central and Eastern Europe.

The convention completed its work in June 2003. The treaty was signed by EU leaders in Rome in October 2004 and sent to all member states for ratification. Although ratified by the majority of EU countries, the draft constitutional treaty was rejected by French and Dutch voters in May and June 2005.

As a result, the reform process was suspended for 18 months, until a reform treaty was negotiated during 2007 and signed by EU heads of state and government in Lisbon in December 2007. The Lisbon Treaty is currently being ratified by member states. The aim is to have it in force before the next elections for the European Parliament in June 2009.

Main provisions of the Treaty

- Giving the European Parliament greater legislative and budgetary powers.
- Granting national parliaments a role in ensuring that the EU complies with the principle of subsidiarity.
- Increasing the number of areas covered by qualified majority voting in the Council.
- A clearer presentation of the breakdown of powers and responsibilities between the Union and its member countries.
- A legally binding Charter of Fundamental Rights guaranteeing the freedoms and rights of European citizens.
- Election of a president of the European Council for a term of two and a half years, renewable once.
- A new post of High Representative for the Union in Foreign Affairs and Security Policy to increase the impact, coherence and visibility of the EU's external action.

\textsuperscript{23} http://europa.eu/lisbon_treaty/index_en.htm
European Regional Policy

The European Union may be one of the richest parts of the world, but there are big internal disparities of income and opportunity between its regions. Through its regional policy, the EU transfers resources from affluent to poorer areas. The aim is to modernize backward regions so that they can catch up with the rest of the Union.

Regional policy is an instrument of financial solidarity and a powerful force for cohesion and economic integration. Solidarity seeks to bring tangible benefits to citizens and regions that are least well-off. Cohesion underlines the principle that we all benefit from narrowing the gaps of income and wealth between our regions.

Large differences in prosperity levels exist both between and within EU countries. The most prosperous regions in terms of GDP per capita (the standard measure of wellbeing) are all urban – London, Brussels and Hamburg. The wealthiest country, Luxembourg, is more than seven times richer than Romania and Bulgaria, the poorest and newest EU members.

The dynamic effects of EU membership, coupled with a vigorous and targeted regional policy, can bring results. The case of Ireland is particularly heartening. Its GDP, which was 64% of the EU average when it joined in 1973, is now one of the highest in the Union. One priority of regional policy is to bring living standards in the countries which have joined the EU since 2004 up to the EU average as quickly as possible.

**Inequalities**

Regional inequalities have various causes. They may result from longstanding handicaps imposed by geographic remoteness or by more recent social and economic change, or a combination of both. The impact of these disadvantages is frequently evident in social deprivation, poor quality schools, higher joblessness and inadequate infrastructures. In the case of some EU states, part of the handicap is a legacy of their former centrally-planned economic systems.

**Regional policy is about investing in people.**

The EU has used the entry of these countries to reorganize and restructure its regional spending. In the period from 2007 to 2013, regional spending will account for 36% of the EU budget. In cash terms, this represents spending over the seven years of nearly €350 billion. The effort focuses on three objectives: convergence, competitiveness and cooperation, which are grouped together in what is now termed Cohesion Policy.

The priority focus is on the central and east European members plus the regions of the other EU states that have special needs. The 12 countries which have joined since 2004 will receive 51% of total regional spending between 2007 and 2013, although they represent less than one quarter of the total EU population. The money comes from three difference sources, according to the nature of the assistance and the type of beneficiary.

The European Regional Development Fund (ERDF) covers programmes involving general infrastructure, innovation, and investments. Money from the ERDF is available to the poorest regions across the EU.
The European Social Fund (ESF) pays for vocational training projects and other kinds of employment assistance, and job-creation programmes. As with the ERDF, all EU countries are eligible for ESF assistance.

The Cohesion Fund covers environmental and transport infrastructure projects as well as the development of renewable energy. Funding from this source is reserved for countries whose living standards are less than 90% of the EU average. This means the 12 recent newcomers plus Portugal and Greece. Spain, which benefited under earlier Cohesion Fund operations, is being phased out.

The bulk of regional spending is reserved for regions with a GDP below 75% of the Union average to help improve their infrastructures and develop their economic and human potential. This concerns 17 of the 27 EU countries. On the other hand, all 27 are eligible for funding to support innovation and research, sustainable development, and job training in their less advanced regions. A small amount goes to cross-border and inter-regional cooperation projects.

**Creating growth and jobs**

The idea is for regional policy to dove-tail with the EU’s so-called Lisbon agenda to promote growth and jobs by making countries and regions more attractive for investments by improving accessibility, providing quality services and preserving environmental potential; encouraging innovation, entrepreneurship and the knowledge economy through the development of information and communications technologies; creating more and better jobs by attracting more people into employment, improving workers’ adaptability and increasing investment in human capital.

**External Relations**

The sheer size of the European Union in economic, trade and financial terms makes it a world player. The biggest trader and home to the world’s second currency, the EU also spends over 7
billion euro a year on aid to developing countries. Its trade and partnership agreements cover most countries and regions.

An economic powerhouse of nearly half a billion people, the European Union has an important role in global affairs – and its weight is growing as EU countries increasingly make foreign policy decisions as a bloc.

Asia

The EU holds regular summits with the United States, Japan, Canada and, more recently, Russia, India and China. EU relations with these and other countries cut across many fields, including education, the environment, crime and human rights.

Biggest trade partner: the USA

The EU is committed to an effective and balanced partnership with the US, its biggest trade partner. In 2007, the two sides created the Transatlantic Economic Council, a political body that oversees efforts to strengthen economic ties. More recently the EU and the US concluded a plan for closer cooperation on crisis management and conflict prevention. The EU is also looking to work with the US on climate change and on improving the banking system in wake of the financial crisis.

Oil and gas: Russia

The EU and Russia are working on a new agreement to govern their relations. The talks began in July 2008 but were suspended for several months after conflict between Russia and Georgia. The two sides are seeking more cooperation on all fronts, recognising their growing ties. In particular, the EU wants to work more closely with Russia to ensure energy supplies. Russia supplies a large share of Europe’s oil and gas but those flows have been repeatedly disrupted by disputes between Russia and transit countries, mainly Ukraine.

Election observers are deployed worldwide as part of the EU’s support for human rights.

Reaching out to the east

As with Russia, the EU is moving to strengthen ties with six other countries to the east: Georgia, Armenia, Azerbaijan, Moldova, Ukraine and Belarus. The plan calls for increased funding for these countries and offers them the prospect of free-trade agreements if they undertake political and economic reforms. The countries that would benefit from this Eastern Partnership are transit countries for oil and gas to Europe. But all face important challenges to democracy and the rule of law. The EU is also concerned about stability in the region after the August 2008 Russia-Georgia war, which ended in an EU-brokered ceasefire.

Closer ties: Mediterranean and Middle East

The EU launched the Union for the Mediterranean in July 2008 to forge closer ties with the Middle East and with its North African neighbours. Bringing together the 27 EU members and 16 other countries as diverse as Israel, Turkey and Syria, the new forum covers nearly 800m people. It will undertake joint projects to revitalize the Mediterranean, such as cleaning up pollution, renovating ports, improving shipping and developing solar energy. The Arab League and the Palestinian Authority will have representation.

Regional relations: Asia and Latin America

Besides bilateral relations, the European Union is intensifying relations with regional groups, particularly in Asia and Latin America. With its fast-developing Asian partners, the EU has created ‘enhanced partnerships’- agreements reflecting a better balance between the economic, political, social and cultural elements of their relations.

EU members-in waiting: The Balkans

Seven countries in the Balkans region aspire to become EU members. Croatia and the Former Yugoslav Republic of Macedonia (FYROM) have been officially accepted as candidates for EU membership. The EU considers five other western Balkan countries as potential candidates: Albania, Bosnia and Herzegovina, Kosovo, Montenegro and Serbia. Kosovo declared itself independent from Serbia in 2008, but there is still no international agreement on its status. The
EU is actively seeking a diplomatic solution while providing practical help. Some 1 900 justice experts and police officers have been sent by the EU to help strengthen the rule of law.

**Foreign and Security Policy**

In parallel with its growing economic power, the EU has created its own foreign and security policy. This enables it to speak – and act – as one in world affairs. Regional conflicts in Europe and elsewhere in the 1990s and the fight against terrorism persuaded EU leaders to create formal instruments for both diplomacy and intervention.

The EU provides technical assistance at the Ukraine/Moldova border.

The EU is a key player in international issues ranging from global warming to the conflict in the Middle East. The basis for the EU’s common foreign and security policy (CFSP) remains ‘soft’ power: the use of diplomacy - backed where necessary by trade, aid and peacekeepers - to resolve conflicts and bring about international understanding.

The EU has sent peacekeeping missions to several of the world’s trouble spots. In August 2008, the EU brokered a ceasefire to end fighting between Georgia and Russia and deployed EU observers to monitor the situation. It provided humanitarian aid to people displaced by the fighting and organized an international donor conference for Georgia.

The EU also has a leading role in the Balkans, where it is funding assistance projects in seven countries to help them build stable societies. In Kosovo, the EU deployed a 1 900-strong justice and police force in December 2008 to help ensure law and order.

**A difficult challenge**

The principle of a common foreign and security policy (CFSP) was formalized in the Maastricht Treaty of 1992. EU countries have always recognized the need to act together in foreign policy and defense matters. But this has proved hard to achieve. A timid start was made in 1970 through a process called European Political Cooperation, whereby EU countries tried to coordinate their positions on foreign policy issues within the United Nations and other international bodies. But on particularly sensitive issues, or where individual EU countries had special interests, no single voice could be found because decisions had to be unanimous.
The emergence of a new post-communist world order and the rise of international terrorism pushed EU countries to redouble their efforts to speak as one on world affairs.

Foreign and security policy is one area where essential authority remains with EU governments, although the European Commission and, to a lesser extent the European Parliament, are associated with the process. Key decisions are taken by unanimous vote.

Aware of this constraint, the Union has introduced more flexible voting procedures on CFSP decisions by allowing individual governments to abstain, or by using majority voting, or by allowing a majority of countries to act on their own; but unanimity is still required on decisions with military or defense implications.

**Justice Freedom and Security**

Supporting the rights and defending the interests of citizens of the European Union, so they enjoy unparalleled freedom to travel, work and live anywhere in the EU. To benefit fully, people need to lead their lives and go about their business in security and safety. They must be protected against international crime and terrorism, and at the same time enjoy equal access to justice and respect for their fundamental rights across the Union. In addition, immigration from third countries needs to be managed in a fair and sustainable way.

The EU is creating an area of freedom, security and justice. Once fully in place, it will cover issues like EU citizenship, personal mobility, asylum, immigration, visa policy and managing the EU’s external frontiers. It will also encourage close cooperation between national police, judicial and customs authorities. This area will ensure that laws which apply to EU citizens, visitors and immigrants from other parts of the world, as well as to criminals and terrorists, are uniformly implemented across the Union.

** Guaranteeing fundamental rights**

The European Union is based on respect for human rights, democratic institutions and the rule of law. Its Charter of Fundamental Rights sets out all the personal, civil, political, economic and
social rights EU citizens enjoy. The EU’s Fundamental Rights Agency (FRA) helps policymakers to make new laws and works to raise public awareness of fundamental rights.

The ‘Schengen agreement’ ensures the right to travel freely from one country to another. EU citizens no longer have to show their passports or identity cards when they enter another EU country. The only exceptions are the UK, Ireland (when entering from a country other than the UK), Bulgaria, Cyprus and Romania.

The five million non-EU citizens currently working in the Union also enjoy important rights. Common procedures have been drawn up to cover family reunification and ways to integrate new arrivals into an unfamiliar environment.

EU authorities work together to beat cross-border crime. As people travel freely within the EU, it is important that they do not lose access to, or manage to escape from, justice. Cooperation has intensified between national judicial systems to ensure that legal decisions taken in one member country are recognized and implemented in another. These principles are especially important in civil proceedings concerning divorce, child custody, maintenance claims or even bankruptcy and unpaid bills, when the individuals involved live in different countries. The EU has established the European Judicial Network in order to improve judicial cooperation between the Member States in combating serious crimes such as corruption, drug trafficking and terrorism.

The European arrest warrant has replaced lengthy extradition procedures so that suspected or convicted criminals who have fled abroad can be swiftly returned to the country where they were, or will be, tried.

**Managing asylum and immigration**

As more people try to enter the Union to escape war, persecution and natural disasters, or to carve out a better future, EU governments are developing common solutions to shared challenges. Minimum standards and procedures are being drawn up for asylum seekers. These determine how and where applications should be processed, the status of people granted asylum and the role of national authorities in meeting these responsibilities.
EU leaders adopted a European pact on immigration and asylum in 2008, setting out the principles behind a number of EU laws. The aim is to organize legal immigration so that it takes account of the priorities and needs of each EU-country and encourages integration. The control of the EU's external borders will be made more effective. The EU is also striving to create partnerships with the countries of origin and of transit, in order to improve living conditions in the countries people might want to move away from.

The Union is determined to clamp down on illegal immigration. The Union created the Frontex agency in 2005 to organize operational cooperation between the EU countries in the field of external border security. Internal freedom of movement is only possible if there are effective and efficient controls at all points of entry into the EU.

_Fighting crime throughout the EU_

Guaranteeing the security of its citizens is one of the Union’s central priorities. This means using both practical and legislative weapons to prevent organized criminals such as drug barons, people traffickers, money launderers and terrorists from exploiting the freedoms the EU brings. On the practical front, national police forces are cooperating more, especially within the framework of Europol.

Legislation is being used to tackle money laundering. It allows the proceeds of crime to be confiscated and obliges financial institutions and professions such as accountants, lawyers and casino owners to report transactions worth €15 000 or more.

_Culture_

Europe is proud of its cultural diversity. Language, literature, theatre, visual arts, architecture, crafts, the cinema and broadcasting may belong to a specific country or region, but they represent part of Europe's common cultural heritage. The European Union aims to preserve and support this diversity and to help make it accessible to others.

These aims were spelt out in the 1992 Maastricht Treaty, which recognised formally for the first time the cultural dimension of European integration. But cultural initiatives had begun earlier.
For instance, the successful programme to select each year Europe’s Capital of Culture was launched in 1985.

In its guidelines for the Regional Fund, the European Commission asks member governments to promote cultural development in poorer regions to help them assert their identity, attract tourists and create jobs in areas like online services and the media.

**The EU helps restore Europe’s cultural heritage**

One of the EU’s flagship initiatives, the *Culture* programme, is now well-established. In its present form, it runs from 2007 to 2013 with a total budget for the period of around €400 million. It covers all non-audiovisual cultural activities.

The specific objectives of the current *Culture* programme are to: promote the awareness and the preservation of cultural items of European significance; promote the transnational mobility of those working in the cultural sector; encourage the transnational circulation of works and cultural and artistic products; stimulate intercultural dialogue.

Linguistic diversity is a cultural and democratic cornerstone of the European Union. Language not only opens doors to other cultures, it also enriches in a practical way our ability to benefit from cultural contacts when we travel or work in other Union countries. The long-term aim is to encourage people in Europe to learn two languages in addition to their mother tongue.

Support for linguistic diversity is one of the EU’s operating principles. With new members joining in 2004 and 2007, the number of official Union languages has risen from 11 to 23. The EU requires its legislation to be available in all languages and therefore accessible to all citizens. It also guarantees that any EU citizens can write to an EU institution or body and receive a reply in their own language. In the same way, a member of the European Parliament has the right to represent his or her voters in their own language when he or she rises to speak.

**Common foreign security policy**

The Common Foreign and Security Policy (CFSP) is the organized, agreed foreign policy of the European Union (EU) for mainly security and defense diplomacy and actions. CFSP deals only
with a specific part of the EU's external relations, which domains include mainly Trade and Commercial Policy and other areas as funding to third countries, etc. Decisions require unanimity among member states in the EU's Council, but once agreed, certain aspects can be further decided by qualified majority voting.

Policy is chaired and represented by the EU's High Representative. The CFSP sees the NATO responsible for the territorial defense of Europe and "peace-making" while since 1999 the European Union is responsible for implementation missions, such as peace-keeping and policing of treaties etc. The CFSP was previously a distinct pillar of the EU since the Treaty of Maastricht of 1992, but this system of dividing the EU's policy areas was abolished under the Treaty of Lisbon in 2009.

Co-operation in international trade negotiations, under the Common Commercial Policy, dates back to the establishment of the Community in 1957. The common foreign security policy itself has its origins in the formation of European Political Co-operation (EPC) in 1970. European Political Co-operation was an informal consultation process between member states on foreign policy matters, with the aim of creating a common approach to foreign policy issues and promoting both the EU's own interests and those of the international community as a whole. This includes promoting international co-operation, respect for human rights, democracy, and the rule of law.

The weaknesses evident in European political co-operation—apparent for example during the Yugoslav wars—led to a desire to strengthen foreign policy. This was consolidated in the Maastricht Treaty, which entered into force in 1993 and established the European Union. While the previously existing supranational European Economic Community became one of three pillars, two more pillars were erected. The second common foreign security policy pillar was based on intergovernmentalism, meaning unanimity between members in the Council of Ministers and little influence by the other institutions.

The Amsterdam Treaty created the office of the High Representative for the Common Foreign and Security Policy (held by Javier Solana until 1 December 2009) to co-ordinate and represents the EU's foreign policy.
The Treaty of Lisbon took effect in December 2009 and brought an end to the pillar system. The CFSP status as a "pillar" was hence removed. Furthermore, in an effort to ensure greater coordination and consistency in EU foreign policy, the Treaty of Lisbon created a *High Representative of the Union for Foreign Affairs and Security Policy*, de facto merging the post of High Representative for the Common Foreign and Security Policy and European Commissioner for External Relations and European Neighbourhood Policy. The High Representative will be in charge of an External Action Service that was also created by the Treaty of Lisbon. This will essentially be a common Foreign Office or Diplomatic Corps for the Union.

**Objectives**

According to the Treaty on European Union, Article 11, the European Union defines and implements a common foreign and security policy that covers all areas of foreign and security policy, the objectives of which are to:

- Safeguard the common values, fundamental interests, independence and integrity of the Union in conformity with the principles of the United Nations Charter;
- Strengthen the security of the Union in all ways;
- Preserve peace and strengthen international security, in accordance with the principles of the United Nations Charter, as well as the principles of the Helsinki Final Act and the objectives of the Paris Charter, including those on external borders;
- Promote international cooperation;
- Develop and consolidate democracy and the rule of law, and respect for human rights and fundamental freedoms.

**Types of policy**

The European Council defines the principles and general guidelines for the common foreign security policy as well as common strategies to be implemented by the EU. On the basis of those guidelines the Council of Ministers adopts joint actions or common positions. Joint actions address specific situations where operation action by the EU is considered necessary and lay
down the objectives, scope and means to be made available to the EU. They commit the member states. Common positions on the other hand, define the approach that the EU takes on a certain matter of geographical or thematic nature, and define in the abstract the general guidelines that the national policies of Member states must conform to.

The High Representative, in conjunction with the President of the European Council, speaks on behalf of the EU in agreed foreign policy matters and can have the task of articulating ambiguous policy positions created by disagreements among member states. The Common Foreign and Security Policy require unanimity among the now 27 member states on the appropriate policy to follow on any particular policy. Disagreements in CFSP, such as those that occurred over the war in Iraq, are not uncommon.

The High Representative also coordinates the work of the European Union Special Representatives. With the Lisbon Treaty taking effect, the position became distinct from the Secretary-General of the Council of Ministers. The High Representative serves as the head of the European Defense Agency and exercises the same functions over the Common Security and Defense Policy as the CFSP.

**Bodies**

There are a number of bodies set up within the context of the CFSP. Within the Council, there is the Foreign Affairs Council (FAC) configuration, essentially a meeting of foreign ministers and the Political and Security Committee or PSC, which monitors the international situation in the areas covered by the CFSP and contributes by delivering opinions to the Council of Ministers, either at its request or its own initiative, and also monitors the implementation of agreed policies.

The European Defense Agency (EDA) encourages increase in defence capabilities, military research and the establishment of a European internal market for military technology. Two bodies carried over from the Western European Union (see defense, below) are the European Union Institute for Security Studies (EUISS) and the European Union Satellite Centre (EUSC), which deal with security and defense policy and satellite imagery respectively.
**Defense policy**

Since the Cologne European Council in 1999, the Common Security and Defense Policy (or CSDP) has become a significant part of the CFSP. The EU itself has limited military capability, member states are responsible for their own territorial defense and a majority of EU members are also members of NATO, which is responsible for the defense of Europe.

There was also the Western European Union (WEU), which was a European security organisation related to the EU. In 1992, the WEU's relationship with the EU was defined, when the EU assigned it the "Petersberg tasks" (humanitarian missions such as peacekeeping and crisis management). These tasks were later transferred from the WEU to the EU by the Amsterdam Treaty; they formed part of the new CFSP and the Common Security and Defense Policy. Elements of the WEU were merged into the EU's CFSP and the President of the WEU was also the High Representative. In 2010 the merger led to the final dissolution of the WEU, with all its remaining activities to be wound up by 2011.

Following the Kosovo war in 1999, the European Council agreed that "the Union must have the capacity for autonomous action, backed by credible military forces, the means to decide to use them, and the readiness to do so, in order to respond to international crises without prejudice to actions by NATO." To that end, a number of efforts were made to increase the EU's military capability, notably the Helsinki Headline Goal process. After much discussion, the most concrete result was the EU Battlegroups initiative, each of which is planned to be able to deploy about 1500 men quickly. EU forces have been deployed on peacekeeping missions from Africa to the Balkans and the Middle East. EU military operations are supported by a number of bodies, including the European Defense Agency, satellite centre and the military staff.

**Political and Security Committee**

The Political and Security Committee first established as an interim body in 2000 is described by the Nice European Council Conclusions as the "linchpin" of the European Security and Defense Policy and the Common Foreign and Security Policy. Its responsibilities include the drafting of

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opinions for the General Affairs and External Relations Council, which is one of the configurations of the Council of the European Union, and exercising "political control and strategic direction" of EU crisis-management operations. The committee is a standing body and is composed of national representatives of "senior / ambassadorial level" and meets at least twice a week (Tuesdays and Fridays) in Brussels. It is chaired by the member state that holds the rotating Presidency of the Council of the European Union.

**Outside the Common Foreign Security Policy**

Besides its own foreign and security policy, the Commission is also gaining greater representation in international bodies. Representation in international bodies is previously through the European Commissioner for External Relations, who worked alongside the High Representative, but now with the High Representative directly as a Commission Vice President. In the UN the EU has gained influence in areas such as aid due to its large contributions in that field. In the G8, the EU has the rights of membership besides that of chairing/hosting summit meetings. The EU is represented at the G8 by the presidents of the Commission and the Council. In the World Trade Organization, where all 27 member states are represented, the EU as a body is represented by Trade Commissioner.

The influence of the EU is also felt through the enlargement. The potential benefits of becoming a member of the EU act as an incentive for both political and economic reform in states wishing to fulfill the EU's accession criteria, and are considered a major factor contributing to the reform and stabilization of former Communist countries in Eastern Europe. This influence on the internal affairs of other countries is generally referred to as "soft power", as opposed to military "hard power".

The European Union's influential economic status and its nation-like characteristics has been acknowledged by the United States' Central Intelligence Agency (CIA) in their publication, The World Factbook. The EU was included in the Factbook. The EU was included in the Factbook in December 2004.

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27 [http://www.worldfactbook.com](http://www.worldfactbook.com)
**Humanitarian aid**

The European Community humanitarian aid office, or "ECHO", provides humanitarian aid from the EU to developing countries. In 2006 its budget amounted to 671 million euro, 48% of which went to the ACP countries. Counting the EU's own contributions and those of its member states together, the EU is the largest aid donor in the world.

The EU's aid has previously been criticized by the think-tank Open Europe for being inefficient, mistargeted and linked to economic objectives. Furthermore, some charities have claimed European governments have inflated the amount they have spent on aid by incorrectly including money spent on debt relief, foreign students, and refugees. Under the de-inflated figures, the EU did not reach its internal aid target in 2006 and the EU would not reach the international target of 0.7% of GNP until 2015. Only a few countries have reached that target. In 2005 EU aid was 0.34% of the GNP, which was higher than that of the United States and Japan. The current commissioner for aid, Louis Michel, has called for aid to be delivered more rapidly, to greater effect, and on humanitarian principles.

**Security and conflict**

Security and development are interdependent and mutually reinforcing. No sustainable development is possible in a country threatened by internal insecurity, crisis and conflicts. At the same time, there cannot be sustainable peace without development. Moreover, insecurity, crisis and conflicts can impede the efficient use of aid.

**Crisis management**

Since its foundation, the European Community is involved in all phases of the crisis cycle; from preventive strategies, to post-crisis rehabilitation and reconstruction. She manages substantial resources devoted to countries in political crisis through its country programmes and specific instruments such as the Instrument for stability.

The Commission attaches great importance to a coherent EU approach to crisis situations, assuring that EC instruments and ESDP actions are complementary. Both local delegations and local partners are closely involved.
ESDP missions have been carried out in FYROM (Former Republic of Macedonia), Kosovo, Bosnia and Herzegovina, Occupied Palestinian Territories, Guinea-Bissau, Democratic Republic of Congo, Sudan/Darfur, Chad and the Central African Republic, Somalia, Afghanistan, Moldova and Ukraine, Iraq, Georgia and Aceh, a province of Indonesia.

These missions mainly support police, judiciary and customs reforms and capacity-building. They facilitate agreements ending hostilities and ensure compliance of these agreements. There are important efforts to assure the security of civilians, refugees, humanitarian workers and UN personnel. Furthermore, the ESDP missions can help in specific fields, like monitoring the borders where needed or even fighting against piracy.

**Conflict prevention**

The EU has strengthened its capacity to deal with tensions and insecurity, in order to prevent the outbreak or re-occurrence of violence. It employs development co-operation and external assistance, trade policy instruments, social and environmental policies, diplomatic instruments and political dialogue, co-operation with international partners and NGOs.

It addresses the root-causes of violent conflict, like poverty, degradation, exploitation and unequal distribution and access to land and natural resources, weak governance, human rights abuses and gender inequality. The EU emphasizes the strengthening of the rule of law, and democratic institutions, the development of civil society and the reform of the security sector.

In post-conflict situations, peace-building initiatives are essential for ensuring lasting peace. The Commission is every day more engaged in rehabilitation activities, demobilisation, disarmament and reintegration programmes.

Conflict Prevention Partnership (CPP) carries out a number of activities including policy seminars, roundtables and the publication of papers and briefings in order to disseminate its research findings in the field of conflict prevention and engage EU policymakers and civil society in discussion of appropriate policy and operational response. Cross-cutting issues are tackled on an international and multidimensional level.
The EU’s external economic relations

In order to steer this process of increasing economic and financial interdependencies, the European Union maintains economic relations with many countries and institutions in the world. Its ultimate objective is to foster economic prosperity and stability in the EU and, while serving the EU’s interests, also in the rest of the world.

The Commission supports this by providing analysis and policy advice on international economic issues relevant to the EU, and by projecting the values and principles of the EU’s economic framework and policy recommendations to shape the EU’s external economic policies and their implementation. This includes:

Providing economic analysis and policy advice for the development and implementation of EU external policies, for example on enlargement, the European Neighbourhood Policy, or the EU’s development policy;

Leading negotiations and regular dialogues on the economic aspects of bilateral relations, for example with China, India, Japan, Russia, South Africa, the US, Candidate Countries and Neighbourhood Countries;

Ensuring the Commission's presence in multilateral economic fora (for example G7/G8, G10, G20, Organization for Economic Cooperation and Development, Financial Stability Forum) and international financial institutions (International Monetary Fund, World Bank, European Bank for Reconstruction and Development);

Managing Community financial instruments, such as macro-financial assistance or budget support within the different assistance programmes, and ensuring coordination with other international financial institutions are targets of the European Union, that are the guarantee for a proper cooperation.

The lessons and experiences gathered from these activities related to non-EU countries are also fed into the analysis and policy advice to inform policies in the EU, regarding in particular global economic developments and their potential effects on EMU, the international role of the euro, the external representation of the EU, and country-specific lessons from non-EU countries.
2. United States of America

2.1 Presentation

United States of America is a federal constitutional republic comprising fifty states and a federal district. The country is situated mostly in central North America, where its forty-eight contiguous states and Washington, D.C., the capital district, lie between the Pacific and Atlantic Oceans, bordered by Canada to the north and Mexico to the south. The state of Alaska is in the northwest of the continent, with Canada to the east and Russia to the west across the Bering Strait. The state of Hawaii is an archipelago in the mid-Pacific. The country also possesses several territories in the Caribbean and Pacific.

At 3.79 million square miles (9.83 million km²) and with about 309 million people, the United States is the third or fourth largest country by total area, and the third largest both by land area and population. It is one of the world's most ethnically diverse and multicultural nations, the product of large-scale immigration from many countries. The U.S. economy is the largest national economy in the world, with an estimated 2008 gross domestic product (GDP) of US $14.4 trillion (a quarter of nominal global GDP and a fifth of global GDP at purchasing power parity).

The end of the Cold War\textsuperscript{28} and the dissolution of the Soviet Union left the United States as the sole superpower. The country accounts for two-fifths of global military spending and is a leading economic, political, and cultural force in the world.

Under President George H. W. Bush, the United States took a lead role in the UN–sanctioned Gulf War. The longest economic expansion in modern U.S. history—from March 1991 to March 2001—encompassed the Bill Clinton administration.

The federal government\textsuperscript{29} of the United States is the central government entity established by the United States Constitution, which shares sovereignty over the United States of America with the

\textsuperscript{28} \url{http://endofcoldwar.com/}

\textsuperscript{29} \url{http://www.usa.gov/}
governments of the individual U.S. states. It is formally known as the Government of the United States of America.

The U.S. federal regime dates from 1790 and is considered to be the first modern national federation government in the world. Even so, the details of American federalism have been debated since the establishment and ordination of the constitution, with some parties arguing for expansive national powers while others have strictly interpreted the constitutional enumerations of the national government's powers.

Since the U.S. Civil War, the powers of the federal government have tended to expand, although there have been periods when state's rights proponents have succeeded in limiting federal power through legislative action, executive prerogative or by constitutional interpretation of the courts.

Congress is the legislative branch of the federal government. It is bicameral, comprising the House of Representatives and the Senate. The House of Representatives consists of 435 voting members, each of whom represents a congressional district and serves for a two-year term. In addition to the 435 voting members, there are five non-voting members, consisting of four delegates and one resident commissioner. There is one delegate each from the District of Columbia, Guam, Virgin Islands, and American Samoa, and the resident commissioner is from Puerto Rico. House seats are apportioned among the states by population; in contrast, each state has two senators, regardless of population. There are a total of 100 senators (as there are currently 50 states), who serve six-year terms (one third of the Senate stands for election every two years). Each congressional chamber (House or Senate) has particular exclusive powers—the Senate must give "advice and consent" too many important Presidential appointments, and the House must introduce any bills for the purpose of raising revenue. The consent of both chambers is required to pass any legislation, which then may only become law by being signed by the President; if the President vetoes such legislation, however, both houses of Congress must then re-pass the legislation, but by a two-thirds majority of each chamber, in order to make such legislation law without the need for the President's signature. The powers of Congress are limited to those enumerated in the Constitution; all other powers are reserved to the states and the people.
The executive power in the federal government is vested in the President of the United States, although power is often delegated to the Cabinet members and other officials. The President and Vice President are elected as running mates for a maximum of two four-year terms by the Electoral College, for which each state, as well as the District of Columbia, is allocated a number of seats based on its representation (or ostensible representation, in the case of D.C.) in both houses of Congress.

United States, showing states, divided into counties. Note that Alaska and Hawaii are shown at different scales, and that the Aleutian Islands and the uninhabited Northwestern Hawaiian Islands are omitted from this map.

The regional management in United States has a great influence over most Americans' daily lives. The Tenth Amendment to the United States Constitution guarantees their general plenary powers, versus the limited enumerated powers possessed by the federal government; as a result, they handle the majority of issues most relevant for most individuals within their jurisdiction.

Each state has its own written constitution, government, and code of laws. There are sometimes great differences in law and procedure between individual states, concerning issues such as property, crime, health, and education. The highest elected official of each state is the Governor.

The institutions that are responsible for local government within states are typically town, city, or county boards, water management districts, fire management districts, library districts, and other similar governmental units which make laws that affect their particular area. These laws concern issues such as traffic, the sale of alcohol, and the keeping of animals. The highest elected official of a town or city is usually the mayor.

In New England, towns operate in a direct democratic fashion, and in some states, such as Rhode Island and Connecticut, counties have little or no power, existing only as geographic distinctions. In other areas, county governments have more power, such as to collect taxes and maintain law enforcement agencies.
Foreign relations and military

The United States exercises global economic, political, and military influence. It is a permanent member of the United Nations Security Council and New York City hosts the United Nations Headquarters. Almost all countries have embassies in Washington, D.C., and many have consulates around the country. Likewise, nearly all nations host American diplomatic missions. However, Cuba, Iran, North Korea, Bhutan, Sudan, and the Republic of China (Taiwan) do not have formal diplomatic relations with the United States.

The United States enjoys strong ties with the United Kingdom, Canada, Australia, New Zealand, Japan, South Korea, and Israel. It works closely with fellow NATO members on military and security issues and with its neighbors through the Organization of American States and free trade agreements such as the trilateral North American Free Trade Agreement with Canada and Mexico. In 2008, the United States spent a net $25.4 billion on official development assistance, the most in the world. As a share of gross national income, however, the U.S. contribution of 0.18% ranked last among twenty-two donor states. In contrast, private overseas giving by Americans is relatively generous.

The president holds the title of commander-in-chief of the nation's armed forces and appoints its leaders, the secretary of defense and the Joint Chiefs of Staff. The United States Department of Defense administers the armed forces, including the Army, Navy, Marine Corps, and Air Force. The Coast Guard is run by the Department of Homeland Security in peacetime and the Department of the Navy in time of war. In 2008, the armed forces had 1.4 million personnel on active duty. The Reserves and National Guard brought the total number of troops to 2.3 million. The Department of Defense also employed about 700,000 civilians, not including contractors.

Military service is voluntary, though conscription may occur in wartime through the Selective Service System. American forces can be rapidly deployed by the Air Force's large fleet of transport aircraft, the Navy's eleven active aircraft carriers, and Marine Expeditionary Units at sea with the Navy's Atlantic and Pacific fleets. Outside of the United States, the military operates 865 bases and facilities, with personnel deployed to more than 150 countries. The extent of this global military presence has prompted some scholars to describe the United States as maintaining an "empire of bases."
Total U.S. military spending in 2008, more than $600 billion, was over 41% of global military spending and greater than the next fourteen largest national military expenditures combined. The per capita spending of $1,967 was about nine times the world average; at 4% of GDP, the rate was the second-highest among the top fifteen military spenders, after Saudi Arabia. The proposed base Department of Defense budget for 2010, $533.8 billion, is a 4% increase over 2009 and 80% higher than in 2001; an additional $130 billion is proposed for the military campaigns in Iraq and Afghanistan. In September 2009 there were about 62,000 U.S. troops deployed to Afghanistan, and as of February 2010 there were 98,000 U.S. troops deployed to Iraq. As of October 9, 2009, the United States had suffered 4,349 military fatalities during the Iraq War and 869 during the War in Afghanistan.

American economy

The United States has a capitalist mixed economy, which is fueled by abundant natural resources, a well-developed infrastructure, and high productivity. According to the International Monetary Fund, the U.S. GDP of $14.4 trillion constitutes 24% of the gross world product at market exchange rates and almost 21% of the gross world product at purchasing power parity (PPP). The largest national GDP in the world, it was about 5% less than the combined GDP of the European Union at PPP in 2008. The country ranks seventeenth in the world in nominal GDP per capita and sixth in GDP per capita at PPP.

The United States is the largest importer of goods and third largest exporter, though exports per capita are relatively low. In 2008, the total U.S. trade deficit was $696 billion. Canada, China, Mexico, Japan, and Germany are its top trading partners. In 2007, vehicles constituted both the leading import and leading export commodity. Japan is the largest foreign holder of U.S. public debt, having surpassed China in early 2010. The United States ranks second in the Global Competitiveness Report.

In 2009, the private sector is estimated to constitute 55.3% of the economy, with federal government activity accounting for 24.1% and state and local government activity (including federal transfers) the remaining 20.6%. The economy is postindustrial, with the service sector contributing 67.8% of GDP, though the United States remains an industrial power. The leading
business field by gross business receipts is wholesale and retail trade; by net income it is manufacturing. Chemical products are the leading manufacturing field. The United States is the third largest producer of oil in the world, as well as its largest importer. It is the world's number one producer of electrical and nuclear energy, as well as liquid natural gas, sulfur, phosphates, and salt. While agriculture accounts for just under 1% of GDP, the United States is the world's top producer of corn and soybeans. The New York Stock Exchange is the world's largest by dollar volume.

In the third quarter of 2009, the American labor force comprised 154.4 million people. Of those employed, 81% had jobs in the service sector. With 22.4 million people, government is the leading field of employment. About 12% of workers are unionized, compared to 30% in Western Europe. The World Bank ranks the United States first in the ease of hiring and firing workers. Between 1973 and 2003, a year's work for the average American grew by 199 hours. Partly as a result, the United States maintains the highest labor productivity in the world. In 2008, it also led the world in productivity per hour, overtaking Norway, France, Belgium and Luxembourg, which had surpassed the United States for most of the preceding decade. Compared to Europe, U.S. property and corporate income tax rates are generally higher, while labor and, particularly, consumption tax rates are lower.

The United States has one of the largest diplomatic presences of any nation. Almost every country in the world has both a U.S. embassy and an embassy of its own in Washington, D.C. Only a few countries do not have formal diplomatic relations with the United States. They are:

In practical terms however, this lack of formal relations do not impede the U.S.'s communication with these nations. In the cases where no U.S. diplomatic post exists, American relations are usually conducted via the United Kingdom, Canada, Switzerland, or another friendly third-party. In the case of the Taiwan (Republic of China), de facto diplomatic relations are conducted through the American Institute in Taiwan. United States relations with Taiwan are not formal due to the recognition of the Peoples Republic of China as the sole Chinese regime. The U.S. also operates an "Interests Section in Havana". While this does not create a formal diplomatic relationship, it fulfils most other typical embassy functions.
The United States is involved with several territorial disputes, including maritime disputes with Canada over the Dixon Entrance, Beaufort Sea, Strait of Juan de Fuca, Northwest Passage, and areas around Machias Seal Island and North Rock. These disputes have become dormant recently, and are largely considered not to affect the strong relations between the two nations.

Other disputes include: The U.S. Naval Base at Guantánamo Bay, which is leased from Cuba. Only mutual agreement or U.S. abandonment of the area can terminate the lease. Cuba contends that the lease is invalid as the Platt Amendment creating the lease was included in the Cuban Constitution under threat of force and thus is voided by article 52 of the 1969 Vienna Convention on the Law of Treaties. However, even though the conditions surrounding the lease agreement can be debated, the fourth article of that same treaty specifies the non-retroactivity of its law on treaties made before it; Haiti claims Navassa Island; The U.S. has made no territorial claim in Antarctica (but has reserved the right to do so) and does not recognize the claims of any other nation; The Marshall Islands claim Wake Island.

The U.S. maintains a Normal Trade Relations list and several countries are excluded from it, which means that their exports to the United States are subject to significantly higher tariffs.

2.2. Policies/ Programs

Allies

The United States as a founding member of NATO, the world's largest military alliance. The 28 nation alliance consists of neighbour, Canada and much of Europe, including NATO's second largest military; the United Kingdom. Under the NATO charter, the United States is compelled to defend any NATO state that is attacked by a foreign power. NATO is restricted to within the North American and European areas. Starting in 1989, the United States also created a major non-NATO ally status (MNNA) for five nations; this number was increased in the late 1990s and following the September 11 attacks; it currently includes fourteen nations. Each such state has a unique relationship with the United States, involving various military and economic partnerships and alliances.

http://en.wikipedia.org/wiki/Category:International_terриториal_disputes_of_the_United_States
The United States has seven major non-NATO allies in the Greater Middle East region. In particular, Israel is provided by the U.S. with billions in foreign aid annually. President Bush supported the 2006 Lebanon War and said Israel has a right to defend itself. In January 2007, the State Department informed Congress of preliminary findings that Israel may have violated agreements by using cluster bombs against civilian populated areas. A final determination has not been made. Israel has denied violating agreements, saying that it had acted in self-defense. Other MNNA and NATO allies include South Korea, Germany, Poland, Turkey, Pakistan, and Japan.

Taiwan (Republic of China), does not have official diplomatic relations recognized and is no longer officially recognized by the State Department of the United States, but it conducts unofficial diplomatic relations through their de facto embassy, commonly known as the "Taipei Economic and Cultural Representative Office ", and is considered to be a strong Asian ally of the United States. The U.S. has built a non-NATO alliance with Pakistan to assist with the War in Afghanistan and jointly combat terror in the subcontinent.

U.S. State Secretary Condoleezza Rice signed the Defense Cooperation Agreement with Bulgaria, a new NATO member, in 2006. The treaty allows the U.S. (not NATO) to develop as joint U.S.-Bulgarian facilities the Bulgarian air bases at Bezmer (near Yambol) and Graf Ignatievo (near Plovdiv), the Novo Selo training range (near Sliven), and a logistics centre in Aytos, as well as to use the commercial port of Burgas. At least 2,500 U.S. personnel will be located there. The treaty also allows the U.S. to use the bases "for missions in tiers country without a specific authorization from Bulgarian authorities", and grants U.S. militaries immunity from prosecution in this country. Another agreement with Romania permits the U.S. to use the Mihail Kogălniceanu base and another one nearby. Georgian President Mikheil Saakashvili sees membership of the NATO as a premise of stability for Georgia. On March 9, 2007, President Saakashvili announced his plans to increase total Georgian troop strength in Iraq to 2000, making Georgia one of the biggest supporters of Coalition Forces, and keeping its troops in Kosovo and Afghanistan. Following the outbreak of war between Georgia and Russia on August 8, 2008, Mikheil Saakashvili said that Georgia was pulling its entire 2,000-strong contingent of troops from Iraq. During August 10 and 11, 2008, the U.S. Air Force airlifted the whole
contingent out of Iraq. There have been some concerns about Saakashvili monopolizing power since his coming to office in 2004.

Ukraine also has a close relationship with the United States. US President George W. Bush and both nominees for President of the United States in the 2008 election, U.S. senator Barack Obama and U.S. senator John McCain, did offer backing to Ukraine's membership of NATO. Russian reactions are negative. At a NATO summit in Bucharest in April 2008 President Bush pressed NATO to ignore Russia's objections and back membership for Ukraine and Georgia. Ukraine is currently the only non-NATO member supporting every NATO mission. President Bush noted that the President of Ukraine Victor Yushchenko was the first foreign leader he called after his inaugural address.

The UN\textsuperscript{31} Security Council remains divided on the question of Kosovo declaration of independence. Kosovo declared its independence on February 17, 2008, which Serbia opposes. Of the five members with veto power, USA, UK, and France recognized the declaration of independence, and China has expressed concern, while Russia considers it illegal. "In its declaration of independence, Kosovo committed itself to the highest standards of democracy, including freedom and tolerance and justice for citizens of all ethnic backgrounds", Bush said on February 19, 2008.

United Kingdom-United States\textsuperscript{32} relations is a special relationship, also due to belonging to the anglosphere. United States foreign policy affirms its alliance with the United Kingdom as its most important bilateral relationship in the world, evidenced by aligned political affairs between the White House and 10 Downing Street, as well as joint military operations carried out between the two nations. While both the United States and the United Kingdom maintain close relationships with many other nations around the world, the level of cooperation in military planning, execution of military operations, nuclear weapons technology, and intelligence sharing with each other has been described as "unparalleled" among major powers throughout the 20th and early 21st century.

\textsuperscript{31} http://www.un.org/Docs/sc/
\textsuperscript{32} http://www.state.gov/www/policy.html
The United States and the United Kingdom share the world's largest foreign direct investment partnership. American investment in the United Kingdom reached $255.4 billion in 2002, while British direct investment in the United States totaled $283.3 billion.

The bilateral relationship between Canada and the United States is of extreme importance to both countries. About 75–85% of Canadian trade is with the United States, and Canada is the United States' largest trading partner. While there are disputed issues between the two nations, relations are close and the two countries famously share the "world's longest undefended border."

Canada was a close ally of the United States in both World Wars (though in both cases Canadian involvement preceded U.S. involvement by several years), the Korean War, and the Cold War. Canada was an original member of NATO and the two countries' air defenses are fused in NORAD.

The United States shares a unique and often complex relationship with the United Mexican States. With shared history stemming back to the Texas Revolution and the Mexican-American War, several treaties have been concluded between the two nations, most notably the Gadsden Purchase, and multilaterally with Canada, the North American Free Trade Agreement. Mexico and the United States are members of various international organizations, such as the Organization of American States and the United Nations. Illegal immigration, arms sales, and drug smuggling continue to be contentious issues in 21st-century Mexican-American relations.

America’s relationship with Australia is a very close one, with Secretary of State Hillary Clinton stating that "America doesn't have a better friend in the world than Australia". The relationship is formalized by the ANZUS treaty and the Australia-United States Free Trade Agreement. The two countries have a shared history, both have previously been British Colonies and many Americans flocked to the Australian goldfields in the 1800s. At a strategic level, the relationship really came to prominence in World War 2, when the two nations worked extremely closely in the Pacific war against Japan, with General Douglas MacArthur undertaking his role as Supreme Allied Commander based in Australia, effectively having Australian troops and resources under his command. During this period, the cultural interaction between Australia and the US were elevated to a higher level as over 1 million U.S. military personnel moved through Australia.
The relationship continued to evolve throughout the second half of the 20th Century, and today now involves strong relationships at the executive and mid levels of government and the military, leading Assistant Secretary of State for East Asian and Pacific Affairs, Kurt M. Campbell to declare that "in the last ten years, [Australia] has ascended to one of the closest one or two allies [of the U.S.] on the planet".

While America's relationships with Europe have tended to be in terms of multilateral frameworks, such as NATO, America's relations with Asia have tended to be based on a series of bilateral relationships where the client states would coordinate with the United States in order to not have to deal directly with each other. On May 30, 2009, at the Shangri-La Dialogue Defense Secretary Robert M. Gates urged the nations of Asia to build on this hub and spoke model as they established and grew multilateral institutions such as ASEAN, APEC and the ad hoc arrangements in the area.

Another important aspect that influences of U.S world relations is the oil industry. The U.S. currently produces about 40% of the oil that it consumes; its imports have exceeded domestic production since the early 1990s. Since the U.S.'s oil consumption continues to rise, and its oil production continues to fall, this ratio may continue to decline. So the dependence on imported oil has become an urgent "national security concern".

Two-thirds of the world's proven oil reserves are estimated to be found in the Persian Gulf. Despite its distance, the Persian Gulf region was first proclaimed to be of national interest to the United States during World War II. Petroleum is of central importance to modern armies, and the United States—as the world's leading oil producer at that time—supplied most of the oil for the Allied armies. Many U.S. strategists were concerned that the war would dangerously reduce the U.S. oil supply, and so they sought to establish good relations with Saudi Arabia, a kingdom with large oil reserves.

The Persian Gulf region continued to be regarded as an area of vital importance to the United States during the Cold War. Three Cold War United States Presidential doctrines, the Truman Doctrine, the Eisenhower Doctrine, and the Nixon Doctrine, played roles in the formulation of the Carter Doctrine, which stated that the United States would use military force if necessary to
defend its "national interests" in the Persian Gulf region. Carter's successor, President Ronald Reagan, extended the policy in October 1981 with what is sometimes called the "Reagan Corollary to the Carter Doctrine", which proclaimed that the United States would intervene to protect Saudi Arabia, whose security was threatened after the outbreak of the Iran–Iraq War. Some analysts have argued that the implementation of the Carter Doctrine and the Reagan Corollary also played a role in the outbreak of the 2003 Iraq War.

To sum this scenario, almost all of Canada's energy exports go to the United States, making it the largest foreign source of U.S. energy imports: Canada is consistently among the top sources for U.S. oil imports, and it is the largest source of U.S. natural gas and electricity imports. In 2007 the U.S. was Sub-Saharan Africa's largest single export market accounting for 28.4% of exports (second in total to the EU at 31.4%). 81% of U.S. imports from this region were petroleum products.

Foreign assistance

Foreign assistance

Foreign assistance is a core component of the State Department's international affairs budget and is considered an essential instrument of U.S. foreign policy. There are four major categories of non-military foreign assistance: bilateral development aid, economic assistance supporting U.S. political and security goals, humanitarian aid, and multilateral economic contributions.

In absolute dollar terms, the United States is the largest international aid donor ($22.7 billion in 2006), but as a percent of gross national income, its contribution is only 0.2%, proportionally much smaller than contributions of countries such as Sweden (1.04%) and the United Kingdom (0.52%). The U.S. Agency for International Development (USAID) manages the bulk of bilateral economic assistance; the Treasury Department handles most multilateral aid.

The United States has fought wars and intervened militarily on many occasions. See, Timeline of United States military operations. The U.S. also operates a vast network of military bases around the world. See, List of United States military bases. In recent years, the U.S. has used its military

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33 [http://www.cgdev.org/section/initiatives/_active/assistance](http://www.cgdev.org/section/initiatives/_active/assistance)

superiority as sole superpower to lead a number of wars, including, most recently, the invasion of Iraq in March 2003 as part of its global "War on Terror."

The U.S. provides military aid through many different channels. Counting the items that appear in the budget as 'Foreign Military Financing' and 'Plan Colombia', the U.S. spent approximately $4.5 billion in military aid in 2001, of which $2 billion went to Israel, $1.3 billion went to Egypt, and $1 billion went to Colombia. Since 9/11, Pakistan has received approximately 11.5 billion in direct military aid.

As of 2004, according to Fox News, the U.S. had more than 700 military bases in 130 different countries.

**Missile defense**

The Strategic Defense Initiative (SDI) was a proposal by U.S. President Ronald Reagan on March 23, 1983 to use ground and space-based systems to protect the United States from attack by strategic nuclear ballistic missiles. The initiative focused on strategic defense rather than the prior strategic offense doctrine of mutual assured destruction (MAD). Though it was never fully developed or deployed, the research and technologies of SDI paved the way for some anti-ballistic missile systems of today.

In February 2007, the U.S. started formal negotiations with Poland and Czech Republic concerning construction of missile shield installations in those countries for a Ground-Based Midcourse Defense system (in April 2007, 57% of Poles opposed the plan). According to press reports the government of the Czech Republic agreed (while 67% Czechs disagree) to host a missile defense radar on its territory while a base of missile interceptors is supposed to be built in Poland.

Russia threatened to place short-range nuclear missiles on the Russia's border with NATO if the United States refuses to abandon plans to deploy 10 interceptor missiles and radar in Poland and the Czech Republic. In April 2007, Putin warned of a new Cold War if the Americans deployed the shield in Central Europe. Putin also said that Russia is prepared to abandon its obligations under an Intermediate-Range Nuclear Forces Treaty of 1987 with the United States.
On August 14, 2008, The United States and Poland announced a deal to implement the missile defense system in Polish territory, with a tracking system placed in the Czech Republic. "The fact that this was signed in a period of very difficult crisis in the relations between Russia and the United States over the situation in Georgia shows that, of course, the missile defense system will be deployed not against Iran but against the strategic potential of Russia", Dmitry Rogozin, Russia's NATO envoy, said.

**Covert actions**

United States foreign policy also includes secret actions, such as covert actions to topple foreign governments, including democratically-elected governments. For example, in 1953 the CIA, working with the British government, orchestrated a coup d'état against the democratically-elected government of Iran led by Prime Minister Mohammad Mossadegh who had attempted to nationalize Iran's oil, threatening the interests of the Anglo-Iranian Oil Company. See Operation Ajax.

Other covert actions undertaken have not yet achieved their desired outcome. ABC news reported, citing U.S. and Pakistani intelligence sources that U.S. officials have been secretly advising and indirectly funneling funding for a Pakistani Balochi militant group named Jundullah responsible for a series of deadly guerrilla raids inside Iran. The U.S. provides no direct funding to the group, which would require an official presidential order or "presidential finding" as well as congressional oversight; thus the U.S. finds ways to funnel money through Iranian exiles that have connections with European and Persian Gulf states, according to tribal leaders. The CIA denies funding the group. Jundullah is suspected of being associated with al Qaida, a charge the group denied. It has been reported that the U.S. already has military commando units operating inside Iran working with the militant Balochi. U.S. policy aims to light "the fire of ethnic and sectarian strife" to destabilize and eventually topple the government of Iran.

More recently, after the Palestinian election in 2006 in which Hamas won the majority of seats in the Palestinian parliament, the U.S. provided training and major military assistance for an armed force under Fatah strongman Muhammad Dahlan, touching off a bloody civil war in Gaza and
the West Bank, which was successful in removing Hamas from power in the West Bank. Palestinian Authority President and Fatah leader Mahmoud Abbas then installed an unelected "emergency cabinet", led by Prime Minister Salam Fayyad, in place of the Hamas government in the West Bank.

United States foreign policy is influenced by the efforts of the U.S. government to control imports of illicit drugs, including cocaine, heroin, methamphetamine, and marijuana. This is especially true in Latin America, a focus for the U.S. War on Drugs. Those efforts date back to at least 1880, when the U.S. and China completed an agreement that prohibited the shipment of opium between the two countries.

Over a century later, the Foreign Relations Authorization Act requires the President to identify the major drug transit or major illicit drug-producing countries. In September 2005, the following countries were identified: Bahamas, Bolivia, Brazil, Burma, Colombia, Dominican Republic, Ecuador, Guatemala, Haiti, India, Jamaica, Laos, Mexico, Nigeria, Pakistan, Panama, Paraguay, Peru and Venezuela. Two of these, Burma and Venezuela are countries that the U.S. considers to have failed to adhere to their obligations under international counternarcotics agreements during the previous twelve months. Notably absent from the 2005 list were Afghanistan, the People's Republic of China and Vietnam; Canada was also omitted in spite of evidence that criminal groups there are increasingly involved in the production of MDMA destined for the United States and that large-scale cross-border trafficking of Canadian-grown marijuana continues. The U.S. believes that the Netherlands are successfully countering the production and flow of MDMA to the U.S.

Afghanistan is, as of March 2008, the greatest illicit (in Western World standards) opium producer in the world, before Burma (Myanmar), part of the so-called "Golden Crescent". As much as one-third of Afghanistan's GDP comes from growing poppy and illicit drugs including opium and its two derivatives, morphine and heroin, as well as hashish production. Opium production in Afghanistan has soared to a new record in 2007, with an increase on last year of more than a third, the United Nations has said. Some 3.3 million Afghans are now involved in producing opium.
Former U.S. State Department Principal Deputy Assistant Secretary for the Bureau of International Narcotics and Law Enforcement Affairs Thomas Schweich, in a New York Times article dated July 27, 2007, asserts that opium production is protected by the government of Hamid Karzai as well as by the Taliban, as all parties to political conflict in Afghanistan as well as criminals benefit from opium production, and, in Schweich's opinion, the U.S. military turns a blind eye to opium production as not being central to its anti-terrorism mission.

The Prime Minister for Kosovo, Hashim Thaçi, is alleged to have extensive criminal links. During the period of time when Thaçi was head of the Kosovo Liberation Army (KLA), it was reported by the Washington Times to be financing its activities by trafficking heroin and cocaine into Western Europe. The Bush administration has consistently supported Kosovo independence from Serbia.

History of U.S. installing governments through military force

Critics have sometimes accused the U.S. of trying to use military force to install governments in foreign nations in a way that works against the interests of other peoples and nations or that had good intentions but failed to achieve the intended good results. Some studies suggest some interventions failed or backfired or were ineffective, while others suggest success has been mixed and in some cases results were positive. There have been studies suggesting democracy failed to catch hold not because of American involvement but because conditions were not ready for the change. Some thinkers suggest that economic development is a requirement before democracy can take root.

Criticism of U.S foreign policy refers to extensive human rights abuses, support of dictatorships, overthrowing of democratically elected governments, economic imperialism, and violations of international law, aggressive wars, and other issues. 35

Support of dictatorships The US has been criticized for supporting dictatorships with economic assistance and military hardware. Particular dictatorships have included Musharraf of Pakistan,

the Shah of Iran, Museveni of Uganda, the Saudi Royal family, Maoist regimes in China, warlords in Somalia, President Museveni of Uganda.

Opposition to independent nationalism The US has been criticized by Noam Chomsky for opposing nationalist movements in foreign countries, including social reform.

Interference in internal affairs The United States was criticized for manipulating the internal affairs of foreign nations, including Guatemala, Chile, Cuba, Colombia, various countries in Africa including Uganda.

Support of Israel The US has been accused of condoning actions by Israel against Palestinians.

Democracy promotion

Some critics argue that America's policy of advocating democracy may be ineffective and even counterproductive. In *World On Fire*, Yale professor Amy Chua suggested that promotion of democracy in developing countries is not always a good idea since it may result in breeding ethnic hatred and global instability. Zbigniew Brzezinski declared that the coming to power of Hamas is a very good example of excessive pressure for democratization" and argued that George W. Bush's attempts to use democracy as an instrument against terrorism were risky and dangerous. Analyst Jessica Tuchman Mathews of the Carnegie Endowment for International Peace agreed that imposing democracy "from scratch" was unwise, and didn't work. Realist critics such as George F. Kennan argued U.S. responsibility is only to protect its own citizens and that Washington should deal with other governments on that basis alone; they criticize president Woodrow Wilson's emphasis on democratization and nation-building although it wasn't mentioned in Wilson's Fourteen Points, and the failure of the League of Nations to enforce international will regarding Nazi Germany, Fascist Italy, and Imperial Japan in the 1930s. Realist critics attacked the idealism of Wilson as being ill-suited for weak states created at the Paris Peace Conference. Others, however, criticize the U.S. Senate's decision not to join the League of Nations which was based on isolationist public sentiment as being one cause for the organization's ineffectiveness.
Imperialism

According to *Newsweek* reporter Fareed Zakaria, the Washington establishment has "gotten comfortable with the exercise of American hegemony and treats compromise as treason and negotiations as appeasement" and added "This is not foreign policy; it's imperial policy." Allies were critical of a unilateral sensibility to US foreign policy, and showed displeasure by voting against the US in the United Nations in 2001.

Hypocrisy

The US has been criticized for making statements supporting peace and respecting national sovereignty, but military actions such as in Grenada, fomenting a civil war in Colombia to break off Panama, and Iraq run counter to its assertions. The US has advocated free trade but protects local industries with import tariffs on foreign goods such as lumber and agricultural products. The US has advocated concern for human rights but refused to ratify the Convention on the Rights of the Child. The US has publicly stated that it is opposed to torture, but has been criticized for condoning it in the School of the Americas. The US has advocated a respect for national sovereignty but supports internal guerrilla movements and paramilitary organizations, such as the Contras in Nicaragua. The US has been criticized for voicing concern about narcotics production in countries such as Bolivia and Venezuela but doesn't follow through on cutting certain bilateral aid programs. The US has been criticized for not maintaining a consistent policy; it has been accused of denouncing human rights abuses in China while supporting rights violations by Israel. However, some defenders argue that a policy of rhetoric while doing things counter to the rhetoric was necessary in the sense of realpolitik and helped secure victory against the dangers of tyranny and totalitarianism. Another agrees.

Undermining of human rights

President Bush has been criticized for neglecting democracy and human rights by focusing exclusively on an effort to fight terrorism. The US was criticized for alleged prisoner abuse at Guantánamo Bay, Abu Ghraib in Iraq, secret CIA prisons in Eastern Europe, according to Amnesty International. In response, the US government claimed incidents of abuse were isolated incidents which did not reflect U.S. policy.
American exceptionalism

There is a sense in which America sometimes sees itself as qualitatively different from other countries and therefore cannot be judged by the same standard as other countries; this sense is sometimes termed American exceptionalism. A writer in Time Magazine in 1971 described American exceptionalism as "an almost mystical sense that America had a mission to spread freedom and democracy everywhere." American exceptionalism is sometimes linked with hypocrisy; for example, the US keeps a huge stockpile of nuclear weapons while urging other nations not to get them, and justifies that it can make an exception to a policy of non-proliferation. When the United States didn't support an environmental treaty made by many nations in Kyoto or treaties made concerning the Geneva Convention, then critics saw American exceptionalism as counterproductive.

Arrogance- Some critics have thought the United States became arrogant, particularly after its victory in World War II. Critics such as Andrew Bacevich call on America to have a foreign policy "rooted in humility and realism." Foreign policy experts such as Zbigniew Brzezinski counsel a policy of self-restraint and not pressing every advantage, and listening to other nations. A government official called the US policy in Iraq "arrogant and stupid," according to one report.

Excessive militarism- In the 1960s, Martin Luther King Jr. criticized excessive U.S. spending on military projects, and suggested a linkage between its foreign policy abroad and racism at home. Even in 1971, a Time Magazine essayist wondered why there were 375 major foreign military bases around the world with 3,000 lesser military facilities and concluded "there is no question that the U.S. today has too many troops scattered about in too many places." In a 2010 defense report, Cordesman criticized out-of-control military spending. Expenditures to fight the War on Terror are vast and seem limitless. The Iraq war was expensive and continues to be a severe drain on U.S. finances. Bacevich thinks the U.S. has a tendency to resort to military means to try to solve diplomatic problems. The Vietnam War was a costly, decade-long military engagement which ended in defeat, and the mainstream view today is that the entire war was a mistake. The dollar cost was $111 billion, or $698 billion in 2009 dollars. Similarly, the second Iraq war is viewed by many as being a mistake, since there were no weapons of mass destruction found, and the war continues today.
International law violations - Some critics assert the US doesn't always follow international law. For example, some critics assert the U.S.-led invasion of Iraq was not a proper response to an imminent threat, but an act of aggression which violated international law. For example, Benjamin Ferencz, a chief prosecutor of Nazi war crimes at Nuremberg said George W. Bush should be tried for war crimes along with Saddam Hussein for starting aggressive wars Saddam for his 1990 attack on Kuwait and Bush for his 2003 invasion of Iraq. Critics point out that the United Nations Charter, ratified by the U.S., prohibits members from using force against fellow members except against imminent attack or pursuant to an explicit Security Council authorization. A professor of international law asserted there was no authorization from the UN Security Council which made the invasion "a crime against the peace." However, US defenders argue there was such an authorization according to UN Security Council Resolution 1441.

Commitment to foreign aid - Some critics charge that U.S. government aid should be higher given the high levels of Gross domestic product. They claim other countries give more money on a per capita basis, including both government and charitable contributions. By one index which ranked charitable giving as a percentage of GDP, the U.S. ranked 21 of 22 OECD countries by giving 0.17% of GDP to overseas aid, and compared the U.S. to Sweden which gave 1.03% of its GDP, according to different estimates. The U.S. pledged 0.7% of GDP at a global conference in Mexico. According to one estimate, U.S. overseas aid fell 16% from 2005 to 2006. However, since the US grants tax breaks to nonprofits, it subsidizes relief efforts abroad, although other nations also subsidize charitable activity abroad. Most foreign aid (79%) came not from government sources but from private foundations, corporations, voluntary organizations, universities, religious organizations and individuals. According to the Index of Global Philanthropy, the United States is the top donor in absolute amounts.

Kyoto, Japan in 2008. The Kyoto Protocol treaty was an effort by many nations to tackle environmental problems, but the U.S. was criticized for failing to support this effort in 1997.

*Environmental policy* The U.S. has been criticized for failure to support the 1997 Kyoto Protocol.
Other criticisms

The U.S. has been criticized for its historical treatment of native Americans. For example, the treatment of Cherokee Indians in the Trail of Tears in which hundreds of Indians died in a forced evacuation from their homes in the southeastern area, along with massacres, displacement of lands, swindles, and breaking treaties. It has been criticized for the war with Mexico in the 1840s which some see as a theft of land. It was the first and only nation to use a nuclear bomb in wartime. It failed to admit Jews fleeing persecution from Europe at the beginning of World War II, as well as immoral policy for the Vietnam War.

Lack of vision Brzezinski criticized the Clinton presidency as having a foreign policy which lacked "discipline and passion" and subjected the U.S. to "eight years of drift." The short-term election cycle coupled with the inability to stick with long term decisions motivates presidents to focus on acts which will appease the citizenry and avoid difficult long-term choices.

Presidency is over-burdened. Presidents have not only foreign policy responsibilities, but sizeable domestic duties too. In addition, the presidency is the head of a political party. As a result, it is tough for one person to manage disparate tasks, in one view. Critics suggest Reagan was overburdened, which prevented him from doing a good job of oversight regarding the Iran–Contra affair. Brzezinski suggested in Foreign Affairs that President Obama is similarly overburdened. Some suggest a need for permanent non-partisan advisers.

Dollars drive foreign policy. There are indications that decisions to go to war in Iraq were motivated by oil interests; for example, a British newspaper The Independent reported that the "Bush administration is heavily involved in writing Iraq's oil law" which would "allow Western oil companies contracts of up to 30 years to pump oil out of Iraq, and the profits would be tax-free." Whether motivated by oil or not, U.S. policy appears to much of the Arab world to have been motivated by oil. Some critics assert the U.S. decision to build the Panama Canal was motivated largely by business interests despite claims that it's motivated to "spread democracy" and "end oppression."Andrew Bacevich suggests policy is directed by "wealthy individuals and institutions." Some critics say U.S. foreign policy does reflect the will of the people, but blames the people for having a "consumerist mentality" which causes problems. In 1893, a decision to
back a plot to overthrow the rulership of Hawaii by president Harrison was motivated by business interests in an effort to prevent a proposed tariff increase on sugar; Hawaii became a state afterwards. There was speculation that the Spanish-American War in 1898 between the U.S. and Spain was motivated by business interests in Cuba.

Presidents may lack experience. Since the constitution requires no prior experience in diplomacy, government, or military service, it is possible to elect presidents with scant foreign policy experience. Clearly the record of past presidents confirms this, and that presidents who have had extensive diplomatic, military, and foreign policy experience have been the exception, not the rule. In recent years, presidents had relatively more experience in such tasks as peanut farming, acting and governing governorships than in international affairs. It has been debated whether voters are sufficiently skillful to assess the foreign policy potential of presidential candidates, since foreign policy experience is only one of a long list of attributes in which voters tend to select candidates. The second Bush was criticized for inexperience in the Washington Post for being "not versed in international relations and not too much interested."

Presidency has too much authority. In contrast to criticisms that presidential attention is divided into competing tasks, some critics charge that presidents have too much power, and that there is the potential for tyranny or fascism. Some presidents circumvented the national security decision-making process. Critics such as Dana D. Nelson of Vanderbilt in her book Bad for Democracy and columnist David Sirota and Texas law professor Sanford Levinson see a danger in too much executive authority.

Difficulty removing an incompetent president. Since the only way to remove an incompetent president is with the rather difficult policy of impeachment, it is possible for a marginally competent or incompetent president to stay in office for four to eight years and cause great mischief. In recent years, there has been great attention to this issue given the presidency of George W. Bush, but there have been questions raised about the competency of Jimmy Carter in his handling of the Iran hostage crisis. Ironically, a president who was arguably the most skillful in foreign policy, Richard M. Nixon, was impeached, but for offenses linked with domestic politics.
The presidency of George W. Bush has been attacked by numerous critics from both parties as being particularly incompetent, short-sighted, unthinking, and partisan. Bush's decision to launch the second Iraq War was criticized extensively; writer John Le Carre criticized it as a "hare-brained adventure." He was also criticized for advocating a policy of exporting democracy. Brzezinski described Bush's foreign policy as "a historical failure." Bush was criticized for being too secret regarding foreign policy and having a cabal subvert the proper foreign policy bureaucracy. Other presidents, too, were criticized. The foreign policy of George H. W. Bush was lackluster, and while he was a "superb crisis manager," he missed the opportunity to leave a lasting imprint on U.S. foreign policy because he was not a strategic visionary," according to Brzezinski. He stopped the first Iraq War too soon without finishing the task of capturing Saddam Hussein. Foreign policy expert Henry Kissinger criticized Jimmy Carter for numerous foreign policy mistakes including a decision to admit the ailing Shah of Iran into the United States for medical treatment, as well as a bungled military mission to try to rescue the hostages in Teheran. Carter waffled from being "both too tough and too soft at the same time."

Critic Robert McMahon thinks Congress has been excluded from foreign policy decision making, and that this is detrimental. Other writers suggest a need for greater Congressional participation.

During the early 1800s, General Andrew Jackson exceeded his authority on numerous times and attacked American Indian tribes as well as invaded the Spanish territory of Florida without official government permission. Jackson was not reprimanded or punished for exceeding his authority. Some accounts blame newspaper journalism called yellow journalism for whipping up virulent pro-war sentiment to help instigate the Spanish-American War. Some critics suggest foreign policy is manipulated by lobbies, such as the pro-Israel lobby, although there is disagreement about the influence of such lobbies. Nevertheless, Brzezinski wants stricter anti-lobbying laws.

There is evidence that many U.S. allies have been alienated by a unilateral approach. Allies signaled dissatisfaction with U.S. policy in a vote at the U.N. Brzezinski counsels listening to allies and exercising self-restraint.
Critics charge that savvy dictators such as Uganda's president Yoweri Museveni have manipulated U.S. foreign policy by appealing to its need to fight terrorism. Others suggest U.S. should adopt a policy of realpolitik and work with any type of government who can be helpful.

*A U.S. foreign policy manipulated by external forces* A Washington Post reporter wrote that "several less-than-democratic African leaders have skillfully played the anti-terrorism card to earn a relationship with the United States that has helped keep them in power" and suggested, in effect, that foreign dictators could manipulate U.S. policy for their own benefit. It is possible for foreign governments to channel money through PACs to buy influence in Congress.

**Ineffective public relations** One report suggests that news source Al-jazeera routinely paints the U.S. as evil throughout the Mideast. Other critics have faulted the U.S. public relations effort. As a result of faulty policy and lackluster public relations, the U.S. has a severe image problem in the Mideast, according to Anthony Cordesman. Analyst Mathews said that it appears to much of the Arab world that we went to war in Iraq for oil, whether we did or not. In a 2007 poll by *BBC News* asking which countries are seen as having a "negative influence in the world," the survey found that Israel, Iran, United States and North Korea had the most negative influence, while nations such as Canada, Japan and the European Union had the most positive influence.

**Ineffective prosecution of war** Amy Chua thinks the Iraq war has been managed inefficiently, with wasteful spending. One estimate is that the second Iraq War along with the so-called War on Terror cost $551 billion, or $597 billion in 2009 dollars. Boston University professor Andrew Bacevich has criticized American profligacy and squandering its wealth. There have been historical criticisms of U.S. warmaking capability; in the War of 1812, the U.S. was unable to conquer Canada despite several attempts and having superior resources; the U.S. Capitol was burned and the settlement ending the war did not bring any major concessions from the British. The Vietnam War is largely viewed as an expensive and tragic decades-long mistake.

**Problem areas festering** Critics point to a list of countries or regions where continuing foreign policy problems continue to present problems. These areas include South America, including Ecuador, Venezuela, Bolivia, Uruguay, and Brazil. There are difficulties with Central American nations such as Honduras. Iraq has continuing troubles. Iran, as well, presents problems with
nuclear proliferation. Pakistan is unstable; there is active conflict in Afghanistan. The Mideast in general continues to fester, although relations with India are improving. Policy towards Russia remains uncertain. China presents an economic challenge. There are difficulties in other regions too. In addition, there are problems not confined to particular regions, but regarding new technologies. Cyberspace is a constantly changing technological area with foreign policy repercussions. Climate change is an unresolved foreign policy issue, particularly depending on whether nations can agree to work together to limit possible future risks.

Ineffective strategy to fight terrorism Critic Cordesman criticized U.S. strategy to combat terrorism as not having enough emphasis on getting Islamic republics to fight terrorism themselves. Sometimes visitors have been misidentified as "terrorists." Mathews suggests the risk of nuclear terrorism remains unprevented.

Historical instances of ineffective policies Generally during the nineteenth century, and in early parts of the twentieth century, the U.S. pursued a policy of isolationism and generally avoided entanglements with European powers. After World War I, Time Magazine writer John L. Steele thought the U.S. tried to return to an isolationist stance, but that this was unproductive. He wrote: "The anti-internationalist movement reached a peak of influence in the years just before World War II." But Steele questioned whether this policy was effective; regardless, isolationism ended quickly after the surprise attack on Pearl Harbor in 1941. Analysts have wondered whether the U.S. pursued the correct strategy with Japan before World War II; by denying Japan access to precious raw materials, it is possible that U.S. policy triggered the surprise attack and, as a result, the U.S. had to fight a two-front war in both the Far East as well as Europe during World War II. While it may be the case that the Mideast is a difficult region with no easy solutions to avoiding conflict, since this volatile region is at the junction of three continents; still, many analysts think U.S. policy could have been improved substantially. The U.S. waffled; there was no vision; presidents kept changing policy. Public opinion in different regions of the world thinks that, to some extent, the 9/11 attacks were an outgrowth of substandard U.S. policy towards the region. The Vietnam War was a decade-long mistake.
3. Other examples:

Along with these two powerful actors that UE and USA are, for the present international scene, there are some other states that are speculated to be in the process of becoming a super power at a certain point in the 21st century. The most currently states mentioned to be potential superpowers are: Brazil, China, India, and Russia. In this presentation Japan has been included also, for the significant role it plays in world’s international relations.

3.1. India

India, officially the Republic of India is a country in South Asia. It is the seventh-largest country by geographical area, the second-most populous country, and the most populous democracy in the world. India is a republic consisting of 28 states and seven union territories with a parliamentary system of democracy. It has the world's twelfth largest economy at market exchange rates and the fourth largest in purchasing power. Economic reforms since 1991 have transformed it into one of the fastest growing economies in the world; however, it still suffers from poverty, illiteracy, disease, and malnutrition. A pluralistic, multilingual and multiethnic society, India is also home to a diversity of wildlife in a variety of protected habitats.

The Constitution of India, the longest and the most exhaustive constitution of any independent nation in the world, came into force on 26 January 1950. The preamble of the constitution defines India as a sovereign, socialist, secular, democratic republic. India has a bicameral parliament operating under a Westminster-style parliamentary system. Its form of government was traditionally described as being 'quasi-federal' with a strong centre and weaker states, but it has grown increasingly federal since the late 1990s as a result of political, economic and social changes.

India is the most populous democracy in the world. For most of the years since independence, the federal government has been led by the Indian National Congress (INC). Politics in the states have been dominated by several national parties including the INC, the Bharatiya Janata Party (BJP), the Communist Party of India (Marxist) (CPI (M)) and various regional parties. From 1950 to 1990, barring two brief periods, the INC enjoyed a parliamentary majority. The INC was
out of power between 1977 and 1980, when the Janata Party won the election owing to public discontent with the state of emergency declared by the then Prime Minister Indira Gandhi. In 1989, a Janata Dal-led National Front coalition in alliance with the Left Front coalition won the elections but managed to stay in power for only two years. As the 1991 elections gave no political party a majority, the INC formed a minority government under Prime Minister P.V. Narasimha Rao and was able to complete its five-year term.

The years 1996–1998 were a period of turmoil in the federal government with several short-lived alliances holding sway. The BJP formed a government briefly in 1996, followed by the United Front coalition that excluded both the BJP and the INC. In 1998, the BJP formed the National Democratic Alliance (NDA) with several other parties and became the first non-Congress government to complete a full five-year term. In the 2004 Indian elections, the INC won the largest number of Lok Sabha seats and formed a government with a coalition called the United Progressive Alliance (UPA), supported by various Left-leaning parties and members opposed to the BJP. The UPA again came into power in the 2009 general election; however, the representation of the Left leaning parties within the coalition has significantly reduced. Manmohan Singh became the first prime minister since Jawaharlal Nehru in 1962 to be re-elected after completing a full five-year term.

Since its independence in 1947, India has maintained cordial relationships with most nations. It took a leading role in the 1950s by advocating the independence of European colonies in Africa and Asia. India is a member of the Commonwealth of Nations and a founding member of the Non-Aligned Movement. India was involved in two brief military interventions in neighbouring countries – Indian Peace Keeping Force in Sri Lanka and Operation Cactus in Maldives. After the Sino-Indian War and the Indo-Pakistani War of 1965, India's relationship with the Soviet Union warmed and continued to remain so until the end of the Cold War. India has fought two wars with Pakistan over the Kashmir dispute. A third war between India and Pakistan in 1971 resulted in the creation of Bangladesh (then East Pakistan). Additional skirmishes have taken place between the two nations over the Siachen Glacier. In 1999, India and Pakistan fought an undeclared war over Kargil. India and Russia share an extensive economic, defence and technological relationship.
In recent years, India has played an influential role in the SAARC and the WTO. India has provided as many as 55,000 Indian military and police personnel to serve in thirty-five UN peacekeeping operations across four continents. India is also an active participant in various multilateral forums, particularly the East Asia Summit and the G8+5. Recent overtures by the Indian government have strengthened relations with the United States and China. In the economic sphere, India has close relationships with other developing nations in South America, Asia and Africa.

India maintains the third-largest military force in the world, which consists of the Indian Army, Navy, Air Force and auxiliary forces such as the Paramilitary Forces, the Coast Guard, and the Strategic Forces Command. The President of India is the supreme commander of the Indian Armed Forces. India maintains close defense cooperation with Russia, Israel and France, who are the chief suppliers of arms. Defense contractors, such as the Defense Research and Development Organization (DRDO) and Hindustan Aeronautics (HAL), oversee indigenous development of sophisticated arms and military equipment, including ballistic missiles, fighter aircraft and main battle tanks, to reduce India's dependence on foreign imports.

India became a nuclear power in 1974 after conducting an initial nuclear test, known as the Operation Smiling Buddha, and carried out further underground testing in 1998. Despite criticism and military sanctions, India has consistently refused to sign the Comprehensive Nuclear Test Ban Treaty and the Nuclear Non Proliferation Treaty. India maintains a "no first use" nuclear policy and is developing nuclear triad capability as a part of its "minimum credible deterrence" doctrine. On 10 October 2008, a civilian nuclear agreement between India and the United States was signed, prior to which India received waivers from the International Atomic Energy Agency and the Nuclear Suppliers Group which ended restrictions on nuclear technology commerce and recognized India as the world's de facto sixth nuclear weapons state.

**Economy**

In 2009, India's nominal GDP stood at US$1.243 trillion, which makes it the twelfth-largest economy in the world. If PPP (Purchasing power parity) is taken into account, India's economy is the fourth largest in the world at US$3.561 trillion, corresponding to a per capita income of
US$3,100. The country ranks 139th in nominal GDP per capita and 128th in GDP per capita at PPP. With an average annual GDP growth rate of 5.8% for the past two decades, the economy is among the fastest growing in the world.

India has the world's second largest labour force, with 516.3 million people. In terms of output, the agricultural sector accounts for 28% of GDP; the service and industrial sectors make up 54% and 18% respectively. Major agricultural products include rice, wheat, oilseed, cotton, jute, tea, sugarcane, potatoes; cattle, water buffalo, sheep, goats, poultry; fish. Major industries include textiles, chemicals, food processing, steel, transport equipment, cement, mining, petroleum, machinery, software. India's trade has reached a relatively moderate share of 24% of GDP in 2006, up from 6% in 1985. In 2008, India's share of world trade was about 1.68%. Major exports include petroleum products, textile goods, gems and jewelry, software, engineering goods, chemicals, and leather manufactures. Major imports include crude oil, machinery, gems, fertilizer and chemicals.

In the late 2000s, India's economic growth averaged 7.5% a year. Over the past decade, hourly wage rates in India have more than doubled. In 2009, the Global Competitiveness Report ranked India 16th in financial market sophistication, 24th in banking sector, 27th in business sophistication and 30th in innovation; ahead of several advanced economies. Seven of the world's top 15 technology outsourcing companies are based in India and the country is viewed as the second most favorable outsourcing destination after the United States.

Despite India's impressive economic growth over recent decades, it still contains the largest concentration of poor people in the world. The percentage of people living below the World Bank's international poverty line of $1.25 a day (PPP, in nominal terms Indian rupee (Rs). 21.6 a day in urban areas and Rs. 14.3 in rural areas in 2005) decreased from 60% in 1981 to 42% in 2005. Since 1991, inter-state economic inequality in India has consistently grown; the per capita net state domestic product of India's richest states is about 3.2 times that of the poorest states. Even though India has avoided famines in recent decades, half of children are underweight and about 46% of Indian children under the age of three suffer from malnutrition.

A 2007 Goldman Sachs report projected that "from 2007 to 2020, India’s GDP per capita will quadruple," and that the Indian GDP will surpass that of the United States before 2050, but India

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"will remain a low-income country for several decades, with per capita incomes well below its other BRIC peers". Although the Indian economy has grown steadily over the last two decades; its growth has been uneven when comparing different social groups, economic groups, geographic regions, and rural and urban areas. The World Bank suggests that India must continue to focus on public sector reform, infrastructure, agricultural and rural development, removal of labor regulations, improvement in transport, energy security, and health and nutrition.

**Population**

With an estimated population of 1.2 billion, India is the world's second most populous country. The last 50 years have seen a rapid increase in population due to medical advances and massive increase in agricultural productivity due to the "green revolution". India's urban population increased 11-fold during the twentieth century and is increasingly concentrated in large cities. By 2001 there were 35 million-plus population cities in India, with the largest cities, with a population of over 10 million each, being Mumbai, Delhi and Kolkata. However, as of 2001, more than 70% of India's population continues to reside in rural areas.

**3.2. China**

China is one of the world's oldest continuous civilizations. Subsequently, imperialism, wars and civil wars damaged the country and its economy up to the end of the civil war in 1949. In the 1950s, change to economic policies in the Republic of China (Taiwan) transformed the island into a technology-oriented industrialized developed economy. It became known as one of the Four Asian Tigers along with Hong Kong, South Korea and Singapore. In mainland China, in the 1970s, reforms known as the Four Modernizations modernized the agriculture, industry, technology and defense, eventually making the PRC one of the major powers. China is viewed as the source of many major inventions. It has also one of the world's oldest written language systems.
Historically, China's cultural sphere has extended across East Asia as a whole, with Chinese religion, customs, and writing systems being adopted to varying degrees by neighbors such as Japan, Korea and Vietnam. The first evidence of human presence in the region was found at the Zhoukoudian cave. It is one of the first known specimens of *Homo erectus*, now commonly known as the Peking Man, estimated to have lived from 300,000 to 780,000 years ago.

On 1 January 1912, the Republic of China was established, heralding the end of the Qing Dynasty. Sun Yat-sen of the Kuomintang (the KMT or Nationalist Party) was proclaimed provisional president of the republic. However, the presidency was later given to Yuan Shikai, a former Qing general, who had ensured the defection of the entire Beiyang Army from the Qing Empire to the revolution. In 1915, Yuan proclaimed himself Emperor of China but was forced to abdicate and return the state to a republic when he realized it was an unpopular move, not only with the population but also with his own Beiyang Army and its commanders.

After Yuan Shikai's death in 1916, China was politically fragmented, with an internationally recognized but virtually powerless national government seated in Peking (Beijing). Warlords in various regions exercised actual control over their respective territories. In the late 1920s, the Kuomintang, under Chiang Kai-shek, was able to reunify the country under its own control, moving the nation's capital to Nanking (Nanjing) and implementing "political tutelage", an intermediate stage of political development outlined in Sun Yat-sen's program for transforming China into a modern, democratic state. Effectively, political tutelage meant one-party rule by the Kuomintang.

The Sino-Japanese War of 1937–1945 (part of World War II) forced an uneasy alliance between the Nationalists and the Communists as well as causing around 20 million Chinese civilian deaths. With the surrender of Japan in 1945, China emerged victorious but financially drained. The continued distrust between the Nationalists and the Communists led to the resumption of the Chinese Civil War. In 1947, constitutional rule was established, but because of the ongoing Civil War many provisions of the ROC constitution were never implemented in mainland China.

The People's Republic of China is the most extensive country in East Asia and the third or fourth most extensive country in the world. With a population of over 1,300,000,000, it is the most populous country in the world.
The Communist Party of China (CPC) has led the PRC under a single-party system since the state's establishment in 1949. The PRC is involved in a dispute over the political status of Taiwan. The CPC's rival during the Chinese Civil War, the Kuomintang (KMT), fled to Taiwan and surrounding islands after its defeat in 1949, claiming legitimacy over China, Mongolia, and Tuva while it was the ruling power of the Republic of China (ROC). The term "Mainland China" is often used to denote the areas under PRC rule, but sometimes excludes its two Special Administrative Regions: Hong Kong and Macau.

Because of its vast population, rapidly growing economy, and large research and development investments, China is considered an "emerging superpower". It has the world's third largest economy (second largest in terms of purchasing power parity.) China is also a permanent member of the United Nations Security Council and Asia-Pacific Economic Cooperation. Since 1978, China's market-based economic reforms have brought the poverty rate down from 53% in 1981 to 8% by 2001. However, China is now faced with a number of other economic problems, including an aging population, an increasing rural-urban income gap, and rapid environmental degradation.

China plays a major role in international trade. The country is the world's largest consumer of steel and concrete, using, respectively, a third and over a half of the world's supply of each. Counting all products, China is the largest exporter and the third largest importer in the world.

All power within the government of the People's Republic of China is divided among three bodies: the Communist Party of China, the state, and the People's Liberation Army (PLA). Most, but not all, positions of significant power in the state structure and in the army are occupied by members of the Communist Party of China which is controlled by the Politburo Standing Committee of the Communist Party of China, a group of 4 to 9 people, usually all older men, who make all decisions of national significance. As the role of the Army is to enforce these decisions in times of crisis, the support given to the PLA is very important.

The primary organs of state power are the National People's Congress (NPC), the President, and the State Council. Members of the State Council include the Premier, a variable number of vice premiers (now four), five state councilors (protocol equal of vice premiers but with narrower portfolios), and 29 ministers and heads of State Council commissions. During the 1980s there
was an attempt made to separate party and state functions, with the party deciding general policy and the state carrying it out. The attempt was abandoned in the 1990s with the result that the political leadership within the state is represented also by the leaders of the party, thereby creating a single centralized focus of power.

Under the Constitution of the People's Republic of China, the NPC is the highest organ of state power in China. It meets annually for about two weeks to review and approve major new policy directions, laws, the budget, and major personnel changes. Most national legislation in the PRC is adopted by the Standing Committee of the National People's Congress. Most initiatives are presented to the NPCSC for consideration by the State Council after previous endorsement by the Communist Party's Politburo Standing Committee. Although the NPC generally approves State Council policy and personnel recommendations, the NPC and its standing committee has increasingly asserted its role as the national legislature and has been able to force revisions in some laws. For example, the State Council and the Party have been unable to secure passage of a fuel tax to finance the construction of freeways.

3.3. Japan

Japan is an island country in East Asia. Located in the Pacific Ocean, it lies to the east of the Sea of Japan, China, North Korea, South Korea and Russia, stretching from the Sea of Okhotsk in the north to the East China Sea and Taiwan in the south. The characters which make up Japan's name mean "sun-origin", which is why Japan is sometimes referred to as the "Land of the Rising Sun".

Japan is an archipelago of 6,852 islands. The four largest islands are Honshū, Hokkaidō, Kyūshū and Shikoku, together accounting for 97% of Japan's land area. Most of the islands are mountainous, many volcanic; for example, Japan’s highest peak, Mount Fuji, is a volcano. Japan has the world's tenth-largest population, with about 128 million people. The Greater Tokyo Area, which includes the de facto capital city of Tokyo and several surrounding prefectures, is the largest metropolitan area in the world, with over 30 million residents.
Archaeological research indicates that people were living on the islands of Japan as early as the Upper Paleolithic period. The first written mention of Japan begins with brief appearances in Chinese history texts from the first century A.D. Influence from the outside world followed by long periods of isolation has characterized Japan's history. Since adopting its constitution in 1947, Japan has maintained a unitary constitutional monarchy with an emperor and an elected parliament called the Diet.

A major power, Japan has the world's second-largest economy by nominal GDP and the third largest in purchasing power parity. It is also the world's fourth largest exporter and fifth largest importer. It is also the only Asian country in the G8 and is currently serving as a non-permanent member of the UN Security Council. Although Japan has officially renounced its right to declare war, it maintains a modern and extensive military force which is employed in self-defense and peacekeeping roles. It is a developed country with very high living standards (10th highest HDI). Japan has the highest life expectancy of any country in the world (according to both the UN and World Health Organization estimates) and the third lowest infant mortality rate.

Japan is a constitutional monarchy where the power of the Emperor is very limited. As a ceremonial figurehead, he is defined by the constitution as "the symbol of the state and of the unity of the people". Power is held chiefly by the Prime Minister of Japan and other elected members of the Diet, while sovereignty is vested in the Japanese people. The Emperor effectively acts as the head of state on diplomatic occasions. Akihito is the current Emperor of Japan. Naruhito, Crown Prince of Japan, stands as next in line to the throne.

Japan consists of forty-seven prefectures, each overseen by an elected governor, legislature and administrative bureaucracy. Each prefecture is further divided into cities, towns and villages.

Japan's legislative organ is the National Diet, a bicameral parliament. The Diet consists of a House of Representatives, containing 480 seats, elected by popular vote every four years or when dissolved and a House of Councilors of 242 seats, whose popularly elected members serve six-year terms. There is universal suffrage for adults over 20 years of age, with a secret ballot for all elective offices. In 2009, the social liberal Democratic Party of Japan took power after 54 years of the liberal conservative Liberal Democratic Party's rule.
The Prime Minister of Japan is the head of government. The position is appointed by the Emperor of Japan after being designated by the Diet from among its members and must enjoy the confidence of the House of Representatives to remain in office. The Prime Minister is the head of the Cabinet (the literal translation of his Japanese title is "Prime Minister of the Cabinet") and appoints and dismisses the Ministers of State, a majority of whom must be Diet members. Yukio Hatoyama currently serves as the Prime Minister of Japan.

**Foreign relations**

Japan maintains close economic and military relations with its key ally the United States, with the U.S.-Japan security alliance serving as the cornerstone of its foreign policy. A member state of the United Nations since 1956, Japan has served as a non-permanent Security Council member for a total of 19 years, most recently for 2009 and 2010. It is also one of the G4 nations seeking permanent membership in the Security Council.

As a member of the G8, the APEC, the "ASEAN plus Three" and a participant in the East Asia Summit, Japan actively participates in international affairs and enhances diplomatic ties with its important partners around the world. Japan signed a security pact with Australia in March 2007 and with India in October 2008. It is also the world's third largest donor of official development assistance after the United States and United Kingdom, donating US$8.86 billion in 2004. Japan contributed non-combatant troops to the Iraq War but subsequently withdrew its forces from Iraq. The Japanese Maritime Self Defense Force is a regular participant in RIMPAC maritime exercises.

Japan is engaged in several territorial disputes with its neighbors: with Russia over the South Kuril Islands, with South Korea over the Liancourt Rocks, with the People's Republic of China and Republic of China (Taiwan) over the Senkaku Islands, and with the PRC over the EEZ around Okinotorishima.

Japan also faces an ongoing dispute with North Korea over its abduction of Japanese citizens and its nuclear weapons and missile program (see also Six-party talks). As a result of the Kuril Islands dispute, Japan is technically still at war with Russia since no treaty resolving the issue was ever signed.
Japan's military is restricted by the Article 9 of the Japanese Constitution, which renounces Japan's right to declare war or use military force as a means of settling international disputes. Japan's military is governed by the Ministry of Defense, and primarily consists of the Japan Ground Self-Defense Force, the Japan Maritime Self-Defense Force (JMSDF) and the Japan Air Self-Defense Force (JASDF). The forces have been recently used in peacekeeping operations and the deployment of Japanese troops to Iraq marked the first overseas use of its military since World War II.

Economy- As of 2009, Japan is the second largest economy in the world, after the United States, at around US$5 trillion in terms of nominal GDP and third after the United States and China in terms of purchasing power parity. Japan's public debt is 192 percent of its annual gross domestic product. Banking, insurance, real estate, retailing, transportation, telecommunications and construction are all major industries. Japan has a large industrial capacity and is home to some of the largest, leading and most technologically advanced producers of motor vehicles, electronic equipment, machine tools, steel and nonferrous metals, ships, chemicals, textiles and processed foods. The service sector accounts for three quarters of the gross domestic product.

Japan's exports amounted to 4,210 U.S. dollars per capita in 2005. Japan's main export markets are the United States 22.8%, the European Union 14.5%, China 14.3%, South Korea 7.8%, Taiwan 6.8% and Hong Kong 5.6% (for 2006). Japan's main exports are transportation equipment, motor vehicles, electronics, electrical machinery and chemicals. Japan's main import markets are China 20.5%, U.S. 12.0%, the European Union 10.3%, Saudi Arabia 6.4%, UAE 5.5%, Australia 4.8%, South Korea 4.7% and Indonesia 4.2% (for 2006). Japan's main imports are machinery and equipment, fossil fuels, foodstuffs (in particular beef), chemicals, textiles and raw materials for its industries. By market share measures, domestic markets are the least open of any OECD country. Junichiro Koizumi administration commenced some pro-competition reforms and foreign investment in Japan has soared recently.

Japan's business culture has many indigenous concepts such as the nemawashi, the nenko system, the salaryman, and the office lady. Japan's housing market is characterized by limited land supply in urban areas. This is particularly true for Tokyo, the world's largest urban agglomeration GDP. More than half of Japanese live in suburbs or more rural areas, where detached houses are the dominant housing type. Agricultural businesses in Japan often utilize a
system of terrace farming and crop yields are high. 13% of Japan's land is cultivated. Japan accounts for nearly 15% of the global fish catch, second only to China. Japan's agricultural sector is protected at high cost.

3.4. Russia

Russia also officially known as the Russian Federation pronounced is a country in northern Eurasia. It is a federal semi-presidential republic, comprising 83 federal subjects. Russia shares borders with the following countries (from northwest to southeast): Norway, Finland, Estonia, Latvia, Lithuania and Poland (both via Kaliningrad Oblast), Belarus, Ukraine, Georgia, Azerbaijan, Kazakhstan, China, Mongolia, and North Korea. It also has maritime borders with Japan (by the Sea of Okhotsk) and the United States (by the Bering Strait).

At 17,075,400 square kilometers (6,592,800 sq mi), Russia is by far the largest country in the world, covering more than a ninth of the Earth's land area. Russia is also the ninth most populous nation in the world with 142 million people. It extends across the whole of northern Asia and 40% of Europe, spanning 9 time zones and incorporating a wide range of environments and landforms. Russia has the world's largest reserves of mineral and energy resources—and is considered an energy superpower. It has the world's largest forest reserves and its lakes contain approximately one-quarter of the world's fresh water.

Russia established worldwide power and influence from the times of the Russian Empire to being the largest and leading constituent of the Soviet Union, the world's first constitutionally socialist state and a recognized superpower that played a decisive role in the allied victory in World War II. The Russian Federation was founded following the dissolution of the Soviet Union in 1991, but is recognized as the continuing legal personality of the Soviet state. Russia has the world's 11th largest economy by nominal GDP or the eighth largest by purchasing power parity, with the fifth largest nominal military budget. It is one of the five recognized nuclear weapons states and possesses the world's largest stockpile of weapons of mass destruction.

Russia is a great power and a permanent member of the United Nations Security Council, a member of the G8, G20, the Council of Europe, the Asia-Pacific Economic Cooperation, the Shanghai Cooperation Organization and the Eurasian Economic Community, the OSCE, and is the leading member of the Commonwealth of Independent States.
During and after the disintegration of the USSR, when wide-ranging reforms including privatization and market and trade liberalization were being undertaken, the Russian economy went through a major crisis. The period was characterized by deep contraction of output, with GDP declining by roughly 50% between 1990 and the end of 1995 and industrial output declining by over 50%.

In October 1991, having Yeltsin as president, Russia announced that it would proceed with radical, market-oriented reform along the lines of "shock therapy", as recommended by the United States and International Monetary Fund. Price controls were abolished, privatization was started. Millions plunged into poverty, from 1.5% of the population living in poverty in the late Soviet era, to 39%-49% by mid-1993.

According to the Constitution, which was adopted by national referendum on 12 December 1993 following the 1993 Russian constitutional crisis, Russia is a federation and formally a semi-presidential republic, wherein the President is the head of state and the Prime Minister is the head of government. The Russian Federation is fundamentally structured as a representative democracy. Executive power is exercised by the government.

**Foreign relations**

The Russian Federation is recognized in international law as successor state of the former Soviet Union. Russia continues to implement the international commitments of the USSR, and has assumed the USSR's permanent seat on the UN Security Council, membership in other international organizations, the rights and obligations under international treaties and property and debts. Russia has a multifaceted foreign policy. As of 2009, it maintains diplomatic relations with 191 countries and has 144 embassies. The foreign policy is determined by the President of Russia and implemented by the Ministry of Foreign Affairs.

As one of five permanent members of the UN Security Council, Russia plays a major role in maintaining international peace and security. The country participates in the Quartet on the Middle East and the Six-party talks with North Korea. Russia is a member of the Group of Eight (G8) industrialized nations, the Council of Europe, OSCE and APEC. Russia usually takes a leading role in regional organizations such as the CIS, EurAsEC, CSTO, and the SCO. Former
President Vladimir Putin had advocated a strategic partnership with close integration in various dimensions including establishment of four common spaces between Russia and the EU. Since the collapse of the Soviet Union, Russia has developed a friendlier, albeit volatile relationship with NATO. The NATO-Russia Council was established in 2002 to allow the 26 Allies and Russia to work together as equal partners to pursue opportunities for joint collaboration.

Russia assumed control of Soviet assets abroad and most of the Soviet Union's production facilities and defense industries. The Russian military is divided into the Ground Forces, Navy, and Air Force. There are also three independent arms of service: Strategic Rocket Forces, Military Space Forces, and the Airborne Troops. In 2006, the military had 1.037 million personnel on active duty.

Russia has the largest stockpile of nuclear weapons in the world. It has the second largest fleet of ballistic missile submarines and is the only country apart from the U.S. with a modern strategic bomber force. Russia's tank force is the largest in the world; its surface navy and air force are among the strongest. The country has a large and fully indigenous arms industry, producing most of its own military equipment with only few types of weapons imported. Russia is the world's top supplier of arms, a spot it has held since 2001, accounting for around 30% of worldwide weapons sales and exporting weapons to about 80 countries.

The economic crisis that struck all post-Soviet countries in the 1990s was nearly twice as intense as the Great Depression in the countries of Western Europe and the United States in the 1930s. Even before the financial crisis of 1998, Russia's GDP was half of what it had been in the early 1990s. Since the turn of the century, rising oil prices, increased foreign investment, higher domestic consumption and greater political stability have strengthened economic growth in Russia.

The country ended 2007 with its ninth straight year of growth, averaging 7% annually since 1998. In 2007, Russia's GDP was $2.076 trillion the 6th largest in the world, with GDP growing 8.1% from the previous year. Growth was primarily driven by non-traded services and goods for the domestic market, as opposed to oil or mineral extraction and exports.
The average salary in Russia was $640 per month in early 2008, up from $80 in 2000. Approximately 14% of Russians lived below the national poverty line in 2007, significantly down from 40% in 1998 at the worst of the post-Soviet collapse. Unemployment in Russia was at 6% in 2007, down from about 12.4% in 1999.

More than 80% of Russian exports are represented by oil, natural gas, metals, and timber account. Since 2003, however, exports of natural resources started decreasing in economic importance as the internal market strengthened considerably. Despite higher energy prices, oil and gas only contribute to 5.7% of Russia's GDP and the government predicts this will drop to 3.7% by 2011. Russia is also considered well ahead of most other resource-rich countries in its economic development, with a long tradition of education, science, and industry. The country has more higher education graduates than any other country in Europe.

A simpler, more streamlined tax code adopted in 2001 reduced the tax burden on people, and dramatically increased state revenue. Russia has a flat personal income tax rate of 13 percent. This ranks it as the country with the second most attractive personal tax system for single managers in the world after the United Arab Emirates.

The federal budget has run surpluses since 2001 and ended 2007 with a surplus of 6% of GDP. Over the past several years, Russia has used oil revenues from its Stabilization Fund of the Russian Federation to prepay most of its formerly massive debts, leaving it with one of the lowest foreign debts among major economies. Oil export earnings have allowed Russia to increase its foreign reserves from $12 billion in 1999 to $597.3 billion on 1 August 2008, the third largest reserves in the world.

The economic development of the country though has been uneven geographically with the Moscow region contributing a disproportionately high amount of the country's GDP. Much of Russia, especially indigenous and rural communities in Siberia, are significantly behind. Nevertheless, the middle class has grown from just 8 million persons in 2000 to 55 million persons in 2006. Over the last five years, fixed capital investments have averaged real gains greater than 10% per year and personal incomes have achieved real gains more than 12% per year.
Despite the country's strong economic performance since 1999, however, the World Bank lists several challenges facing the Russian economy including its diversification, encouraging the growth of small and medium enterprises, building human capital and improving corporate governance. Another problem is modernization of infrastructure, ageing and inadequate after years of being neglected; the government has announced that $1 trillion will be invested in development of infrastructure by 2020.

One of Russia’s important characteristics is that is a huge energy supplier. Russia is known as an energy superpower. The country has the world's largest natural gas reserves, the 8th largest oil reserves, and the second largest coal reserves. Russia is the world's leading natural gas exporter and leading natural gas producer, while also the second largest oil exporter and largest oil producer, though Russia interchanges the latter status with Saudi Arabia from time to time.

Russia is the 4th largest electricity generator in the world and the 5th largest renewable energy producer, the latter due to the well-developed hydroelectricity production in the country. Large cascades of hydropower plants are built in European Russia along big rivers like Volga. The Asian part of Russia also features a number of major hydropower stations, however the gigantic hydroelectric potential of Siberia and the Russian Far East largely remains unexploited.

Russia was the first country to develop civilian nuclear reactor and to introduce the first nuclear power plant. Currently, Russia is the 4th largest nuclear energy producer. Rosatom Nuclear Energy State Corporation manages all the nuclear plants in Russia. Nuclear energy is rapidly developing in Russia, with the aim of increasing the total share of nuclear energy from current 16.9% to 23% by 2020. The Russian government plans to allocate 127 billion rubles ($5.42 billion) to a federal program dedicated to the next generation of nuclear energy technology. About 1 trillion rubles ($42.7 billion) is to be allocated from the federal budget to nuclear power and industry development before 2015. Russia remains among the world leaders in nuclear technology and is a member of ITER international fusion reactor project.
3.5. Brazil

Brazil is the largest country in South America and the only Portuguese-speaking country in the Americas. It is the fifth largest country by geographical area and the fifth most populous country in the world.

Brazil was a colony of Portugal from the landing of Pedro Álvares Cabral in 1500 until its independence in 1822. Initially independent as the Brazilian Empire, the country has been a republic since 1889, although the bicameral legislature, now called Congress, dates back to 1824, when the first constitution was ratified. Its current Constitution defines Brazil as a Federal Republic. The Federation is formed by the union of the Federal District, the 26 States, and the 5,564 Municipalities.

Brazil is the world's eighth largest economy by nominal GDP and the ninth largest by purchasing power parity. Economic reforms have given the country new international recognition. Brazil is a founding member of the United Nations, the G20, Mercosul and the Union of South American Nations, and is one of the BRIC Countries. Brazil is also home to a diversity of wildlife, natural environments, and extensive natural resources in a variety of protected habitats.

The Brazilian Federation is the "indissoluble union" of three distinct political entities: the States, the Municipalities and the Federal District. The Union, the states and the Federal District, and the municipalities, are the "spheres of government". The Federation is set on five fundamental principles: sovereignty, citizenship, dignity of human beings, the social values of labour and freedom of enterprise, and political pluralism.

Foreign relations

Brazil is a political and economic leader in Latin America; however, social and economic problems prevent it from becoming an effective global power. Between World War II and 1990, both democratic and military governments sought to expand Brazil's influence in the world by pursuing a state-led industrial policy and an independent foreign policy. More recently, the country has aimed to strengthen ties with other South American countries, and engage in multilateral diplomacy through the United Nations and the Organization of American States.
Brazil's current foreign policy is based on the country's position as: a regional power in Latin America, a leader among developing countries, and an emerging world power. In general, current Brazilian foreign policy reflects multilateralism, peaceful dispute settlement, and nonintervention in the affairs of other countries. The Brazilian Constitution also determines that the country shall seek the economic, political, social and cultural integration of the nations of Latin America.

Economy

Brazil's economy is from certain perspectives different. It comprises agriculture, industry, and many services. The recent economic strength has been due in part to a global boom in commodities prices with exports from beef to soybeans soaring. Agriculture and allied sectors like forestry, logging and fishing accounted for 5.1% of the gross domestic product in 2007, a performance that puts agribusiness in a position of distinction in terms of Brazil's trade balance, in spite of trade barriers and subsidizing policies adopted by the developed countries.

The industry from automobiles, steel and petrochemicals to computers, aircraft, and consumer durables accounted for 30.8% of the gross domestic product. Industry, which is often technologically advanced, is highly concentrated in metropolitan São Paulo, Rio de Janeiro, Campinas, Porto Alegre, and Belo Horizonte.

Brazil is the world's tenth largest energy consumer with much of its energy coming from renewable sources, particularly hydroelectricity and ethanol; nonrenewable energy is mainly produced from oil and natural gas. A global power in agriculture and natural resources, Brazil experienced tremendous economic growth over the past three decades. It is expected to become a major oil producer and exporter, having recently made huge oil discoveries. The governmental agencies responsible for the energy policy are the Ministry of Mines and Energy, the National Council for Energy Policy, the National Agency of Petroleum, Natural Gas and Biofuels, and the National Agency of Electricity.

Brazil is the largest national economy in Latin America, the world's tenth largest economy at market exchange rates and the ninth largest in purchasing power parity (PPP), according to the International Monetary Fund and the World Bank. The Brazilian economy has been predicted to
become one of the five largest in the world in the decades to come, the GDP per capita following and growing. Its current GDP (PPP) per capita is $10,200, putting Brazil in the 64th position according to World Bank data. It has large and developed agricultural, mining, manufacturing and service sectors, as well as a large labor pool.

Brazilian exports are booming, creating a new generation of tycoons. Major export products include aircraft, electrical equipment, automobiles, ethanol, textiles, footwear, iron ore, steel, coffee, orange juice, soybeans and corned beef. The country has been expanding its presence in international financial and commodities markets, and is one of a group of four emerging economies called the BRIC countries (Brazil, Russia, India, and China).
V. DEVELOPMENT OF INTERNATIONAL MANAGEMENT IN THE XXI CENTURY

1. Presentation

Many changes have occurred in this beginning of 21st century and we are still to expect more to come. The growth of powerful international forces: military, economic and cultural, comparing to the last centuries has put new actors on the international scene and changed the roles some had. European Union that is moving fast in defining itself as a political entity becomes a stronger actor every day. United States with its diminished influence but still strong presence are just two of the actors that adapt globally and influence the international system.

The global scene describes the interaction among states and their overall impact on such matters as distribution of power, defense, economic cooperation, conflict and of course regional and collective security. The study of international relations continues to be the study of interaction and of patterns of interaction among states on a worldwide and regional basis.

The changing circumstances play with actors’ positions and roles, makes them rethink their global perspectives, international policies, and cooperation management. This new world confronts the United States; it is a world in which American exceptionalism seems to have come to an end. Other countries are becoming like the United States in terms of per capita income, industrial production, consumer tastes and habits, social mobility, the growth of mass culture, the influx of millions of immigrants and the ever growing appetite for greater material well-being. Both United States and all other industrialized societies face the same problems of the existing financial crisis and all its repercussions on all sectors.

The new world we face now is far less manageable than it was fifty years ago. Before 1945 four or five powers dominated it and their interactions decided issues on which war or peace depended. Today there are over 170 states many subscribing to no regional cooperation, most of them armed with sophisticated weapons. The increase of military exports, has given to many the illusion of a military option, plus the spread of chemical and nuclear weapons leads to new means of devastation. So more than ever there is the need for collective security and internationally accepted conflict resolution, combining forces to combat terrorism and other present menaces.
From economic point new power centers have emerged – the European Community, plus separately some of its composing states that represent themselves strong actors, the emerging economies of states like: China, India, Brazil, and Russia that claim their part in the international scene. Economic world policy has become multidimensional just as it is interdependent. Competition from new countries has become the rule, and survival of others, in order to adapt to the new competitiveness wave.

2. Challenges

What emerges from these new challenges is a reorientation of main actors’ foreign policy profile. It is a profile in which accommodation and compromise is needed to shape regional centers of power each with its responsibilities, a profile in which international and worldwide interests and conflicts are compromised and resolved in common by as many participants as possible; and it is a profile of cooperation arrangements, industrial, technological growth, of environmental policies, human rights and economic well-being. With communism, mostly gone, the enemies are poverty, the sale and spread of guns, the degradation of the environment, ignorance, the management of world resources to cope with population explosion.

In twenty-first century, the capacity of traditional nation-states to act in effective ‘state-like’ fashion is increasingly being challenged by a range of factors.

The transnational and global nature of the most pressing problems being faced by policymakers and publics, from globalised financial markets to endemic economic crises to the challenges of the environment, makes it difficult for state actors to make coherent and effective policy at the nation-state level.

The transnationalization36 of technology, from the Internet to transport to flexible production techniques, creates and strengthens all sorts of cross-border economic, political and social linkages and processes. Changing political attitudes towards the human and economic costs of traditional interstate wars and the rapid exhaustion of domestic public support lead to the rise of ethnic and religious conflict, including terrorism, means that the nature of warfare is undermining traditional state-based military hierarchies and methods.

36 http://globalization.icaap.org/content/v5.2/lim.html
In the contemporary international system, national security has become a more ambiguous concern that in the past used to be related only with military issues. Henry Kissinger, realist thinker, has acknowledged the traditional notion of international relations as a geopolitical “balance of powers”, and he noted that “the problems of energy, resources, environment, population, the uses of space, not rank with questions of military security”. Clearly economic prosperity and welfare have become more important. Economic phenomena regards, economic levels of influence, the global market, the rise of continental trade blocks, developments in cooperation are all side issues to a new world order that needs the awareness of the complexity of political and social identities, of multiculturalism and of global cooperation capacity.

Still the world doesn’t know how far it has to go and grow to become a truly global community with an effective problem solving system. There are some potential models that the world could follow. One of them could be a form of a regionalism, an alternative to the nation-state system, a regional units system. Instead of approximately 180 states, the world’s people could be organized in five or six region states, like Unites States of Europe, United States of Africa, etc. Regionalism remains an important phenomenon in international organizations, growing far more rapidly than global organizations. So in the future it is probably that facts emerge in this direction, due to mutual security or economic concerns national units could merge into larger regional political communities. Of course it would be an uneven process because the transfer of loyalty and authority to regional institutions is likely to occur to some geographical areas sooner than in others. Because it would be a somehow more centralized political system, in which agreement would have to be reached among only a few actors, it would be probably a more manageable world in many respects. This kind of system would rather prove its efficiency in dealing with problems that are primarily regional rather than global. There is the possibility that these regional units to be the first steps towards a global community, and would definitely help maintaining peace easier. The existing regional agreements prove that they helped controlling some existing conflicts and avoided them to spread. Others argue that conflicts that today are in a localized area in the case of a regionalization would spread to larger areas and would be

37 Kissinger, Henry, *Diplomatie*, Ed. All, București, 1998, pg745
impossible to control. Even if regional states don’t materialize, there is an increasing concern about the prospect of regional blocks headed by regional hegemons forming the international economies. 38

Another world order model is world government-a political system in which one central set of institutions would preside over all human beings and political units of the world. This the most ambitious proposal for all nation states, for they would have to surrender sovereignty to a supreme global authority that would rule directly. Almost equally ambitious would be a federation in which nation states would share power and authority with a central world government. Or another possibility would be a confederation in which a world government would enjoy some limited degree of power and authority, but the issue would be retained by the constituent nation state units. Another approach to world government would be creating several separate global authorities different functional areas.

Regionalism and world government models are based on increased centralization, of the global political system. Another possibility is an increased decentralization. With a political life revolving around even smaller and more fragmented units, than the current nation states. There are approximately 1.500 existing distinct nationalities or ethnic groups in the world, and almost 200 languages spoken. Potentially all these groups could form its own state. Even if this scenario, unlikely as it is, had its credibility in the 90’s several ethnic unrest that took place in several places. Smaller units might not be based on common ethnicity but, on the special needs of population.

Looking ahead to this century’s provocations and unforeseeable problems, we can expect older, more familiar problems to remain on the global agenda, and the existing threats to become more serious. Two of the top global concerns refer to the threat of nuclear war and the population

growing rates. There are no obvious solutions for these challenges, but the present system with a few adjustments could be one of the best solutions.

Another characteristic of international society is represented by the preeminence of economic on politic. Economically the world orients more and more towards the global single market, while the politic remains fragmented. The concept of economic security gets stronger; there are economical blocks and free trade areas, while the idea of military alliances is less considered. This economic-politic paradigm is one of the most important components of present international relations. The extraordinary globalization of international economic trades’ volume generated some phenomenon that defines the present situation; globalization in the past of American currency and presently the European currency; expansion and globalizations of baking system; there has been a partition of world economy in relations between North-North, North-South, South-South with determinations on local political systems and the complexity of international relations( internal policy and external policy); the necessity of cooperation consultation and coordination; the proliferation of international organizations with economic competences. Regarding the international institutionalization of economic relations, it has been accomplished globalization through regionalization under ONU, the multiplication the economic organizations gathered a limited number of states and the creation of political inspirational economic and monetary assemblies.

3. Importance of international system

Regarding the European integration as a consequence of globalization at an international level it is a regional reaction for the strong tendencies of globalization. On the other hand, in Eastern Europe there is a disintegrated and de-structuring phenomenon. Some explain it with the theory of” center attraction”, that leads to dismantling periphery and the attempt of the members of the periphery to join the center. This leads to frontiers permeability and the erosion of nation state. State sovereignty knows more guiding lines towards international community. The state gives up for example to a defense policy, the case of NATO, to an external policy or the right to emit currency and can give up to its monetary policy (the case of euro).
The importance of the international system refers to its global impact on so many levels, its immediate consequences, and the changes that the world is presently facing. It is considered that Europe, U.S. and Asia/pacific region will dominate the business world in the 21st century.

The industrial revolution was born in Europe in 19th century. In the 20th century USA exploited technology, manufacturing, distribution and marketing. Also in the 20th century the Japanese rose to a position of dominance. The focused on few industries, applied manufacturing, distribution and marketing and accomplished the same features as USA did, only faster, cheaper, better. The 21st century will be more of a level playing field, with the only question mark being China. It is clear that manufacturing will shift beyond the three major business regions to developing and emerging countries. The remaining countries will play a role as suppliers.

Almost all countries of the world will gravitate towards democracy and capitalism. After the apparent fall of communism in the former Soviet Union, and the decay of socialism in many countries, there was a clear message. All the states that envisage a successful benchmark will have to conclude that it is needed a combination of democracy and capitalism, representing for the 21st century. Almost all countries in Europe, North America and Asia/Pacific will move toward a marked based economy. As a result there will be deregulations of industries and privatization of state owned companies. In the democratic system, citizens will have more access to their government leaders through modern communication means. Europe will finally become one unified force, politically and economically.

States politicians will decide upon joining other states in different cooperation programs and organizations, while dismantling regulations and tariffs related to domestic international business. Governments will become partners with business. Countries will exploit their industry strengths internationally to maximum advantage.

"The world will start to become one." Local cultures will slowly fade away as people attempt to become world citizens, and they will begin to think more globally. The population might shift back to rural areas; with the advance in this Intelligence age, the consequence of revolutionary changes in information and communication technology. The predictions are that big companies will reorient their development policies towards rural area.

The world population it is considered to improve their living standards. There will be new and better policies for the poor people, even if the gap between poor and rich will become bigger.

Kirk W.M.Tyson- Competition in the 21st century, page 61
Still one of the challenges of the new century will remain the environment. The global warming and the deterioration of ozone layer, along with the disposal of nuclear waste will continue to represent one of the major worries of this century. The difference should be made in a real progress in finding new solutions and in consequence all manufacturing industries will eventually internalize the problem and self-regulate the cleaning efforts. And the involvement of world actors in this matter will rise, and they will become directly responsible for their own waste reduction and recycling.

Change will be a constant and the rhythm of the change will be a fast one. It will be different than the one in the 20th century. Technology and communication development will quite set up the tone for the change in the 21st century when it will spread so quickly that people will barely be aware. That is why the information technology will be more user friendly, for its easy accessibility.

Along with the technological development that is expected to rise, biological technology will score major advances. It is supposed to have the gene structure of the human body fully mapped; and professionals in the area will be able to administer short and long term genes therapy. This implies longer lives, more healthy food, higher quality products and a cleaner environment.

Because the biggest energy complaint of the 20th century was nuclear power, one of the targets of the 21st century in the field, will be discovering ways of changing radiation emission with only helium or other clean natural gases. Alternative energy sources like: photo voltaic, low head hydro and ocean thermal energy conversion will increase its popularity.

On international business scene there will be some changes in companies’ characteristics, leaders and some business practices. The trajectory and the importance of information, knowledge, intelligence and perpetual strategy will be more influential than ever. Refocusing on intellectual capital will be main asset for big companies, with reengineering the finance and accounting activities.

World system analysis is an approach to social change, based on a “set of mechanism which redistributes resources from the periphery to the core”\textsuperscript{40}, where the core according to I.M Wallerstein is the developed, industrialized part of the world and the periphery is the undeveloped, poor part of the world; and the market is the means by which the core exploits the periphery. He traces the origins of today’s world system to the 16th century.

\textsuperscript{40} I.M.Wallerstein-\textit{World system of analysis}, 1974
Modern countries or states are societies or there is a society underlying each state. World systems analysis argues that modern states have never been societies but are political units of modern society’s interstate system and economy.

In his view there have been three kinds if societies across human history: mini-systems or what anthropologists call bands, tribes, small chiefdoms, and two types of world-systems: single state-world empires and multi-polity world economies. World systems are larger and ethically diverse. Modern society called “modern world system” is of the latter type but unique in being the first fully capitalist world economy, that has expanded across the entire plant.

World system analysis argues that capitalism as a historical social system has always integrated a variety of labor forms within a functioning division of labor world-economy. The late 18th and 19th centuries marked a great turning point in the development of capitalism in that capitalists achieved state societal power in the key states which furthered the industrial revolution making the rise of capitalism. World systems analysis contends that capitalism as a historical system formed earlier, that countries do not develop in stages, but rather the system does. These vents have a different meaning as a phase in the development of historical capitalism, mainly the emergence of the three ideologies (conservatism, liberalism and radicalism) of the national developmental idea that countries can develop through stages if they use the right set of policies. In analyzing the international background of the 21st century we cannot ignore the financial crisis that had such a strong impact on daily life.

The crisis that has its origin in an insolvent United States banking system, that consequently meant the collapse of large financial institutions, downturns in stock market around the globe. It is considered to be the worst financial crisis after the great depression of the 1930’s, also called the Great recession 41.

It contributed to the failure of key business, declines in consumer activity, substantial financial commitments incurred by governments and a significant decline in economic activity. Some analysts state that the crisis has deeper explanation and it is a symptom of a deeper crisis, the systemic crisis of capitalism itself. However the crisis had immediate impact on financial

41 http://en.wikipedia.org/wiki/Great_Depression
institutions and spread rapidly into a global shock, resulting in a number of European bank failures, declines in various stock indexes, and large reductions in the market value of equities and commodities. World political leaders, national ministers of finance and central bank directors coordinated their efforts to reduce fears but the crisis continued. At the end of October 2008 a currency crisis developed with investors transferring vast capital resources into stronger currencies such as the yen, the dollar and the Swiss franc, leading many emergent economies to seek aid from the International Monetary Fund.

The continuing development of the crisis has prompted in some quarters fears of global economic collapse, although there are now many cautiously optimistic forecasters. The financial crisis is likely to have caused the biggest banking shakeout since the savings and loan meltdown. Some economists state that “the beginning of the end” started but will last for at least two more years 2010 and 2011. Some of the actions that go in this direction are; systematically capital injections made by the governments, interest rates cuts.

Another one of the global effects of the crisis is that some of the developing countries that had seen economic growth had significant slowdowns, due to falls in trade, commodity prices, investment and remittances sent from migrant workers. By March 2009 the Arab world had lost 3$ trillion. The United Nations reported in may 209 a drop of foreign investment in the Middle Eastern economies due to a slower rise in oil demand. In June 2009, World Bank predicted a tough year for the Arab states, that had losses of nearly 4$billions.

There are some official economic projections like the EU-commission’s at Brussels that predicted an extremely weak growth of GDP in 2009, by 0.1% for the countries of euro zone, a negative number for UK, Ireland and Spain -1%.

The responses of the financial crisis reflect the action of federals reserve and central banks around the world to take steps to expand money supplies to avoid the risk of deflationary spiral, in which lower wages and higher unemployment lead to self reinforcing decline in global consumption. In addition governments have enacted large fiscal stimulus packages by borrowing and spending to offset the reduction in private sector demand causes by the crisis. The credit freeze brought the global financial system to collapse.
The immediate and drastic intervention of the Federal Reserve and European central bank, during the last quarter of 2008, was, purchasing 2.5 trillion of government debt and troubled private assets from banks. This represented the largest liquidity injection into the credit market and the largest monetary policy action in world history. The governments of European nations and the USA also raised the capital of their national banking system by 1.5 trillion, purchasing newly issued preferred stock. Governments have also bailed out a variety of forms as discussed above, incurring large financial obligations.
VI. THE MANAGEMENT OF GLOBAL COMPETITIVENESS IN THE EUROPEAN UNION & THE USA

1. Presentation

The global competitiveness is a comparative concept of the ability and performance of a firm, sub-sector or country to sell and supply goods and/or services in a given market. Although widely used in economics and business management, the usefulness of the concept, particularly in the context of national competitiveness, is vigorously disputed by economists, such as Paul Krugman42.

The term may also be applied to markets, where it is used to refer to the extent to which the market structure may be regarded as perfectly competitive. This usage has nothing to do with the extent to which individual firms are "competitive'.

Competitiveness is seen as a set of institutions, policies, and factors that determine the level of productivity of a country. The level of productivity, in turn, sets the sustainable level of prosperity that can be earned by an economy. In other words, more-competitive economies tend to be able to produce higher levels of income for their citizens. The productivity level also determines the rates of return obtained by investments in an economy.

Because the rates of return are the fundamental drivers of the growth rates of the economy, a more-competitive economy is one that is likely to grow faster in the medium to long run.

The concept of competitiveness thus involves static and dynamic components: although the productivity of a country clearly determines its ability to sustain its level of income, it is also one of the central determinants of the returns to investment, which is one of the key factors explaining an economy’s growth potential.

42 P.Krugman- Competitiveness 1997, page 17
In recent years, the concept of competitiveness has emerged as a new paradigm in economic development. Competitiveness captures the awareness of both the limitations and challenges posed by global competition, at a time when effective government action is constrained by budgetary constraints and the private sector faces significant barriers to competing in domestic and international markets.

The term is also used to refer in a broader sense to the economic competitiveness of countries, regions or cities. Recently, countries are increasingly looking at their competitiveness on global markets. Ireland (1997), Saudi Arabia (2000), Greece (2003), Croatia (2004), Bahrain (2005), the Philippines (2006), Guyana and the Dominican Republic are just some examples of countries that have advisory bodies or special government agencies that tackle competitiveness issues. Even regions or cities, such as Dubai or the Basque Country, are considering the establishment of such a body.

The institutional model applied in the case of National Competitiveness Programs varies from country to country; however, there are some common features. The leadership structure of national competitiveness programs relies on strong support from the highest level of political authority. High-level support provides credibility with the appropriate actors in the private sector. Usually, the council or governing body will have a designated public sector leader (president, vice-president or minister) and a co-president drawn from the private sector. Notwithstanding the public sector’s role in strategy formulation, oversight, and implementation, national competitiveness programs should have strong; dynamic leadership from the private sector at all levels – national, local and firm. From the outset, the program must provide a clear diagnostic of the problems facing the economy and a compelling vision that appeal to a broad set of actors who are willing to seek change and implement an outward-oriented growth strategy.

Finally, most programs share a common view on the importance of networks of firms or “clusters” as an organizing principal for collective action. Based on a bottom-up approach, programs that support the association among private business leadership, civil society

http://www.konkurentnost.hr/english/ncc6.asp
organizations, public institutions and political leadership can better identify barriers to competitiveness; develop joint-decisions on strategic policies and investments; and yield better results in implementation.

National competitiveness is very important for small economies, which rely on trade, and typically foreign direct investment, to provide the increase in productivity therefore to increase the living standards.

The Irish National Competitiveness Council uses a Competitiveness Pyramid structure to simplify the factors that affect national competitiveness. It distinguishes in particular between policy inputs in relation to the business environment, the physical infrastructure and the knowledge infrastructure and the essential conditions of competitiveness that good policy inputs create, including business performance metrics, productivity, labour supply and prices/costs for business.

Competitiveness is the key for any economy that must rely on international trade to balance import of energy and raw materials. The European Union (EU) has enshrined industrial research and technological development (Research and Development) in its Treaty in order to become more competitive. In 2009, €12 billion of the EU budget (totaling €133.8 billion) went on projects to boost Europe's competitiveness. The way for the EU to face competitiveness is to invest in education, research, innovation and technological infrastructures.

The International Economic Development Council (IEDC) in Washington, D.C. published the "Innovation Agenda: A Policy Statement on American Competitiveness". This paper summarized the ideas expressed at the 2007 IEDC Federal Forum and provided policy recommendations for both economic developers and federal policy makers that aim to ensure America remains globally competitive in light of current domestic and international challenges.

International comparisons of national competitiveness are conducted by the World Economic Forum, in its Global Competitiveness Report, and the Institute for Management Development, in its World Competitiveness Yearbook.
Scholarly analyses of national competitiveness have largely been qualitatively descriptive. Systematic efforts by academics to define meaningfully and to quantitatively analyze national competitiveness have been made, with the determinants of national competitiveness econometrically modeled.

**Criticism**

As a criticism Krugman\textsuperscript{44} argues that "As a practical matter, however, the doctrine of “competitiveness” is flatly wrong. The world's leading nations are not, to any important degree, in economic competition with each other." As Krugman notes, national economic welfare is determined primarily by productivity in both traded and non-traded sectors of the economy.

If the concept of national competitiveness has any substantive meaning it must reside in the factors about a nation that facilitate productivity, and alongside criticism of nebulous and erroneous conceptions of national competitiveness systematic and rigorous attempts like Thompson’s need to be elaborated.

Either way we have to keep in mind that countries are not firms and while firms based in different countries sell products that compete with each other, at a country level, there are mutual benefits from trade. From the success of one country is likely to benefit other countries as well, it can increase the demand for imports, etc. the only meaningful “offensive or defensive actions” in the level of a country is strategic trade policy.

Paul Krugman\textsuperscript{45} also argues about competing in “an ever tougher world market place” and sustains “while competitive problems could arise in principle, as a practical, empirical matter the major nations are not to any significant degree in economic competition with each other”. While Porter (1990) says the competitive advantage of a nation relies in its productivity, Portman (1994) confirms “competitiveness “would turn out to be a funny way of saying “productivity” and would have nothing to do with international competition. Here some dangers of an obsessive international competitiveness can be underlined: wasteful spending of government

\textsuperscript{44} Krugman, Paul-*International Economics: Theory and Policy (7th Edition)* 2006

\textsuperscript{45} ibidem
money, inefficient allocations of resources (non-tradable and tradable), possibility if protectionism and trade wars and an indirect impact on the quality of economic policy making in general.

Besides all the known efforts a country has to do in order to become and remain competitive a great role plays also the partnership between the government of the country and the business.

Robert Gilpin says: “governments can and do have an important and decisive role in promoting their own national firms in international markets”. Plus a government can “take a long term perspective and establish policies that foster a favorable domestic environment for those sectors most likely to be competitive in international markets”.

The globalization is another aspect that needs to be taken into account when referring to competitiveness. It influences the trade, factor mobility and the diffusion of technology.

2. European competitiveness and 2020 Strategy

The European Competitiveness Index measures, compares and examines the competitiveness of Europe’s regions and nations. Competitiveness is defined as the capability of an economy to maintain increasing standards of living for those who participate in it, by attracting and maintaining firms with stable or rising market shares in an activity. As such, the competitiveness of a region will depend on its ability to anticipate and successfully adapt to internal and external economic and social challenges, by providing new economic opportunities, including higher quality jobs.46

The importance of the concept of competitiveness is now firmly embedded within economic policymaking in Europe, and indeed around the world. As such, measuring, understanding and analyzing competitiveness at a number of geographic levels has become a vital factor in creating an informed dialogue that can contribute to a policy environment attuned to enhancing the economic performance of Europe’s nations and regions.

46 http://gcr.weforum.org/gcr09/
Since the first European Competitiveness Index report, the face of the EU has since changed dramatically, with the enlargement bringing ten new countries into the Union. With data now available for these new EU states, the European Competitiveness Index 2006-07 has been expanded to include all EU-25 nations and their respective NUTS-1 regions. This continued focus on regions, as well as nations, reflects the growing consensus that it is regions that are the primary spatial unit that compete to attract investment, and the level at which knowledge is circulated and transferred, resulting in agglomerations, or clusters, of industrial and service sector enterprises.

Brussels tops the regional European Competitiveness Index 2006-07, moving up two places from 2004 and knocking the previous leader, Uusimaa (Greater Helsinki region), down into second position. In terms of economic performance, Brussels is clearly one of the wealthiest cities of Europe, with the highest GDP per capita of any region benchmarked by the European Competitiveness Index, and second only to Île de France in terms of earnings and labour productivity. The unparalleled economic well-being of the region is, in part, a result of the unique level of public sector investment, being the home of the European Commission. However, our findings show that the region is also a dynamic, knowledge-intensive hub, both for Belgium and for Europe.

Innovation

The Programme for Total Competitiveness\(^47\), founded and developed by Robert Huggins Associates, represents the opportunity by which your region and or locality can fully understand and act upon its economic and social requirements.

The Programme for Total Competitiveness works with local and regional agencies to create an environment for sustained growth primarily based on enhancing productivity, innovation, enterprise, infrastructure and education skills.

The following are the kinds of questions that we seek to answer by helping to provide a route map for each locality and region’s socio-economic future:

- What is Total Competitiveness?

\(^47\) http://www.cforic.org/pages/innovation.php
• How do you achieve Total Competitiveness Growth in your area?
• What currently drives and constrains competitiveness in your area?
• How can you develop strategies that build-on and extend your locality's and/or region's wealth creation capabilities?
• Where might your locality/region already be able to take a lead in establishing Total Competitiveness?
• How can your locality/region sustain a competitive lead in the future, and where can it create new paths for sustained economic evolution that will bring new opportunities and new prospects?

The Programme for Total Competitiveness is based on an analysis of three key sub-components - Knowledge Competitiveness, Productive Competitiveness and Sustainable Competitiveness - with policy features including: Business development, education and training, networks, innovation and technology telecommunications, role of public finance, venture capital, skilled workforce, civic leadership.

Knowledge Competitiveness

Includes the requirements of knowledge workers, such as thick labour markets offering the variety of employment opportunities needed to sustain a knowledge economy career. It also covers the indigenous capacity for science, technology, production and trade, and the enabling of communication and know-how flow within and between localities and regions.

Productive competitiveness includes the indigenous business culture encompassing entrepreneurship, innovation, risk taking, business networks, and local/regional identity. It also concerns: skills and the realization of those skills and associated technologies; investment, and the differing qualities of physical capital required to become integrated into production; sources of added value, through outputs for trade at home and abroad; and the role of the public sector in productive development.

Sustainable competitiveness consists of environmental quality and management (including emissions and waste); culture and the arts; access for all citizens (investment in re-training and social inclusion); affordability; traffic infrastructure and congestion. Sustainable competitiveness
also includes the cost and productivity of physical labour, the costs of doing business, and location decisions.

**Features of the Programme for Total Competitiveness**

The programme shows the key aspects to consider when seeking to achieve total competitiveness. The Programme for Total Competitiveness, therefore, focuses on futures planning and scenario setting that shares insights from those who are fully engaged in your area's economy as well as from stakeholders in comparator localities and regions.

**Features of the programme include:**

- Detailed quantitative benchmarking of the Total Competitiveness of your locality/region at an international level
- Qualitative assessment and benchmarking of the intangibles and softer aspects of Total Competitiveness
- Forecasting key trends and their underlying drivers
- Scenario setting and futures planning that seek to challenge 'traditional' assumptions
- Establishment of an index of international comparator localities/regions
- Access to global partnering and networking with international comparators
- Framework for understanding and appraising developments
- Assessment of the capacity and co-ordination of institutional partners across your area
- Process development and action planning for a bespoke Programme for Total Competitiveness in your area based on creating informed and strategic investment decisions to build long-term Total Competitiveness

The Programme for Total Competitiveness has been developed whilst working with a range of local and regional development agencies and stakeholders within the UK, Europe and North America.
European Union- the last strategy 2020

In the new strategy line, 2010 must mark a new beginning. Europe is wanted to emerge stronger from the economic and financial crisis.

Economic realities are proven to move faster than political realities, as we have seen with the global impact of the financial crisis. Therefore the increased economic interdependence demands also a more determined and coherent response at the political level.

The last two years have left millions unemployed. It has brought a burden of debt that will last for many years. It has brought new pressures on our social cohesion. It has also exposed some fundamental truths about the challenges that the European economy faces. And in the meantime, the global economy is moving forward. The way Europe responds will determine its future. The crisis is a wake-up call, the moment where we recognize that "business as usual" would consign us to a gradual decline, to the second rank of the new global order. This is Europe's moment of truth. The intention of this new strategy is to present the European Union as a bold and ambitious. Short-term priorities could lead to a successful exit from the crisis. Significant progress has been made on dealing with bad banks, correcting the financial markets and recognizing the need for strong policy coordination in the euro zone.

To achieve a sustainable future, we must already look beyond the short term. Europe needs to get back on track. Then it must stay on track.

The purpose of Europe 2020 it's about more jobs and better lives. It shows how Europe has the capability to deliver smart, sustainable and inclusive growth, to find the path to create new jobs and to offer a sense of direction to our societies.

European leaders have a common analysis on the lessons to be drawn from the crisis. We also share a common sense of urgency on the challenges ahead. Now we jointly need to make it happen. Europe has many strengths: a talented workforce, we have a powerful technological and
industrial base, an internal market and a single currency that have successfully helped us resist the worst. The social market economy has been tried and tested. This euro-confidence it is emphasized through this new ambitious agenda that will attract all its efforts to delivering it.

The Commission is proposing five measurable EU targets for 2020 that will steer the process and be translated into national targets: for employment; for research and innovation; for climate change and energy; for education; and for combating poverty. This is the direction to take and the measure for its success.

José Manuel Barroso agrees “they are ambitious, but attainable. They are backed by decisive contribution and powerful tools to hand in the shape of new economic governance, supported by the internal market, by its budget, its trade and external economic policy and the disciplines and support of economic and monetary union.

He also refers to the condition of this new agenda’s success, regarding its leaders and institutions plus a coordinate European response (social partners and civil society).

In March 2010 the European Commission communicated the new strategy line to be followed in order to attain a smart, sustainable and inclusive growth within 2010. Europe is it put on the global scene of transformations produced by the international crisis that exposed structural weaknesses in Europe’s economy. It has to be taken into account also the fast moving globalization and pressure of the resources. The future of Europe depends on this new agenda and the fulfillment of its content and the collective participation as a Union, to these new “tasks”.

EU needs to deliver high levels of employment, productivity and social cohesion in order to become a smart, sustainable and inclusive economy. Europe 2020 sets out a vision of Europe's social market economy for the 21st century.

**Europe 2020**\(^48\) puts forward three mutually reinforcing priorities:

– Smart growth: developing an economy based on knowledge and innovation.

– Sustainable growth: promoting a more resource efficient, greener and more competitive economy.

– Inclusive growth: fostering a high-employment economy delivering social and territorial cohesion.

_The EU needs to define where it wants to be by 2020. To this end, the Commission proposes the following EU headline targets:_

– 75 % of the population aged 20-64 should be employed.

– 3% of the EU's GDP should be invested in R&D.

– The "20/20/20" climate/energy targets should be met (including an increase to 30% of emissions reduction if the conditions are right).

– The share of early school leavers should be under 10% and at least 40% of the younger generation should have a tertiary degree.

– 20 million less people should be at risk of poverty.

These targets are interrelated and critical to the overall success. To ensure that each Member State tailors the Europe 2020 strategy to its particular situation, the Commission proposes that EU goals are translated into national targets and trajectories.

The targets are representative of the three priorities of smart, sustainable and inclusive growth but they are not exhaustive: a wide range of actions at national, EU and international levels will be necessary to underpin them. The Commission is putting forward seven flagship initiatives to catalyse progress under each priority theme:

– "Innovation Union" to improve framework conditions and access to finance for research and innovation so as to ensure that innovative ideas can be turned into products and services that create growth and jobs.

– "Youth on the move" to enhance the performance of education systems and to facilitate the entry of young people to the labor market.
- "A digital agenda for Europe" to speed up the roll-out of high-speed internet and reap the benefits of a digital single market for households and firms.

- "Resource efficient Europe" to help decouple economic growth from the use of resources, support the shift towards a low carbon economy, increase the use of renewable energy sources, modernize our transport sector and promote energy efficiency.

- "An industrial policy for the globalisation era" to improve the business environment, notably for SMEs, and to support the development of a strong and sustainable industrial base able to compete globally.

- "An agenda for new skills and jobs" to modernise labour markets and empower people by developing their skills throughout the lifecycle with a view to increase labour participation and better match labour supply and demand, including through labour mobility.

- "European platform against poverty" to ensure social and territorial cohesion such that the benefits of growth and jobs are widely shared and people experiencing poverty and social exclusion are enabled to live in dignity and take an active part in society.

These seven flagship initiatives will commit both the EU and the Member States. EU-level instruments, notably the single market, financial levers and external policy tools, will be fully mobilised to tackle bottlenecks and deliver the Europe 2020 goals. As an immediate priority, the Commission charts what needs to be done to define a credible exit strategy, to pursue the reform of the financial system, to ensure budgetary consolidation for long-term growth, and to strengthen coordination within the Economic and Monetary Union.

Stronger economic governance will be required to deliver results. Europe 2020 will rely on two pillars: the thematic approach outlined above, combining priorities and headline targets; and country reporting, helping Member States to develop their strategies to return to sustainable growth and public finances. Integrated guidelines will be adopted at EU level to cover the scope of EU priorities and targets. Country-specific recommendations will be addressed to Member States. Policy warnings could be issued in case of inadequate response. The reporting of Europe 2020 and the Stability and Growth Pact evaluation will be done simultaneously, while keeping the instruments separate and maintaining the integrity of the Pact.
The European Council will have full ownership and be the focal point of the new strategy. The Commission will monitor progress towards the targets, facilitate policy exchange and make the necessary proposals to steer action and advance the EU flagship initiatives. The European Parliament will be a driving force to mobilise citizens and act as co-legislator on key initiatives. This partnership approach should extend to EU committees, to national parliaments and national, local and regional authorities, to social partners and to stakeholders and civil society so that everyone is involved in delivering on the vision.

The Commission proposes that the European Council endorses - in March - the overall approach of the strategy and the EU headline targets, and approves - in June - the detailed parameters of the strategy, including the integrated guidelines and national targets. The Commission also looks forward to the views and support of the European Parliament for making Europe 2020 a success.

**The crisis**

The recent economic crisis has no precedent in our generation. The steady gains in economic growth and job creation witnessed over the last decade have been wiped out – European Union’s GDP fell by 4% in 2009, the industrial production dropped back to the levels of the 1990s and 23 million people - or 10% of the active population - is now unemployed. The crisis has been a huge shock for millions of citizens and it has exposed some fundamental weaknesses of its economy.

The crisis has also made the task of securing future economic growth much more difficult. The still fragile situation of the financial system is holding back recovery as firms and households have difficulties to borrow, spend and invest. Public finances have been severely affected, with deficits at 7% of GDP on average and debt levels at over 80% of GDP – two years of crisis erasing twenty years of fiscal consolidation. EU’s growth potential has been halved during the crisis. Many investment plans, talents and ideas risk going to waste because of uncertainties, sluggish demand and lack of funding.

**Weaknesses**

Moving out of the crisis is the immediate challenge, but the biggest challenge is to escape the reflex to try to return to the pre-crisis situation. Even before the crisis, there were many areas where Europe was not progressing fast enough relative to the rest of the world.
Europe's average growth rate has been structurally lower than that of its main economic partners, largely due to a productivity gap that has widened over the last decade. Much of this is due to differences in business structures combined with lower levels of investment in R&D and innovation, insufficient use of information and communications technologies, reluctance in some parts of its societies to embrace innovation, barriers to market access and a less dynamic business environment.

In spite of progress, Europe's employment rates – at 69% on average for those aged 20-64 – are still significantly lower than in other parts of the world. Only 63% of women are in work compared to 76% of men. Only 46% of older workers (55-64) are employed compared to over 62% in the US and Japan. Moreover, on average Europeans work 10% fewer hours than their US or Japanese counterparts.

Demographic ageing is accelerating. As the baby-boom generation retires, the EU's active population will start to shrink as from 2013/2014. The number of people aged over 60 is now increasing twice as fast as it did before 2007 – by about two million every year compared to one million previously. The combination of a smaller working population and a higher share of retired people will place additional strains on our welfare systems.

Global challenges

As the global challenges intensify, Europe also needs to address its own structural weaknesses and the continuous transformations of the world that will be very different by the end of the coming decade.

The economies are increasingly interlinked. Europe will continue to benefit from being one of the most open economies in the world but competition from developed and emerging economies is intensifying. Countries such as China or India are investing heavily in research and technology in order to move their industries up the value chain and "leapfrog" into the global economy. This puts pressure on some sectors of our economy to remain competitive, but every threat is also an opportunity. As these countries develop, new markets will open up for many European companies.
Global finance still needs fixing. The availability of easy credit, short-termism and excessive risk-taking in financial markets around the world fuelled speculative behavior, giving rise to bubble-driven growth and important imbalances. Europe is engaged in finding global solutions to bring about an efficient and sustainable financial system.

Climate and resource challenges require drastic action. Strong dependence on fossil fuels such as oil and inefficient use of raw materials expose European Union’s consumers and businesses to harmful and costly price shocks, threatening our economic security and contributing to climate change. The expansion of the world population from 6 to 9 billion will intensify global competition for natural resources, and put pressure on the environment. The EU must continue its outreach to other parts of the world in pursuit of a worldwide solution to the problems of climate change at the same time as it implements its agreed climate and energy strategy across the territory of the Union.

Conclusions of the crisis:

The 27 EU economies are highly interdependent: the crisis underscored the close links and spill-overs between our national economies, particularly in the euro area. Reforms, or the lack of them, in one country affect the performance of all others, as recent events have shown; moreover, the crisis and severe constraints in public spending have made it more difficult for some Member States to provide sufficient funding for the basic infrastructure they need in areas such as transport and energy not only to develop their own economies but also to help them participate fully in the internal market.

Coordination within the EU works: the response to the crisis showed that if we act together, we are significantly more effective. We proved this by taking common action to stabilise the banking system and through the adoption of a European Economic Recovery Plan. In a global world, no single country can effectively address the challenges by acting alone;

The EU adds value on the global scene. The EU will influence global policy decisions only if it acts jointly. Stronger external representation will need to go hand in hand with stronger internal co-ordination.
The crisis has not just been a one-off hit, allowing us to resume "business as usual". The challenges that the Union faces are greater than before the recession, whilst the room for manoeuvre is limited. Moreover, the rest of the world is not standing still. The enhanced role of the G20 has demonstrated the growing economic and political power of emerging countries.

Europe is left with clear yet challenging choices. Either it faces up collectively to the immediate challenge of the recovery and to long-term challenges – globalisation, pressure on resources, ageing, – so as to make up for the recent losses, regain competitiveness, boost productivity and put the EU on an upward path of prosperity ("sustainable recovery").

Or it continues at a slow and largely uncoordinated pace of reforms, and it can risk to end up with a permanent loss in wealth, a sluggish growth rate ("sluggish recovery") possibly leading to high levels of unemployment and social distress, and a relative decline on the world scene ("lost decade").

Europe has many strengths; it can count on the talent and creativity of our people, a strong industrial base, a vibrant services sector, a thriving, high quality agricultural sector, strong maritime tradition, the single market and common currency, the position as the world's biggest trading bloc and leading destination for foreign direct investment. But it can also count on its strong values, democratic institutions, our consideration for economic, social and territorial cohesion and solidarity, its respect for the environment, and cultural diversity, respect for gender equality, etc. Many of the Member States are amongst the most innovative and developed economies in the world. But the best chance for Europe to succeed is if it acts collectively – as a Union.

When confronted with major events in the past, the EU and its Member States have risen to the challenge. In the 1990s, Europe launched the largest single market in the world backed by a common currency. Only a few years ago, the division of Europe ended as new Member States entered the Union and other states embarked on the road towards membership or a closer relation with the Union. Over the last two years common action taken at the height of the crisis through the European Recovery Plan helped prevent economic meltdown, whilst the welfare systems helped protect people from even greater hardship.
Europe is able to act in times of crisis and to adapt its economies and societies. And today Europeans face again a moment of transformation to cope with the impact of the crisis, Europe's structural weaknesses and intensifying global challenges.

The exit from the crisis equals with the entry in a new economy. For present and future generations to continue to enjoy a high-quality of healthy life, underpinned by Europe's unique social models is needed a strategy to turn the EU into a smart, sustainable and inclusive economy delivering high levels of employment, productivity and social cohesion. The Europe 2020 strategy is an agenda for all Member States, taking into account different needs, different starting points and national specificities so as to promote growth for all.

Sustainable growth means building a resource efficient, sustainable and competitive economy, exploiting Europe's leadership in the race to develop new processes and technologies, including green technologies, accelerating the roll out of smart grids using ICTs, exploiting EU-scale networks, and reinforcing the competitive advantages of our businesses, particularly in manufacturing and within our SMEs, as well through assisting consumers to value resource efficiency. Such an approach will help the EU to prosper in a low-carbon, resource constrained world while preventing environmental degradation, biodiversity loss and unsustainable use of resources. It will also underpin economic, social and territorial cohesion.

Europe must act: Competitiveness: The EU has prospered through trade, exporting round the world and importing inputs as well as finished goods. Faced with intense pressure on export markets and for a growing range of inputs we must improve our competitiveness vis-à-vis our main trading partners through higher productivity. We will need to address relative competitiveness inside the Euro area and in the wider EU. The EU was largely a first mover in green solutions, but its advantage is being challenged by key competitors, notably China and North America. The EU should maintain its lead in the market for green technologies as a means of resource efficiency throughout the economy, while removing bottlenecks in key network infrastructures, thereby boosting the industrial competitiveness.

Combating climate change: Achieving the climate goals means reducing emissions significantly more quickly in the next decade than in the last decade and exploiting fully the potential of new technologies such as carbon capture and sequestration possibilities. Improving resource
efficiency would significantly help limit emissions, save money and boost economic growth. All sectors of the economy, not just emission-intensive, are concerned. We must also strengthen our economies' resilience to climate risks, and our capacity for disaster prevention and response.

Clean and efficient energy: Meeting the energy goals could result in €60 billion less in oil and gas imports by 2020. This is not only financial savings; this is essential for its energy security. Further progress with the integration of the European energy market can add an extra 0.6% to 0.8% GDP. Meeting the EU's objective of 20% of renewable sources of energy alone has the potential to create more than 600,000 jobs in the EU. Adding the 20% target on energy efficiency, it is well over 1 million new jobs that are at stake. Action under this priority will require implementing our emission-reduction commitments in a way which maximises the benefits and minimises the costs, including through the spread of innovative technological solutions. Moreover, we should aim to decouple growth from energy use and become a more resource efficient economy, which will not only give Europe a competitive advantage, but also reduce its dependency of foreign sources for raw materials and commodities.

"Resource efficient Europe" Initiative

The aim is to support the shift towards a resource efficient and low-carbon economy that is efficient in the way it uses all resources. The aim is to decouple our economic growth from resource and energy use, reduce CO₂ emissions, enhance competitiveness and promote greater energy security.

At EU level, the Commission will work:

– To mobilise EU financial instruments (e.g. rural development, structural funds, R&D framework programme, TENs, EIB) as part of a consistent funding strategy, that pulls together EU and national public and private funding;

– To enhance a framework for the use of market-based instruments (e.g. emissions trading, revision of energy taxation, state-aid framework, encouraging wider use of green public procurement);

– To present proposals to modernise and decarbonise the transport sector thereby contributing to increased competitiveness. This can be done through a mix of measures e.g. infrastructure measures such as early deployment of grid infrastructures of electrical mobility, intelligent traffic management, better logistics, pursuing the reduction of CO$_2$ emissions for road vehicles, for the aviation and maritime sectors including the launch of a major European "green" car initiative which will help to promote new technologies including electric and hybrid cars through a mix of research, setting of common standards and developing the necessary infrastructure support;

– To accelerate the implementation of strategic projects with high European added value to address critical bottlenecks, in particular cross border sections and inter modal nodes (cities, ports, logistic platforms);

– To complete the internal energy market and implement the strategic energy technologies (SET) plan, promoting renewable sources of energy in the single market would also be a priority;

– To present an initiative to upgrade Europe's networks, including Trans European Energy Networks, towards a European super grid, "smart grids" and interconnections in particular of renewable energy sources to the grid (with support of structural funds and the EIB). This includes to promote infrastructure projects of major strategic importance to the EU in the Baltic, Balkan, Mediterranean and Eurasian regions;

– To adopt and implement a revised Energy Efficiency Action Plan and promote a substantial programme in resource efficiency (supporting SMEs as well as households) by making use of structural and other funds to leverage new financing through existing highly successful models of innovative investment schemes; this should promote changes in consumption and production patterns;

– To establish a vision of structural and technological changes required to move to a low carbon, resource efficient and climate resilient economy by 2050 which will allow the EU to achieve its emissions reduction and biodiversity targets; this includes disaster prevention and response,
harnessing the contribution of cohesion, agricultural, rural development, and maritime policies to address climate change, in particular through adaptation measures based on more efficient use of resources, which will also contribute to improving global food security.

At national level, Member States will need:

– To phase out environmentally harmful subsidies, limiting exceptions to people with social needs;

– To deploy market-based instruments such as fiscal incentives and procurement to adapt production and consumption methods;

– To develop smart, upgraded and fully interconnected transport and energy infrastructures and make full use of ICT;

– To ensure a coordinated implementation of infrastructure projects, within the EU Core network, that critically contribute to the effectiveness of the overall EU transport system;

– To focus on the urban dimension of transport where much of the congestion and emissions are generated;

– To use regulation, building performance standards and market-based instruments such as taxation, subsidies and procurement to reduce energy and resource use and use structural funds to invest in energy efficiency in public buildings and in more efficient recycling;

"An industrial policy for the globalisation era" Initiative

Industry and especially SMEs have been hit hard by the economic crisis and all sectors are facing the challenges of globalisation and adjusting their production processes and products to a low-carbon economy. The impact of these challenges will differ from sector to sector, some sectors might have to "reinvent" themselves but for others these challenges will present new business opportunities. The Commission will work closely with stakeholders in different sectors

(business, trade unions, academics, NGOs, consumer organisations) and will draw up a framework for a modern industrial policy, to support entrepreneurship, to guide and help industry to become fit to meet these challenges, to promote the competitiveness of Europe’s primary, manufacturing and service industries and help them seize the opportunities of globalisation and of the green economy. The framework will address all elements of the increasingly international value chain from access to raw materials to after-sales service.

**At EU level, the Commission will work:**

- To establish an industrial policy creating the best environment to maintain and develop a strong, competitive and diversified industrial base in Europe as well as supporting the transition of manufacturing sectors to greater energy and resource efficiency;

- To develop a horizontal approach to industrial policy combining different policy instruments (e.g. "smart" regulation, modernized public procurement, competition rules and standard setting);

- To improve the business environment, especially for SMEs, including through reducing the transaction costs of doing business in Europe, the promotion of clusters and improving affordable access to finance;

- To promote the restructuring of sectors in difficulty towards future oriented activities, including through quick redeployment of skills to emerging high growth sectors and markets and support from the EU's state aids regime and/or the Globalization Adjustment Fund;

- To promote technologies and production methods that reduce natural resource use, and increase investment in the EU’s existing natural assets;

- To promote the internationalization of SMEs;

- To ensure that transport and logistics networks enable industry throughout the Union to have effective access to the Single Market and the international market beyond;

- To develop an effective space policy to provide the tools to address some of the key global challenges and in particular to deliver Galileo and GMES;

- To enhance the competitiveness of the European tourism sector;
– To review regulations to support the transition of service and manufacturing sectors to greater resource efficiency, including more effective recycling; to improve the way in which European standard setting works to leverage European and international standards for the long-term competitiveness of European industry. This will include promoting the commercialisation and take-up of key enabling technologies;

– To renew the EU strategy to promote Corporate Social Responsibility as a key element in ensuring long term employee and consumer trust.

At national level, Member States will need:

– To improve the business environment especially for innovative SMEs, including through public sector procurement to support innovation incentives;

– To improve the conditions for enforcing intellectual property;

– To reduce administrative burden on companies, and improve the quality of business legislation;

To work closely with stakeholders in different sectors (business, trade unions, academics, NGOs, consumer organizations) to identify bottlenecks and develop a shared analysis on how to maintain a strong industrial and knowledge base and put the EU in a position to lead global sustainable development.

Inclusive growth is a high-employment economy delivering economic, social and territorial cohesion. Inclusive growth means empowering people through high levels of employment, investing in skills, fighting poverty and modernizing labour markets, training and social protection systems so as to help people anticipate and manage change, and build a cohesive society. It is also essential that the benefits of economic growth spread to all parts of the Union, including its outermost regions, thus strengthening territorial cohesion. It is about ensuring access and opportunities for all throughout the lifecycle. Europe needs to make full use of its labour potential to face the challenges of an ageing population and rising global competition. Policies to promote gender equality will be needed to increase labour force participation thus adding to growth and social cohesion.
Europe future directions on:

Employment: Due to demographic change, our workforce is about to shrink. Only two-thirds of our working age population is currently employed, compared to over 70% in the US and Japan. The employment rate of women and older workers are particularly low. Young people have been severely hit by the crisis, with an unemployment rate over 21%. There is a strong risk that people away or poorly attached to the world of work lose ground from the labour market.

Skills: About 80 million people have low or basic skills, but lifelong learning benefits mostly the more educated. By 2020, 16 million more jobs will require high qualifications, while the demand for low skills will drop by 12 million jobs. Achieving longer working lives will also require the possibility to acquire and develop new skills throughout the lifetime.

Fighting poverty: 80 million people were at risk of poverty prior to the crisis. 19 million of them are children. 8 per cent of people in work do not earn enough to make it above the poverty threshold. Unemployed people are particularly exposed. Action under this priority will require modernising, strengthening our employment education and training policies and social protection systems by increasing labour participation and reducing structural unemployment, as well as raising corporate social responsibility among the business community. Access to childcare facilities and care for other dependents will be important in this respect. Implementing flexicurity principles and enabling people to acquire new skills to adapt to new conditions and potential career shifts will be key. A major effort will be needed to combat poverty and social exclusion and reduce health inequalities to ensure that everybody can benefit from growth. Equally important will be our ability to meet the challenge of promoting a healthy and active ageing population to allow for social cohesion and higher productivity.

All EU policies, instruments and legal acts, as well as financial instruments, should be mobilized to pursue the strategy’s objectives. The Commission intends to enhance key policies and instruments such as the single market, the budget and the EU's external economic agenda to focus on delivering Europe 2020's objectives. Operational proposals to ensure their full contribution to the strategy are an integral part of the Europe 2020.
A single market for the 21st century

A stronger, deeper, extended single market is vital for growth and job creation. However, current trends show signs of integration fatigue and disenchantment regarding the single market. The crisis has added temptations of economic nationalism. The Commission's vigilance and a shared sense of responsibility among Member States have prevented a drift towards disintegration. But a new momentum – a genuine political commitment - is needed to re-launch the single market, through a quick adoption of the initiatives mentioned below. Such political commitment will require a combination of measures to fill the gaps in the single market.

Every day businesses and citizens are faced with the reality that bottlenecks to cross-border activity remain despite the legal existence of the single market. They realize that networks are not sufficiently inter-connected and that the enforcement of single market rules remains uneven. Often, businesses and citizens still need to deal with 27 different legal systems for one and the same transaction. While companies are still confronted with the day-to-day reality of fragmentation and diverging rules, their competitors from China, the US or Japan can draw full strength from their large home markets.

The single market was conceived before the arrival of Internet, before information and communication technologies became the one of the main drivers of growth and before services became such a dominant part of the European economy. The emergence of new services (e.g. content and media, health, smart energy metering) shows huge potential, but Europe will only exploit this potential if it overcomes the fragmentation that currently blocks the flow of on-line content and access for consumers and companies.

To gear the single market to serve the Europe 2020 goals requires well functioning and well-connected markets where competition and consumer access stimulate growth and innovation. An open single market for services must be created on the basis of the Services Directive, whilst at the same time ensuring the quality of services provided to consumers. The full implementation of the Services Directive could increase trade in commercial services by 45% and Foreign Direct investment by 25%, bringing an increase of between 0.5% and 1.5% increase in GDP.
Access for SMEs to the single market must be improved. Entrepreneurship must be developed by concrete policy initiatives, including a simplification of company law (bankruptcy procedures, private company statute, etc.), and initiatives allowing entrepreneurs to restart after failed businesses. Citizens must be empowered to play a full part in the single market. This requires strengthening their ability and confidence to buy goods and services cross-border, in particular on-line.

Through the implementation of competition policy the Commission will ensure that the single market remains an open market, preserving equal opportunities for firms and combating national protectionism. But competition policy will do more to contribute to achieving the Europe 2020 goals. Competition policy ensures that markets provide the right environment for innovation, for example through ensuring that patents and property rights are not abused. Preventing market abuse and anticompetitive agreements between firms provides a reassurance to incentivize innovation. State aid policy can also actively and positively contribute to the Europe 2020 objectives by prompting and supporting initiatives for more innovative, efficient and greener technologies, while facilitating access to public support for investment, risk capital and funding for research and development.

The Commission will propose action to tackle bottlenecks in the single market by:

– Reinforcing structures to implement single market measures on time and correctly, including network regulation, the Services Directive and the financial markets legislative and supervision package, enforce them effectively and when problems arise, resolve them speedily;

– Pressing ahead with the Smart Regulation agenda, including considering the wider use of regulations rather than directives, launching ex-post evaluation of existing legislation, pursuing market monitoring, reducing administrative burdens, removing tax obstacles, improving the business environment, particularly for SMEs, and supporting entrepreneurship;

–Adapting EU and national legislation to the digital era so as to promote the circulation of content with high level of trust for consumers and companies. This requires updating rules on liability, warranties, delivery and dispute resolution;
– Making it easier and less costly for businesses and consumers to conclude contracts with partners in other EU countries, notably by offering harmonised solutions for consumer contracts, EU model contract clauses and by making progress towards an optional European Contract Law;

– Making it easier and less costly for businesses and consumers to enforce contracts and to recognise court judgments and documents in other EU countries.

**Investing in growth: cohesion policy, mobilising the EU budget and private finance**

Economic, social and territorial cohesion will remain at the heart of the Europe 2020 strategy to ensure that all energies and capacities are mobilised and focused on the pursuit of the strategy's priorities. Cohesion policy and its structural funds, while important in their own right, are key delivery mechanisms to achieve the priorities of smart, sustainable and inclusive growth in Member States and regions.

The financial crisis has had a major impact on the capacity of European businesses and governments to finance investment and innovation projects. To accomplish its objectives for Europe 2020, a regulatory environment that renders financial markets both effective and secure is key. Europe must also do all it can to leverage its financial means, pursue new avenues in using a combination of private and public finance, and in creating innovative instruments to finance the needed investments, including public-private partnerships (PPPs). The European Investment Bank and the European Investment Fund can contribute to backing a "virtuous circle" where innovation and entrepreneurship can be funded profitably from early stage investments to listing on stock markets, in partnership with the many public initiatives and schemes already operating at national level.

The EU multi-annual financial framework will also need to reflect the long-term growth priorities. The Commission intends to take the priorities, once agreed, up in its proposals for the next multi-annual financial framework, due for next year. The discussion should not only be about levels of funding, but also about how different funding instruments such as structural funds, agricultural and rural development funds, the research framework programme, and the competitiveness and innovation framework programme (CIP) need to be devised to achieve the Europe 2020 goals so as to maximise impact, ensure efficiency and EU value added. It will be
important to find ways of increasing the impact of the EU budget – while small it can have an important catalytic effect when carefully targeted.

The Commission will propose action to develop innovative financing solutions to support Europe 2020's objectives by:

– Fully exploiting possibilities to improve the effectiveness and efficiency of the existing EU budget through stronger prioritisation and better alignment of EU expenditure with the goals of the Europe 2020 to address the present fragmentation of EU funding instruments (e.g. R&D and innovation, key infrastructure investments in cross-border energy and transport networks, and low-carbon technology). The opportunity of the review of the Financial Regulation should also be fully exploited to develop the potential of innovative financial instruments, whilst ensuring sound financial management;

– Designing new financing instruments, in particular in cooperation with the EIB/EIF and the private sector, responding to hitherto unfulfilled needs by businesses. As part of the forthcoming research and innovation plan, the Commission will co-ordinate an initiative with the EIB/EIF to raise additional capital for funding innovative and growing businesses;

– Making an efficient European venture capital market a reality, thereby greatly facilitating direct business access to capital markets and exploring incentives for private sector funds that make financing available for start-up companies, and for innovative SMEs.

External policy instruments

Global growth will open up new opportunities for Europe's exporters and competitive access to vital imports. All instruments of external economic policy need to be deployed to foster European growth through our participation in open and fair markets worldwide. This applies to the external aspects of our various internal policies (e.g. energy, transport, agriculture, R&D) but this holds in particular for trade and international macroeconomic policy coordination. An open Europe, operating within a rules-based international framework, is the best route to exploit the benefits of globalization that will boost growth and employment. At the same time, the EU must assert itself more effectively on the world stage, playing a leading role in shaping the future
global economic order through the G20, and pursuing the European interest through the active deployment of all the tools at our disposal.

A part of the growth that Europe needs to generate over the next decade will need to come from the emerging economies as their middle classes develop and import goods and services in which the European Union has a comparative advantage. As the biggest trading bloc in the world, the EU prospers by being open to the world and paying close attention to what other developed or emerging economies are doing to anticipate or adapt to future trends.

Acting within the WTO and bilaterally in order to secure better market access for EU business, including SMEs, and a level playing field vis-à-vis our external competitors should be a key goal. Moreover, we should focus and streamline our regulatory dialogues, particularly in new areas such as climate and green growth, where possible expanding our global reach by promoting equivalence, mutual recognition and convergence on key regulatory issues, as well as the adoption of our rules and standards.

The Europe 2020 strategy is not only relevant inside the EU, it can also offer considerable potential to candidate countries and our neighbourhood and better help anchor their own reform efforts. Expanding the area where EU rules are applied, will create new opportunities for both the EU and its neighbours.

In addition, one of the critical objectives in the next few years will be to build strategic relationships with emerging economies to discuss issues of common concern, promote regulatory and other co-operation and resolve bilateral issues. The structures underpinning these relationships will need to be flexible and be politically rather than technically driven.

2010 Commission’s draw-up for a trade strategy for Europe 2020 which will include:

– An emphasis on concluding on-going multilateral and bilateral trade negotiations, in particular those with the strongest economic potential, as well as on better enforcement of existing agreements, focusing on non-tariff barriers to trade;

– Trade opening initiatives for sectors of the future, such as "green" products and technologies, high-tech products and services, and on international standardization in particular in growth areas;
– Proposals for high-level strategic dialogues with key partners, to discuss strategic issues ranging from market access, regulatory framework, global imbalances, energy and climate change, access to raw materials, to global poverty, education and development. It will also work to reinforce the Transatlantic Economic Council with the US the High Level Economic Dialogue with China and deepen its relationship with Japan and Russia;

– Starting in 2011 and then annually before the Spring European Council, a trade and investment barriers report identifying ways to improve market access and regulatory environment for EU companies.

The EU is a global player and takes its international responsibilities seriously. It has been developing a real partnership with developing countries to eradicate poverty, to promote growth and to fulfil the Millenium Development Goals (MDGs). We have a particularly close relationship with Africa and will need to invest further in the future in developing that close partnership. This will take place in the broader ongoing efforts to increase development aid, improve the efficiency of our aid programmes notably through the efficient division of labour with Member States and by better reflecting development aims in other policies of the European Union.

*The EXIT from the crisis: first steps towards 2020*

Policy instruments were decisively, and massively, used to counteract the crisis. Fiscal policy had, where possible, an expansionary and counter-cyclical role; interest rates were lowered to historical minima while liquidity was provided to the financial sector in an unprecedented way. Governments gave massive support to banks, either through guarantees, recapitalization or through "cleaning" of balance sheets from impaired assets; other sectors of the economy were supported under the temporary, and exceptional, framework for State aid. All these actions were, and still are, justified. But they cannot stay there permanently. High levels of public debt cannot be sustained indefinitely. The pursuit of the Europe 2020 objectives must be based on a credible exit strategy as regards budgetary and monetary policy on the one hand, and the direct support given by governments to economic sectors, in particular the financial sector, on the other. The sequencing of these several exits is important. A reinforced coordination of economic policies, in particular within the euro area should ensure a successful global exit.
**Defining a credible exit strategy**

Given remaining uncertainties about the economic outlook and fragilities in the financial sector, support measures should only be withdrawn once the economic recovery can be regarded as self-sustaining and once financial stability has been restored.

- The withdrawal of temporary crisis-related measures should be coordinated and take account of possible negative spill-over effects both across Member States as well as of interactions between different policy instruments. State aid disciplines should be restored, starting with the ending of the temporary state aid framework. Such a coordinated approach would need to rely on the following principles:

  – The withdrawal of the fiscal stimulus should begin as soon as the recovery is on a firm footing. However, the timing may have to differ from country to country, hence the need for a high degree of coordination at European level;

  – Short-term unemployment support should only start to be phased out once a turning point in GDP growth can be regarded as firmly established and thus employment, with its usual lag, will have started to grow;

  – Sectoral support schemes should be phased out early as they carry a large budget costs, are considered to have by and large achieved their objectives, and due to their possible distorting effects on the single market;

  – Access-to-finance support should continue until there are clear signs that financing conditions for business have broadly returned to normal;

  – Withdrawal of support to the financial sector, starting with government guarantee schemes, will depend on the state of the economy overall and of the stability of the financial system in particular.

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**The reform of the financial system**
A crucial priority in the short term will be to restore a solid, stable and healthy financial sector able to finance the real economy. It will require the full and timely implementation of the G20 commitments. Five objectives will in particular have to be met:

– Implementing the agreed reforms of the supervision of the financial sector;

– Filling the regulatory gaps, promoting transparency, stability and accountability notably as regards derivatives and market infrastructure;

– Completing the strengthening of our prudential, accounting and consumer protection rules in the form a single European rule-book covering all financial actors and markets in an appropriate way;

– Strengthening the governance of financial institutions, in order to address the weaknesses identified during the financial crisis in the area of risk identification and management;

– Setting in motion ambitious policies that will allow us in the future to better prevent and if needed manage possible financial crises and that – taking into account the specific responsibility of the financial sector in the current crisis – will look also into adequate contributions from the financial sector.

**Pursuing smart budgetary consolidation for long-term growth**

Sound public finances are critical for restoring the conditions for sustainable growth and jobs so we need a comprehensive exit strategy. This will involve the progressive withdrawal of short-term crisis support and the introduction of medium- to longer-term reforms that promote the sustainability of public finances and enhance potential growth.

The Stability and Growth Pact provides the right framework to implement fiscal exit strategies and Member States are setting down such strategies in their stability and convergence programmes. For most countries, the onset of fiscal consolidation should normally occur in 2011. The process of bringing the deficits to below 3% of GDP should be completed, as a rule, by 2013. However, in a number of countries, the consolidation phase may have to begin earlier than 2011 implying that the withdrawal of temporary crisis support and fiscal consolidation may in these cases need to occur simultaneously.
To support the EU's economic growth potential and the sustainability of our social models, the consolidation of public finances in the context of the Stability and Growth Pact involves setting priorities and making hard choices: coordination at EU can help Member States in this task and help address spill-over effects. In addition, the composition and quality of government expenditure matters: budgetary consolidation programmes should prioritise 'growth-enhancing items' such as education and skills, R&D and innovation and investment in networks, e.g. high-speed internet, energy and transport interconnections – i.e. the key thematic areas of the Europe 2020 strategy.

The revenue side of the budget also matters and particular attention should also be given to the quality of the revenue/tax system. Where taxes may have to rise, this should, where possible, be done in conjunction with making the tax systems more "growth-friendly". For example, raising taxes on labour, as has occurred in the past at great costs to jobs, should be avoided. Rather Member States should seek to shift the tax burden from labour to energy and environmental taxes as part of a “greening” of taxation systems.

Fiscal consolidation and long-term financial sustainability will need to go hand in hand with important structural reforms, in particular of pension, health care, social protection and education systems. Public administration should use the situation as an opportunity to enhance efficiency and the quality of service. Public procurement policy must ensure the most efficient use of public funds and procurement markets must be kept open EU-wide.

Coordination within the Economic and Monetary Union

The common currency has acted as a valuable shield from exchange rate turbulences for those Member States whose currency is the euro. But the crisis has also revealed the extent of the interdependence between the economies within the euro area, namely in the financial domain, rendering spill-over effects more likely. Divergent growth patterns lead in some cases to the accumulation of unsustainable government debts which in turn puts strains on the single currency. The crisis has thus amplified some of the challenges faced by the euro area, e.g. the sustainability of public finances and potential growth, but also the destabilizing role of imbalances and competitiveness divergences.
Overcoming these challenges in the euro area is of paramount importance, and urgent, in order to secure stability and sustained and employment creating growth. Addressing these challenges requires strengthened and closer policy co-ordination including:

– A framework for deeper and broader surveillance for euro area countries: in addition to strengthening fiscal discipline, macro-economic imbalances and competitiveness developments should be an integral part of economic surveillance, in particular with a view to facilitating a policy driven adjustment.

– A framework for addressing imminent threats for the financial stability of the euro area as a whole.

– Adequate external representation of the euro area in order to forcefully tackle global economic and financial challenges.

The Commission will make proposals to take these ideas forward.

Delivering results: a stronger governance

To achieve transformational change, the Europe 2020 strategy will need more focus, clear goals and transparent benchmarks for assessing progress. This will require a strong governance framework that harnesses the instruments at its disposal to ensure timely and effective implementation.

Proposed architecture of Europe 2020

The strategy should be organised around a thematic approach and more focused country surveillance. This builds on the strength of already existing coordination instruments. More specifically:

– A thematic approach would focus on the themes identified in Section 2, in particular the delivery of the 5 headline targets. The main instrument would be the Europe 2020 programme and its flagship initiatives, which require action at both EU and Member States level. The thematic approach reflects the EU dimension, shows clearly the interdependence of Member States economies, and allows greater selectivity on concrete initiatives which push the strategy forward and help achieve the EU and national headline targets.
– Country reporting would contribute to the achievement of Europe 2020 goals by helping Member States define and implement exit strategies, to restore macroeconomic stability, identify national bottlenecks and return their economies to sustainable growth and public finances. It would not only encompass fiscal policy, but also core macroeconomic issues related to growth and competitiveness (i.e. macro-imbalances). It would have to ensure an integrated approach to policy design and implementation, which is crucial to support the choices Member States will have to make, given the constraints on their public finances. A specific focus will be placed on the functioning of the euro area, and the interdependence between Member States.

To achieve this, the Europe 2020 and Stability and Growth Pact (SGP) reporting and evaluation will be done simultaneously to bring the means and the aims together, while keeping the instruments and procedures separate and maintaining the integrity of the SGP. This means proposing at the same time the annual stability or convergence programmes and streamlined reform programmes which each Member State will draw up to set out measures to report on progress towards their targets, as well as key structural reforms to address their bottlenecks to growth. Both these programmes, which should contain the necessary cross-references, should be submitted to the Commission and other Member States during the last quarter of the year.

The European Systemic Risk Board (ESRB) should report regularly on macro-financial risks: these reports will be an important contribution to the overall assessment. The Commission will assess these programmes and report on progress made with their implementation. Specific attention will be devoted to the challenges of the Economic and Monetary Union.

This would give the European Council all the information necessary to take decisions. Indeed, it would have an analysis of the economic and job situations, the overall budgetary picture, macro-financial conditions and progress on the thematic agendas per Member State, and would in addition review the overall state of the EU economy.

**Integrated guidelines**

The Europe 2020 strategy will be established institutionally in a small set of integrated 'Europe 2020' guidelines (integrating employment and broad economic policy guidelines), to replace the
24 existing guidelines. These new guidelines will reflect the decisions of the European Council and integrate agreed targets. Following the opinion of the European Parliament on the employment guidelines as foreseen by the Treaty, the guidelines should be politically endorsed by the June European Council before they are adopted by Council. Once adopted, they should remain largely stable until 2014 to ensure a focus on implementation.

**Policy Recommendations**

Policy recommendations will be addressed to Member States both in the context of the country reporting as well as under the thematic approach of Europe 2020. For country surveillance, they will take the form of Opinions on stability/convergence programmes under Council Regulation (EC) No 1466/97 accompanied by recommendations under the Broad Economic Policy Guidelines (BEPGs, Article 121.2). The thematic part would include Employment recommendations (Article 148) and country recommendations on other selected thematic issues (for instance on business environment, innovation, functioning of the single market, energy/climate change etc.), both of which could also be addressed to the extent that they have macroeconomic implications through the recommendations under the BEPGs as indicated above. This set-up for the recommendations would also help ensure coherence between the macro/fiscal framework and the thematic agendas.

The recommendations\(^{51}\) under the country surveillance would address issues with significant macroeconomic and public finance implications, whereas the recommendations under the thematic approach would provide detailed advice on micro-economic and employment challenges. These recommendations would be sufficiently precise and normally provide a timeframe within which the Member State concerned is expected to act. The Member State would then set out what action it would take to implement the recommendation. If a Member State, after the time-frame has expired, has not adequately responded to a policy recommendation of the Council or develops policies going against the advice, the Commission could issue a policy warning.

\(^{51}\) Ibidem
Contrary to the present situation where the European Council is the last element in the decision-making process of the strategy, the European Council should steer the strategy as it is the body which ensures the integration of policies and manages the interdependence between Member States and the EU.

Keeping a horizontal watching brief on the implementation of the Europe 2020 programme, the European Council could focus on specific themes (research and innovation, skills) at its future meetings, providing guidance and the necessary impulses.

**Council of Ministers**

The relevant council formations would work to implement the Europe 2020 programme and achieve the targets in the fields for which they are responsible. As part of the flagship initiatives, Member States will be invited to step up their exchange of policy information of good practices within the various Council formations.

**European Commission**

The European Commission will monitor annually the situation on the basis of a set of indicators showing overall progress towards the objective of smart, green and inclusive economy delivering high levels of employment, productivity and social cohesion.

It will issue a yearly report on the delivery of the Europe 2020 strategy focusing on progress towards meeting the agreed headline targets, and assess country reports and stability and convergence programmes. As part of this process, the Commission will present policy recommendations or warnings, make policy proposals to attain the objectives of the strategy and will present a specific assessment of progress achieved within the euro-area.

**European Parliament**

The European Parliament should play an important role in the strategy, not only in its capacity as co-legislator, but also as a driving force for mobilising citizens and their national parliaments.
Parliament could, for instance, use the next meeting with national parliaments to discuss its contribution to Europe 2020 and jointly communicate views to the Spring European Council.

National, regional and local authorities

All national, regional and local authorities should implement the partnership, closely associating parliaments, as well as social partners and representatives of civil society, contributing to the elaboration of national reform programmes as well as to its implementation.

By establishing a permanent dialogue between various levels of government, the priorities of the Union are brought closer to citizens, strengthening the ownership needed to delivery the Europe 2020 strategy. Stakeholders and civil society

Furthermore, the Economic and Social Committee as well as the Committee of Regions should also be more closely associated. Exchange of good practices, benchmarking and networking - as promoted by several Member States - has proven another useful tool to forge ownership and dynamism around the need for reform.

The success of the new strategy will therefore depend critically on the European Union’s institutions, Member States and regions explaining clearly why reforms are necessary - and inevitable to maintain our quality of life and secure our social models -, where Europe and its Member States want to be by 2020, and what contribution they are looking for from citizens, businesses and their representative organisations. Recognising the need to take account of national circumstances and traditions, the Commission will propose a common communication tool box to this effect.

Decisions for the European Council

The Commission proposes that the European Council, at its meeting in Spring 2010:

– agrees on the thematic priorities of the Europe 2020 strategy;

– sets the five headline targets as proposed in section 2 of this paper: on R&D investments, education, energy/climate change, employment rate, and reducing poverty, defining where Europe should be by 2020; invites the Member States in a dialogue with the European
Commission to translate these EU targets into national targets for decisions at the June European Council, taking into account national circumstances and differing starting points;

– invites the Commission to come forward with proposals for the flagship initiatives, and requests the Council (and its formations) on this basis to take the necessary decisions to implement them;

– agrees to strengthen economic policy co-ordination to promote positive spill-over effects and help address the Union's challenges more effectively; to this end, it approves the combination of thematic and country assessments as proposed in this communication whilst strictly maintaining the integrity of the Pact; it will also give special attention to strengthening EMU;

– calls on all parties and stakeholders (e.g. national/regional parliaments, regional and/or local authorities, social partners and civil society, and last but not least the citizens of Europe) to help implement the strategy, working in partnership, by taking action in areas within their responsibility;

– requests the Commission to monitor progress and report annually to the Spring European Council, providing an overview of progress towards the targets, including international benchmarking, and the state of implementation of the flagship initiatives.

At its subsequent meetings: – endorses the proposed integrated guidelines which constitutes its institutional underpinning following the opinion of the European Parliament; validates the national targets following a process of mutual verification to ensure consistency; discusses specific themes assessing where Europe stands and how progress can be accelerated. A first discussion on research and innovation could take place at its October meeting on the basis of a Commission contribution.

3. American competitiveness

The North American Competitiveness Council52 (NACC) is an official tri-national working group of the Security and Prosperity Partnership of North America (SPP). It was created at the

52 http://coa.counciloftheamericas.org/group.php?id=10
second summit of the SPP in Cancún, Quintana Roo, Mexico, in March 2006. The SPP is an agreement between the leaders of the United States, Canada and Mexico to work towards a more integrated North American economy and security region. Composed of 30 corporate representatives from some of North America's largest companies, the North American Competitiveness Council has been mandated to set priorities for the SPP and to act as a stable driver of the integration process through changes in government in all three countries.

The American Competitiveness Initiative (ACI) is a federal assistance program intended to help America maintain its competitiveness through investment in research and development (R&D) and education. The ACI’s focus is on programs that are likely to strengthen U.S. competitiveness by targeting funding to agencies that support research in the physical sciences. NASA, however, is not included in the ACI.

The initiative was a part of President George W. Bush’s State of the Union Address given on January 31, 2006. The Initiative commits $5.9 billion ($1.3 billion in new Federal funding, and an additional $4.6 billion in R&D tax incentives) in fiscal year 2007 to increase investments in R&D, strengthen education, and encourage entrepreneurship. Over ten years, the Initiative plans to commit $50 billion to increase funding for research and $86 billion for R&D tax incentives.

In partnership with the private sector, state and local governments, and colleges and universities, the ACI hopes to promote new levels of educational achievement and economic productivity.

Focus areas:

- Federal investment in the most current basic research, and facilities and instruments
- Institutions of higher learning that provide research opportunities in math, science, engineering, and technology
- Workforce training programs
- Immigration policies aimed at attracting talented international mathematicians and scientists
- Private sector investment in R&D
- Updated patenting system to further protect intellectual property
- A business environment that encourages entrepreneurship
Goals

- 300 grants for schools to implement research-based mathematics and science curricula
- 100,000 highly-qualified math and science teachers by the year 2015
- 700,000 advanced placement (AP) tests passed by low-income students
- Double funding over ten years to $50 billion for innovation-enabling research at key Federal agencies that support the physical sciences and engineering (National Science Foundation, Department of Energy Office of Science, and National Institute of Standards and Technology)
- Making permanent the Research and Experimentation tax credit to encourage increased private sector investment in innovation
- Improve K-12 math and science education by training teachers and developing effective teaching materials
- Offer training opportunities to 800,000 workers annually

Capabilities

The initiative hopes to improve America’s capabilities in numerous mathematical and scientific fields. Some of these include:

- Nanofabrication, nanomanufacturing, and nanotechnology
- Biotechnology
- Alternative energy (hydrogen, nuclear, and solar)
- High-end computing
- Intelligent manufacturing
- Accurate weather and climate prediction
- Design of safe and effective pharmaceuticals
- Quantum information processing and quantum mechanics simulations
- Secure communications, cyber security and information assurance
• Intellectual property protection and control
• Sensor and detection capabilities
• Development of manufacturing standards and integration of more efficient production practices
• Advances in materials science and engineering

Education- the ACI proposes $380 million in new Federal funds to invest in the Nation’s education system.

• Advanced Placement/International Baccalaureate (AP/IB) Program:
  o $122 million investment
  o Train additional 70,000 AP/IB math and science teachers in five years with matching dollar contributions from states and the private sector
  o Increase the number of AP/IB math and science tests passed by low-income students from 230,000 to 700,000
  o Increase funding to $122 million with specific emphasis on math and science
  o Offer incentives and training to teachers to become AP/IB math and science teachers
  o Subsidize AP/IB testing fees for low-income students

• Establish an Adjunct Teacher Corps program to encourage up to 30,000 math and science professionals to become adjunct high school teachers by the year 2015
  o $25 million investment to encourage partnerships between school districts and public or private organizations involved in science, math, and engineering

• Improve classroom instructional methods and materials by establishing a National Math Panel ($10 million investment) to evaluate the effectiveness of various ways of teaching math and science

• Math Now (combined $250 million investment) for
  o Elementary students: help prepare students for advanced math courses in middle and high school
Middle School students: help diagnose and remedy students lacking proficient math skills and better align instruction with No Child Left Behind (NCLB) goals

- Evaluation of Federal Science, Technology, Engineering, and Math (STEM) education programs to gauge effectiveness in meeting stated goals ($5 million investment)

- Inclusion of Science Assessments in NCLB accountability

**Competitiveness Grant Programs**

- Supplemental grants to low-income
  - college freshman and sophomores who completed a rigorous high school curriculum and maintain at least a 3.0 GPA in college
  - college juniors and seniors who major in math, science, and critical foreign languages

- Provide enhanced Pell Grants to students who pursue rigorous coursework in high school and the Presidential Math and Science Scholars Fund

- Provide a total of $4.5 billion in grant aid to students through the 2010-2011 academic year, $790 million in the 2006-2007 academic year, and $850 million in 2007-2008

**Restoring American Competitiveness**

As the United States strives to recover from the current economic crisis, it’s going to discover an unpleasant fact: The competitiveness problem of the 1980s and early 1990s didn’t really go away. It was just hidden during the bubble years behind a mirage of prosperity, and all the while the country’s industrial base continued to erode.

Now, the U.S. will finally have to take the problem seriously. Rebuilding its wealth-generating machine that is, restoring the ability of enterprises to develop and manufacture high-technology products in America is the only way the country can hope to pay down its enormous deficits and maintain, let alone raise, its citizens’ standard of living. Reversing the decline in competitiveness will require two drastic changes:
• The government must alter the way it supports both basic and applied scientific research to promote the kind of broad collaboration of business, academia, and government needed to tackle society’s big problems.

• Corporate management must overhaul its practices and governance structures so they no longer exaggerate the payoffs and discount the dangers of outsourcing production and cutting investments in R&D.

The Competitiveness Problem

For much of the past two decades, the stunning growth of the U.S. economy was widely hailed in academic, business, and government circles as evidence that America’s competitiveness problem was as obsolete as leg warmers and Jazzercise. The data suggest otherwise. Beginning in 2000, the country’s trade balance in high-technology products historically a bastion of U.S. strength—began to decrease. By 2002, it turned negative for the first time and continued to decline through 2007. (See the exhibit “A Sign of Trouble.”)

Even more worrisome, average real weekly wages have essentially remained flat since 1980, meaning that the U.S. economy has been unable to provide a rising standard of living for the majority of its people. This undoubtedly is one reason Americans have attempted to borrow their way to prosperity, a strategy that clearly is no longer tenable.

What, then, was actually happening when it seemed things were going so well? Companies operating in the U.S. were steadily outsourcing development and manufacturing work to specialists abroad and cutting their spending on basic research. In making their decisions to outsource, executives were heeding the advice du jour of business gurus and Wall Street: Focus on your core competencies, off-load your low-value-added activities, and redeploy the savings to innovation, the true source of your competitive advantage. But in reality, the outsourcing has not stopped with low-value tasks like simple assembly or circuit-board stuffing. Sophisticated engineering and manufacturing capabilities that underpin innovation in a wide range of products have been rapidly leaving too. As a result, the U.S. has lost or is in the process of losing the knowledge, skilled people, and supplier infrastructure needed to manufacture many of the cutting-edge products it invented.
United States and its competitive edge

After several years at the top of the rankings, the United States has fallen to 2nd place in the Global Competitiveness Index, outflanked by Switzerland this year. The efficiency of its goods and labor markets; the sophistication of its business culture; and the impressive capacity for technological innovation of its companies, supported by high levels of collaboration with universities in research, continue to constitute competitive strengths. These factors remain a driving force behind US productivity will support recovery from the current recession.

However, a number of weaknesses particularly related to public and private institutions, as well as continuing burgeoning macroeconomic imbalances, have somewhat eroded the country’s overall competitiveness potential over the past years. These weaknesses, which some observers consider to be the root cause of the financial crisis, have been further emphasized by the present fall in the US ranking, as the loss of confidence in financial markets has now been added to the list of challenges to be addressed. The United States has highly efficient goods and labor markets, ensuring an optimal allocation of these resources. Its goods markets in particular, characterized by low levels of distortion in an environment of open competition across virtually all markets, are assessed as the most efficient in the world, ensuring a large selection of quality goods at low prices, supplied in a timely manner. Its labor markets are very flexible and efficient, with high rates of job creation and low rates of unemployment, against a background of wage flexibility and considerable ease for hiring and firing at the firm level.

Indeed, while the flexibility of US labor markets has allowed for rapidly rising unemployment since the onslaught of the economic crisis, these same flexible labor markets are expected to encourage firms to hire more rapidly once the crisis subsides. The level of innovation in the United States is second to none (1st in the innovation pillar). The country is endowed with top-notch scientific institutions (ranked 2nd) and companies that spend heavily on R&D (ranked 5th). Businesses and universities collaborate heavily in research, spawning centers of innovation, as confirmed by its 1st place in the variable assessing this dimension. It is therefore not surprising that the United States ranks 1st worldwide in patent registrations.

This culture of innovation is buttressed by a number of other critical factors, such as strong intellectual property protection, very attainment rates of tertiary education, and excellent on-the
job training that fosters the ability of workers and businesses to adapt rapidly to a changing environment. Further, the overall high levels of sophistication of the business community (ranked 8th) ensure that much of this innovation is translated into productive business activity. While strengths in the technological and market efficiency areas explain the country’s overall high rank, the US economy has increasingly suffered from weaknesses in other areas, and this has pushed its GCI score downward this year. Most notably, over the past few years and particularly this year there is a much weaker assessment of the country’s financial markets, including the soundness of banks, much in line with the evolving situation in the country and recent bank failures and bailouts. Access to finance through various channels has become measurably more difficult, and the assessment of bank solvency has dropped from a rank of 40 last year all the way down to 106th this year (on a par with countries such as Albania and Mali). Related to this issue, there is also a strong sense that there has not been enough accountability among the country’s private institutions, and that accounting and auditing standards have not been up to scratch. Macroeconomic imbalances also continue to afflict the United States. Indeed, recent stimulus spending, while meant to head off an even more protracted recession, is increasing the debt burden that will be borne by future generations. According to the latest estimates published by the International Monetary Fund (IMF), the fiscal deficit in 2009 is projected to exceed 13 percent of GDP, the ninth year in a row that the federal budget will have shown a deficit. The IMF also projects deficits at least through 2010, despite the government’s pledges to rein in spending after the crisis. In the meantime, the impact of this deficit spending on public debt is alarming, with debt rising sharply from 63 percent of GDP in 2000 to a projected 87 percent of GDP in 2009 and expected to continue to rise in coming years. With the many long-term claims on the budget such as defense, pensions, and other social payments (including healthcare) the prospects for sustained fiscal adjustment do not seem bright. It is clear that in order to ensure rising prosperity for future generations, the United States must get its macro house in order rapidly once the crisis subsides

The state of nation 20 January 2010 (Barack Obama)

Though in January 2009 it has been a general enthusiasm with the new government after just one year the state of the American nation it is proven to be “Better, but Not Great” according to the Gallup statistics, so satisfaction remains low within United States.
Even if passed only one year after the actual president took office, today’s ratings are on the order of less bad rather than positive. Twenty-three percent of Americans are now satisfied with the way things are going in the country, up from 13% in early January 2009. However, 76% remain dissatisfied -- well above the average 57% dissatisfied since 1979.

Consumer attitudes about the economy show a similar pattern. Americans' confidence in the economy nearly collapsed during the Wall Street crisis in the fall of 2008, and has since rebounded some, but it remains profoundly negative. At the start of Obama's term, Gallup's Economic Confidence Index\(^{53}\) registered -52; today it is -28. But the high point for this indicator over the past two decades was +56 in January 2000.

\[\text{Gallup Economic Confidence Index, January 2009-January 2010}\]

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{gallup-economic-confidence-index.png}
\caption{Index (weekly average)}
\end{figure}

Additionally, while the year-to-year comparisons show some improvement in public optimism about the country and the economy, these levels actually peaked at various points in 2009, and have since declined. Hence, the recent momentum has not been in Obama's favor.

Americans are substantially less likely today to mention "the economy," generally, when asked what they think is the most important problem facing the country: 25% now name it, compared

\[^{53}\text{http://www.gallup.com/poll/125408/americans-state-nation-better-not-great.aspx}\]
\[^{54}\text{ibidem}\]
with 57% in January 2009. However, this decline is partially offset by an increase in the percentage citing unemployment or jobs -- currently 22%, up from 11%.

Another reason the economy may be less top-of-mind for Americans is that the healthcare reform effort in Washington has steered a segment of the populace toward that issue. Nearly one in five Americans (18%, including 24% of Democrats) name healthcare today as the nation's top problem, up sharply from 4% at the start of Obama's term.

The Gallup trend also documents slight increases over the past year in mentions of government/politicians, terrorism, and the federal budget deficit as the most important problem.

**Most Important Problem, January 2009 vs. January 2010**

What do you think is the most important problem facing this country today?

<table>
<thead>
<tr>
<th>Problem</th>
<th>Jan 9-11, 2009</th>
<th>Jan 8-10, 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>&quot;The economy&quot;</td>
<td>57%</td>
<td>4%</td>
</tr>
<tr>
<td>Unemployment/Jobs</td>
<td>25%</td>
<td>11%</td>
</tr>
<tr>
<td>Healthcare</td>
<td>22%</td>
<td>18%</td>
</tr>
<tr>
<td>Government/Politicians</td>
<td>4%</td>
<td>5%</td>
</tr>
<tr>
<td>Terrorism</td>
<td>2%</td>
<td>11%</td>
</tr>
<tr>
<td>The federal budget deficit</td>
<td>2%</td>
<td>8%</td>
</tr>
</tbody>
</table>

In line with Americans' increased focus on unemployment over the past year, Gallup's national Job Creation Index (based on the percentage of employed Americans saying their companies are hiring workers minus those saying their companies are laying workers off) suggests the job market is little better today than it was when Obama took office. The index for the most recent week (Jan. 18-24) stands at 0 (with equal percentages of workers saying their employers are expanding versus reducing their workforces), versus -3 for the comparable week in January 2009. Similarly, 9% of Americans today say now is a good time to find a quality job, compared with 13% in January 2009.

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55 Ibidem
On a more personal level, Americans are slightly more upbeat about their own standard of living today than they were last January. The percentage of Americans now saying their standard of living is "getting better" exceeds the percentage "getting worse" by 9 points; this compares with a 0 score on the same index a year ago.

Perceptions of Personal Standard of Living, January 2009-January 2010

Right now, do you feel your standard of living is getting better or getting worse?

In reviewing the state of the nation Wednesday night and charting his course for the coming year, President Obama can rightly point out real improvements in Americans' evaluations of the

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56 Ibidem
country and the economy since he took office. However, his deteriorating approval ratings -- dropping from 68% when he took office to 48% today -- are a meaningful indicator that those improvements fall well short of what Americans expected from him.

Survey Methods

Results are based on telephone interviews with 1,023 national adults, aged 18 and older, conducted Jan. 8-10, 2010. For results based on the total sample of national adults, one can say with 95% confidence that the maximum margin of sampling error is ±4 percentage points. Interviews are conducted with respondents on land-line telephones (for respondents with a land-line telephone) and cellular phones (for respondents who are cell-phone only). In addition to sampling error, question wording and practical difficulties in conducting surveys can introduce error or bias into the findings of public opinion polls.

4. Europe and United States relations

Relations between the European Union – United States\(^\text{57}\) are the bilateral relations between the European Union and the United States of America. Due to the EU not having a fully integrated foreign policy, relations can be more complicated where the EU does not have a common agreed position. EU foreign policy was divided during the Iraq War and although the US supports European integration (and accession of Turkey to the EU) it is no longer the main focus it once was during the Cold War.

The relationship between the EU and the US is the most important in the world. They are the biggest economic and military powers in the world (even if the EU does not yet have a common defense policy), they dominate global trade, they play the leading roles in international political relations, and what one says matters a great deal not only to the other, but too much of the rest of the world. And yet they have regularly disagreed with each other on a wide range of specific issues, as well as having often quite different political, economic, and social agendas.

Understanding the relationship today means reviewing developments that predate the creation of the European Economic Community (precursor to today's European Union).

Key events in the evolving history of the relationship include the following:

Truman Doctrine, which saw US, becoming militarily involved in Europe not soon after withdrawing.

Marshall Plan, which provided billions of dollars in aid for the reconstruction of European economies.

North Atlantic Treaty Organization, which provided Western Europe with a security guarantee in the face of Soviet threats.

1949 Berlin crisis, which marked true beginning of the cold war. Korean War, during which Americans and Europeans differed on strategy. McCarthyism, which raised alarms in Europe about levels of American anti-communism.

The 1954 French defeat at Dien Bien Phu, which was followed by French withdrawal from global military responsibilities, and resentment at US failure to help.

The 1956 Suez crisis, which was followed by British withdrawal from global military responsibilities.

1957 Treaty of Rome, which created European Economic Community.

Berlin wall

The 1962 Cuban missile crisis, which alarmed western Europeans not only because it took the world to the brink of nuclear war, but also because they were not fully appraised by the Kennedy administration.


The Vietnam war, opposed by political and public opinion in western Europe, and which generated resentment in the US because of the lack of European support.
End of the Bretton Woods system 1971, brought about by the Nixon administration without reference to western European leaders.

Ostpolitik, which alarmed US because of West German outreach to East Germany.

1973 Yom Kippur War, which created serious rift between Americans and Europeans.

1979 Soviet invasion of Afghanistan

1980 Moscow Olympics, the boycott of which won little European support.

Ronald Reagan, whose policies on central America in particular made him deeply unpopular in many parts of Europe.

1990-91 Gulf war, which found the western Europeans deeply divided in the face of American military and political leadership.

1991 outbreak of the Balkan civil war, which found the Europeans again divided, and unprepared to provide the necessary leadership.

2003 invasion of Iraq, which brought US-EU divisions out into the open.

European Union–U.S. Trade and Investment Relations

The United States and EU share a huge, dynamic, and mutually beneficial economic relationship. Not only are trade and investment ties between the two partners huge in absolute terms, but the EU share of USA global trade and investment flows has remained high and relatively constant over time, despite the rise of Asian trade and investment flows. These robust commercial ties provide consumers on both sides of the Atlantic with major benefits in terms of jobs and access to capital and new technologies.

Agreements between the two partners in the past have been critical to making the world trading system more open and efficient. At the same time, the commercial relationship is subject to a
number of trade disputes and disagreements that potentially could have adverse political and economic repercussions.

Washington and Brussels currently are working to resolve a number of issues, including a dispute between the aerospace manufacturers, Airbus and Boeing, and conflicts over hormone-treated beef, bio-engineered food products, and protection of geographical indicators. The Airbus-Boeing dispute involves allegations of unfair subsidization while the other disputes are rooted in different U.S.-EU approaches to regulation, as well as social preferences. Simultaneously, the two sides have cooperated to liberalize the transatlantic air services market and are working on harmonizing and/or liberalizing financial markets. Competition agencies in the U.S. and EU are also moving towards substantial convergence in some areas of antitrust enforcement. A new institutional structure, the Transatlantic Economic Council (TEC), was established in 2007 to advance bilateral efforts to reduce regulatory and other barriers to trade. Congress has taken a strong interest in many of these issues. By both proposing and passing legislation, Congress has supported the efforts of U.S. industrial and agricultural interests to gain better access to EU markets. Congress has pressured the executive branch to take a harder line against the EU in resolving some disputes, but has also cooperated with the Administration in crafting compromise solutions. Primarily through oversight in the second session of the 110th Congress, many Members of Congress can be expected to support efforts to resolve existing disputes and to maintain an equitable sharing of the costs and benefits of the commercial relationship with the EU.

This report starts with background information and data on the commercial relationship and then discusses selective issues associated with trade in agricultural products, trade in services, and foreign direct investment. A concluding section assesses prospects for future cooperation and conflict. The report will be updated as events warrant.

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These robust USA-EU commercial ties are mutually beneficial and provide consumers on both sides of the Atlantic with major benefits in terms of jobs and access to capital and new technologies.

Given the high level of commercial interactions, trade tensions and disputes are not unexpected. In the past, U.S.-EU trade relations have experienced periodic episodes of rising trade tensions and conflicts, only to be followed by successful efforts at dispute settlement. Policymakers and many academics tend to maintain that the U.S. and EU always have more in common than in dispute, and like to point out that trade disputes usually affect a small fraction (often estimated at 1-2 percent) of the trade in goods and services.

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Many different committees have oversight responsibilities over various aspects of the USA-EU commercial relationship. On the House side, these include the Committees on Agriculture, Energy and Commerce, Financial Services, Foreign Affairs, Judiciary, Transportation and Infrastructure, and Ways and Means. On the Senate side, these include the Committees on Agriculture, Banking, Commerce, Science, and Transportation, Finance, Foreign Relations, and Judiciary.
Trade and Investment Ties

The United States and the 27-member European Union (EU) share a huge, dynamic, and mutually beneficial economic partnership. Not only is the EU-USA commercial relationship, what many call the transatlantic economy, the largest in the world, it is also arguably the most important. Agreement between the two partners in the past has been critical to making the world trade and financial system more open and efficient. The transatlantic economy58 dominates the world economy by its sheer size and prosperity. The combined population of the United States and EU now approaches 800 million people who generate a combined gross domestic product (GDP) of $26.8 trillion ($13.6 trillion in the EU and $13.2 trillion in the U.S.). This sum was equivalent to 56% of world production or GDP in 2006.

In addition, USA and EU international trade together accounts for just under 50% of world merchandise trade. The combined weight of these two economic superpowers means that how the U.S. and EU manage their relationship and the difficult issues involving domestic regulations, competition policy, and foreign investment could well help determine how the rest of the world deals with similar issues.

Per capita incomes, averaging around $28,000 in the EU and $34,000 in the U.S. are among the highest in the world. In addition to having among the world's wealthiest populations, the United States and EU are major producers of advanced technologies and services. Both partners also have sophisticated and integrated financial sectors which facilitate a huge volume of capital flows across the Atlantic and throughout the world. For example, of an estimated $152 trillion in outstanding world assets of bonds, equities, and bank deposits in 2006, $106 trillion or 70% were held in the United States and EU.7

The United States and EU are also parties to the largest bilateral commercial relationship in the world. The value of the two-way flow of goods, services, and income receipts from investments totaled $1.3 trillion in 2006. This sum means that almost $4.0 billion flows between the two

partners everyday on the current account, the most comprehensive measure of international transactions.

The United States and EU are each other’s largest market for a host of goods and services, ranging from agricultural products to high tech goods and services. Large values of similar goods such as chemicals, transportation equipment, computers, and processed food as well as transportation and financial services are traded in record amounts. Within the EU, Germany, the United Kingdom, France, the Netherlands, and Italy are among the top 15 trading partners of the United States.

Since 1993, the United States has been experiencing trade deficits with the EU. As shown, these deficits peaked in 2005 at $123 billion. The trade deficit narrowed by 4.8% in 2006 to $117 billion and dropped even further in 2007.10 Macroeconomic factors, such as differences in economic growth rates and exchange rates, rather than trade barriers or other structural attributes, are generally thought to explain most of the fluctuation in the USA-EU bilateral deficit. For example, the reduction in the trade deficit in 2006 and again in 2007 is being driven by a decline in the value of the dollar by nearly 40% against the euro and 30% against the British pound since 2002.

Complaints about the decline of the dollar and rise of the euro, however, are being voiced in Europe. While a stronger euro improves the purchasing power of consumers by making imports cheaper and by keeping a lid on inflation, some governments are worried that a stronger currency can stymie exports and exacerbate trade deficits. French and Italian government leaders have expressed more concerns along these lines than German officials, a divide that could reflect differences in the competitiveness of these key countries within the euro zone.

Traditional trade barriers (tariffs and quotas) remain a problem in only a few selected areas such as agriculture, food, textiles and apparel. In these sectors, U.S. and EU tariffs still average between 10 and 20 percent ad valorem and help shield domestic producers from foreign competition.
**Regulatory Cooperation**

Instead of traditional barriers such as tariffs and quotas, non-tariff and regulatory barriers are increasingly recognized as the most significant trade and investment impediments to the creation of a more integrated transatlantic market. Prompted by his understanding, Germany’s Chancellor Angela Merkel, upon assuming the rotating six-month Presidency of the EU in January 2007, advocated further liberalization of transatlantic trade and investment barriers by improving cooperation on reducing non-tariff and regulatory barriers to trade. The aim of such efforts is to reduce costs to businesses on both sides of the Atlantic, improve consumer welfare, and facilitate higher levels of economic growth.

Automotive safety standards are one example of how different regulations increase costs. For example, a U.S. citizen cannot go to Germany and purchase a BMW or Mercedes and import it directly into the United States because it does not meet U.S. safety standards. But if U.S. and German automakers had safety standards that were recognized by both the United States and EU, they could reduce their costs by not having to produce two different automobiles. The European Commission has estimated that further transatlantic liberalization of these kinds of regulatory barriers could lead to permanent gains of 3 to 3.5 percent in per capital gross domestic product on both sides of the Atlantic.

**Trade**

Euro-American relations are primarily concerned with trade policy. The EU is a near-fully unified trade bloc and this, together with competition policy, are the primary matters of substance currently between the EU and the USA. The two together represent 60% of global GDP, 33% of world trade in goods and 42% of world trade in services. The growth of the EU’s economic power has led to a number of trade conflicts between the two powers; although both are dependent upon the other's economic market and disputes affect only 2% of trade.

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59 [http://ec.europa.eu/enterprise/policies/international/cooperating-governments/usa/regulatory-cooperation/index_en.htm](http://ec.europa.eu/enterprise/policies/international/cooperating-governments/usa/regulatory-cooperation/index_en.htm)
### Trade Flows

<table>
<thead>
<tr>
<th>Direction of trade</th>
<th>Goods</th>
<th>Services</th>
<th>Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU to US</td>
<td>€260 billion</td>
<td>€139.0 billion</td>
<td>€112.6 billion</td>
</tr>
<tr>
<td>US to EU</td>
<td>€127.9 billion</td>
<td>€180 billion</td>
<td>€144.5 billion</td>
</tr>
</tbody>
</table>

Tradeflows[^60](http://ec.europa.eu/enterprise/policies/international/cooperating-governments/usa/regulatory-cooperation/index_en.htm)

### Arms Embargo on the People's Republic of China

Both the United States and the European Union as of 2005 have an arms embargo against China (PRC), put in place in 1989 after the events of Tiananmen Square. The U.S. and some EU members continue to support the ban but others, spearheaded by France, have been attempting to persuade the EU to lift the ban, arguing that more effective measures can be imposed, but also to improve trade relations between China and certain EU states. The U.S. strongly opposes this, and after the PRC passed an anti-secession law against Taiwan the likelihood of the ban being lifted diminished somewhat.

### Boeing and Airbus Subsidies

The two companies are the major competing aircraft manufacturers, and both Boeing and Airbus are accused of receiving forms of subsidy from the United States and from some of the European Union member states respectively, which both sides have criticised each other for doing. The pressure for this issue to be resolved has increased as Airbus and Boeing are now nearly equal in commercial aircraft market share.

### Defence Commitments

The defence of Europe is assigned to NATO and Europeans are more averse to using military force, and paying for military force, than the US. This has frustrated the US who sees Europe as

[^60]: http://ec.europa.eu/enterprise/policies/international/cooperating-governments/usa/regulatory-cooperation/index_en.htm
failing to support its side of the NATO operation in Afghanistan. Only a handful of European
countries are reaching the NATO target for 2% of GDP going to defence. Defence cooperation in
Europe is often opposed by the UK which states it does not wish to undermine NATO or the US
role in Europe, despite the US being supportive of Europe improving its capabilities.

Defence contracts

In March 2010 EADS and its US partner pulled out of a contract to build air refuelling planes
worth $35bn. They had previously won the bid but it was rerun and EADS claimed the new
process was biased towards Boeing. The European Commission said it would be "highly
regrettable" if the tendering process did prove to be biased. There was substantial opposition to
EADS in Washington due to the ongoing Boeing-Airbus (owned by EADS) dispute.

Genetically modified food

Genetically modified food is another significant area of disagreement between the two. The EU
has been under domestic pressure to restrict the growth and import of genetically modified foods
until their safety is proven to the satisfaction of the populous. The US on the other hand is under
pressure from its agricultural businesses to force the EU to accept imports, seeing the EU’s
restrictions as alarmist and protectionist.

Rendition

The Washington Post claimed on November 2, 2005 that the USA has several secret jails in
Eastern Europe (also called black sites). Poland and Romania however have denied these
allegations. Also, Central Intelligence Agency planes carrying terror suspects would have made
secret stopovers in several West European countries since 2001. Belgium, Iceland, Spain, and
Sweden have launched investigations. The Guardian calculated on November 30 that U.S.
Central Intelligence Agency (CIA) planes landed about 300 times on European air ports. Most
planes would have landed in Germany and the United Kingdom as a transit point to East Europe,
North Africa (possibly Morocco and Egypt), or the Middle East (possibly Syria and Jordan). In
the meanwhile, the European Commission, on behalf of the European Union, asked the US for a
clarification. The EU has refused to confirm or deny the reports.
Extraordinary rendition flights through Europe were investigated over a number of years by the European Parliament and it held a temporary committee on the matter. The EU has also opposed the presence of Guantanamo Bay and offered to host some former inmates when its closer was announced by the administration of U.S President Barack Obama.

*Death penalty*

In the United States, capital punishment is a legal form of punishment, whereas all European Union member states have abolished the death penalty fully (excluding Latvia which has retained it for exceptional circumstances such as wartime only). Indeed, nearly all European states no longer use the death penalty. This causes problems with transatlantic relations because it may be illegal for an EU member to allow the extradition of a citizen to the U.S. if the death

*International Criminal Court*

The U.S. is strongly opposed to the International Criminal Court and has not signed up to it, though most states in Europe have. The U.S. fears that its soldiers may be subject to politically motivated prosecutions, so much so that it has signed many bilateral agreements with other countries in an attempt to avoid this.

*Arab-Israeli conflict*

In the Arab-Israeli conflict, both sides of the Atlantic usually act more or less in tandem, in regard to the approach to the Palestinian territories as well as other issues (such as the recent conflict in Lebanon). However, in general, the European Union is often more critical of Israel, particularly in issues of policy (such as the West Bank barrier). The U.S. has historically been a much more supportive ally, going so far as to even use its veto at the United Nations Security Council in Israel's support.

*Iran and weapons of mass destruction*
The United States has not ruled out the use of force against Iran regarding the Iranian nuclear weapons program. France, Germany and the United Kingdom have taken the lead to solve the issue diplomatically, while representing the interests of the United States in negotiations with Iran since the United States has had no official diplomatic relations with the country since 1979. Former UK Foreign Secretary, Jack Straw, described military action against Iran as "inconceivable".

**Iraq War**

The Iraq War not only divided opinions within European nations and within the U.S., but between European nations themselves, with some states supporting of military action, and some against. The European public opinion was staunchly opposed to the war. This caused a major transatlantic rift, especially between the states led by France and Germany on the one hand, who were against military action, and the United States with United Kingdom and Poland, among others. The repercussions of this major dividing issue have still not healed fully.

**Kyoto protocol**

The European Union is one of the main backers of the Kyoto protocol, which aims to combat global warming. The United States which initially signed the protocol at its creation during the Clinton Administration, never had the measure ratified by the United States Senate, an essential requirement to give the protocol the force of law in the United States. Later, in March 2001, under President George W. Bush, the United States removed its signature from the protocol, leading to much acrimony between the United States and European nations. Recently, President Barack Obama, however, said that he planned on re-signing the protocol at a conference to be held in Copenhagen in December 2009, where the protocol will be renewed and its measures extended.

**Visa waiver reciprocity**

The EU is requesting from the US reciprocity regarding the visa waiver program for all its members. The European Union has threatened with the possibility of imposing visas for American citizens that would extend to the entire EU.
Resolved issues

Banana wars

The EU and US had a long running dispute over the EU's banana imports. As part of their international aid, the EU offered tenders on a first-come-first-served basis for bananas from countries in Africa, the Caribbean and the Pacific. The US argued that this favoured local producers in former colonies of EU member-states, over US-owned corporations in Latin America. The Clinton administration responded by imposing heavy tariffs on luxury goods created in the EU. [18] Such goods included cashmere from Scotland, the electoral basis of UK Prime Minister Tony Blair, and French Cognac brandy, made in the electoral fiefdom of then Prime Minister of France Jean-Pierre Raffarin. The Clinton administration then took the banana wars to the World Trade Organization (WTO) in 1999, when Chiquita made a $500 000 donation to the Democratic Party. The two sides reached an agreement in 2001.

U.S. steel tariffs

In 2002, the U.S. imposed steel tariffs to protect its steel industry. The European Union and other countries took up the issue with the WTO, which ruled that such tariffs breach its regulations. Subsequently, by December 2003, the tariffs had been lifted by the U.S. administration.

Transatlantic relations

Transatlantic relations refer to the historic, cultural, political, economic and social relations between countries on both side of the Atlantic Ocean and sometimes specifically to those between the United States, Canada and the countries in Europe, although other meanings are possible.

There are a number of issues over which the United States and Europe generally disagree. Some of these are cultural, such as the U.S. use of the death penalty, some are international issues such as the Middle East peace process, and many others are trade related. The current U.S. policies are often described as being unilateral in nature, whereas the European Union and Canada are often said to take a more multilateral approach, relying more on the United Nations and other
international institutions to help solve issues. Of course, there are many other issues upon which they do agree.

CONCLUSIONS

One of the challenges of the 21st century will be maintaining the security of liberal democratic states. Freedom from physical attack or coercion, from internal subversion and from erosion of the political, economic and social values essential to people's way of life will be under threat. Problems will arise from great power ambitions, regional disputes, the collapse of states and ecological disasters. But widely accessible new technologies, the spread of weapons of mass effect, and a high degree of global mobility have increased the vulnerabilities of democratic states to adversaries with trans-national ideologies willing to use violence to achieve their aims.

There is a strategic concept in which the common goal though could be to setup an international strategy that could be able to deliver effective collective defense and security for its members and to contribute to international peace and security. It is required though an extensive engagement in international stability operations, and active contribution to the International Security Assistance Force in all the main conflict areas.
Skepticism in the new international system is expressed by post-modern condition; instead of the comfortable certainties and universal truths, there is also complexity, chaos, uncertainty, diversity and risk. Managing these risks require international cooperation. An increasing awareness of global risks, to domestic security is obvious in western capitals.

The new wave of terrorism explained by a radical Islamism is currently the most visible ideological opponent that adopts methods which exploit the vulnerabilities of the system, but it is certainly not the only form that can be considered threat for the present societies. The security interests of liberal democratic states have become so interdependent that a global effort is required to protect these states, wherever they may be, from global or particular threats wherever they may arise.

States have become too small to manage their own security and economic problems, but they are too big to solve the multiple problems of their societies. Interdependences of societies are too constant and they are sustained by many actors that match internal policy decisions with international policy ones. Transnationalization designates the processes on which individuals or social groups establish contacts, coalitions or associations between them, across state borders, that are not under government control.

Nation states and nations are threatened by planetary fluxes that require a new way of structuring collective behaviours, clearer and more adaptable, to a fluid international environment. Increasing the economical trades and their global extension, reclaimed regulations, on which there can be, imagined different forms of political organization and integration. An international region is defined by a delimited number of states related by geographical relations and a certain mutual interdependence. We can talk also about regional subsystem that means a group of states that exists in a geographic region, as units that inter-relate and share significant economical, political and security relations. The region is an intermediary form of community between national community of the states and the potential global human community.

The regionalization or the tendency of creating regions and regionalism or the tendency of creating agreements and regional institutions can be found in security and economic fields and include convergent motivations towards political, economical and security agreements. Regional
communities seem to replace the anarchy logic sustained by the realists but maintaining the
sovereign structure of the states in a reformed form.

Global policies are shaped today by the globalization, nationalism and regionalization tendencies
that are inter-related by dynamic connections of convergence, divergence, coexistence and
superposition. So there are different types and forms of regionalization and different ways and
dimensions of globalization. Economical globalization and regionalization reduces the role of
nation-state in world politics and increases the one of international organizations and cooperation
groups.

Along with nation state, the main actors of international relations, the non state actors, shake the
existing order and change the rules of the game while the main actors try to resist the changes.
We deal with a world in deep mutation in which elements of the past are mixed with elements of
present and future. The world is under different force relations. Power and influence exercised by
the most powerful states have a strong impact on international relations. Even if today
international scene has also other actors recruited from the structures of different societies like
public opinion, transnational corporations, mass media, international ideologies, still the state
remains the privileged actors of international relations, the one that participates at elaborating
and applying the norm of international law that provides regulations of specific domains.

The new configuration of international relations will be based on three directions: the neorealist
one that sets on international world fragmentation, being pessimistic regarding the generalization
of liberal democratic model, the democratic radicalism that remarks world economic instability,
considering that this blocks a universal peace, and last the universalists that think that
international relation are marked by the interdependence between states and nations.
Interdependence has brought to multiplication of formal and informal relations between states,
economies, continents, international organizations. Some consider that presently the state is no
longer a rational and unitary actor, because its decisions depend on a series of national forces in
international relations that should install a cooperation based on negotiation. In these conditions
the evolution of international relations is strongly dependent on the development of international
relations.
Globalization doesn’t anole the role of the state but in the same time by its interdependences that it creates bring new forms of conflict. As a consequence, every actor of the international scene elaborates its foreign policy according to the theory of rational choices that means that every subject relates to what seems politically challenging.

The global economic market restructures in base of different states politics, because state is an interests channeling instrument and the multinational companies are just political channels of those states where they originate. The interdependence that develops economical, juridical, political structures won’t be able to master conflicts, while every nation state will search to protect and promote its own interest, independently the effects this policy will have on the international system.

The contemporary international system is characterized by ambiguity and power diffusion, a fluidity of alignments and alliances a more and more complicated network of interdependences, in search of a “national security”, above the traditional military considerations, an increasing importance of non state actors and even tighter bounds between sub national- transnational-intergovernmental levels. The present international system is decentralized. Current international relations are under the sign of globalization but we don’t face a homogeneous distribution so the global system includes different subsystems that are structured on some specific relation in geographically grouped actors according to their economical, political, ideological and military interests.

As some predictions, the elements of the present international system will be developed more congruently and more symmetrical. The relative USA power will gradually diminish. USA has never belonged to a balance of power system. The relative power of USA diminished gradually. The absence of a clear adversary produced an internal pressure oriented towards switching the resources to other priorities. When there is no threat and every country perceives its dangers from national perspective, those states that had the American protection will be forces to assume a greater responsibility for their own security. Therefore the operation of the new system will go towards a balance position even in the military field, even if it can take several decades to get there. These tendencies will be more pronounced in economy where the American superiority is already in decline, and competing with USA has become a less adventurous thing.
The international system of the 21st century is marked by an apparent contradiction: fragmentation and globalization. At the level of relationships between states the new order will look more alike the European state system for the 18th and 19th century. The system now deals with at least six great powers: USA, EU, China, Japan, Russia, India and lots of small and medium countries.

Russia is meant to have a special security interest in what is called “close neighborhood” with former republics of Soviet Union without the use of military force. The perspective of Russian democracy is still unclear, not even what kind of politics it’s going to use, in order to sustain international stability. All thorough its history, Russia has always been different in its actions, separate from the rest of western world. The lack of ideas with democratic views has its origin in the still existing, strong communist effects. The Russian traditional nationalism it represents a powerful force for its objectives.

The Russian democracy should orient its external policy towards predictable tendencies and not focus too much on the internal reform. This action would support both the Russian free markets and Russian democracy, and would definitely sustain the Russian expansion. It is common agreed that Russian reform needs to focus mainly on it territorial development. Integrating Russia in the international system is the key task, but it requires economic assistance and technical support, and Russia has to take part in several political, cultural and economical cooperation institutions, as well in security programs; of course always taking into account the historical Russian imperial needs.

The global economy continues to weather the most difficult climate in generations. What began as a financial crisis in the United States and the United Kingdom quickly turned into the largest global recession in decades. World GDP is expected to contract by a record 2.5 percent in 2009 as the financial crisis continues to spill over into the real economy, engendering massive declines in consumer demand, rising unemployment, and mounting protectionist pressures worldwide. Although the developing world at first seemed to be spared from the fallout of this crisis, many countries are now facing slumping demand for their export products; this decline is coupled with falling commodity prices and significant reductions in foreign investment and remittances. Moreover, a global liquidity shortage has negatively impacted access to finance for companies and governments alike. In this context, policymakers are being confronted with new
economic management challenges. All over the world governments have taken an active stance in addressing the crisis and the ensuing recession. Banks have been bailed out or nationalized on an unprecedented scale to buffer the immediate impact of the financial system’s collapse. These emergency measures have been complemented by large stimulus packages and countercyclical policies intended to support the economy and facilitate recovery. These developments have led observers to question the prevailing paradigm regarding the optimal level of state involvement in the economy.

Today’s difficult economic environment underscores the importance of not losing sight of long-term competitiveness fundamentals amid short-term urgencies. Competitive economies are those that have in place factors driving the productivity enhancements on which their present and future prosperity is built. A competitiveness supporting economic environment can help national economies to weather business cycle downturns and ensure that the mechanisms enabling solid economic performance going into the future are in place. For the past three decades, the World Economic Forum’s annual competitiveness reports have examined the many factors enabling national economies to achieve sustained economic growth and long-term prosperity. There is the necessity to identify the obstacles and the tools for an improved competitiveness, the strategies to overcome them. In the current challenging economic environment, and rapidly changing global scene, it is critical to remember the importance of taking into account the consequences of these major issues affecting day to day existence.

The determinants of competitiveness are many and complex. Economists have long tried to understand what determines the wealth of nations. This attempt has ranged from Adam Smith’s focus on specialization and the division of labor to neoclassical economists’ emphasis on investment in physical capital and infrastructure and, more recently, to interest in other mechanisms such as education and training, technological progress (whether created within the country or adopted from abroad), macroeconomic stability, good governance, the rule of law, transparent and well functioning institutions, firm sophistication, demand conditions, market size, and many others. Each of these conjectures rests on solid theoretical foundations. The central point, however, is that they are not mutually exclusive two or more of them could be true at the same time. Hundreds of econometric studies show that many of these conjectures are, in fact, simultaneously true.
This also can partly explain why, despite the present global economic crisis, we do not necessarily see large swings in competitiveness rankings, particularly among countries that have already put into place many of the elements driving productivity.

So we have seen both EU and USA, important state actors as main players on international scene, their interactions, their power, their weaknesses, their management in the global perspective and still, it will be interesting to see how things will develop at international level, economically, politically, environmentally, sociologically and states evolution within all these changes.

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