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## Conference Paper

Reflecting on Europe's (dis)order : scenarios for the EU's future : EURINT 2018 : EURINT conference proceedings May 18-19, 2018

## Provided in Cooperation with:

Alexandru Ioan Cuza University of Iași

*Reference:* (2018). Reflecting on Europe's (dis)order : scenarios for the EU's future : EURINT 2018 : EURINT conference proceedings May 18-19, 2018. Iași : Editura universității "Alexandru Ioan Cuza".

This Version is available at:

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## Kontakt/Contact

ZBW – Leibniz-Informationszentrum Wirtschaft/Leibniz Information Centre for Economics  
Düsternbrooker Weg 120  
24105 Kiel (Germany)  
E-Mail: [rights\[at\]zbw.eu](mailto:rights[at]zbw.eu)  
<https://www.zbw.eu/>

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Centre for European Studies, Alexandru Ioan Cuza University of Iași, Romania

**BOGDAN IBĂNESCU • CRISTIAN ÎNCALȚĂRĂU**  
**RAMONA ȚIGĂNAȘU • CIPRIAN ALUPULUI**

Editors

# **REFLECTING ON EUROPE'S (DIS)ORDER: SCENARIOS FOR THE EU'S FUTURE**

## **EURINT 2018**

CONFERENCE PROCEEDINGS



EDITURA UNIVERSITĂȚII „ALEXANDRU IOAN CUZA” IAȘI

**Bogdan IBĂNESCU | Cristian ÎNCALȚĂRĂU | Ramona ȚIGĂNAȘU | Ciprian ALUPULUI**  
(editors)

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SCENARIOS FOR THE EU'S FUTURE**

**EURINT 2018**

Coperta: Manuela Oboroceanu

ISBN 978-606-714-502-1

ISSN 2393-2384

ISSN-L 2392-8867

© Editura Universității „Alexandru Ioan Cuza”, 2018

700109 – Iași, str. Pinului, nr. 1A, tel./fax: (0232) 314947

[http:// www.editura.uaic.ro](http://www.editura.uaic.ro)

e-mail: [editura@uaic.ro](mailto:editura@uaic.ro)

**Bogdan IBĂNESCU | Cristian ÎNCALȚĂRĂU | Ramona ȚIGĂNAȘU | Ciprian ALUPULUI**  
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## FOREWORD

During the last year, the European Union has faced unprecedented challenges (Brexit, the rise of populism, the devaluation of EU-USA relations) which have represented both a test and an alarm sign for future threats. These challenges have shifted the ordinary political and economic paradigms and have created a new state of affairs for the EU, as well as for its partners. Therefore, new policies are required to help address the urgent economic, political and social challenges. Current strategies are being questioned while new perspectives of the European and global economy are emerging. During his State of the Union Address on 13 September 2017, President Jean-Claude Juncker signalled the opportunity for broader reforms in the European Union, in order to reach a More United, Stronger and More Democratic Union. An imperative necessity to re-evaluate the aspects of European policies is observed all across the EU, while, at the same time, this observation process has to take place in relation to the national and international economic dynamics. While the importance of academic research is well recognised, the transposition of the results from the academia to the regional, national, or European policies requires involvement and mutual cooperation.

The organisers of EURINT 2018 believe that bringing together a wide and diversified audience from the academia, policy makers, and practitioners will engage the participants in fruitful debate, and facilitate mutual understanding. As such, the goal of the EURINT 2018 Conference was to bring additional insights and also to come up with valuable ideas which could contribute to a reassessment of the European policies. By providing updates on the state-of-the-art methodological approaches, the conference offered the opportunity to rethink and define new strategic directions for the European Union. While covering the European Union as a whole, the conference was particularly focused on the Central and Eastern European space (including the Eastern Partnership states and Russia) and will allow hands-on exchange of ideas and experiences. The conference comprised lectures delivered by international academic experts, followed by round tables with stakeholders who are not necessarily involved in the academic field – policy-makers, civil society activists, and professionals – which addressed specific topics on Cross-Border Cooperation.

The present volume is a timely and important contribution to the field of European Studies and we believe it will be of key interest to scholars, students and policy-makers alike, specialized in the fields of International Relations, Political Science, Economics, etc.

**Editorial team**



## EU CITIZENSHIP AND IDENTITY

Valeriu DECIU\*

### Abstract

*Is there a possibility to harmonize the EU policy concerning migration since many people feel threatened in their most prized personal security, their national and European identity? Most probably not for the moment. Is it possible to mitigate the general anxiety so that European peoples can build confidence over time concerning newcomers? Some believe it is possible. One way would be a strong political will to enforce jus soli over jus sanguini, in several stages. As a first stage, we may consider a precursory statute to citizenship, a temporary and conditional one, to whom we should gradually attach rights depending on individual merits achieved in time and which may eventually lead to obtaining the full citizenship statute. Through the agency of this statute, we can build a legitimate framework for gradual integration, based on clear norms and criteria, allowing the migrant to gain access to fundamental rights. Whether such frame protects the migrant from institutional violence or not depends on how he or she is finally perceived by the local community. Before that, we should discuss the migrant's statute as well as the right to settle in EU, achieve rights and obligations in direct ratio with his new statute. The aim of this article is to identify how social identity is formed for the new migrants by reference to their ethnical roots and identity markers of the host nation from EU, while its purpose is to propose a way to convert this newly acquired identity into a limited and conditional citizenship.*

**Keywords:** citizenship, identity, integration, migrant statute, migration policy

### Introduction

When we consider European citizenship and identity, three standpoints come to mind. First is the European history, mirrored in particular social behaviour. We see an affiliation to European citizenship and identity substantiated by shared cultural, racial, religious, and societal values. The extent to which these values is still valid, remains to be seen since each of them are challenged nowadays by political groups throughout the EU. The other two standpoints are individual needs and social groups and communities' goals respectively, namely survival, prosperity, and security.

Kant, Hegel, and Huntington consider that identity is created only simultaneous with a negative „otherness” creation. Such a negative „other” helps build nations and states as long as it remains outside the territorial map of the

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\*Valeriu DECIU is PhD candidate at Alexandru Ioan Cuza University, Iasi, Romania; e-mail: deciuvaleriu@gmail.com.

group. But when it insinuates itself inside the group by claiming his adherence to the in-group, his very existence is perceived as a threat to the fundamental identity values on which the group's identity was shaped (Hardin, 1997). Each European nation is formed using a specific set of identity markers, such as language, bloodline, and culture, in different combinations where some are more valued than others (Mercer, 2014). Therefore, a nation formed mainly by blood lineage is more reluctant to accept newcomers compared to nations where the primary identity marker is their language or culture.

Separating people in civilizations by racial and cultural characteristics is subject to heated debates for many centuries. We make a distinction today between civilization and race. There are peoples from the same race divided by civilization and peoples racially mixt but united by civilization. Christianity and Islam are examples of racially multifarious societies but divided into groups level by values, beliefs, institutions, and social structures. States forming a civilization are much more connected one to another than with states situated outside the civilization, mostly with economic ties.

By civilization, we understand the largest cultural entity consisting of groups with cultural traits and identity that makes them different from other groups. Objective elements that define them as a group are language, history, religion, habits, institutions, and subjective self-referencing that makes them feel apart from external otherness. More important, a civilization is also bound by a stable territory, which is the firm base of the said civilization (Wendt, 1994).

Nationalism is an organic ideology designed to dominate or exclude, corresponding to the national institution and based upon stating visible and invisible borders materialized in laws and practices. The very essence of a nation mould is the exclusion or the preferential access to certain resources and rights depending on individual categorization as national or allogeneic (Waever, 1995).

It is a natural task to condemn national confinement without considering the relationship between inclusion and exclusion characterizing each political organization. Inclusion or integration of certain individuals automatically entails exclusion of others since the collective identity of the national in-group is defined against any other out-groups. Any characterization is separating and classifying individuals and hence is discriminatory, but identity statements are construed on the opposition of the "self" to the "other". Still, a nation is more extensive than an ethnic group and therefore should be more open to the otherness in specific ways.

## **1. Identity construction**

A social identity is built on cognitive factors and motivational influences. The need for positive differentiation is the most critical factor, and group identity is usually formed by positively comparing the in-group members to the out-groups. An individual has multiple identities derived from various groups memberships, but only ethnic and national memberships have significant political consequences.



Identity content consists of four major elements shared by the identity proposal, designed to separate them from other groups (Herrmann *et al.*, 2009): constitutive norms, relational rules with other groups, social goal, and the general sense of group existence. But the essential value is the social identity, as the most vulnerable to threats, and the primary cause of upheavals for groups resisting integration in the EU. Members of groups with inferior social status tend to develop a separate identity based on positively assessed attributes or fight to change the negative image of the group. They need to increase the importance of the positive traits of their group while balancing the need for belonging to the unicity one. As a result, the most insecure members identify themselves typical members of the in-group and thus form stereotypes and prejudices.

It is true that identity construction has been based historically on the creation of the “other”. Does this necessarily mean that the national identity needs an “other” or if it exists, must be excluded violently? In the Hegel-Huntington line of thought, borders between “us” and “them” are relatively inflexible once established since both identity and solidarity would be threatened by the inclusion of others (Buzan, 1991). Still, the concept of the “other” is very fluid, and there is sufficient evidence of categories once excluded that became rightful members of the nation. African-Americans in the US are such an example.

The cornerstone of society, defined as a cluster of institutions combined with the feeling of a shared identity, is its identity. By societal security, we mean the society’s resilience to change and keeping its essential character when facing identity issues or migrations. Political actors claiming that societal security is endangered use as a main argument the existential threat.

From the constructivism standpoint, identity construction is rooted in individuals’ need to build a rich narrative about themselves, within a process that explains why the collective identity is larger than the sum of involved individuals (Ross, 2006). During this process, collective answers such as nationalism and religion are more prized once notions such as self, other and identity suffer changes. Along insecure periods of time the previously inoffensive “other” is reconstructed as a dangerous enemy with an emotional dimension of security discourse.

The identity is a society feature, not a human trait. Born from interactions between people and institutions, it has a descriptive function for the society which has a defining identity. Some have no choice other than acknowledging that identity, to which they belong whereas the state, by using its political instruments becomes the umpire of the collective identity’s components and social order. Identity may also be understood as a base of social or political action indicating a resemblance among group members, or just the product of multiple or competing political discourses.

## 2. Individual and collective identities

Individual and collective identities are defined by answering the general questions “who I am?” and “who we are?”. Though relevant, these answers cannot be founded exclusively on subjective perceptions nor history, folklore, or founding



myths. A collective identity also means perception issues regarding vulnerabilities and threats. So, people join groups to interact and share culture and group interests (Greenhill, 2008).

Conflicts between groups that are in constant contact are resolved only when these engage in cooperation activities to dissolve belonging group distinction and form a collective identity by removing formerly existing barriers between them. That is possible since a group assuming a more substantial identity does not necessarily lose its original identity but forms a so-called dual identity.

A collective identity appears when individuals and then groups recognize each other and conjoin. The necessary binds result from interactions and participation in joint activities that form collective identities. Alexander Wendt posits that large collective identities are shaped by conflictual processes level after level until a universal collective identity shall be formed, entitled “World State” (Wendt A., 2003).

Group identities are not uniform and vary in intensity. Everything depends on the group prominence; when this is strong, the group identity counts, when is weak, the individual identity is more important. From all identities, the ethnic, religious, and political ones have the highest potential to become collective identities.

Separatist conflicts appear all over the world fuelled by attempts establish or preserve distinct group identities and prevent undesired cultural or political fusion into a more comprising collective identity. For nationalist movements, apart from particular identities’ recognition (Honneth and Farrel, 1997), the next important issue is the authorized use of legitimate violence. Such power usually belongs to the state, which occupies a defined territory and is held responsible for governing a defined population with a specific social statute.

Emotions at the group level are stronger than at the individual level as the emotional relief brings confidence and validates personal feelings. Stronger positive or negative reactions depend on the intensity of individual identification with their group. The weaker this identification is, the less receptive is that person to negative information, so it feels less guilt (Dovidio *et al.*, 2010).

### **3. Social identity. Self-categorization.**

One of the conclusions of the Social Identity Theory (Tajfel *et al.*, 1979) was that distinction between “us” and “them” lead to change in the way people perceive each other, process called categorization. When categorial distinctions are strong, one interesting thing happens once a person has changed his views concerning attitudes, memories, behaviours, and emotions that define and distinguish him from other persons: perception grows regarding similar traits in the in-groups and differences compared to the out-group. The outlook about the self, derived from the social categories to which he belongs, together with corresponding emotional consequences form the so-called “social identity”.



Individuals assess their groups by comparing them with other groups and shape their actions and way of thinking so that to obtain or maintain a positive distinction for their group, thus acquiring a positive social identity for themselves, too. A particular situation is when individuals belong to a group with relatively inferior statute compared to other groups, such as the immigrants are perceived. The group members shall adapt their strategies to circumstances, depending on how pervious the group borders and how stable or legitimate differences of statute really are. Possible actions range from physically or psychologically leaving the group to adopting more favourable comparisons for his group and militating for existing state overturning by social change.

According to Social Identity Theory, self-categorization operates at three levels of inclusion: as a human being, social identity, and personal identity. Individuals chose to self-categorize themselves according to two criteria. First, the chosen category must be accessible to them. Then, it must be suitable both comparatively and normatively, meaning that perceived belonging is aligned with stereotypical expectations. (Huddy, 2001). Once a category is chosen for self-referencing, the individual is depersonalized since his social category attributes fluctuate and group members are interchangeable in a subjective way.

The Social Identity Theory is relevant for the current article because it helps us understand the identity mechanisms at personal and group levels on the one hand and social influence on the other. Leaders embrace the rhetoric that helps them embody the prototypical attitudes, behaviours, and values of their group to be perceived as legitimate and influential and thus gain control over resources. The social identity approach makes more comfortable the grasp of political norms, communication, and psychology on the one hand as well as the prediction of attitudes and behaviours on the other.

The same approach deals with motivational factors. Establishing group borders entails forms social identity but leads to ethnocentrism and discrimination within the group. Depending on minority group prominence, its members are likely to self-reference themselves in identity terms by using categorial stereotypes with clearly defined sets of rules and common characteristics. As a result, members of the in-group are categorized into typical or prominent. For this to happen, the group needs a referential prototype, namely a real or fictional person that embodies the most common or frequent traits shared by the group members. Individual self-categorization happens due to perceived similarity with the prototype and plays the central role in shaping and developing the social identity (Halperin, 2004).

#### 4. Ethnic identity

Individuals from ethnic minorities must simultaneously negotiate their identification with the minority group and with the central culture of the society, due to distinctive racial and cultural traits. Their ethnical identity is a significant motivation for them engage and participate with other members from the same group in cultural and organizational practices or social networks, given the opportunities. Attitude is a standard feature among the group's participants, but





behaviour depends on each's personality or interests. Within the minority group, ethnic identity is founded on pride, and strong attachment to the in-group values and therefore identification with the majority group is only possible by acculturation.

There are four typologies considered for a minority individual's orientation: integration, separation, assimilation, and marginalization. Under certain circumstances, minority individuals may assume bicultural identity labels, be it mixed or alternant if they perceive the two cultures as non-conflictual and integrated. For such individuals, the relationship between ethnic and national identity may vary from negative to positive depending on how they perceive themselves as integrated or rejected by the society (Hornsey, 2008).

Both the minority ethnic and the majority groups are parts of the same national society. If the ethnic identity correlates in a positive way to the national identity giving birth to a bicultural integrated identity, each group identity shall manifest a range of individual variabilities with unique effects. The only psychological key variable in this process is the self-esteem.

What happens within the majority group? When individuals have their dignity certified by the recognition of a comparable statute, they incline towards cooperation, but when they feel superior, confident and fearless against competition, they incline towards conflict. Resulting conflict generates a cycle where chauvinists perceive others as disobedient and defying, while the minority perceives the majority group as arrogant and greedy (Huddy, 2001).

In the immigrants' case, they might not become ethnocentric and even develop a particular fondness to the host-nation depending on the functional relationship between his nation of origin and the nation of allegiance. A negative relationship might inject additional emotional fuel altering the intensity of phenomena and perceptions. Further identification with a national identity would generate a sense of duty towards the host nation and concern for distributive justice.

Social identity sources are typically examined within historical and cultural contexts and considering their impact on social psychology. There are four critical issues to be assessed: existence of identity choice, subjective meaning of identities, intensity range of identities, and social and political identity steadiness. This approach is needed to catch all the aspects of fluid, multi-faceted, and situationally contingent identities (Turner *et al.*, 1998).

New ethnic and religious groups formed by immigrants and politically throughout EU are sometimes suspected of seeking mainly material gains and tangible benefits. Though right to a certain extent, such goal cannot explain alone their movements by ignoring their pursuit of respect and recognition. The inferior statute of the minority group and intra-group categorization factors create preliminary conditions that generate collective action. Research shows that belonging to a prominent minority group entails antipathy towards other groups, but this requires a compelling internalized subjective identity, whereas not all members strongly identify themselves with their ethnic group.



## 5. European civilization and identity

The European international system has included along the seventeenth, eighteenth, and nineteenth centuries other civilizations' societies, failed to build an international society due to missing a common culture. The western European civilization, however, has as a core a sum of institutions, practices, and beliefs that are not necessarily original but shaped into a unique combination. (Huntington, 1996)

First, there is the classical inheritance: Greek philosophy and rationalism, Roman law and Christianity. Then comes the European languages; language comes second after religion as a differentiation factor for people in distinct cultures. Western Europe has a greater variety of languages than any other civilization. Third comes the separation between spiritual and temporal authorities; this division contributed decisively in developing freedom as we know it. Rule of Law is the next central concept, inherited from Romans, the cornerstone for constitutionalism and principal protection against arbitrary power; human rights and proprietary rights are subjacent to this principle. The last two features, social pluralism and individualism are the most recent the most distinctive, too.

In the second part of the twentieth century, Western Europe became a universal state by aggregating federations, confederations, international organizations, and regimes. EU has been built starting from a Germany-France core and now includes 28 states, but a unitary civilization is yet just a goal.

Nations cannot come into existence without developing a nationalist ideology. The structural combination between state institutions and social forces require an organic ideology, which is the nationalism (Huntington, 1997). Nationalist ideologies are not identical because every nation produces their very own symbols, fictions, and myths, but they have the same goal, namely building a national identity that eventually would prevail against and integrate all other identities. Nationalist ideology is corresponding to the national institution, and therefore is based on exclusion rules and borders materialized in laws and practices.

Sometimes the border between nationals and allogeneics is just a matter of politics, characteristic to Western Europe due to its postcolonial status. In such case, nation-states and their populations have great difficulties to self-define as the exclusion rule becomes historically invalid, hence impossible to maintain (Ditlmann *et al.*, 2011). The result is potential structural violence, be it institutional or spontaneous, visible or not. Political elections form collective identities, but democracies define and enforce specific programs to fight exclusions and discriminations. Though self-sufficient nationality is fading away, nation states cannot exist without nationalism. Therefore, some national traditions are open, tolerant, and universalist, while others are the opposite. There is finally no good or bad nationalism. It is the degree of civilization that converts violence into power or domination symbols that may degenerate.

Making a distinction between primary and secondary identities is essential. The national identity, formed by narratives and legends, beliefs and institutional



practices is a secondary identity. Conversely, ethnicity is a primary identity forming a robust identification model by combining cultural and racial characteristics. Individual personality weighs in, too, but it is not formed independently from social processes and collective imaginary.

Some fundamental institutions of the nation mold, such as national labour rules, family structures, religious organizations, and the army are generating dual belongings to primary identities by attaching social and moral attributes to each of them. The (national) education system shows best why primary identifications such as regional, linguistic, and religious are very difficult to shape into secondary identifications of the national and civic levels, which makes difficult for self-referencing as Europeans (Herrmann *et al.*, 2009).

Primary identities stand against integration, though individuals accept it on an intellectual level. Minorities and foremost immigrants can be incorporated in the national identity only after a prolonged exposure to the education systems' procedures.

## 6. Acquired vs. attributed identities

There is an essential distinction between identities achieved by personal choice and those assigned. Identity features assigned in the past from birth, such as religion, education, and economic status are nowadays a matter of choice, so the only prominent features remained the need for authenticity and external recognition (Mansbach *et al.*, 2007).

Some groups are more pervious than others and grant the individuals the freedom to acquire or relinquish their group identity even when confronted with relatively stable borders. The obstacle is the external labelling of the group. If belonging to a group is too evident for third parties for reasons such as skin colour, language, cultural practices, and physical characteristics, it makes very hard for the group member to avoid the said labelling. On the plus side, political groups have less firm borders than ethnic ones.

For acquired identities, it is vital to make a distinction between belonging to a social category and internalizing respective significance. In other words, there is a distinction between a nominal identity based on a name and unifying common characteristics on the one hand, and virtual belonging to a group where the members are aware of the similarities by which they define themselves, on the other.

As the group members try to raise the group status by redefining the negative identities, there is a discrepancy between the significance assumed by the in-group and the one attributed by the out-groups. Hence the original members will internalize the historical and cultural significances through the agency of four factors: membership statute, defining characteristics of the prototypical member, values revered, and typical characteristics of the external groups that help define the in-group.



The membership statute associates patriotic symbols in the nationalist group case, towards each member may feel the attachment with different intensity, but still being recognized as group members. As a comparison, political group identity is encompassing more nuances and intensities, depending in which extent the member identifies himself with the prototypical member.

Identity significance has borders shaped by dialogue with the external group members, so group identity is more intense for the in-group when confronted with an external group clearly defined (Adamson *et al.*, 2007). But social identities can be fluid or stable depending on the context, whereas ethnic and political identities are remarkably stable over time compared to other social and political attitudes.

## 7. National identity vs. identity nationalism

National identities historically and politically funded provide their group members with legitimacy and esteem but arouse strong contestations from groups with different identity proposals. Assumed identity gains thus access to relevant institutions to satisfy personal and group needs.

We make a necessary distinction nowadays between patriotism and nationalism. A patriot feels bound to his country by loyalty and supports the democratic and constitutional principles, while the nationalist feels that his country is superior to other nations and has negative attitudes towards minorities, immigrants, and other nations (Largo, 2009).

National identities are considered the very foundation of peace and international cooperation but within functional interdependent communities may cause unrest. For some, the national identity provides them with a sense of dignity and a basis for cooperation whereas for others is a ground for social categorization and discrimination. But cultural roots must generate loyalty by self-defining in national terms and ethnic centrism must turn into patriotism. Otherwise, the nation as we know it ceases to exist.

By patriotism, we understand the love for our country and sacrifices we are held to take for defending the country and democracy, whereas nationalism means hostility towards others. Does attachment to ethnic groups necessarily associates with intolerance and conflict? We think the answer is negative, since members of the ethnic groups will seek, at times, to acquire membership statute in a larger outgroup defined against a different “otherness”.

Some of the identity-related phenomena should be understood through the lens of globalization. Defined by global changes of products, services, money, persons, information, and culture, globalization must be understood as a set of processes without a linear logic evolution that impacts in various degrees societies and sometimes redefines state functions by weakening it. On the group level, exposure to globalization increases self-consciousness concerning national borders and uniqueness of their in-group, fuelling xenophobe attitudes. Though the meaning of the national identity has been altered by culturally different waves of immigrants, its continuity is secured by the need people feel for an organized public life and a sense of belonging. On the population level, globalization has two



main effects: a part of the said population becomes more cosmopolitan whereas the other part develops resistive identities, directly derived from the national identity.

National identity has several dimensions: national identification, patriotism, nationalism, national ethnic identity, and availability for sacrifice (Herrmann *et al.*, 2009). The identity creates borders to separate the self from otherness and anticipates the way a member of a political, religious, or national group shall behave, think or assess while in relevant situations. The psychology of a social actor is not unchangeable. His identification may become positive by social interactions that create values, norms, beliefs, attitudes, and stereotypes at cognitive, affective, and motivational levels (Chalets, 1998).

We tend to believe that instrumental rationality can explain most of the people behaviours and actions. Max Weber has added values-oriented rationality to explain morally driven social behaviours. Neither of these can thoroughly explain the actions of Islamic terrorists which are not in pursuit of territorial or material gains. We need to consider in this case their religious faith and identity, together with emotions and resentments associated with Islamic fundamentalism. There is a direct cause-effect pattern in the relationship between interests and identities. Whenever identities are set, and interests are not clear, the cause is to be searched in interests, while identities are fluid and interests very clear, then the cause should be searched in identities.

We assume that our national identity is produced by historical, legal, and cultural forces and reflects who we are as citizens versus who the immigrants are as outsiders. The way the national identity is substantiated plays a significant role, though. When ideology underlies the national identity, belonging to the national group entails assuming a set of abstract and transcendent values such as freedom and democracy. When the cultural inheritance underlies the national identity, belonging to the same group means to assume some self-descriptive traits. That is why some immigrants face a conundrum. If they feel their belonging to the new nation's identity is ideologically funded, they will express their attachment to the new identity as a validation of their values. If they need a culturally funded belonging to a national identity, they will consider the new identity as a threat to the uniqueness of his former identity, defined by specific traits and traditions.

Following the same criteria, we may identify a pattern on how countries grant citizenship to newcomers. Countries with ethnic and cultural inheritance underlying the national identity and belonging to the identity group are by similarity with the rest of the group members granting citizenship by *jus sanguini*, by descending from other citizens. On the other hand, countries with ideology supported identity perceive a potential adherence if the characteristic values are shared and citizenship is granted by *jus soli*. Laws by which citizenship is granted are cultural elements and shows the way citizens understand and express their national identity.

Narratives embodied in the religious discourse that glorify the past use cultural and religious rituals, symbols, and myths, aim to provide the identity group with a guide for future actions. Past events are described in major key; religious

revelations become national celebrations; historical and archaeological evidence are manipulated so that the identity group has a territorial right against the negative, stereotypical other.

Nationalism itself is based on the concept of an individual with historically specific traits as a part of a united and self-sufficient entity. The ethnos so built, together with the related historical narrative within an imagined geographical territory help establishing the national identity. Individual attributes deriving from these narratives are meant to guide any future social and political actions, but their existence is meaningful only in the national identity's context.

There are many similar characteristics of religion and nationalism, and that is one of the reasons they sometimes associate. Both require an abstract and monolithic structure, unique and stable that delivers answers to a permanent need for security. Once institutionalized, both become interested in maintaining control over the population and social institutions within a defined territory. Both can provide ontological answers for questions about the surrounding world, identity self-referencing, and the existence of an "other" which is automatically excluded if he doesn't agree with the official "truth". Nationalist and religious leaders have the same preferred speech topics: declining morality, loss of ethic values, and increased corruption, and similar solutions: returning to the traditional community and the past according to religious or historical writings (Stryker *et al.*, 2013).

When confronted with globalization, migrations, and demographic changes, states need to resume identification and national identity issues. On the international level, they fight for recognition and some for integration. As a result, a new collective identity is formed to which states tend to align (Wendt). New transformations are entailed on the social level concerning the habitus, on the political level concerning identities and borders, and on the economic level concerning local development.

## 8. Identity politics in nation states

The nation-state is still the most powerful polity in world politics and the only one that exerts a sovereign political authority over a territory and a human community sharing a common future and values and holds the monopoly of legal violence. States enforce their identity politics by violence in the following cases: suppressing national movements within its borders, punishing neighbouring states that harbour national groups opposing them, and supporting a dominant national group against minorities when fighting over institutions and resources control. (Greenhill, 2008)

Once the Cold War ended, identity politics couldn't use any more as "otherness" a capitalist or communist reference, so it had to relate to a national "other". Once the supra-national structures disappeared, state politics had to deal with internal cleavages and transfrontier national minorities. Where states couldn't deal efficiently with capital flows, energy markets, criminality, and migrants issues, new political institutions occurred aiming to undermine the state's symbolic significance and authority over the nation. The more cyber-connected and more



politically efficient individuals are, the less effective is the state in meeting their demands and control their political behaviour. The only response they have is identity politics, aimed at validating the state legitimacy and authority.

One of the possible ways to study the relationship between the national identity and the foreign policy actions is by two cultural concepts, namely the national fondness and chauvinism, respectively. People believe they belong to a particular nation for various reasons: the way elites understand the national identity, language and culture similarities within a given population, economic and social communication networks, geographical location, state's aptness to maintain control, shared racial traits or religious beliefs (Mercer, 2014).

By national fondness, we understand the feeling of an individual that belongs to a nation and this helps him define himself on a cognitive and emotional level. Not to be confused with pride, which is specific to chauvinism. Belonging to a national group entails establishing borders apart from territorial borders or citizenship. Some consider the nation as a community delimited by cultural traits acquired by birth; others consider the nation as a community wilfully joined by shared faith in civic principles. By identifying with a nation, apart from assuming borders and differentiation from other, an individual is bound to compare his nation with other competing nations, through the agency of an emotional process, not a cognitive one. The more attached he becomes to his nation, the more inclined to discriminate and develop antipathy against foreigners of all type (Manners *et al.*, 1998).

Technology and economy related realities make easier for individuals to control, challenge, and manipulate identity constructions. Identity and its social or political meanings are thus modified from the character and strength standpoint fluently. In traditional cultures, societies were formed by direct interaction with neighbours, and individuals had little margin concerning personal choices due to strong customs and norms. In modern societies, individuals can define and redefine their identities due to global communication technologies and markets, rising thus above their society. Throughout the modern political history, the sovereign state has been the dominant institution. The nation has been the politically relevant identity group, but nowadays both are challenged. Political authority of the state is challenged by transnational corporations and international organizations, whereas the national identity is questioned by alternative identities, such as ethnic and religious ones.

The modern European state is conventionally called Westphalic since its beginnings are rooted in the treaty with the same denomination. Modern European nations were though developed later and in many places the nation was formed before the state, a fact that has repercussions until this very day regarding the pre-existing identities such as religious and social ones. Still, even if individuals maintained multiple identities, populations allegiance was directed mostly towards the territorial state, evolving from the status of subjects to national citizens. European states have strived by coercion to provide stable identity borders, within which hierarchical connections were replaced with a conventional space under the



rule of law. Citizenship based identity came to prominence only when the nation and the state have coalesced into a single powerful identity.

States can tolerate multiple political identities and proven lenience towards treating the “other” non-violently depending on the political regime type and institutional legitimacy foundation. Even for an ideal type of nation-state where all individuals embrace the same national identity, there are always hidden identities, politically significant, that may resurface whenever dominant authorities are most vulnerable. (Weaver, 1995).

The identity card is easy to play with every opportunity and nationalism is always ready to politically manipulate masses depending on which identity markers are prominent in the nations’ construction. The social group called nation provides its members with an exclusive identity and unites them in a morally bound community by stating ethic obligations among the members but not extending them to individuals outside the group. The nation’s foundation may be built on blood ties, common history or descendants, language, unique cultural institutions, religion, or shared political institutions. Every nation funds its construction on a combination of identity markers such as language, blood, culture, religion, or citizenship in various degrees of intensity throughout time, with the primary purpose of defining an “us” different from “them”.

When the primary identity marker is blood, the biological factor is considered the leading leverage in the competition for resources with other bloodlines. In such cases, nations consider danger was only coming from outside the country, never from inside. The “otherness” inside is just defiling of the very essence of the nation, its’ blood lineage.

Nations, where the main identity marker is the language, are only concerned about preserving the language as they identify it with national identity itself. In this case, there is no concern for ethnic purity but significant preoccupation concerning education system and media. Such countries will always be suspicious about transnational authorities or initiatives.

When the main identity marker is culture, the nation’s primary concern is to continuously prove its’ culture superior status compared to “others”, and main threat is new generations’ choice in favour of behaviours different from their culture of birth. Other cultures are tolerated if only are obviously inferior or primitive. Such states are usually building empires in the name of an assumed “civilizing” mission.

At the inter-state level, identity markers’ influence is of paramount importance. Countries not sharing a certain number of identity markers may perceive each other’s actions as potential threats and be less prone to cooperation, whereas if their identity markers are similar, fear and hostility are mitigated. Of course, these considerations are valid just for nations without exclusive identities. Such countries will find cooperation a problematic task if are separated by religion, culture, or language.

According to Hegel, modern states’ cohesion is not just the result of language, culture, or religion-based identities. Another binding factor is the common loyalty of the citizens towards the central authority which in turn offers



them common defense (Kinnvall, 2004). Collective identity is thus a result of external conflicts and citizens' sacrifices. Members of the national group become self-conscious due to the conflict and peace may result only by negotiation between the states.

From the structural and functional perspectives, groups are formed as a result of the fight over resources, by projecting hostility and violence against competing groups combined with pride, loyalty, and superiority towards their in-group. Some recent studies show the existence of a so-called "subtle racism", defined as a lack of positive feelings regarding the minority groups, without referencing them according to strong negative stereotypes (Manners *et al.*, 1998). Subtle racism rewards the group members with primacy and favouritism in comparison to other groups, without asking in return for manifest loyalty towards their group or assumed negative stereotypes concerning individuals from outside the group. Discrimination occurs only when groups compete for resources or political power. In proportion as groups grow more extensive and more impersonal, institutions and customs supposed to uphold members' loyalty tend to become moral authorities. External groups have a chance to be recognised and tolerated if they promote similar standards and values in their pursuit of positive distinction from the reference group.

## 9. Towards a new policy on citizenship in EU

Modern states include the nationality in the citizenship, and all group members must abide by the principles of collective freedom and equality that underlie this construct. These states never talk about racism, but they use the term "cultural distance" instead. Immigrants, especially those with illegal or quasi-illegal statutes are deprived of fundamental social rights such as unemployment support, health insurance, or child allowances in the name of a "national preference" and treated according to arbitrary criteria depending on the tolerance and integration capacity of the host nation. Hence is established institutional racism with a stronger influence on collective attitudes than nationalism itself.

European citizenship is one of the critical objectives mentioned in founding treaties of EU. So far it means a statute of inherited nationality within a member state of EU. To reach what it is meant to be, in the future European nations will have to adapt the social and political rights associated with the modern citizenship. On a first level, the member nations will have to recognize supranational institutions as legitimate. It is hard to believe that people will accept that if they don't feel provided with the same level of security and democratic participation as in their traditional states. On a second level, all states should accept as a basis for granting the citizenship status the principle of *jus soli*. Otherwise building a democratic model on a continental scale would not be possible since every European nation has its system of exclusions associated with the citizenship.

Is such a shared democratic model and principles going to be a threat to the national citizenship? We think not, even if it will be a significant challenge for the



current absolutist and exclusive conception of the notion. In a first step, we will have to understand and accept the difference between social citizenship and being a member of a nation as so far are considered inseparable. The second step consists of revising the rights customarily gained by birth, mainly the right to be represented and participate in the public social life and assign them also to the naturalized individuals. We think this could be an excellent basis for a democratic coexistence in the spirit of a modern EU and social construction that can withstand the test of time and whatever challenges the future is preparing for us.

What consequences are to be anticipated if this simple two-step model shall not be applied? In our opinion, throughout the entire EU, we could see rekindled a particular form of apartheid, with various intensities depending on each area's cultural identity. Such apartheid is expected to generate conflicts of a specific nature (Habermas, 2001), induced by two primary forms of violence, namely the ideological one and the institutional one, respectively.

The ideological violence is expected to come from nationalist groups and marginal individuals inspired by the aforementioned groups and directed towards non-European residents, whereas the institutional violence may come from the authorities empowered with the use of legitimate violence but this time exerted beyond the legal threshold. The victims of the discrimination are in their turn expected to retort with reactive violence. It is a common statistical knowledge (Nathan, 2006) that such reactive violence is rarely coming from immigrants with uncertain legal status but mostly from young people belonging to families naturalized one or two generations before when confronted with social and professional exclusion or administrative racism in a general context of debased social relations.

An answer of the nation-states is to emphasise some facts and minimize others, create categories of "usual suspects" or "scapegoats". Such behaviour may work on a national level, but it is tough to legitimate on a European level without a universal police institution that would control and eventually disband the national law enforcement authorities.

The glitch is to be found in the very construction of the EU, which was built without the social component. Adding this to the EU means, among others, to allow a new type of public space over decentralised states, where new transnational associative movements would maneuver, including powerful labour unions.

EU was meant from the beginning to become an organizing and civilizing power at a regional level and has proven that in a certain extent when it had to deal with integration, association, and reciprocity processes associated with its Eastern extension. The prize was the mobility on the labour market, but that entailed associated drawbacks: dramatic population movements and regional impoverishments.

Is there a solution to all such problems? We believe that one of the possible ways is to legalize a "right of establishment" as a preliminary statute before granting citizenship. For that to be viable, first EU should progressively extend the political rights of all residents no matter their nationality at local and national levels until complete liberalization of labour and residence rights.



Migrants should be granted full citizenship only after demonstrating their adherence to EU fundamental values and active integration in the society. Specialized social workers should regularly check their economic and social integration along a probation period of no less than five years and make thorough recommendations to the relevant state authorities regarding the future statute of each migrant. Throughout the same period of time, the assigned social workers should protect the migrants against institutional racism and assist them in any rightful endeavour.

## Conclusions

When members of a particular political community, democratically united, use as self-referencing the collective determination, we need to ask ourselves at what level operates the eventual exclusion from the “community of citizens”. One of the state’s functions is to control the extent and emancipation of the civic society. Without the state as the provider of citizenship, real political rights and a recognition status it is hard to imagine a community with the same attributes outside of a “universal republic”.

Citizenship would become then active participation of individuals in the politics within an integrating community. Individual dignity would be no more determined by their position inside the statutory group but by their universal character as human being and citizen.

The logic of exclusion has changed methods throughout the time as often as the historical space has changed. Today, the nation-states usually exclude wholly or partially those included most recently in the social rights and citizenship network by disaffiliation. New integrations or exclusions are performed on fundamentally racist rules and regulations basis, with an aim to separate wanted from unwanted immigrants.

Human rights are not innate moral truths but constructs with a mandatory character from the political point of view since these are legal rights as opposed to moral rights. As individual subjective rights, their legal nature is inherent and part of the positive rights of every human being. But respective laws cannot solve anything unless they generate an abstract form of civic solidarity that helps fulfil the underlying rights.

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# RETHINKING CENTRAL AND EASTERN EUROPE'S IDENTITY: CULTURAL PLURALISM AND MULTICULTURALISM VERSUS THE RISE OF NATIONALISM

Oleh KOZACHUK\*

## Abstract

*Without a doubt, in the last several years, the solidarity and unity in the EU has been challenged by the rise of populism mixed with far-right nationalism. States in Central and Eastern Europe and post USSR states like Ukraine should continue to elaborate their own vision on ethnic minorities, refugees, and immigration issues. In the following paper, the methodology of political science and international relations is used in order to examine the case of Canadian multiculturalism and try to compare and apply it to Central and Eastern European realities. In the CEE region, the states try to influence neighbours' internal policies in different aspects (and ethnic policy is not an exclusion). The research question of this paper is: Do cultural pluralism or multiculturalism have suggestions for this? The research results show that due to complex historical issues, the post-Soviet legacy and securitization concerns, multiculturalism is a highly unfavourable policy for the region in the near future.*

**Keywords:** cultural pluralism, multiculturalism, Kymlicka, Central and Eastern Europe

## Introduction

The term “multiculturalism” emerged in political discourse in the 1960s in Canada and Australia. These states can probably claim the biggest success in the practical realization of multiculturalism as a policy. It is worthwhile examining their experience regarding these states as role models for the abovementioned phenomena (and policies). From the very start, multiculturalism was focused initially on schooling and the children of Asian/Black/Hispanic immigrants, and it meant the extension of the school, both in terms of curriculum and as an institution, to include features such as “mother tongue” teaching, non-Christian religions and holidays, halal food, Asian dress, and so on (Modood, 2007, pp. 3105-3106). In Canada as well as Australia, however, the focus was significantly much wider from the beginning and also incorporated, for instance, constitutional and land issues, and it has been about the association with the nation. This is partly because these

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\*Oleh KOZACHUK is assistant professor at Yuriy Fedkovych Chernivtsi National University, Ukraine; e-mail: o.kozachuk@chnu.edu.ua.

nations experienced a continuing and recent historical past associated with ethnic communities created by migration, usually coming from various areas in Europe, since there were unresolved lawful inquiries regarding the entitlement and status of Indigenous people in Canada and Australia, and, in the case of Canada, there was the additional problem of the rise of the nationalists along with secessionist movement within French-speaking Quebec (Modood, 2007, p. 3106). The issue associated with multiculturalism within Europe and North America should be understood within a broader world context concerning the changes that have happened since 1945, and since 1989 within relationships between so-called first, second and also third worlds. Right after 1945, the process of unequal economic development resulted in large-scale migration within and also to the countries in the first world, which include Western Europe, the United States, and the economically advanced settler-dominated territories of the former European empires like Canada and Australia (Rex, 1995, p. 243).

As Modood states, multiculturalism is developed as the political accommodation through the state and/or the dominant category of all minority cultures identified first of all through reference to race or ethnicity (also nationality, Aboriginality, or even religious beliefs could possibly be an issue). Ethnicity is more questionable, not only since it stretches the range of the groups which have to be accommodated, but additionally because it helps make larger political claims and thus has a tendency to resist having these claims reduced to those of immigrants (Modood, 2007, p. 3106).

Multiculturalism means different things in different states (which is not surprising). While in the U.S. and Canada, ethnicity, race and language usage are seen as the major political challenge, it is probably Muslim populations and migration that have become the focus of discourse about minorities in Europe (Koopmans, 2013, 2015; Modood, 2007, p. 3108). Migration is also accompanied by the 'multiculturalism has failed' rhetoric in Europe (Koopmans, 2013, p. 148; Kymlicka, 2010, p. 12). In Central and Eastern Europe, multiculturalism is not considered a theoretical background for ethnic policy, though EU standards in minority policy were established. The waves of migrants from 2015-2016 and the rise of populist and far-right political elites in CEE stipulate the tentative conclusion that there is no chance for multiculturalism in the region in the near future. However, there are deeper and more structural features of the CEE region which let us make the abovementioned conclusion.

## 1. Multiculturalism as a Policy

The definition, issues, and history of multiculturalism have been studied carefully by different scholars around the globe (Banks, 2004; Benet-Martínez and Hong, 2014; Coello and Prins, 2010; Fleras, 2009; Hardy, 2017; Hedetoft, 2013; Inglis, 1996; Lentin and Titley, 2011; Moran, 2017; Reitz *et al.*, 2009; Taylor *et al.*, 1994). We must agree with Leung that "multiculturalism, like any other concept and ideology, is not static, and constantly evolves in context" (Leung, 2011, p. 30). Multiculturalism is defined in two dimensions: the state of a society



or the world in which there exist numerous distinct ethnic and cultural groups seen to be politically relevant; and a program or policy advocating or promoting such a society (Smelser and Baltes, 2001, p. 10169). The idea of multiculturalism is based on the Kantian principle of individual freedom to live by the rules and judgments of a person's own conscience (Coello and Prins, 2010, p. 21).

Modern multiculturalism is often said to have its roots in a speech by Canadian Prime Minister Sir Wilfrid Laurier in 1905, where he said, "We do not anticipate, and we do not want, that any individuals should forget the land of their origin or their ancestors. Let them look to the past, but let them also look to the future; let them look to the land of their ancestors, but let them look also to the land of their children" (Sarraf, 2015, p. 35). In 1971, Prime Minister Pierre Trudeau developed Canada's multiculturalism policy within the bilingual platform. This particularly meant that Canada appeared to be the very first nation worldwide to have an official multiculturalism policy and therefore was the first in terms of creating corporate pluralism where state policy protected the actual cultural differences among groups as well as provided institutional means to motivate ethnically proportionate distribution of power and privilege (Guo and Wong, 2015, p. 2).

While a lot of studies on multiculturalism had been done (and a lot of definitions of multiculturalism have been made) it is worthwhile to focus mainly on Will Kymlicka's works as he is not only one of the most prominent and devoted supporters of multiculturalism now (though he has a lot of critics too) and a recognized political philosopher, but he has also published the results of his research on multiculturalism in CEE. The very essence of Kymlicka's liberal multiculturalism is formulated in one of his last papers:

The state is responsible for ensuring fair background conditions, including institutional conditions relating to the public recognition of language and culture, but individuals are free to make choices from that background, and are responsible for considering the prospective costs and benefits of their choices. Liberal multiculturalism is, therefore, focused on the provision of fair opportunities to freely pursue culture-related interests rather than the imposition of duties to maintain any particular identity or way of life (Kymlicka, 2017, p. 1).

Kymlicka also asks important questions (and for the region of CEE they are of extreme importance): How did a minority come to be a minority? How did a particular state come to have a right to rule over this particular minority and over this particular territory? Realising the fact that a particular state rules a particular minority is not God-given, but emerges out of a particular political process (that could last for decades and even more), and a normative theory of minority rights should be, at least in part, a theory about when these processes are legitimate (and if they are illegitimate, how this can be rectified). By asking these questions, we are likely to evaluate minority rights claims differently than if we start by presupposing legitimate sovereignty (Kymlicka, 2017, p. 4). CEE is a region of former empires and the space of post-Soviet states, where ethnicities were forced to





change their status (like the Crimean Tatars or Germans in the USSR after World War II, when they were declared enemies of the state), place of living (deportation of Ukrainians in Poland), etc. So Kymlicka's question is the right point to start with when performing research on the region of CEE.

It is Mann's vision that the vast majority of scholarship on multicultural policies has tended to be sociological in theory and approach (Mann, 2012, p. 483). But modern international relations also influence an internal state's policies such as ethnic policy (whether is it in the form of multiculturalism or not). The Russian Federation uses the factor of "endangered Russian speakers" (Kozachuk, 2016) to justify its foreign policy (as Moscow pointed out, Russia defended Russians in Crimea and found no other solution than to annex the peninsula, Yost, 2015, p. 538). The same situation is happening in the Balkans with Serbia – Kosovo relations. The ethnic factor still plays an important role in forming bilateral relations. After the introduction of Education Law in Ukraine in 2017, Hungary became furious about "protecting Hungarians in Ukraine". So the ethnic factor in international relations in CEE should not be underestimated.

In political and social sciences, states like Canada and Australia are probably associated with multiculturalism as their "trademark". For example, Canada established the multiculturalism policy in the 1970s. It seems that Canadian multiculturalism has had success and the question arises: Could Canada's multiculturalism lessons be learned by other countries? Could their policies be used in Central and Eastern European countries?

The very first answer would be "no", as nation and identity building processes are unique for every state. And these processes vary in their practices in Europe and North America. But if taking into consideration that the word shifts to uncertainty in international relations (here the mixture of nationalism, populism, protectionism, #alternativefacts, etc.), Central and Eastern European states, and post-Soviet states like Ukraine, should pay more attention to their concepts of ethnic policy. Ukraine, for example, has no ethnic policy at the moment. Living in such a turbulent time, learning from multicultural practices is of great importance.

The widespread image of Canada as a motherland of multiculturalism is a stereotype. It is much harder to distinguish the precise features of *Canadian* multiculturalism, to analyse what differentiates it from, let us say, Australian multiculturalism. It is even harder to suggest what features of Canadian multicultural inclusivity could be 'exported', and which moments should be adopted with great vigilance.

It is obvious there is no ultimate solution to solve ethnic and national disputes or to accommodate all people's needs in every state. There is no ultimate prescription we can take from one state and copy/paste it to another. Even if the state's policy is successful, there is no guarantee it would be successful anywhere else. First of all, as Mann suggests, bilingualism and biculturalism were the main precursors to the rise of multiculturalism in Canada (Mann, 2012, p. 497). Canada (and Australia too) is rather likely an *exception* to the rule because of its comparatively successful multiculturalism policy. Apart from the province of Quebec, there are hundreds of Indigenous peoples in Canada, alongside immigrant



or ethnic groups with ancestries or origins from a great variety of countries, speaking dozens of languages, and having diverse cultural values and practices. With such a diversity and pluralism in cities throughout Canada, it is then not by chance that in Canada a systematic and fruitful discourse on diversity and multiculturalism has taken place (Melich, 2010, p. 170). Also, it is necessary to remember that even though Canada has always been, since its origins, a polytechnic country, it has not always been the ideal model of immigrant integration or co-existing cultures (Hoyos, 2014, p. 39). Canada knows the tragic experience of the assimilation of Indigenous peoples, and some immigrant groups were restricted from entering the country, like immigrants from China during the early 20<sup>th</sup> century.

Beginning in the mid-1960s when the Royal Commission on Bilingualism and Biculturalism was formed, the philosophy of multiculturalism in Canada was firmly entrenched (though at first more in the form of biculturalism – according to the commission, the French language and culture was to be valued and legally supported, as was adopted in the Official Languages Act, 1969, as well as the diverse cultural heritage of Canadians) (Melich, 2010, pp. 173–174). Canada proclaimed its own multiculturalism policy in 1971, becoming the first country in the world to officially implement a legislative framework for multiculturalism. In 1982, the Canadian Charter of Rights and Freedoms included multiculturalism as an important part of the Canadian identity (Hoyos, 2014, p. 34). In 1988, Canada implemented the Canadian Multiculturalism Act, which commits the Government of Canada to facilitate the full participation of all Canadians regardless of race or ethnicity in all aspects of Canadian society (the Act established the full and equitable participation of individuals and communities of all origins in the continuing evolution and shaping of all aspects of Canadian society and provides assistance to eliminate any barriers to such participation; also it introduced the assurance of equal treatment and equal protection under the law, while respecting and valuing individuals' diversity and states an equal opportunity to obtain employment and advancement in all federal institutions for Canadians of all origins). And the Immigration and Refugee Protection Act (2002) emphasized the importance of what has become known as the 'two-way street' approach to integrating immigrants and refugees in Canada (while Canada accepts and promotes a diverse population, newcomers are expected to adapt to Canada and to Canadian norms) (Blake, 2013, p. 99).

So what are the preconditions of Canadian multiculturalism and do they differ significantly from the CEE realities? They are partly unique in their nature, but their existence has formed Canadian multiculturalism as we know it now. One of the key points of multiculturalism is the *official policy* of the recognition of diversity. The diverse origins of immigrants have been recognized and some of their specific needs addressed throughout Canada's history (and some ethnic groups suffered restrictions), but the domination by British-originated elites characterized much of the political, economic, and social system of Canada, at least through the 1950s, with dramatic changes only in the last few decades. Starting in the 1970s things changed dramatically. One of the reasons for these changes was the Quiet Revolution in



Quebec as the growing urbanization and industrialization, accompanied by the decline of religion and increased educational levels, changed Quebec into a more modern and liberal society on the one hand, and caused more assertive nationalism on the other. The very rapid changes in the province's culture and society required adequate response to accommodate this independent society which increasingly called for self-determination and ethnic mobilization (Melich, 2010, p. 172). Also, Melich pointed out that Canada has become characterized by ethnic pluralism with a lower degree of accommodation to the prevailing *dominant* national culture, and with greater ethnic diversity and greater retention of *original* cultures than many other receiving countries, such as the United States. And increased urbanization and higher levels of education caused a change in culture to occur in the direction of increased tolerance to other cultures (Melich, 2010, p. 173).

## 2. Issues with Multiculturalism

Multiculturalism has its own issues and can hardly be selected as the ethnic policy (minorities' policy) model in CEE. Ruling political elites in CEE seem to have little enthusiasm for accommodating such liberal practices and trying to elaborate upon such a political discourse that multiculturalism has no ground in CEE. And they might be right till the definite point: One thing is to "gamble" with voters during elections campaigns and use minorities/migrants issue to achieve the goal (which is to gain/remain in power), and the other thing is that multiculturalism has its own issues.

As it was pointed out above, Kymlicka's vision of multiculturalism is well developed, substantial and logical, although has its critics. In his report, *The Current State of Multiculturalism in Canada and Research Themes on Canadian Multiculturalism, 2008-2010*, that was commissioned by the Department of Citizenship and Immigration to determine which multiculturalism issues are important nationwide and require the development of further research, Kymlicka identifies challenges for multiculturalism. Despite being published 7 years ago it is still relevant:

Reviewing the debates on multiculturalism in Canada in the past few years, one is reminded of the words of Charles Dickens: „It was the best of times, it was the worst of times”. On the one hand, we have witnessed not only growing evidence of Canada's comparative advantage in the integration of immigrants, but also growing evidence that the multiculturalism policy has played an important role in this comparative success. For defenders of multiculturalism, the evidence of the policy's benefits has never been stronger. On the other hand, we are witnessing a worldwide retreat from multiculturalism, most observable in Western Europe, and many commentators argue that this is a harbinger of Canada's future as well. For critics, multiculturalism is an inherently flawed idea, and while these flaws may have emerged more quickly or starkly in Western Europe, they are starting to reveal themselves here in Canada as well (Kymlicka, 2010, p. 5).

It is worthwhile to mention some scholars admit that multiculturalism has been declared to have failed not only in continental Europe but also in traditionally migrant-receiving societies such as Canada and Australia (Amarasingam *et al.*, 2016; Gozdecka *et al.*, 2014; Vertovec, 2010). Nevertheless, it is not the point of this paper to discuss whether it has failed or not in Canada or Western Europe. We will rather concentrate on the issues (problems) linked with multiculturalism as a policy (though these issues could be present in different states). One of the greatest stereotypes of multiculturalism (which nobody would like to ‘import’) is the segregation of ethnic, national and Indigenous groups, political radicalism, and the perpetuation of illiberal practices among immigrant groups (Kymlicka, 2010, p. 12). Actually ethnic and religious animosity can be seen in Western Europe more vividly, so this is really not the outcome CEE countries would welcome. Kymlicka points out the following signs of the “failure” of multiculturalism in Canada, which are widely used by its critics (who try to prove there is nothing of value to export in multiculturalism), as well as Kymlicka’s responses to these critics (in brackets): ghettoization or the existence of ethnic enclaves (which is untrue, because the very sense of a ghetto is missed here), Islamic radicalism (which really is a concern, but it is not right to blame multiculturalism for that), the persistence of intolerant practices among some immigrant and minority groups as evidence that they are failing to integrate into liberal-democratic norms (though there is no evidence that this problem is worse in Canada or in multiculturalist countries, so again – it has nothing to do with multiculturalism as a policy), second-generation visible minorities express lower levels of belonging to Canada (which is of great concern, but if we take, for example, a feeling of pride for Canada, we find that visible minorities including second generation express very high levels of pride in Canada on a par with white Canadians), and a growing concerns and polarization in Quebec (multiculturalism has always been less popular in Quebec than in other provinces, but recent reports show that there is no need for a dramatic revision of the existing policy of accommodation) (Kymlicka, 2010, pp. 14-17). So Kymlicka suggests that these attempts to find signs of European-style problems in Canada are all misleading.

Instead, Kymlicka points out real unresolved issues in multiculturalism policy, which should be taken into account by policymakers (and in CEE states too). One of the greatest concerns is that the role of religious diversity within multiculturalism has not yet been adequately debated or explored (while the existing constitutional and legislative framework of freedom of belief in North America or the EU is largely appropriate, more work needs to be done in implementing the policy and managing the debates it raises).

Living in the age of post-truth and “fake news”, the role of mass media covering minority issues is also of great concern. As there should not be obvious hate speech (or on the contrary, a blindness to covering sensitive topics) in CEE media, the media outlets that are more dependent on their owners’ views could be a problem. Anyway, it is undeniable that the media play a vital role in shaping public attitudes, and so the link between multiculturalism and the media should be reconsidered (Kymlicka, 2010, pp. 18-19).



Also, Kymlicka makes the valuable argument “recent multiculturalism policies for ethnic groups formed by immigration overlies earlier linguistic and territorial accommodations of French Canadians, which overlies earlier historic agreements and settlements with Aboriginal peoples” (Kymlicka, 2007, p. 39). Of course, these three policy vectors should be distinguished as no single set of diversity policies can fulfill the current needs of Canada’s diverse groups. But it is equally important to clarify how these three dimensions interact and “it would be regrettable, indeed tragic, if the three policy frameworks were seen as operating at cross purposes... we need to explain how these policies aim to build relations of inclusive citizenship that encompass all Canadians, and that we all have a stake in ensuring the success of these three sets of diversity policies” (Kymlicka, 2010, p. 19).

Finally, racism, discrimination and the declining economic performance of recent immigrants are supposed to be issues addressed by multiculturalism. While someone may stereotype Canada to be a state where a comparatively low level of hate crimes and racism occur, they are still present (Government of Canada, 2017). On the one hand, we can hardly find a country in the world that is completely free from racism, but nevertheless, the literature suggests findings on the topic: racism is one of the realities of multicultural societies and it does not disappear with the introduction of such a policy (Dua *et al.*, 2005; Enomoto and Fuji Johnson, 2016; Fleras, 2014).

On the other hand, since the 1970s, the average employment earnings of immigrants have declined steadily compared to those of Canadian-born workers. Despite the point earned entrance system, the reasons for this decline are not entirely clear, but there appears to be a number of contributing factors: discrimination, insufficient language skills, lack of recognition of foreign credentials and work experience in source countries, and growing labour market competition from highly educated Canadians (White *et al.*, 2015, p. 293).

Generally speaking, Gozdecka, Erkan and Kmak point out several trends that are observable in nearly all immigrant-receiving countries (albeit to different degrees): an excessive focus on gender inequality within traditional minority cultures; the shift from ethnicity and culture towards religion (in particular Islam); the increasing emphasis on social cohesion and security; the emergence of new forms of racism; and the relativization of international and transnational human rights law (researchers associate these potentially empowering discourses with post-multiculturalism) (Gozdecka *et al.*, 2014, pp. 52-53). All these issues are highly relevant to the CEE region as well.

### 3. Multiculturalism in Central and Eastern Europe?

The migration crisis of 2015-2016 hit a huge blow to European unity and solidarity. “Who is going to accommodate all these people? Why should we take the migrants quotas?” It’s likely that these questions and more arose in Europeans’ minds. In Central and Eastern European states, for example, there is no enthusiasm for accommodating migrants from the Middle East (as well as Africa and Asia).



Political actors in Poland, Hungary, and the Czech Republic had built their rhetoric and constructed public discourse using “the failure of multiculturalism in Western Europe” argument. It seems CEE states go through an important stage in their ethno cultural identity and identify their commitment to EU values and principles or build their own vision of nationalism. Of course, every state has its own right to build their own ethnic policy, but living under the umbrella of EU regulations and directives makes it harder to continue to follow their own path. The examples of Poland and Hungary, who seem to face deep legal discussion with EU ruling bodies over internal politics, prove the lack of consensus in the region.

Numerous studies on the failure of multiculturalism in Western Europe are omitted in this paper. However, in 2010 Angela Merkel explained “Multikulti” as a trusting effort “to live happily side by side, and be happy to be living with each other” and this method, she carried on, “has failed, and failed utterly”; questioned in a TV interview on exactly what he thought of Merkel’s evaluation of multiculturalism, French President Nicolas Sarkozy responded, “Yes, clearly, it is a failure” (Koopmans, 2013, p. 148). In a 2011 speech, British Prime Minister David Cameron, in the same manner, stated, “Under the doctrine of state multiculturalism we have encouraged different cultures to live separate lives, apart from each other and apart from the mainstream” (Koopmans, 2013, p. 148).

Also, Koopmans suggests that the size of immigrant populations as well as their composition in terms of countries of origin, religion, and human capital is a key to understanding why multiculturalism has fallen further from grace in Europe than in the classical immigrant-receiving countries of the United States, Canada, Australia, and New Zealand. Agreeing with Kymlicka, he states that religious rights are identified as the main source of controversy regarding multicultural rights, and the fact that Muslims make up a larger proportion of immigrants to Europe explains in part the more critical evaluation that multicultural policies receive there (Koopmans, 2013, p. 147).

The main research question remains, what could (or could not) CEE import from the Canadian, Australian, and Western European experience and what lessons might be learned? Of course, countries in this part of Europe differ significantly from Western countries (and from each other) in terms of history, demography, geopolitical stability, economic development and democratic consolidation. As Kymlicka points out, Western approaches may simply not be *relevant or helpful*, and any attempts to impose them against the wishes or traditions of the local population can be counterproductive in terms of ethnic relations (Kymlicka, 2015, p. 5).

After the collapse of the USSR and socialist regimes in CEE, too much attention was put on preventing ethnic conflicts there (this attention was probably appropriate, but the decision to make minority rights one of the criteria for ‘rejoining Europe’ had relatively little public debate or scholarly analysis) (Kymlicka, 2000; Kymlicka and Opalski, 2002). Territorial autonomy as a potential solution to territorial claims and disputes generally were not considered in the region of Central and Eastern Europe. Kymlicka discusses this issue in his book (Kymlicka and Opalski, 2002). Romania, Estonia, Lithuania – all of these countries opposed territorial autonomy as a potential threat to their sovereignty. Ukraine had



granted Crimea autonomic status hoping to prevent ethnic instability. However, as Russia's aggression and annexation of Crimea in 2014 have proven, it was not enough – Moscow used the 'endangered Russian speakers' rhetoric.

Unfortunately, living in the age of hybrid wars we cannot perceive the state's ethnic policy as its only internal sphere of interest. The enemy state could use weak points in this policy to pursue its own interests. Without a doubt, an independent state should not consult its neighbours on the steps it wants to take within its own internal arena. But sensitive issues such as ethnic and national minorities' policies should be under a microscope every day, and being closely monitored at this time. The answer to this devotion to the unitary state is hidden in history and international relations.

First of all, the majority of the states in Central and Eastern Europe gained (restored) their independence and sovereignty recently. Sovereignty, consolidation and unity are still strong enough and perform in the CEE state as an aftermath of the establishment of the independent state. For some states such as Ukraine, their very independence and territorial integrity are now under question due to Russia's aggression.

Another factor is that states will not accord greater powers or resources to groups (or territories) that are perceived as disloyal, and therefore a threat to the security of the state. In particular, states will not accommodate groups which are seen as likely to collaborate with foreign enemies. As the Russian Federation continues to threaten international relations and laws it is no surprise that there are so few states that want to establish territorial autonomies and feed 'the fifth column' inside. Minority groups are often seen as a part of the fifth column, likely to be working for a neighboring enemy, and this is particularly a concern where minorities are related to a neighboring state by ethnicity or religion so that the neighboring state claims the right to intervene to protect this minority (Kymlicka, 2015, p. 21). Threats have come to real violence and aggression in Georgia with Abkhazia and South Ossetia, and in Ukraine with Crimea and Donbas. Kymlicka suggests that the relationships between states and minorities are seen as much less a matter of regular democratic national politics to be bargained with, but more as a matter of state security in which the condition has to restrict the normal democratic process to be able to protect the state (Kymlicka, 2015, p. 21). Under the circumstances of securitization, minority self-organization may be lawfully limited (e.g. group political events banned), fraction leaders might be subject to police monitoring, and the increase of specific needs may be unlawful (like laws about promoting secession). Even though minority requirements can be articulated, they will be flatly rejected through the larger community and the state as an institution. Therefore "securitization of ethnic relations erodes both the democratic space to voice minority demands, and the likelihood that those demands will be accepted" (Kymlicka, 2015, p. 21).

So in Eastern Europe, Kymlicka suggests, the history of imperialism, collaboration and border changes have encouraged three interrelated assumptions which are now widely accepted by the states in the region: (a) that minorities are disloyal, not just in the sense that they lack loyalty to the state (that is equally true of secessionists in Quebec or Scotland), but in the stronger sense that they





collaborated with former oppressors, and continue to collaborate with current enemies or potential enemies; therefore, (b) a strong and stable state requires weak and disempowered minorities; and therefore (c) the treatment of minorities is above all a question of national security (Kymlicka, 2015, p. 22).

The author of the following paper had taken the case of Ukraine in previous findings. When it comes to Ukraine, there exists a big difference between ethnic Russians and Russian speakers. This difference prevails as a result of heritage belonging to the Soviet Union (Sovietisation, Russification, etc.). Russia's policy of "protection with regard to Russian speakers within the globe" is actually easy to understand from the position of Russian residents, yet is definitely inappropriate when it comes to Ukraine. There was clearly no actual danger to Russian speakers in Ukraine from the times of the Revolution of Dignity so far. To keep Ukraine from being impacted, the Kremlin used the tag "endangered Russian speakers" (Kozachuk, 2016, p. 377). Contemporary Russian policy toward Ukraine has to be assessed as certainly unfriendly. Its self-proclaimed "support" of the Russian speakers in Ukraine is indeed a menace to the territorial integrity of Ukraine. Employing state-managed media to generate fake stories has not been acceptable to disintegrate Ukrainian society and set the state's territorial integrity and independence within the issue. In fact, Russian speakers within non-occupied regions of Ukraine feel free to communicate in any language they really want, however, Russian speakers from the occupied territories of Donetsk and Luhansk oblasts are afflicted by this "care" through the Russian Federation (Kozachuk, 2016, p. 378).

Moreover, the Canadian multiculturalism policy is hardly applicable to Europe, as "Canada has been for generations an immigration country by definition and the concept of the nation-state has evolved there in a different way, with fewer impediments on setting criteria for citizenship rights on the level making them both reasonably attainable by newcomers and facilitating acceptance of minority immigrants by the rest of society" (Melich, 2010, p. 187). The geographic factor (Canada is quite far away from the present states' donors of migrants and refugees) and the different demographic and sociological profiles of migrants and refugees in Canada and Europe should be taken into consideration when comparing the states' policies.

Melich also suggests that immigrants to Europe were rarely seen as potential citizens, but rather as guest workers who would eventually return home upon completion of their work contracts, while in Canada access to citizenship has been part of the immigration and multicultural package (Melich, 2010, p. 180). Central and Eastern Europe do not seem to be a travel destination for migrants, and the society there (as well as in Central Europe) has little intention of welcoming them. So here we also have nothing to discuss and propose to import from Canada.

The success of multiculturalism in Canada has its roots in the very sense of Canada's state. Multiculturalism has laid the foundation for more than forty years, and its principles and values are parallel and complementary to a liberal and democratic society. Multiculturalism strengthens the Canadian political, economic and social system (Leung, 2011, p. 30). In addition, the Canadian state itself strengthens multiculturalism.



Vermeersch doubts “whether Western political theory concerning minority rights protection constitutes a legitimate basis for political practice in CEE” and “it is important to analyse minority questions increasingly from the perspective of International Relations, taking into account the effects of transnational pressures, evolving international/regional regimes and the changing nature of the state” (Vermeersch, 2015, p. 137). That is the same point suggested above: Since 2014 it has been obvious that actors in the region play the minority card to pursue their own goals, like the Russian Federation did in Ukraine openly (and how they continue to use Russian speakers or ethnic Russians cards in Latvia).

The rise of populism is the other side of the problem. This decade, it seems as though all Western civilization (and we mean here North America, EU states, and affiliated states like Ukraine, Moldova, and Georgia) are suffering from it significantly, and it seems to be our agenda for the near future (Mudde, 2016; Wodak, 2015). Internal political actors use minorities and migration rhetoric to achieve/keep their places in parliaments, and the migration crisis of 2015-2016 is evidence of how internal speculations and discussions may divide even EU members, to say nothing about Eastern Partnership policy. Poland continues to use anti-immigrant discourse, stating it received millions of Ukrainians and should be excluded from EU migrants' redistribution quotas. Another factor is that Ukrainians are not refugees but economic migrants, a cheap and highly desirable labour force for Polish businesses. So here Poland simultaneously fights against the attacks of the European Commission and keeps its high GDP growth steady despite the huge amount of Poles who have left Poland for the United Kingdom, Ireland, or Norway. We do not tend to analyse or judge such a policy here (it is also possible to point out the Hungarian and Romanian policy of distributing their passports throughout Ukraine's neighbouring regions), but rather we would like to conclude that the ethnic factor became highly relevant in CEE interstate relations last decade. We suggest that instead of using minorities/migration discourse to achieve their internal (and often populist) goals, a comprehensive update of minorities/migration policy principles revision in the CEE region is needed. The Eastern Partnership might be seen as an institutional mechanism in the region to ease tensions, at least during the irresponsible and unpredictable behaviour of Putin's Russia. We should keep in mind that the Eastern Partnership program provides an opportunity to boost the performance of the process, not merely through responding to the requirements of the European Union to determine institutionalized relationships with the post-Soviet states with no membership perspective, but additionally to promote some sort of shared perspective of hybrid warfare along with a reaction to other common issues. Security, without even the cooperation of military services, ought to be among the completely new focal points where the European Union has no guidebook for resolution. Simply by working with very important lessons from the Ukrainian crisis, the European Union can produce an extensive platform with regard to addressing hybrid threats in the region alongside the states from the Eastern Partnership (Shelest, 2015, p. 53).

Some scholars make a reasonable critique of multiculturalism policy (Anwarullah Bhuiyan, 2011). It is clear that neither Kymlicka's nor other concepts





of multiculturalism are possible in Central and Eastern Europe at least for now. If we take the international relations methodology and, for example, Walt's "balance of threat" theory, we could consider Russia as a continuously interfering actor, trying to influence Ukraine, Belarus, Georgia, and the Baltic countries and see these states as a threat (according to the theory, a state's behaviour is determined by the threat perceived by other states or alliances; states will not balance against other states which are increasing in power, as balance of power theory predicts), but rather against those that are perceived as a threat (Bock *et al.*, 2015).

The other dimension of the problem is what nationalism and religious studies suggest. According to a Pew Research Centre survey conducted in June 2015 – July 2016 in eighteen countries, Orthodox Christians, as well as Catholics through the entire region, tended to be ready to recognize each other as neighbours and as fellow citizens with their states (Pew Research Center, 2017, p. 158). Nevertheless, the study shows limitations to this mutual good will. The particular survey additionally discovered the belief towards several smaller sized religious as well as ethnic groups in the region – Romas, Muslims and Jews. Generally speaking, respondents were much less ready to recognize individuals from these three groupings as family members, neighbours or even fellow citizens than they were to accept Catholics or Orthodox Christians. Romas tended to be, overall, the least recognized of the groups (Pew Research Center, 2017, p. 159). Most respondents from the eighteen countries surveyed tended to be unwilling to simply accept Romas as family members, and about one half or even more of respondents in ten states said that they might not recognize Romas as neighbours (over the region, the median of 31% point out that they might become unwilling to accept Romas even as fellow citizens) (Pew Research Center, 2017, p. 159). Throughout Central and Eastern Europe, fewer individuals denied Muslims as family members compared to those who rejected Romas, despite the fact that the majority of both Catholics and Orthodox Christians (medians of 63% and 61%, respectively) claimed they might become unwilling to accept Muslims as family members (regionally, even more Catholics compared to Orthodox Christians pointed out they might not really recognize Muslims as neighbours or even as fellow citizens) (Pew Research Center, 2017, p. 161). Jews tended to be more recognized in the region compared to Muslims as well as Romas. Nevertheless, approximately one half or even more of the adults surveyed in four states pointed out they might become unwilling to accept Jews as family members (Pew Research Center, 2017, p. 162).

Moreover, the recent Freedom House report's key findings state that "Poland recorded the largest category declines and the second-largest Democracy Score decline in the history of the report" and "Hungary has registered the largest cumulative decline in Nations in Transit history, after its score has fallen for 10 consecutive years" (Freedom House, 2018).

Despite all of the EU standards (among EU members and others), it is obvious that much more needs to be done and much more time must pass in order to erase such attitudes and teach future generations more tolerant and diverse discourse. And here the role of academia should not be undermined, though the visible effect may continue for decades. The Pew Research Centre survey



underlines that with their conclusion: “people with more education are more likely than others to say they would be willing to accept Roma, Muslims or Jews as relatives, neighbours or fellow citizens” (Pew Research Center, 2017, p. 163).

## Conclusions

Multiculturalism was successful in removing structural barriers and fostering common multicultural spaces for Canadians to come together. The success of multiculturalism is a result of successful integration, a two-way learning of immigrants and society, of refugees and the host state. We carefully discussed only the ethnic discourse of multiculturalism in this paper, as it is believed that the other possible aspects of diversity management (culture, language, gender, sexuality, etc.) *should be* studied carefully when considering their import from Canada. CEE countries and especially post-Soviet states still have to implement a lot of principles, rules and institutions in order to become consolidated liberal democracies (if they want to become one, of course). The experience of multiculturalism in Canada has a lot to offer here.

However, when we start to talk about ethnic minorities' policy, here the possibilities for import have zero chances. Regional actors like the Russian Federation, with their aggressive policies, leave no chance for Central and Eastern European states to adopt multiculturalism, as they consider minorities' issues as security issues. Due to this paradigm, multiculturalism has simply nothing to offer. Minorities' rights will be sacrificed for national security and territorial integrity issues. States like Ukraine, which suffers from Russian aggression, will think *first* of their sovereignty and territorial integrity and *then* about accommodating ethnic and national minorities' needs. The other actors in the region should understand and accept this. Education seems to be a key element to overcoming the existing tendencies in the region.

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# THE ROLE OF ENTREPRENEURSHIP IN PROMOTING INTERNATIONAL COMPETITIVENESS OF CEE COUNTRIES. A PANEL DATA APPROACH

Valentina Diana RUSU\*, Mihaela Brîndușa TUDOSE\*\*

## Abstract

*The main objective of this paper is to analyse the relationship between entrepreneurial activity and the overall economic competitiveness for a set of four Central and Eastern European countries (Hungary, Latvia, Romania and Slovenia) members of the European Union. Also, this paper aims to identify if entrepreneurial motivations can influence the overall economic competitiveness. Our sample was created by selecting the information provided by Global Entrepreneurship Monitor and World Economic Forum. The analysed period was 2007-2016. To test our hypotheses, we used panel data estimation techniques. As dependent variable we considered the Global Competitiveness Index as proxy for the overall economic competitiveness of countries. And, as independent variables we used indicators measuring entrepreneurial activity and motivations. We also selected a set of control variables, represented by economic indicators considered enhancers of efficiency. Our results emphasize that the level and dynamics of entrepreneurial activity but also the motivations of individuals for becoming entrepreneurs are influencing the level of global competitiveness for the analysed CEE countries. Therefore, we show that countries with higher levels of opportunity entrepreneurs have higher levels of competitiveness and, on the other hand, the countries with more entrepreneurs motivated by necessity have lower levels of economic competitiveness.*

**Keywords:** entrepreneurship, competitiveness, TEA (total entrepreneurial activity), GCI (global competitiveness index)

## Introduction

The economic literature highlights the researchers' concerns about explaining the relationship between individual economic behaviours (entrepreneurial) and the economic context of entrepreneurial initiatives. These concerns, stemming from the Schumpeterian entrepreneurship model (Schumpeter, 1911), have intensified with the globalization of the market. This is because, in the context of business globalization, the global business environment, innovation and

\*Valentina Diana RUSU is researcher at Alexandru Ioan Cuza University of Iași, Romania; e-mail: valentinadiana.ig@gmail.com.

\*\*Mihaela Brîndușa TUDOSE is lecturer at Gheorghe Asachi Technical University, Iași, România; e-mail: brindusa.tudose@tuaisi.ro, brindusatudose@gmail.com.

creativity are key ingredients in creating and sustaining the strategic advantage (Ojo *et al.*, 2017).

A deep knowledge and understanding of customer needs represents the basis to increase the efficiency and effectiveness of a business. This context requires an innovative process that ensures the survival of enterprises; therefore, the economic growth revolves around the active and inactive functions of the entrepreneur (McPherson, 1996).

Summing up the theoretical and empirical research results, it emerges the idea that obtaining higher levels of competitiveness depends on variables such as: *performance, welfare, efficiency, innovation and sustainability* (Herciu, 2013). In the context of globalization, competitiveness has been seen as a set of institutions, policies and factors that determine the level of productivity of a country (Sala-I-Martin *et al.*, 2009).

Various global organizations (WFE, GEM) periodically assess the competitiveness of different countries or regions of the world. Based on their reports, different aspects of entrepreneurial activities are analysed in direct relation with the business environment of a country or region. Their purpose was to provide entrepreneurs (and not only) with methods and tools for assessing the business environment (Veveře *et al.*, 2017).

As shown by several studies (Anastassopoulos, 2007), the enterprises and the environment in which they operate are important determinants of economic competitiveness. In this respect a competitive strategy and performance is necessary to be defined and applied.

The aim of our research is to analyse the correlation between entrepreneurial activity and the overall economic competitiveness for a set of four Central and Eastern European (CEE) countries (Hungary, Latvia, Romania and Slovenia) that are also members of the European Union. The country selection was based on data availability for the indicators measuring entrepreneurial activity and entrepreneurial motivations for the period considered in the analysis (2007-2016). For other CEE countries members of EU, data measuring entrepreneurial activity and motivations are only available for maximum 2 years and therefore impossible to include in the analysis. In addition, this paper aims to highlight whether entrepreneurial motivations (driven by opportunity or necessity) can have an impact on global competitiveness of countries.

To achieve the proposed objectives we used panel data estimation techniques, by applying multiple regression models to a set of panel data. For our panel data models, we have considered as dependent variable the Global Competitiveness Index as proxy for the overall economic competitiveness of countries. The independent variables considered are total early stage entrepreneurial activity, opportunity motivated entrepreneurship rate and necessity motivated entrepreneurship rate. We also use a set of control variables, represented by economic indicators considered enhancers of efficiency, namely: rate of economic growth and total tax rate. To get the most accurate results we use two different models: fixed effects model and random effects model, and we apply the Hausman test to see which model is more appropriate for our investigation.





In order to achieve our goals, the paper was structured as follows: the first section realizes an introduction to the research topic; the second section presents a brief review of the literature highlighting the relationship between entrepreneurship and international competitiveness identified by previous studies; the third section presents the research methodology describing the sample, the variables and also the methods used for the empirical investigation; the following section presents the results obtained and some discussions; the last section summarizes the conclusions.

## Review of literature

The prosperity of economies is based on their ability to compete in global markets (Stajano, 2006). The nature and structure of entrepreneurial activities, as important mechanisms for economic development, varies from country to country, depending on „the relative volumes of opportunity and necessity entrepreneurship”. The researches have shown that the opportunity entrepreneurship has a significant positive effect on economic development, while necessity entrepreneurship has no effect (Acs and Varga, 2005).

Previous researches have shown that the dynamics of entrepreneurship depends primarily on the institutional context and the level of economic development (Acs *et al.*, 2008). Subsequently, on the background of deeper analyses, the structure and the level of entrepreneurship have been correlated with the simultaneous action of several determinants grouped into the following categories and subcategories (OECD, 2017): a) regulatory framework (bankruptcy, court and legal framework, product and market regulations, income taxes, wealth, business in capital taxes, patent system or standards); b) market condition (access to foreign market, degree and public involvement, private demand); c) access to finance (access to debt financing, access to venture capital, stock markets); d) creation and diffusion (R&D activities, transfer or non-commercial knowledge, co-operation among firms, technology availability and take-up); e) entrepreneurial capabilities (entrepreneurship educations, emigration); f) entrepreneurial culture.

Entrepreneurial activities (be they start-ups, new businesses or businesses already validated from a sustainability point of view) are positively associated with the economic development of a country (Rocha, 2004).

Global competitiveness indicates the extent to which enterprises show their sustainability and improve their performance. Through competitiveness, the level of economic development of a country is appreciated (Porter *et al.*, 2000). Global competitiveness depends both on the comparative advantages of each economy and on the regional contexts (Rugman *et al.*, 2011).

At the end of the twentieth century, competitiveness as a variable dependent on the economic evolution of a country was analysed on three stages (Porter, 1990; Porter *et al.*, 2002): (1) factor-driven stage, (2) efficiency-driven stage and (3) innovation-driven stage. Countries in the first stage are characterized by low yield cost (i.e., low added value), a preponderance of individual entrepreneurial activities, and inertia in innovation activity and a weak outward opening.



Countries in the second stage are concerned with increasing production efficiency, especially by specializing labour force; efficiency – based on economies of scale – puts pressure on and reduces the share of individual entrepreneurial activities. In this context, it is assumed that entrepreneurial activity decreases with the development of the economy (Kuznets, 1966; Schultz, 1988). The explanation is based on the size of the business that proves to be more efficient when capital replaces the workforce and moves to mass production. These changes lead to an increase in the productivity of wage labour compared to entrepreneurial work. Moreover, the development of the infrastructure of the economy (cross-border transport, telecommunications and financing / lending systems) benefits large firms and threatens small businesses. More recent research shows that while developed countries have lower entrepreneurial characteristics than developing countries, they have higher levels of global competitiveness than the latter (Pawitan *et al.*, 2017).

Countries in the third stage are highly innovative. This new economic environment is supposed to revive entrepreneurial activity; the main argument supporting this hypothesis is the migration of economic activities from the primary and secondary (production) sectors to the tertiary sector (thus increasing the share of services). Service providers are smaller than production and therefore offer more opportunities for entrepreneurship (Acs *et al.*, 2008). We therefore see a diversification of business, an increase in SMEs that have proved to be able to create new jobs, innovate and create social value (Singer *et al.*, 2015, p. 19).

For each of the three development stages, researchers have been concerned with identifying a global competitiveness index that measures long-term growth and prosperity and helps policy-makers identify the challenges that need to be addressed and the strengths should be considered when developing economic growth strategies (Schwab, 2017, p. 1). This Global Competitiveness Index (GCI) combines 114 determinants of long-term productivity and prosperity, grouped into 12 pillars: institutions, infrastructure, macroeconomic environment, health and primary education, higher education and training, commodity market efficiency, labour market efficiency, market size, business sophistication, and innovation. These pillars are, in turn, organized into three sub-indices whose weight in the calculation of the global index differs according to the development stage of each economy.

Putting forward the determinants of entrepreneurship and competitiveness, we notice that most of them have a double determination (see Table 1). For example, the determinants of entrepreneurship grouped generically in the „market conditions” category are also found to be the determinants of competitiveness (in the category „good market affluence” and „labour market efficiency” (see Table 2).

Based on these arguments, we accept the hypothesis that entrepreneurship and competitiveness depend on their common variables, and the intensity of correlation between their dynamics has particular aspects depending on the development stage of each economy.

The relationship between entrepreneurship (entrepreneurial development of the economy) and global competitiveness has concerned several researchers: Acs and Amorós (2008); Amorós *et al.* (2011); Audretsch *et al.* (2012); Cuckovic and Bartlett (2007); Huggins and Williams, (2011). They pointed out that there is a



direct relationship between entrepreneurship and competitiveness. Other authors associate entrepreneurial activity with knowledge and innovation, considering it a driving force of economic growth, job creation and increasing competitiveness (Guerrero *et al.*, 2006, Guerrero and Urbano, 2010, Marques *et al.*, 2010). This is because entrepreneurs, as agents of change, are critical to the innovation process, and entrepreneurial ability is a key element in the transfer of knowledge and the process of marketing it (Stefan *et al.*, 2012).

**Table 1. The determinants of entrepreneurship and competitiveness**

<b>Determinants of entrepreneurship (OECD, 2017, pp. 138-142)</b>	<b>Pillars of competitiveness (World Economic Forum, 2017, Appendix A, pp. 322)</b>
a) regulatory framework	1. institutions; 2. infrastructure; 3. macroeconomic environment; 4. health and primary education; 5. higher education and training; 6. goods market efficiency; 7. labour market efficiency; 8. financial market development; 9. technological readiness; 10. market size; 11. business sophistication; 12. Innovation
b) market condition	
c) access to finances	
d) creation and diffusion	
e) entrepreneurial capabilities	
e) entrepreneurial culture	

**Table 2. The determinants about market**

<b>MARKET CONDITION (for entrepreneurship) (OECD, 2017, pp. 138-142)</b>	<b>EFICIENCY MARKET (for global competitiveness) (World Economic Forum, 2017, Appendix A, pp. 322)</b>
Trading across borders	Domestic competition
Barriers to trade and investment	Foreign competition (prevalence of trade barriers; trade tariffs; prevalence of foreign ownership; business impact of rules on FDI; burden of customs procedures; imports as a percentage of GDP)
Service trade restrictive index	Quality of demand conditions (degree of customer orientation, buyer sophistication)
Government enterprises and investment	
Licensing restrictions	
Buyer sophistication	

Entrepreneurial eco-system is at the heart of competitiveness, productivity, innovation and economic growth (Grilo and Thurik, 2005). Small and medium-sized enterprises and entrepreneurship are essential sources of dynamism, innovation and flexibility in developed economies as well as in emerging and developing economies (Ortega-Argilés, Potters and Voigt, 2009).

Studies show that the economic environment – where economic and investment policy decisions are being made – has undergone significant changes that fundamentally change the context in which political decisions are made to stimulate economic growth. For example, through the latest study, WEF (2017, p. vii) signals new important challenges for economic progress, such as: financial vulnerabilities (which are a threat to competitiveness, innovation and technology); innovation (which increasingly attracts the attention of emerging economies);

labour market flexibility and worker protection (as important variables of competitiveness in the fourth industrial revolution).

## Research methodology

The panel of data regarding economic competitiveness of countries and entrepreneurial activity was created by selecting the information provided by the World Economic Forum, GEM Key indicators (2017) and World Bank data Bank (2017). In order to achieve the main objective of our research, namely to test if the global competitiveness of CEE countries depends on the level of entrepreneurial activity and on entrepreneurial motivations (i.e. opportunity or necessity), we apply panel data regression models. Our sample includes only four Central and Eastern European countries, namely: Hungary, Latvia, Romania and Slovenia, because only for these countries were available data for the indicators measuring entrepreneurial activity and entrepreneurial motivations and covering the entire period considered. For the other Central and Eastern European countries members of the European Union the indicators measuring entrepreneurial activity and motivations have data only for one or two years. The analysed period includes ten years, between 2007 and 2016.

The variables considered for our model, the expected relationship between the variables and the hypothesis that we want to test are presented in table 3 below.

**Table 3. Description of the variables used in the analysis and their measurement**

<b>Variable (abbreviation)</b>	<b>Measurement</b>
Global economic competitiveness (GCI)	expressed by the Global Competitiveness Index which is calculated as a weighted average of different aspects of competitiveness and takes scores from 1 to 7
Total early stage entrepreneurial activity (TEA)	the percentage of working age population who either actively involved in starting a new business or are running a new business that is less than 42 months old.
Opportunity motivated entrepreneurship rate (OER)	the percentage of TEA which indicates that their main driver for becoming entrepreneur is the opportunity of being independent, or increasing their income, as opposed to finding no other option for work or just maintaining their income.
Necessity motivated entrepreneurship rate (NER)	the percentage of TEA which becomes entrepreneurs because they had no other option for work
<b>Control variables</b>	
Rate of economic growth (GDP)	annual % growth of Gross Domestic Product (GDP)
<b>Total tax rate (TAX)</b>	as % of commercial profits

*Source:* processed by the authors



Therefore, we consider as dependent variable of our models the *global economic competitiveness* (GCI) of each country, which is expressed by the Global Competitiveness Index provided by the World Economic Forum (WEF). WEF calculates GCI individual for each country as a weighted average of different aspects of competitiveness. Schwab and Sala-i-Martin (2017) describe each one of the twelve pillars of competitiveness (see table 1) which are also grouped into three sub-indexes: basic requirements, efficiency enhancers, and innovation and sophistication factors. Each sub-index has allocated a different weight in the calculation of the global index, depending on the stage of development of the economy. The GCI is measured by scores from 1 to 7 (a lower average score means a lower degree of competitiveness).

The independent variables used are: total early stage entrepreneurial activity (TEA), opportunity motivated entrepreneurship rate (OER) and necessity motivated entrepreneurship rate (NER). The GEM methodology, defines TEA rate as the percentage of working age population who either actively involved in starting a new business or are running a new business that is less than 42 months old. In order to measure entrepreneurial motivations, we consider another two indicators used by GEM Key indicators: the opportunity motivated entrepreneurs (OER) and the necessity motivated entrepreneurs (NER). The OER usually represents the entrepreneurs that start a business for reasons of profit, innovation, and the desire of being independent and are related to innovative activities (McMullen *et al.*, 2008; Stenholm *et al.*, 2013; Cullen *et al.*, 2014). On the other hand, NER represents the entrepreneurs that start a new business because they had no other option for work (Shane, 2009; Valdez and Richardson, 2013; Amorós *et al.*, 2017).

The relationship between a country's competitiveness and entrepreneurial activities have been analysed in the literature by several authors: Acs and Amorós (2008), World Economic Forum (2015), Pawitan *et al.* (2017). They emphasized that when the competitiveness of an economy is rising the entrepreneurial activity is decreasing, while in less competitive economies usually the levels of entrepreneurial activity are higher. This because higher competitiveness can determine the creation of new or better paid jobs and will reduce the willing of individuals to become entrepreneurs.

Starting from those presented above we formulated the following hypothesis:

*Hypothesis 1:* Countries with higher levels of overall TEA will have lower levels of economic competitiveness

Thus, higher levels of entrepreneurship will not determine an increase of economic competitiveness, so, we must pay attention also to the quality of entrepreneurship, and to mention that quality entrepreneurship is very important for the development of an economy, and the innovative entrepreneurs are seen as agents helping markets development and implicitly the increase of economic competitiveness. Usually, the entrepreneurs motivated by opportunity are the ones that apply innovative business techniques, thus an increase of the share of opportunity

entrepreneurs will result in higher levels of innovative entrepreneurial activities. As shown by previous studies (Amorós *et al.*, 2012; Petrakis and Konstantakopoulou, 2015) the improvement of the quality of entrepreneurial activity from a country, and especially the increase of innovative activities carried out by entrepreneurs, are key factors for increasing economic competitiveness. Other studies (Ciocanel and Pavelescu, 2015; Doğan, 2016) have also demonstrated empirically that the national competitiveness can be raised by increasing innovation performance of businesses. In the same note, The Global competitiveness Reports (Schwab, 2017) through the pillars considered in calculating the global competitiveness index (the Innovation capacity pillar and the Business dynamism pillar) mention the significant role played by innovative entrepreneurship for achieving the economic competitiveness of a country. Thus, in our study we associate innovative entrepreneurs with opportunistic entrepreneurs and we expect that a growing share of entrepreneurs motivated by opportunity will be associated with increased levels of economic competitiveness. And, for countries with a large number of motivated entrepreneurs, who are especially looking for a living income and are rarely interested in innovative activities, we expect to get low levels of competitiveness. Therefore, we formulate the following two hypotheses:

*Hypothesis 2:* Countries with higher levels of OER will have higher levels of economic competitiveness

*Hypothesis 3:* Countries with higher levels of NER will have lower levels of economic competitiveness.

We also use a set of control variables, represented by economic indicators considered enhancers of efficiency, namely: rate of economic growth and total tax rate. The data for control variables are gathered from World Bank data bank (2017). The influence of *GDP growth* (annual % growth) on competitiveness has been tested by a series of authors. Therefore, the studies of Podobnik *et al.* (2012), Dobrinsky and Havlik (2014) and Korez-Vide and Tominc (2016) showed a positive functional dependence between GCI as proxy for competitiveness and GDP as proxy for economic growth. Their conclusions highlighted the fact that richer countries are more competitive than poor countries, showing a functional dependence between GCI and GDP.

The level of total tax rate (as % of commercial profits) is another macroeconomic determinant of competitiveness. As shown by (Summers, 1988) the impact of alternative tax reforms is significant for the international competitiveness, excessive tax burdens are usually blamed for the poor international performance of industries. In the same note, other authors (Miller and Kim, 2008; Knoll, 2010) show that high corporate tax rates undermine the international competitiveness of countries. The reduction of the total tax rates could help the competitiveness of a country by attracting more investments that might stimulated the productivity of the firms.



In order to test the effects of the level of entrepreneurship and of entrepreneurial motivations on international competitiveness we apply econometric models. After testing all the variables considered in the analysis (by applying the Augmented Dickey-Fuller test), we analyse the descriptive statistics to identify and describe the main characteristics of the data analysed, and the correlations between variables. Finally, we run the panel data regression analysis by applying different models according to each dependent variable. To be able to identify the best model fitted to our data we apply fixed effects models and also the random effects models.

The models estimated are the following (i- is for the country, t – is for the year):

$$GCI_{it} = \beta_0 + \beta_1 TEA_{it} + \beta_2 GDP_{it} + \beta_3 TAX_{it} + \alpha_i + \varepsilon_{it} \quad (1)$$

$$GCI_{it} = \beta_0 + \beta_1 OEA_{it} + \beta_2 GDP_{it} + \beta_3 TAX_{it} + \alpha_i + \varepsilon_{it} \quad (2)$$

$$GCI_{it} = \beta_0 + \beta_1 NEA_{it} + \beta_2 GDP_{it} + \beta_3 TAX_{it} + \alpha_i + \varepsilon_{it} \quad (3)$$

Where: i represents the countries (HU, LV, RO, SI), t expresses each year considered in the analysis from 2007 to 2016,  $\beta_0$  is the intercept,  $\beta_{1,2,3}$  are the coefficients of the independent and control variables,  $\alpha_i$  represents the stable characteristics of the countries and  $\varepsilon_{it}$  defines the error term of the regression models.

We have to emphasize that there might exist also a reverse relationship between some of the considered variables. For example, some studies (Acs and Amoros, 2008; Amoros *et al.* 2012; World Economic Forum, 2015) have tested if the global competitiveness index influences the level of total entrepreneurial activity and have showed that in more competitive economies the early-stage entrepreneurial activity is lower, while in less competitive economies are registered higher rates of total entrepreneurial activity. The presence of this reverse relationship is a main limit of our empirical analysis.

Our study uses the logical-constructive method and compares the theoretical notions with empirical data. Benchmarking is used to estimate country indicators in the sample and to compare them. The graphical method allows for visual visualization and subsequent analysis.

## Results and discussion

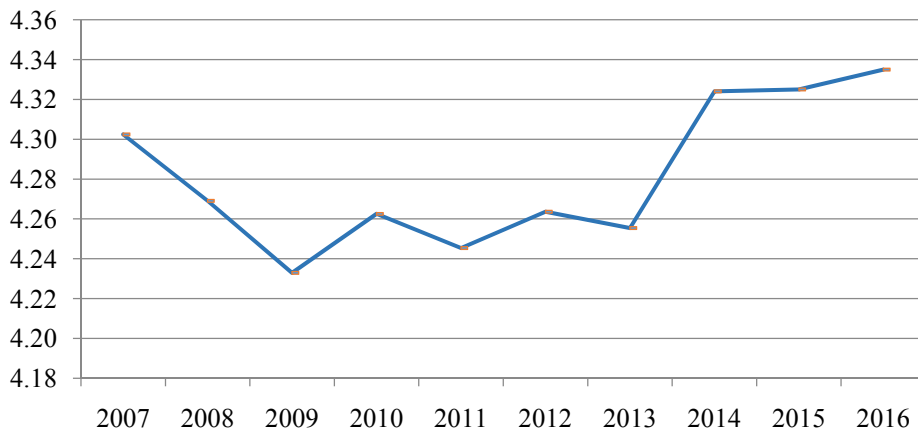
Using graphical method, we observe the evolution of the Global competitiveness index of CEE countries. As seen in figure 1, the economic competitiveness of CEE countries was affected by the recent financial crisis and the following economic down-turn. The lowest level of GCI in CEE countries was registered in 2009 and the highest in 2016. In 2014, the competitiveness of CEE countries registered a big improvement.

When testing the variables for the unit root, we found that several variables had a unit root: global competitiveness index, opportunity motivated entrepreneurship rate and total tax rate, and we calculate their first difference.



Also, in order to obtain accurate results after the regression analysis we also applied the correlation test, and we took into consideration the problem of multicollinearity. The results of the correlation matrix are presented in Table 4. For our variables we did not obtained a high correlation coefficient. We consider as reference point for a high correlation between variables the value of the coefficient of 0.70.

**Figure 1. The evolution of Global competitiveness index in the four CEE countries considered in the analysis, between 2007 and 2016.**



Source: authors own calculations using the data from WEF

The specialized literature does not consider a unitary value for expressing a high correlation. Some studies (Kennedy, 2008) consider that correlation is high when its value is above 0.80 or 0.90, while other studies (Anderson *et al.*, 1990; Bryman and Cramer, 2001) state that there exists multicollinearity when the correlation coefficient is higher than 0.70 or 0.80. Therefore, our results highlight the existence of a moderate correlation between TEA, OEA and NEA, that is why we use separate regression models for each variable. We also obtained a moderate correlation between TAX and OEA and NEA, but the coefficient has the value under 0.50 and it does not affect the accuracy of our results, in accordance with the studies mentioned above.

The summary of the descriptive statistics for all the variables considered in our analysis is presented in Table 5 below. Our results emphasize the fact that the global competitiveness index (GCI) data are distributed between a minimum level of 3.9 (in Romania, 2007) and a maximum of 4.5 (in Slovenia, 2009). The value of standard deviation shows only very small variations of this index between the four CEE considered countries and also for the period analysed.





**Table 4. The correlation matrix for all the variables considered in the analysis**

Variable/probability	GCI	TEA	OEA	NEA	GDP	TAX
<b>GCI</b>	1.000					
	-----					
<b>TEA</b>	0.085	1.000				
	<i>0.610</i>	-----				
<b>OEA</b>	0.570	-0.095	1.000			
	<i>0.000</i>	<i>0.568</i>	-----			
<b>NEA</b>	-0.597	0.237	-0.723	1.000		
	<i>0.000</i>	<i>0.150</i>	<i>0.000</i>	-----		
<b>GDP</b>	0.166	-0.017	-0.162	-0.115	1.000	
	<i>0.318</i>	<i>0.918</i>	<i>0.330</i>	<i>0.489</i>	-----	
<b>TAX</b>	-0.300	-0.023	-0.488	0.419	-0.047	1.000
	<i>0.066</i>	<i>0.890</i>	<i>0.001</i>	<i>0.008</i>	<i>0.775</i>	-----

Note: p-values are in italic

Source: authors own calculations

The level of total entrepreneurial activity varies between a minimum of 3.6% of the population able to work (in Slovenia, in 2011) to a maximum of 14.1% (in Latvia, in 2016). The opportunity motivated entrepreneurs registered the highest variation, and are distributed between 29.1% (Hungary, 2011) and 76% (Slovenia, 2007). The necessity motivated entrepreneurs also have a high level of standard deviation, and are distributed between a minimum of 7.3% (Slovenia, 2012) and 41.3% (Romania, 2011). Therefore, there are obtained substantial cross-country variations.

**Table 5. Summary of descriptive statistics**

Variable	Obs.	Min.	Max.	Mean	Std. deviation
<b>GCI</b>	40	3.971	4.552	4.281	0.136
<b>TEA</b>	38	3.654	14.190	7.994	3.008
<b>OEA</b>	38	29.160	76.070	47.289	10.967
<b>NEA</b>	38	7.364	41.322	23.393	7.993
<b>GDP</b>	40	-14.401	9.979	1.211	4.609
<b>TAX</b>	40	31.000	56.600	41.162	7.609

Source: authors own calculations

As regards the control variables, we obtained significant variations for total tax rate but also for GDP. Thus, the lowest levels of total tax rates measured as percentage of commercial profits were registered in Slovenia (in 2014-2016, 31%) while the highest levels were obtained in Hungary (in 2009, almost 57%). The lowest level of economic growth, a negative one of -14%, was registered in Latvia (in 2009) and the highest, of almost 10% in Latvia (in 2007). These results, are confirming once again that the recent financial crisis had seriously affected the Central and Eastern European countries, their level of economic development, the



entrepreneurial activity but also the level of international competitiveness of the economies.

Performing a more detailed comparative analysis of the descriptive statistics we can conclude that international competitiveness is higher in the countries with lower levels of total entrepreneurial activity. Also, as regards entrepreneurial motivations, the international competitiveness is higher in the countries with lower levels of necessity entrepreneurs and higher levels of opportunity motivated entrepreneurs.

**Table 6. Determinants of global competitiveness index**

Variables	Model 1		Model 2		Model 3	
	Fixed effects	Random effects	Fixed effects	Random effects	Fixed effects	Random effects
<b>TEA</b>	0.015** (0.194)	0.003 (0.058)	-	-	-	-
<b>OEA</b>	-	-	0.004** (0.001)	0.007*** (0.001)	-	-
<b>NEA</b>	-	-	-	-	-0.004 (0.003)	-0.009*** (0.002)
<b>GDP</b>	0.008*** (0.005)	0.004*** (0.005)	0.008*** (0.001)	0.007*** (0.002)	0.005*** (0.001)	0.002*** (0.002)
<b>TAX</b>	0.012*** (0.003)	-0.005*** (0.001)	0.433 (0.005)	0.002 (0.001)	0.003 (0.003)	-0.001 (0.001)
<b>Adj-R<sup>2</sup></b>	0.4528	0.1200	0.4334	0.3403	0.4302	0.3140
<b>F-stat.</b>	6.104***	2.546***	5.718***	7.364***	5.657***	6.645***

Note: we use \*, \*\* and \*\*\* in order to indicate the significance levels, respectively 10%, 5% and 1%, Standard errors in parenthesis.

Source: authors' own calculations

Based on the results obtained after running the panel data regression analysis, we want to highlight which is the impact of the changes in the level of entrepreneurial activity and entrepreneurial motivations on the level of international competitiveness of countries. For the empirical analysis we have adopted the Pooled Least Square method. The serial correlation in the residuals and the suspicion of the existence of transversely heteroskedasticity has been accounted for by using White cross section method to determine the variance-covariance matrix. The White cross section method is derived from the treatment of the pool regression as a multivariate regression. We apply two versions of the panel data regression models: Fixed effects model (FE) and Random effects model (RE), comparing their results in Table 6. Our empirical findings confirm the three hypotheses formulated above and are in line with the findings of previous studies (Acs and Amorós, 2008; Amorós *et al.*, 2012; World Economic Forum, 2015; Petrakis and Konstantakopoulou, 2015; Ciocanel and Pavelescu, 2015; Doğan, 2016; Pawitan *et al.*, 2017). Our results come to complete the previously obtained results by highlighting the significant role played by the increase of the quality of



entrepreneurial activity in increasing economic competitiveness of developing countries. As we have seen from our data base, in developing countries the share of necessity motivated entrepreneurs is higher than the share of the entrepreneurs motivated by the necessity. By presenting the role played by innovative entrepreneurship, and sustaining our affirmations with these empirical results, we consider that we can show why it is important that the decision makers from developing countries to support opportunity motivated entrepreneurs, especially those using innovative techniques (introducing new products to the market, new production techniques or new business techniques, etc.).

In the following we analyse the empirical results obtained for each regression model. Therefore, for Model 1 (where the dependent variable is total early-stage entrepreneurial activity rate) we obtained different results when applying different models. For the case of the Fixed effects model TEA rate, GDP growth and total tax rate appear to be positively and statistically significant correlated with global competitiveness index. In the case of Random effects model only GD growth is positively and statistically significant correlated with GCI, while total tax rate is negatively related.

For Model 2 the dependent variable is opportunity motivated entrepreneurship rate. Here, we found similar results regardless of the model considered (fixed effect or random effects). Therefore, opportunity motivated entrepreneurs are positively and statistically significant related with global competitiveness index. A positive and statistically significant relation was also obtained in the case of GDP growth.

The results obtained for model 3 (where the dependent variable is necessity motivated entrepreneurs), differ a little. So, necessity motivated entrepreneurs are negatively and statistically significant related to global competitiveness index only for the random effect model. While, GDP growth is positively related with GCI regardless of the model (fixed or random effects).

The results obtained for the F test are statistically significant at 1% level value for all the analysed models, and shows the relevance of the considered models for investigating the relationship between entrepreneurship, entrepreneurial motivations and global economic competitiveness. However, we notice that the models could be improved by including also other variables as determinants of economic competitiveness, because the values obtained for R-Squared Adjusted indicate that only between 30 and 45% of the variance of Global competitiveness index (even less for TEA and Random effects model 12%) it can be explained through the variance of entrepreneurial activity level of entrepreneurial motivations. This is a limitation of our study which we intend to overcome in future research on this theme.

To identify which one of the two analysed models (namely fixed effects model or random effects model) is more appropriate for interpreting our empirical results we apply the Hausman test. Through this test we formulate two hypotheses  $H_0$  = random effects and  $H_1$  = fixed effects. The results obtained after applying the Hausman test for each one of our models are summarized in Table 7. We run the Hausman test for each model in part, but, because we obtained the same results we



presented only one table. The results show that differences across countries do not affect the relationships between variables. This is a somewhat expected result because the analysed countries are CEE countries (Hungary, Latvia, Romania and Slovenia) and have similar degrees of development, with no major differences between their economic development levels. Therefore, the random effects model is more appropriate for the interpretation of our empirical results.

**Table 7. Results for the Hausman test**

<b>Correlated Random Effects – Hausman Test</b>			
<b>Equation: Model</b>			
<b>Test cross-section random effects</b>			
<b>Test Summary</b>	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
<b>Cross-section random</b>	0.000000	3	1.0000

*Source: authors own calculations*

We therefore might conclude that for Central and Eastern European countries the level of total early stage entrepreneurial activity is not significantly influencing the economic competitiveness. But, the entrepreneurial motivations are significant determinants of competitiveness. An increase in the level of opportunity motivated entrepreneurs has a positive effect on economic competitiveness because a significant part of this entrepreneurs are interested in gaining more money thus they try to be innovative and to create new products on the market therefore stimulating competitiveness. On the other hand, the increase in the level of necessity motivated entrepreneurs determines a reduction of the international competitiveness of countries, because, these individuals decide to become self-employed in the absence of other ways of gaining their incomes, and are just interested in ensuring their living. They are not usually interested in innovative business activities and do not help the development of the competitiveness of business sector. Moreover, usually increased levels of necessity entrepreneurs are a sign of lower economic development, higher tax rates or inflation rates.

The level of economic growth is positively and strongly correlated with global competitiveness in all the case. But total tax rate is negatively related with competitiveness only in the model considering Total early stage entrepreneurs as dependent variable.

We have to keep in mind that the analysis was realized only for Central and Eastern European countries and these results might be of this form because of the specifics of these economies, as former socialist countries. It is possible that when analysing more developed European economies to obtain different results.

## Conclusions

European Competitiveness Reports published by the European Commission describe a competitive economy as being that economy that has a consistently high rate of productivity growth, and mentions that economic competitiveness of a



country depends on the performance of SME sector, on the growth and employment potential of these firms. To be competitive, a country has to outperform its competitors in terms of research and innovation, entrepreneurship, competition, education and training. When a country has high rates of economic growth, which can ensure a constant increase in real wages, will be able to promote and sustain the domestic firms on the world market but also would help the creation of new jobs. Under these circumstances, that country can be considered as having a competitive economy.

The originality of our research results from analysing the relationship between entrepreneurship and entrepreneurial motivations and the level of economic competitiveness for a group of Central and Eastern European countries. Our empirical results have shown the different effects of entrepreneurial activity on economic competitiveness according to the motivation of individuals. Therefore, we consider that the results of our research should be of interest to policymakers, who should be concerned about identifying the best policies to sustain entrepreneurs motivated by opportunity which help the increase of competitiveness for their countries. Several measures that could be adopted by the decision makers in order to support innovative entrepreneurship are: providing easy access to funding schemes to help and support entrepreneurs in incipient stages (and not only) which have innovative ideas, facilitating procedures to create a new business through reducing the number of procedures needed, the number of days and start-up costs, using various instruments to encourage entrepreneurs to apply innovative production techniques and also ensuring access to entrepreneurial education. We generally refer to measures to improve the business and economic environment so as to provide opportunities for obtaining significant earning from the entrepreneurial activity. Most new entrepreneurs on the market are small and medium-sized enterprises and, in order to avoid doing business just for obtaining living income and being interested in applying innovative procedures in their work, they must benefit from an economic environment well coagulated offering opportunities for innovative business ideas. Thus, we have first tested the relationship between the level of total early stage entrepreneurial activity on the global competitiveness index in four Central and Eastern European countries which are also members of the European Union. The results obtained show that in our case the changes in the level of entrepreneurial activity do not have any influence on the international competitiveness of countries. Then we concluded that is not sufficient to raise the level of entrepreneurial activity in order to increase competitiveness. So, we deepened the analysis by considering the entrepreneurship rates grouped by the motivation of entrepreneurs: opportunity or necessity. Our results confirmed our expectations and highlighted a positive relationship between opportunity motivated entrepreneurs and economic competitiveness and a negative influence from the necessity motivated entrepreneurs. In the countries where are increasing the level of entrepreneurs motivated by opportunity the economic competitiveness is rising, because the motivation of this entrepreneurs is to gain more money thus they try to be innovative and to create new products on the market therefore stimulating competitiveness. In the countries where are registered



increase levels of entrepreneurs motivated by necessity is registered a reduction of the international competitiveness of the economy, because, these individuals decide to become entrepreneurs for survival reasons and their activities do not help the development of the market.

In conclusion we consider that every country has to work on the development of those determinant factors of competitiveness that are the most important for increasing their international image. However, it is worth noting that all competitiveness pillars are important and their effects are interrelated, thus a country should not focus only on increasing the innovative entrepreneurship and neglect the development of the others.

The key limitation of our research is related to the fact that data availability has limited the analysis over a period of time that corresponds to a period of financial crisis and also to a post-recession period and therefore the results cannot be generalized. The study could be extended in two directions: intensive (by expanding the analysis on other relevant factors of competitiveness, in order to compare the results with international data) and extensive (by extending the analysed period and the number of analysed countries). In future studies we intend to enhance the analysis by including the relationships between entrepreneurship and competitiveness, by adding also other indicators measuring different aspects of entrepreneurship, especially of innovative entrepreneurship, but also some other factors within each group of the pillars of competitiveness. Also, when including other countries in the analysis we might obtain different results, because of the specifics of the CEE economies, as former socialist countries.

**Acknowledgement:** This work was supported by a grant of the Alexandru Ioan Cuza University of Iasi, within the Research Grants program, Grant UAIC, code GI-UAIC-2017-02

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# HOW CAN WE CREATE VALUE FROM ENTERPRISE CONCENTRATIONS? A META-ANALYSIS OF THE SCIENTIFIC LITERATURE ON M&AS IN THE EUROPEAN UNION

George Marian AEVOAE\*

## Abstract

*The aim of this paper is to present, using a quantitative and qualitative analysis of the scientific literature published by authors from the European Union, regarding the concepts of value creation/destruction through mergers and acquisitions (M&As) and their quantification, the latter being made by measuring the abnormal returns and the performance of the concentration. The purpose of the paper is reached by conducting a meta-analysis of the scientific literature on mergers, acquisitions and synergy. The sample consists of 83 papers, published between 1999 and 2017, which approach the presented subjects from both a theoretical perspective and an empirical one. The analysis and classification of the literature made possible the identification of the main topics in the field and contributes to a future research agenda in the field. This analysis has, as main purpose, to draw attention on the preoccupation of the researchers and practitioners in the field, by pointing out the results and the main conclusions of the studies from the chosen sample of papers.*

**Keywords:** synergy, post-merger integration, abnormal returns, domestic and cross-border mergers and acquisitions, meta-analysis

## Introduction

Mergers and acquisitions (M&As) are a vast field of research for practitioners and researchers alike. These are some of the preferred growth strategies of the last decade (proof is the M&As waves worldwide). The complex phenomenon that M&As represent has attracted the interest of researchers of a broad range of disciplines: management, accounting, finance, encompassing the financial, strategic, behavioural, operational and cross-cultural aspects of this challenging and high-risk activity. While, in the recent years, research into the human and psychological aspects of M&A have increased in prominence, the literature continues to be dominated by financial and market studies (Cartwright and McCarthy, 2005).

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\* George Marian AEVOAE is a PhD candidate at Alexandru Ioan Cuza University of Iasi, Romania; email: aevoae@gmail.com.

In this paper, we provide a meta-analytic synthesis of the findings of studies on synergy effect resulting from external growth operations, namely mergers and acquisitions. From an economic point of view, synergy is a phenomenon that typically occurs in the context of M&As. This effect refers to the likelihood of creating value as a consequence of these types of operations. In the scientific literature M&As are treated both separately and together. Few are those who have set out to make a conceptual delimitation from an economic, legislative or fiscal point of view. The two operations are so similar that, in many papers there is no difference between them, the authors preferring to treat them together.

Once, the only way in which the researchers were documenting their work was by going to the library. Nowadays, the information technology has brought the possibility of querying databases. If we were to understand how querying works, let us try and imagine a librarian who knows where to find, in optimal timing, the materials the researchers need, all in a very short time, like milliseconds. The query is usually based on keywords and time period. And, if the results of the search are not the expected ones, all the aforementioned steps have to be made all over again. So, online databases made research at only a few clicks away, and no librarian. The advantages of querying online scientific databases are obvious in this respect.

In order to establish the current state of knowledge, we carry out a quantitative and qualitative analysis of a number of research papers, regarding M&As, extracted from four scientific databases. This was possible through the Anelis Plus platform which operates with the purpose of “representing the information and documentation interests [...], promoting knowledge and supporting the implementation of education and research policies through the acquisition of scientific electronic resources for education and research [...] of the Romanian users”. The selected databases are “Web of Science” (WOS), “SpringerLink”, “Scopus”, and “Taylor & Francis Online” (T&F). It is worth mentioning that the reason we only stopped at these scientific databases lies in the fact that, on the aforementioned platform, we have been granted access only to them. The principle behind these databases is that of querying, of advanced search in the online platform, through a variety of scientific papers dealing with various topics and belonging to various fields. Given the title of the conference, we extract only the papers with authors from the European Union, in order to establish which were the main topics of research, in the 28 member states.

## **1. Quantitative dimensions in analysing the papers regarding merger, acquisitions and synergy**

In elaborating a research paper, the delimitation of the knowledge in the field is necessary. Thus, it is imperative to present, in the form of an inventory of ideas, the issues and topics regarding M&As that have been and still are discussed and analysed in the relevant scientific literature.



### 1.1. The selection of the sample of scientific papers

In order to reach the purpose of the paper, we choose a composed structure: “mergers and acquisitions” or “mergers” or “acquisitions” and “synergy”. The reason we choose this structure was because we want to identify those papers which make references to the controverted synergy effect from M&As. On a simple search on any of the selected databases using the word synergy, there can be thousand results (i.e. 45.107 (WOS, 2018), 95.052 (SpringerLink, 2018), 56.855 (Scopus, 2018), 45.890 (T&F, 2018)). The explanation is simple: the synergy effect occurs not only in the context of merger and acquisition operations, but also in other fields such as chemistry, biology, psychology, IT etc.

In constructing the query structure, we have considered the idea that we want to identify those papers that address the synergy effect from both merger and acquisition operations, but also together, if it is the case. The “library” behind the previously listed databases gives us the opportunity to search for articles, not just by keywords, but also within a time frame chosen by each researcher. In order to carry out the study, both in quantitative and qualitative terms, we present, in Table 1, the number of articles extracted from each database, but also the followed steps, in order to keep, for the final analysis, only the papers that were published by European authors as sole, first or second author.

**Table 1. Number of papers selected from the databases**

Selection criterion		Preliminary results	No. of paper duplicates	No. of irrelevant papers	No. of papers with authors out of EU	No. Of papers with authors within EU
		(1)	(2)	(3)	(4)	(5)
Databases	WOS	141	4	59	45	25
	SpringerLink	134	5	103	21	5
	Scopus	181	78	59	24	20
	T&F	330	9	271	25	33
	Total	786	96	492	115	83

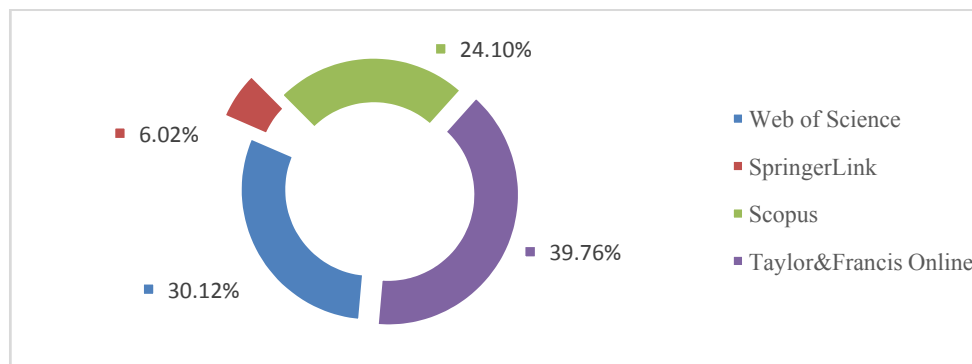
Source: own representation

The first column of Table 1, respectively preliminary results, is the number of articles obtained by querying the databases using the aforementioned search expressions. We note that the total number of resulted papers is 786, divided in percentages between the selected databases as follows: WOS – 17,94%, SpringerLink – 17,05%, Scopus – 23,03%, T&F – 41,98%. The second column refers to the duplicate papers which were eliminated from one of the databases and kept in the one which is more notorious. The third column is dedicated to irrelevant papers, which discuss synergy from a perspective which do not represent our area of interest. The forth column refers to those papers that where published by authors outside the European Union. Because our study is focused only on papers written by European authors, we have excluded 115 papers. Thus, our final sample of papers consists of 83 scientific articles.



The distribution of the 83 papers between the four databases is graphically represented in Figure 1.

**Figure 1. The sample of scientific papers divided between the four databases**



Source: own representation

In percentages, the majority share is held by T&F with 39,76%, followed by WOS, 30,12%; Scopus, 24,1% and SpringerLink, 6,02%, as can be seen in Figure 1.

**Table 2. The distribution by years of the sample**

Year	1999	2001	2002	2003	2004	2005	2006	2007	2008
No.of papers	1	1	1	1	1	3	2	6	5
Year	2009	2010	2011	2012	2013	2014	2015	2016	2017
No.of papers	3	7	4	8	4	3	11	12	10

Source: own representation

As presented in Table 2, the most papers were published in the last three years (2015, 2016, 2017), because of the increase in the volume and the value of the M&As in Europe (2015 – 1.161 billion EUR and 17.520 transactions; 2016 – 1.003 billion EUR and 18.100 transactions; 2017 – 976 billion EUR and 17.068 transactions) (Institute for Mergers, Acquisitions and Alliances – IMAA, 2018).

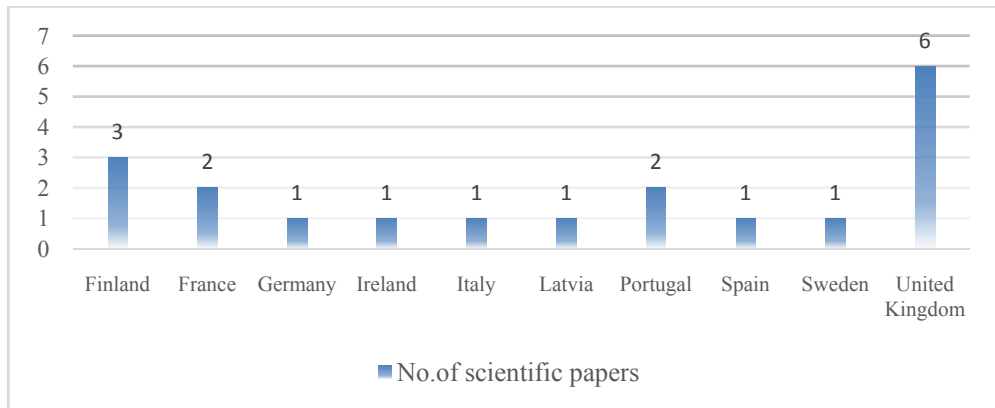
## 1.2. The analysis of the journals from a geographical perspective

In Figure 2, we graphically represent the country of residence of the researchers who published scientific papers as sole authors.

We note that most of the work in this category is from United Kingdom (6 scientific papers), followed by Finland (3 scientific papers) and, on equal terms, by France and Portugal (2 scientific papers). As can be seen in Table 3, the countries can be coded using the three-letter code assigned by the International Olympic Committee (IOC) to each participating nation and other groups competing in the Olympic Games. We prefer this coding system because of its notoriety since 1896,

when Pierre de Coubertin, a French historian, reopened the Olympic Games after a period of 1500 years. Thus, he is considered to be the founder of IOC and of the modern Olympic Games.

**Figure 2. The number of papers with one author**



Source: own representation

**Table 3. The country abbreviations using IOC code**

Country	Abbreviation	Country	Abbreviation
Austria	AUT	Italy	ITA
Belgium	BEL	Latvia	LAT
Brasilia	BRA	United Kingdom	GBR
Canada	CAN	Pakistan	PAK
Popular Rep. of China	CHN	Poland	POL
South Korea	KOR	Spain	ESP
Finland	FIN	United States	USA
France	FRA	Of America	
Germany	GER	Sweden	SWE
Greece	GRE	Netherlands	NED

Source: Olympian Database<sup>1</sup>

In Table 4, as it can be seen, we made a correlation between the first and the second author's country. Starting from the idea of a cross-border merger, we consider that a phenomenon such as the synergy effect should not be studied only by authors from the same country of residence, but also may be the occasion for international collaborations. At least one author is from the European Union. At the intersection of the abscissa with the ordinate, we can identify whether there have been collaboration within the same country, as well as collaborations between

<sup>1</sup> Data retrieved from <http://www.olympiandatabase.com/index.php?id=1670&L=1>



authors from different countries. In this analysis, we eliminate the papers with a sole author (19 articles). Thus, the table is based on the rest of 64 scientific papers.

**Table 4. The geographical correspondence of the first and second authors' country**

	AUS	BEL	CAN	FIN	FRA	GER	GRE	ITA	LAT	NED	POL	CHN	KOR	ESP	SWE	UK	USA	Total
AUS	2																	2
BEL		1																1
BRA																1		1
FIN				5											1		1	7
FRA					2		1						1			2	1	7
GER						5						1						6
ITA								7								2		9
LAT									1									1
NED										2							1	3
PAK						1												1
POL											1							1
CHN																1		1
ESP														1				1
SWE				2											1			3
UK	1		1							2						10		14
USA					2			1		1						2		6
Total	3	1	1	7	4	6	1	8	1	5	1	1	1	1	2	18	3	64

Source: own representation

As shown in Table 4, the most collaborations within the same country are from United Kingdom (10 scientific papers), followed by Italy (7 scientific papers), and, on the same level, by Finland and Germany (5 scientific papers). If we make reference to collaborations between authors with residence in different countries, the image is pretty equilibrated, having at most two collaborations of this kind.

### 1.3. The analysis of the journals in the sample using elements of research quality

The principle according to which a database is comprised of some scientific journals in the detriment of others is a matter debated by each platform. The journals are usually classified according to some indicators, including the H index. This index reflects both the number of publications and the number of citations per publication. Its purpose is to improve and impose simpler measures to quantify the prestige of a journal. It should be noted that the use of this index is relevant only for the comparison of the quality of research per author who initiates scientific research in the same field, since citation conventions vary widely between different domains.

In Table 5 we represent a downward sorting of the first ten scientific journals, using the H index as sorting criterion for the year 2016, out of 59 journals that are in our database. The platform we extracted from the H index is the Scimago Journal and Country Rank (Scimagojr). This platform also uses an independent indicator, SJR, which also measures the prestige of the scientific journal. We note in Table 5, that the most relevant journal is Review of Financial



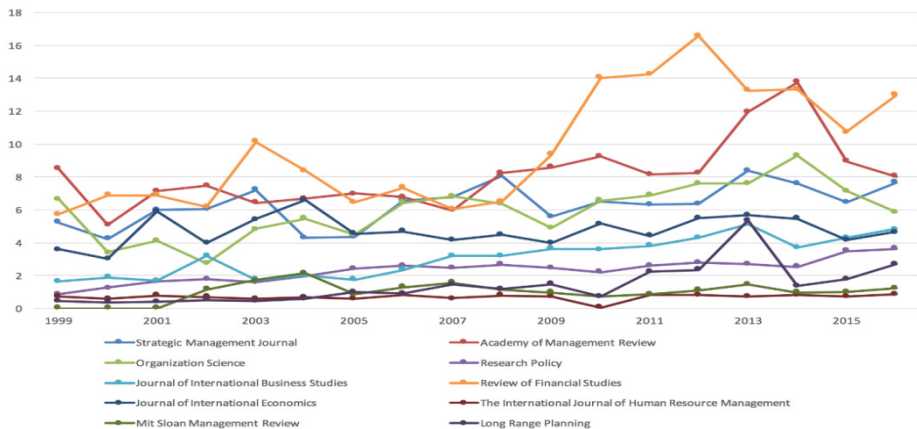
Studies because it has the highest SJR. In order to have a complete picture of the SJR index for the 10 selected journals, in Figure 3 we present the evolution of the SJR index for the 1999-2016 period of time.

**Table 5. The first ten scientific journals, after H index and SJR**

No.	The name of the journal	H index	SJR	No. of papers	Publishing period
1	Strategic Management Journal	219	7.651	2	2002-2016
2	Academy of Management Review	216	8.041	1	2017
3	Organization Science	186	5.87	1	2008
4	Research Policy	178	3.625	1	2016
5	Journal of International Business Studies	148	4.848	1	2016
6	Review of Financial Studies	135	12.989	1	2017
7	Journal of International Economics	108	4.657	1	2001
8	The International Journal of Human Resource Management	82	0.871	6	2006-2016
9	MIT Sloan Management Review	77	1.231	1	2012
10	Long Range Planning	76	2.697	2	2003-2007

Source: own representation

**Figure 3. The evolution of the SJR Index for the selected journals**



Source: own representation

This indicator is calculated on a yearly basis and Scimagojr generates it as early as 1999, having as reference point the Scopus database. In Figure 3, we represent the evolution of the selected journals per annum. As seen, the first position is held by Review of Financial Studies, followed by Academy of



Management Review and Journal of International Business Studies. The last position was chosen due to the evolution of the SJR for the year 2016.

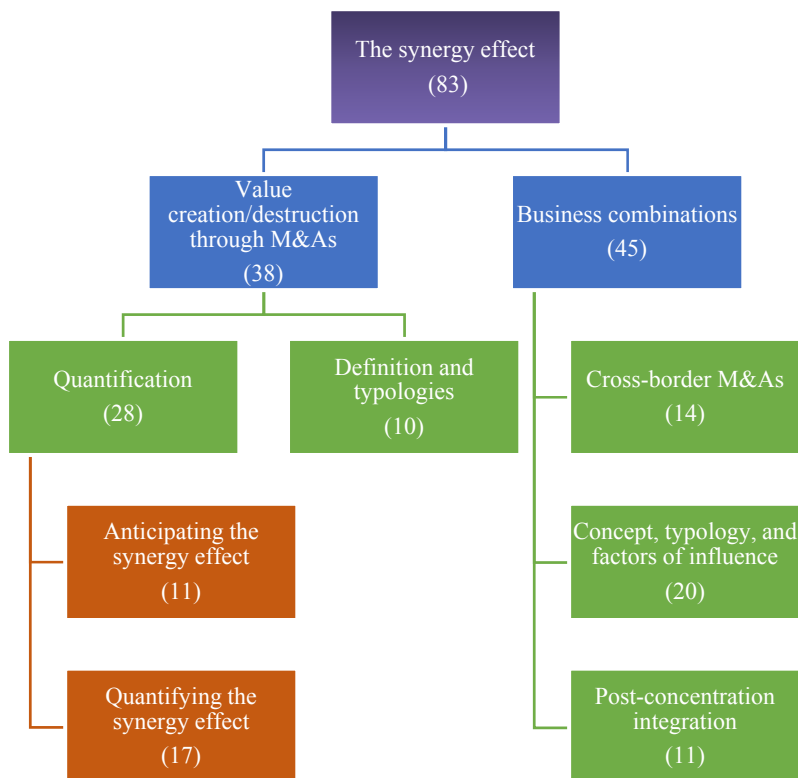
#### **1.4. The analysis of key research directions in the field of mergers, acquisitions and synergies**

The major aspects regarding M&As are presented in Figure 4, using a deductive reasoning from general issues to particularities, constituting as many possible research directions. The benchmark is represented by the synergy effect from M&As which breaks down into two subdomains of analysis namely: *the creation/destruction of value through M&As* and *business combinations*. These in turn are detailed into a tree structure. The first subdomain mentioned above splits into two levels: *defining the concept of value creation and its typologies* and, respectively, *the quantification of the value created by M&As*. For the second subdomain we identify the following levels: *cross-border M&As*; *concept, typology and factors of influence in M&As*; and *post integration-concentration*. Only within the subdomain creation/destruction of value through M&As we also resort to detailing a third level of analysis, as the purpose of our research is to elucidate the mystery underlying the concept of value creation, respectively the one of synergy.

The reason we have used this way of representation starts from the premise that our research topic addresses the issue of analysing the synergy effect through M&As. But we consider that we cannot discuss about synergy without referring to its features, this being the motive of why we detailed it at an interdisciplinary level. Thus, we observe that most of the papers gather around the concept of business combinations (45 scientific papers), and, within this topic, 20 papers detail the concept, typology and factors of influence. Regarding the topic of value creation/destruction through M&As, most of the papers (28 scientific articles) present, using theoretical or empirical models, ways of quantifying the value M&As are creating for the shareholders of the involved entities.

Before performing a qualitative analysis, we use the coding system for the first two levels of topics, the study type, the approach methods and the time period (for which we take into consideration the merger waves in Europe, as presented by the Institute for Mergers, Acquisitions and Alliances), detailed in Table 6. This method of coding and classification is similar to the one used by Silva *et al.* (2017), Jabbour (2013), Large Junior and Godinho-Filho (2010), and Seuring (2013). The classification system consists of five categories, coded with letters from A to E. For each category, a number between 1 and 5 is assigned. Thus, it can be said that this type of classification consists of an aggregation of letters and numbers that together represent an encoding for an item from a particular category.

**Figure 4. The graphical representation of the main topics of research**



Source: own representation

In Table 6, we propose a coding system which will be used from this point forward. The publication period is in the form of intervals, the latter referring to the waves of mergers and acquisitions that have taken place worldwide. The first wave of mergers and acquisitions took place between 1985 and 1992, the second was between 1993 and 2002, the third between 2003 and 2009, the fourth between 2010 and 2013, and the last one between 2014 and 2017. In our selected papers, we didn't identify any papers that were published during the first merger wave, so this period will be excluded from our coding system.

Table 7 shows that, for the first topic (A1), there is an equilibrated distribution between the last three merger waves (as noticed, the first merger wave wasn't taken into consideration because the first paper in our database was published in 1999). Regarding the second topic (A2), most of the papers were published between 2014 and 2017, which underlines the fact that the topic of value creation/destruction was a preoccupation for the researchers in the last years.



**Table 6. The coding system**

Main aspects of the analysis	Specific topics
A. Main topic	1. Business combinations 2. Value creation/destruction through M&As
B. Secondary topic	1. Cross-border mergers 2. Post-concentration integration 3. Quantification 4. Concept, typology, and factors of influence 5. Definition and typologies
C. Study type	1. Empirical 2. Theoretical 3. Both
D. Approach methods	1. Statistical study 2. Survey 3. Mathematical model 4. Case study 5. Theoretical model
E. Time period	1. 1993 – 2002 2. 2003 – 2009 3. 2010 – 2013 4. 2014 – 2017

Source: own representation

**Table 7. Main topic – correspondence table**

Main Topic	Year of publication				
	E1	E2	E3	E4	Active Margin
A1	2	15	13	15	45
A2	1	6	10	21	38
Active Margin	3	21	23	36	83

Source: own representation using SPSS 23.0

As represented in Tables 7-10, the columns are the same representing the time periods of the merger waves (E1-E4). Consequently, the totals from the columns remain constant but the content of the tables will change according to the variables considered, coded in Table 6.

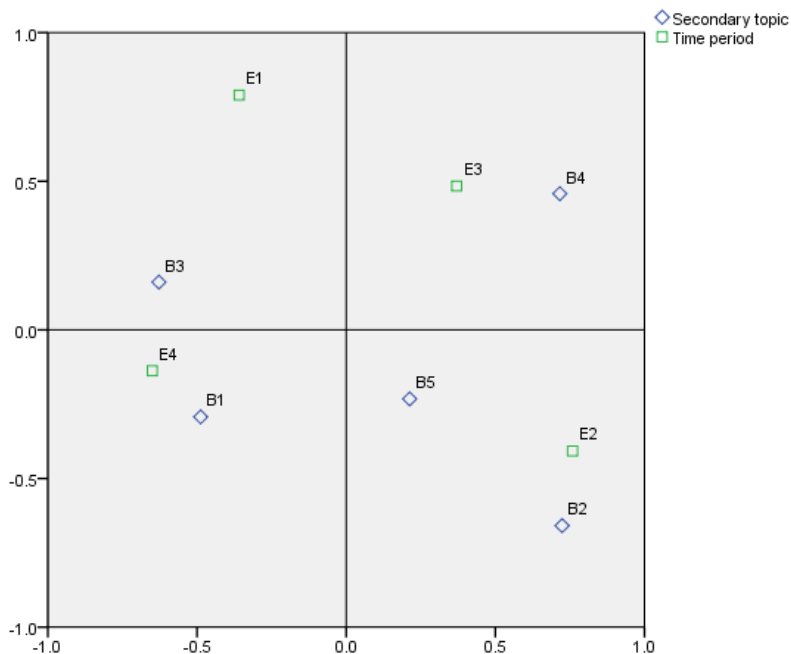
Starting from the categories presented in Table 6, we realized the correspondence between the E category, the publishing period and the B category, the secondary topic, using Factorial Correspondence Analysis (FCA). According to Jaba and Robu (2011), the method refers to a wide range of statistical techniques used to represent a set of variables in accordance with a small number of factors, the role of which is to identify the existing relationship between two or more variables by establishing templates between them. This correspondence allowed us to see the time when some topics were dealt with at the expense of others.

**Table 8. Secondary topic – correspondence table**

Secondary Topic	Year of publication				Active Margin
	E1	E2	E3	E4	
B1	1	3	2	8	14
B2	0	5	3	3	11
B3	1	3	7	17	28
B4	1	7	8	4	20
B5	0	3	3	4	10
Active Margin	3	21	23	36	83

Source: own representation using SPSS 23.0

Regarding the secondary topic, Table 8 shows that, among all the second level topics, most of papers refer to quantification (B3), more precisely 28 scientific articles, the highest of which was recorded in the last wave of mergers, 2014-2017, respectively 17 scientific papers.

**Figure 5. AFC regarding the correspondence between the secondary topic and the publication period**

Source: own representation using SPSS 23.0

The first identified topic, cross-border mergers (B1), has shown interest for researchers between 2014 and 2017, given the evolution of global markets and the expansion of multinational companies. In addition, the business world was



recovering, in 2012-2013 period of time, after the financial crisis that has disrupted financial markets on all continents. The second topic we identified, the post-concentration integration, along with the fifth one, related to the definition of value creation concept and its typologies, were two major points of reference in the 2003-2009 period of time, as can be seen in Figure 5. The two are interrelated because, according to the specifics of M&As, in the period immediately following the conclusion of the transaction, the first signs of value creation are identified: anticipation of the synergy effect which will then be correlated with actual outputs, i.e. abnormal returns, which reflect the capital market's reaction either to the announcement of the merger or as a result of the conclusion of the transaction. During the period 2010-2013 (E3), the interest of researchers in mergers and acquisitions was attracted by the concept of business combinations, their typology and factors of influence. The last issue that we have addressed is of particular importance and is intended to quantify the synergy effect. According to the graphic representation, it was studied with priority during the period 1993-2002.

Because of the importance of M&As in today business world, the main focus of the researchers was on the quantification of the elements affecting or resulting from the business combinations: abnormal returns, performance, value creation or synergy. Thus, according to the information in Table 9, for the most prolific period (2014-2017), only 4 out of the 36 papers are theoretical, the rest of them being either empirical (14 papers) or mixt (18 papers). The same proportion can be applied to the whole sample (out of the 83 scientific papers, 14 are theoretical – 16,87%, 28 are empirical studies – 33,73%, and 41 are comprising both a consistent literature review of the topic and an empirical study – 49,40%).

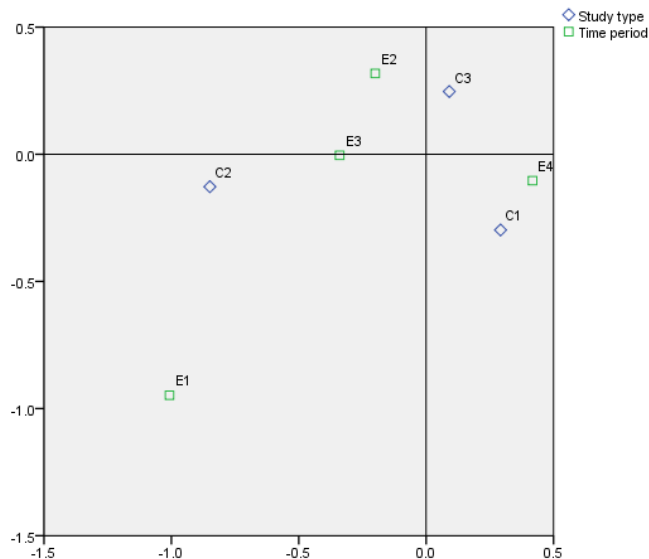
**Table 9. Correspondence Table**

Study type	Year of publication				
	E1	E2	E3	E4	Active Margin
C1	1	6	7	14	28
C2	1	4	5	4	14
C3	1	11	11	18	41
Active Margin	3	21	23	36	83

*Source:* own representation using SPSS 23.0

The graphical representation is presented in Figure 6.

**Figure 6. AFC regarding the correspondence between the study type and the publication period**



Source: own representation using SPSS 23.0

In Table 10, a correlation between the periods of the merger waves and the approach methods found in the papers from our sample can be found. Thereby, in the last 4 years (2014-2017), the main focus of the researchers was to use statistical studies (23 scientific papers), in order to issue conclusions regarding the main aspects affecting the closing, the performance, the success or the failure of the M&As.

**Table 10. Approach methods – correspondence table**

Approach methods	Time period				Active Margin
	E1	E2	E3	E4	
D1	1	8	8	23	40
D2	0	1	4	1	6
D3	1	4	2	1	8
D4	0	4	4	7	15
D5	1	4	5	4	14
Active Margin	3	21	23	36	83

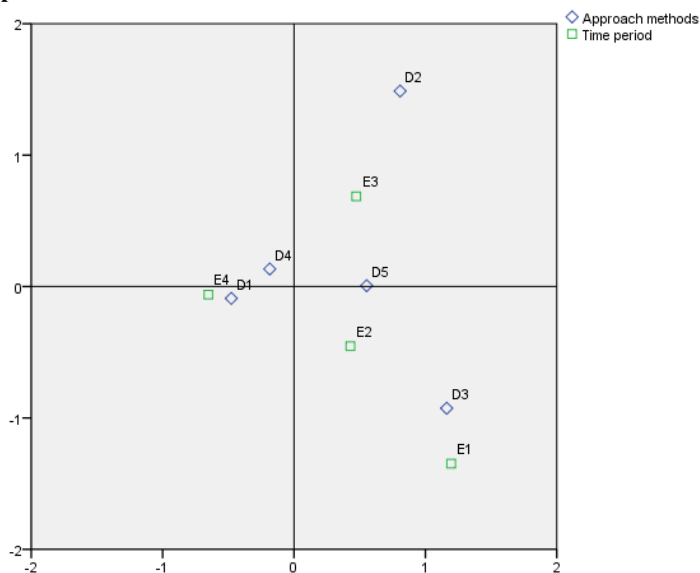
Source: own representation using SPSS 23.0

The graphical representation of the Table 10 is found in Figure 7.





**Figure 7. AFC regarding the correspondence between the approach methods and the publication period**



Source: own representation using SPSS 23.0

The purpose of the quantitative analysis is the presentation, using numbers and percentages, of the main trends in the research of the M&As in the scientific literature. As a result, we can notice an increase of the preoccupation of the researchers in the empirical analysis of the M&As and of their main topics (value creation, synergy, abnormal returns, etc.).

## 2. Qualitative approaches of the scientific literature: concepts and main research directions

The creation of value through mergers and acquisitions (M&As) is a major analysis theme. Given its complexity, in Figure 4, we identified a number of topics which will represent the starting point for the following analysis.

A first research direction identified in the study of the specialized literature is the one related to the creation/destruction of value through mergers and acquisitions, and, within it, we are considering the definition of the concept of value creation and its typologies.

Synergy is one of the key reasons underpinning strategic M&As. It is a benchmark in business combination research and plays an important role in the decision-making that determines these operations, but also in terms of their performance, seen from the perspective of both companies. According to Gaggiotti (2016), synergy is commonly used in the corporate world and in academia, particularly in business schools, to refer, always in positive terms, to a new status

or output created as a result of assembling things (capitals, brands, expertise, products, knowledge, people). Garzella and Fiorentino (2017) put forward two antagonistic theories: one that sees synergy as the main reason for M&As (the synergy hypothesis), and one that sees synergy as the most important cause of business combinations' failure (the synergy inflation).

With regard to successful acquisitions, their characteristics are detailed, starting from the fact that the main purpose is to achieve the synergy effect. Thus, it becomes necessary to identify the additional conditions that need to be fulfilled in order to increase the level of synergy or to optimize the processes leading to its achievement (Chadam and Pastuszak, 2013). Canina *et al.* (2010) analyzes the success of a merger or acquisition, focusing on the indicators that can be analysed at each stage of the combination: the pre-merger/acquisition period; the actual transaction and the post-merger/acquisition integration period.

As for the typology of synergies that may arise from M&A operations, usually the authors are referring to operational and/or financial synergies. Campos and Vazquez-Brust (2016) propose a new type of synergy, the lean and green one, which can be defined as the additional effects produced by the implementation of green and lean practices together. Simply stated, lean and green synergy results when the value added to environmental and financial performance by the whole (lean and green) is greater than the sum of the value added by the individual parts. In the case of horizontal M&As, the companies involved are able to benefit from cost-based synergies and revenue-based synergies, particularly through economies of scale, which reduce production costs but also increase revenues by increasing sales (Häkkinen *et al.*, 2005).

In the post-M&A period, three sections are identified that can lead to positive or negative changes in the companies involved in the concentration operations, depending on how they are managed: work organization, industry relations and management systems (Thompson *et al.*, 2006). In this context, the importance of human resources must be presented in relation to the cultural integration of the organizations involved in the business combination.

By analysing the conceptual framework for M&As, Fiorentino and Garzella (2015) identified some dangers in the erroneous evaluation of possible synergy effects generated in a company. With the sole purpose of understanding the phenomenon of synergy, they draw attention to six mistakes that managers make in evaluating synergy: defining synergy too broad or too narrow; missing a possible opportunity; incorrect or insufficient use of incentives; involving the inadequate people in the process of achieving synergy; inconsistency in reaching compatibility between cultures and systems; the use of erroneous processes (Garzella and Fiorentino, 2017). The issue of the failure of business combinations has been concerned and continues to concern both the theoreticians and those directly involved in such processes.

A second major research direction refers to the creation/destruction of value through M&As, with reference to an issue of major importance in the development of synergy analysis, namely its quantification and of the value creation through M&As.



The main purpose of a business combination is to create value for those involved. Due to the financial motivation behind these transactions, they have raised the interest of practitioners and researchers, who have tried to identify, in their papers, the sources and how to quantify the value created by M&As, taking into account several elements related to this: synergy (which can embrace multiple forms, depending on its source), abnormal returns and value creation itself. Business combinations, such as M&As, are expected to generate synergies through economies of scale and of scope, but the involved entities must find ways to implement them.

In the current economic environment, the synergy has become a trend in business management, which explains the need to explore ways to evaluate it. In this context, Kräkel and Müller (2015) address one reason for involving in M&As: the managerial incentives, seen as a consequence of the agency relation between the CEO and the shareholders of the acquiring company. If a CEO identifies both a high- and a low-synergy target, he will tend to recommend the latter. In the context, authors discuss two more theories: the hubris hypothesis and the empire-building approach, according to which CEOs may make mediocre merger deals so that the acquiring firm's shareholders do not earn a positive merger premium.

Starting from a 1990 sample of M&As, of which 345 announced the estimated synergies, Dutordoir *et al.* (2014) analyse the reasons why the acquirers present these synergies at the time of the announcement. The authors concluded that the presentation of the expected synergies leads to a better market reaction, which in other circumstances would have generated negative profitability for the acquiring companies.

In the literature, there are studies proposing synergy calculation models. In the case of successful combinations, synergies are obtained only by the target company's shareholders, mainly due to the payment of oversized premiums. Surprisingly, these premiums are often presented as a first manifestation of synergy, which will later be reported to this initial value. Croci *et al.* (2012) propose patterns for managers of the acquiring entity which can lead to an informed decision about the premiums paid to the shareholders of the target company. Consequently, the premiums must be justified by reporting them to the operating synergies. Likewise, the capital market can offer important signals regarding the success of a M&A (Barnes, 2012; Betzer *et al.*, 2015).

Much of the literature on industrial organization, as well as managers, are focused on the fact that, compared to M&As between companies which activate in different fields of activity, the related M&As (vertical and horizontal) achieve higher performance, due to economies of scale and scope. Hagedoorn and Duyster (2010) expand this analysis on technology companies, stating that the revenue growth and the value creation are key issues in innovation-based M&As. Laabs and Schiereck (2008) analyse synergies in automotive industry by comparing mergers from the same industry/branch with mergers between companies in different branches.

Given the specificity of synergy, some authors highlight the potential for value creation of research, innovation and IT&C. The technological innovations

generate synergies that vary in terms of emerging speed and magnitude of impact, being considered, as appropriate, *additive synergies* (if built on existing technologies) or *multiplicative synergies* (resulting from the combination of existing resources so that new brands and patents can be registered) (Harrigan *et al.*, 2016). According to Chondrakis (2016), the acquisitions are instruments that outsource the R&D function of the acquiring entity, but the influence on the target company's resources is not sufficiently investigated. The author analyses how technology-based acquirers benefit of value growth by generating unique synergies, especially when the target company is similar in technology.

The synergy expectations are positively influenced by profitability at the time of the combination announcement, by the long-term performance, and by the market response to quarterly profit/loss statements. The information on synergy expectations, provided on the day of a merger announcement, may be of real use to investors. On the same line, Croci *et al.* (2012) suggest that the acquisition announcements reveal information about the values of the involved companies, through the abnormal returns. Analysing the fifth merger wave (2013-2017), Martynova and Renneboog (2011) note that M&As create synergies, announced by the profitability recorded at the time of the announcement, mentioning that the return of the target company is significantly higher than the one recorded by the acquirer.

Given the importance of the market reaction to measuring the success of a M&A, through the abnormal returns, some authors have sought to identify these values by taking specific examples from the life of economic entities. Thus, the study by Yoon and Lee (2015) is based on the creation of value in the technology-based M&As, which can be considered a specific domain with its own particularities. Capron and Pistre (2002) outline the conditions under which the acquiring entity registers abnormal returns and believe that these returns cannot be achieved simply by transferring resources from the target company to the acquirer.

The abnormal returns are affected by the extent to which companies involved in business combinations are registered with core activities that can be related. Thus, in this case, the return of the target company is lower than that of the acquiring company, and if the returns are compared in the case of related/unrelated M&As, the latter record higher returns (Holl *et al.*, 2011).

Aureli (2015) analyses the social and economic impact associated with the acquisitions of companies in Western Europe, located in countries with developed economies, by companies from the emerging economies, focusing on the influence on the performance and capabilities of the target company and how they influence the wealth of its investors.

M&As concluded during the financial crisis were more profitable and created more value than those concluded before and after this period (Rao-Nicholson *et al.*, 2016). In cross-border mergers, the emergence and measurement of financial synergy is important, taking into account the global financial risks (differentiated taxation system, bankruptcy costs, interest rate risk, exchange rate risk).



Despite the increasing popularity of acquisitions as strategies for penetrating the European market, experience shows that most of them did not generate positive returns for investors. In addition to the literature on operating synergy and value creation, Schoenberg (2008) analyses the types of knowledge transfer at entity level in Europe, taking into account the acquiring companies.

Globalization and rapid technological change have allowed the reorganization of some industries due to companies that have deemed necessary to increase their capabilities or reorganize them to meet the challenges of the business environment. Thus, waves of mergers have been generated in some industries (Häkkinen, 2005).

In some cases, the evolution of returns shows that the acquisitions are generating value destruction. The accounting data, on the other hand, reflects synergies and potential for value creation. Therefore, there is a market-based approach of the acquisitions and one approach based on financial-accounting information (Dargenidou *et al.*, 2016). Starting from the high failure rate of mergers and acquisitions, Rozen-Bakher (2017) analyzes the link between the types of business combinations and their success rates, considering the three types of mergers and acquisitions (horizontal, vertical and conglomerate) for the industrial and service sectors.

A third research direction concerns the topic of the **business concentrations** by detailing the particular case of **cross-border M&As**. From this point, we will consider the second main topic of our analysis, in which we will capture aspects that define the business combinations, and which have been the subject of concern for the researchers in the field.

The monetary and capital flows driven by cross-border M&As are part of foreign direct investment, alongside new investments (greenfield investments), the rehabilitated ones by non-resident companies (brownfield investments), as well as loans to companies from a country, other than the one initiating the transaction. Starting from the notion of foreign direct investment, Horn and Persson (2001) present M&As as the predominant form of these flows, stating that they have become a point of interest, by contributing to trade and investment worldwide. Although they could generate oligopolies, the large companies, involved in cross-border mergers, have low costs due to operating synergies, creating value in this way.

Lee (2017) examines the relationship between foreign direct investments and cross-border M&As, the latter being split between technology-based concentrations and market-based concentrations, analysing, in context, the issue of the investments in new assets (greenfield investments).

Another approach of the cross-border M&As relates to the type of economy in which the involved companies are operating. Given the characteristics of the developed economies, the need for strategic assets determines the participation of multinational companies in cross-border M&As in such economies. As focus points in the developed economies, Zheng *et al.* (2016) identify the needed assets, the integration process, and the idea of partnership that allows access to the desired assets. When the acquiring entity comes from a country that prioritizes the investor

(developed economies), then a significant synergy comes from imposing own governance principles in the target company (Martynova and Rooneboog, 2008). The companies in developed economies are willing to pay to acquire companies which activate in a similar economy, avoiding other economies (emerging or frontier).

Regarding the investments of the companies from emerging economies in companies located in developed countries, the former are looking for resources, classified in resources that increase production and resources which allow the expansion of the activities (Gubbi and Elango, 2016). Arslan and Dikova (2015) outline the investors 'strategies, materialized in cross-border M&As, initiated by multinational companies located in emerging economies and the role of institutional distance.

Within this topic, we identified scientific articles that address the issue of innovations in cross-border M&As. In this case, synergies result from mergers and acquisitions between a technology-oriented target company and an acquiring company willing to spend for R&D. Starting from the example of ten countries, Pyykkö (2009) concludes that investments in countries with permissive R&D legislation determine the highest synergies from the possession of intangible assets. On a related topic, Ojanen *et al.* (2008) empirically analyse a sample of acquisitions from the technical engineering sector, which belong to the knowledge intensive business services, concluding that product and market extensions are the most significant types of cross-border acquisitions, but, in spite of the increased significance of knowledge-intensity and innovativeness in many industries, knowledge acquisition for promoting innovation and R&D capabilities is not so apparent in the motives.

Srai *et al.* (2010) propose the issue of operational factors affecting successful integration in cross-border M&As, thus contributing to value creation. The ways to achieve operational synergy are shared between access to the network (market, products, know-how) and its efficiency (optimizing access to resources). One form of control to achieve synergies is given by the inclusion, in the contract between the parties, of a specification related to a performance-based payment method.

The next research direction comes to complement the information on the business combinations, by analysing the concept, typology and factors of influence in M&A operations.

The current frequency of M&As allows the identification of those issues that determine the success or the failure of these transactions. Because the success is an objective, but the failure is a miscalculation, many authors analysed this last case in the case of M&As. Thus, many concentrations do not reach the expected performance if managers fail to achieve the expected synergies either as a consequence of the over-valuation of the target company or as a result of a poor transaction negotiation. Calipha *et al.* (2010) draw attention to the failure of M&As to create value for investors, starting from the two phases of the M&As – pre-merger and post-merger, and from the factors influencing these stages (the size of the M&A partners, managerial involvement, culture, and organizational structural issues).





Starting from *the resource-based view* (RBV), the researchers increasingly focus on intangible resources, on knowledge and capabilities that lead to superior performance. Indeed, the companies in both developed and developing countries recognize the potential of the knowledge management (Chaturvedi *et al.*, 2007).

James (2002) considers that M&As play an important role in the transfer of non-tradable resources and of capabilities between the involved parties. In selecting the target company, the intangible assets are an essential component, the brands and the patents being the key elements in the decision-making process (Kumar, 1999). The resource-based view has to be complemented by corporate external control, that allows the transfer of resources to the target company, subject to optimal integration, so as to generate synergies for both companies. Starting from the strategic nature of M&As, Kleer (2011) analyses their impact on innovative business activities and market competition, while identifying new approaches to the innovation process.

In the case of horizontal and vertical M&As, Degbey and Peltó (2015) draw attention to customer networks. Although it appears that the takeover of the acquired company's market position is implicitly determined by the transaction itself, it actually depends on various factors and it is a separate process. Moreover, the diversification of activity on new customer segments, as well as the entry on new geographic markets, are two of the reasons behind the business combinations. These should be continued with the expansion of market share and the accelerated growth, materialized in value creation for investors (Kreidl and Oberndorfer, 2010).

Brito (2005) proposes an approach to the M&As in the light of the alternatives an absorbing company might propose to antitrust authorities, giving them the opportunity to set limits for both the gains from synergies, and for the market share that combination would generate. Luybaert and De Maeseneire (2015) draw attention to the pre-completion phase of a M&A, taking into account its planning, cultural differences, as well as the results of the negotiation, that materialize in the combination itself.

The last identified research direction is related to the post-concentration integration, one of the results of the business concentrations. Since M&As, as transactions, combine two entities that had no common points to date, the post-concentration integration may be the source of synergies, but also the period when they can be mistakenly assessed.

An effective post-merger integration requires the analysis of different integration methods, taking into account the synergistic potential of the merging companies and the cultural differences between them, especially in the case of cross-border M&As (Stahl and Voigt, 2008). The most accurate approach to post-acquisition integration is directly related to the reasons that led to this transaction. Also, other factors influencing integration are the practices and the core values of the target company, which furtherly lead to sociocultural integration and to task integration. The processes developed during post-merger integration are critical to achieving synergy effects and performance over time. Häkkinen *et al.* (2005) analyse a distinct aspect of post-merger integration, namely logistical issues in horizontal mergers and acquisitions, which must be corroborated with the problems



that may arise in the operating cycle. Referring also to operational synergies, Hernandez Barros and Lopez Dominguez (2013) draw attention to the integration process that should focus on revenues and customers. They assert that the scientific literature and the financial analysts focus on branding, cost reduction and human resource management.

Aklamanu *et al.* (2015) insist on the importance of social capital and human resources management, by providing an insight into the knowledge transfer (know-how) in the post-integration period, taking into account the employees' knowledge, skills and abilities. Related to the concept of human resource management, Vasilaki *et al.* (2016) believe that it is positively influenced by communication, employee involvement, teamwork, training and human capital development.

In the post-merger integration, a good understanding of the knowledge transfer key points is needed (Azan and Sutter, 2010). The acquiring entity improves its technological innovation when there is a similarity between the resources of the two companies, combined with a high degree of integration and a low degree of autonomy of the target company. There may also be a complementarity of resources that must correspond to a low degree of integration in cross-border mergers, in the case of the companies that produce IT technology (Piekkari *et al.*, 2007). A technology-driven acquirer will use the target company's resources to supplement or replace its own resources. Whatever the strategy of the acquirer, the combination of two companies will always be a challenge for the management. This entity must implement synergies to create value while managing problems to avoid loss of value (Gates and Very, 2003).

The analysis of the sample consisting of 83 articles allowed clarification of M&A related concepts, as well as an analysis of quantitative models and methods for calculating and interpreting value creation through business combinations.

## Conclusions

Strategic relationships between organizations – taking the form of mergers, acquisitions, trade partnerships, alliances, and other forms of organizational networks and consortia – are now an important component of the business world. These inter-organizational connections are the companies' response to the ambiguities, risks and uncertainties they face in the economic environment. Consequently, their number has increased greatly in recent years, but it should be noted that their evolution has taken place in waves, being in fact sensitive to financial, economic or political crises affecting the economies in which companies operate. Starting from a sample of 83 scientific papers, using as a selection criterion the residence country of the first or second author (European Union), we performed both a quantitative and a qualitative analysis of the papers, in order to draw attention to the main topics that were subject of discussion and analysis from 1999 to 2017. For future research, we intend to find how the approaches evolved in time, or by methodology used by the authors.



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## COUNTRY OF ORIGIN, ANIMOSITY AND BRAND PERCEPTION

**Adriana MANOLICĂ<sup>\*</sup>, Teodora ROMAN<sup>\*\*</sup>,  
Gabriel-Nicolae PĂDURARU<sup>\*\*\*</sup>**

### Abstract

*The consumers' perception regarding a product's country of origin, which may sometimes include negative feelings towards that country, may influence their decision to choose or reject that product. The current research aims to identify the extent to which the country of origin affects the purchasing behaviour of the fuels distributed by the various foreign networks present on the local market in Iasi, Romania. We chose to look at this issue because no research has been done on this topic locally, although this issue of perceiving the brand in terms of a possible animosity towards its home country is of utmost importance. The research method is a quantitative one, conducted by online survey based on a questionnaire. The sample targeted for research is represented by Romanian persons located in Iasi who own a motor vehicle fuelled on a regular basis by themselves.*

**Keywords:** country of origin, animosity, brand perception, Iasi

### Introduction

Many impulsive consumers may choose to buy foreign products, but they will choose to avoid or even boycott products from a particular foreign country for which they feel animosity or anger, as was the case for Australian consumers who refused French products due to nuclear tests conducted in the South Pacific.

The existence of literature on animosity has shown that its sources are many and diverse. They vary between causes like wars (World War II, Vietnam War), economic causes (unfair commercial practices, fear of economic dominance), political causes (political disputes, territorial disputes, opposition to a foreign country's policy) or caused by people or religion. The purpose of this research is to analyse the incidence of animosity as a country of origin effect between the reasons to buy or not a car fuel from petrol stations present on the Iasi city market. The main objective of the research is to determine the preferences in the choice of the fuel distribution network by consumers on the Iasi market considering the

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<sup>\*</sup>Adriana MANOLICĂ is professor at Alexandru Ioan Cuza University, Iași, Romania; e-mail: manolica@uaic.ro.

<sup>\*\*</sup>Teodora ROMAN is professor at Alexandru Ioan Cuza University, Iași, Romania; e-mail: throman@uaic.ro.

<sup>\*\*\*</sup>Gabriel-Nicolae PĂDURARU is student at Alexandru Ioan Cuza University, Iași, Romania; e-mail: gabriel.paduraru@uaic.ro.



degree of knowledge of the country of origin and the possibility of animosity towards it.

The research issue starts from the following questions:

- To what extent are the fuel distribution networks present on the Iasi market, namely their countries of origin (Russia, Hungary, and Austria) known?
- What is the main perception about these countries (Russia, Hungary, and Austria)?
- What is the overall perception regarding the products of those certain origins (Russia, Hungary, and Austria)?
- What is the perception of the service level offered by the fuel distribution networks present on the Iasi market?
- What is the perception of consumer animosity towards the origin country of the gas stations present on the Iasi market (Russia, Hungary, and Austria)?

The results of this research can be used to generate ideas and assumptions that link two most important concepts in the context of global economy: the products country of origin, as well as the animosity towards it.

## Literature review

Globalization has increased opportunities for companies to distribute their products to consumers around the world. At the same time, consumers are able to choose from a wide range of products and services in almost all categories. Therefore, the concept of the country of origin is an important variable to be taken into account when studying the consumption behaviour of foreign products. It is associated with various marketing factors that affect consumer behaviour, including animosity towards a country.

In marketing research, the country of origin is defined as the country where the product is made. The effects of this concept are directed at how consumers perceive products from different countries. Brigham (1971, p. 34) conceptualized the effects of the country of origin as a kind of stereotypes that can be used to explain “how consumers react to information, as consumers are known to develop stereotypes towards their social environment and acculturation towards consumption”.

Samiee (1997) defined the effect of the country of origin as „any positive or negative influence that the country of manufacture might have on consumer choice processes or their subsequent behaviour.” For example, many people think English tea, Chinese silk, French perfume and Japanese electronics as the best in their product categories, even though these perceptions or prejudices are not always supported by concrete evidence.

Zhang (1996, p. 51) defined the effects of the country of origin as the totality of the information on where the products are made. Orbaiz and Papadopoulos (2003) have discovered a key factor that they have called the image of the country of the product that represents buyers’ beliefs and attitudes towards a product originating in a particular country. They have discovered many implications of the country’s





product image, including animosity and ethnocentrism, which create unfavourable perceptions of foreign products. The term ethnocentrism expresses the tendency to put cultural values and models above those of other groups. Orbaiz and Papadopoulos (2003) have warned international marketers of having to carefully choose between standardized or local marketing strategies in full knowledge of how consumers on the target market first perceive and then process product information. The construction of the country of origin is routinely operationalized and communicated to the consumer through the “Made in \_\_\_\_\_” construction and the name of the country. The perceptions of the country of origin elements are usually measured and classified as favourable, neutral or negative. The more perceived the effect is, the more responsive the customer response will be.

The country of origin is not limited to the „made in...” label because this concept may be associated with the country of origin of the producing company, the country of origin of the brand or the place where the product is actually assembled. So the question arises as consumers understand their country of origin because Sony assembles often in Malaysia, Honda produces cars in the US and Chevrolet in Japan. In addition, some companies like Nestle have foreign brands such as Poiana in Romania and Cadbury in the UK. Such companies have been able to understand that brand association with a particular country depends on consumers’ perceptions of the country. So if customers have a positive perception of the producing country, companies will associate the brand with the place of production and if they prefer the country of origin of the brand they will opt for this association. For example, not many Germans know that the wood inside the Mercedes comes from Sibiu, or that the Audi TT is assembled in Hungary. This information could change consumer choices.

The concept of consumer animosity was introduced in Klein’s marketing literature in 1998 and is defined as „traces of antipathy due to ongoing or previous economic or political military events.” Animosity to another country can be based on different backgrounds, some of which are relatively benign, for example, two neighbouring countries share a common border, while others are more serious, such as previous military events or recent economic and diplomatic disputes. The authors argue that consumer animosity has a negative impact on the attitude of consumers towards a foreign product, especially in their attitude to the willingness to buy and in the current possession of foreign goods.

By measuring brand perceptions, the extent to which animosity towards a country is felt by consumers and how it influences its purchasing decisions can be identified. The concept of consumer animosity was introduced in Klein’s marketing literature in 1998 and is defined as „traces of antipathy due to ongoing or previous economic, political or military events.” Klein makes the difference between the animosities as an effect of war, or as an impact on the economy. Subsequent studies have investigated recent responses to past events. For example, Podoshen and Hunt (2009) conclude that the effects of the Holocaust still persist in the memory of many Jews living in the US, resulting in animosity towards Germany by refusing to buy German cars. Economic animosity is based on the perception that foreign countries are a dishonest trading partner that you can’t trust.



Klein makes the difference between animosity related to war, economy and general animosity. He studied war-related animosity by focusing on historical military events (the 1937 Nanjing massacre during the Second Chinese-Japanese War). Some studies later investigated historical and more recent war related events. For example, Podoshen and Hunt 2009 conclude that the effects of the Holocaust still persist in the memory of many Jews living in the US, resulting in animosity towards Germany by refusing to buy German cars. Economic animosity is based on the perception that foreign countries are a dishonest trading partner that you cannot trust.

At macro level, national animosity refers to how much a country has been affected and suffered as a result of the actions of another country. At the micro level, personal animosity refers to resentment to a particular country due to negative experiences.

Oil is currently the world's largest source of energy. Its importance to the contemporary economy is not limited to the fact that it has become the main energy resource, it is also the raw material in other industrial branches such as petro-chemistry, plastics or the pharmaceutical industry. In this context, the fuel sector is of particular importance to the economy, with their cost being reflected throughout the national economy in the prices of any product. Sources on the fuel marketing market estimate a consumption in Romania of 290 litres / year / per capita, compared to an average of 550 litres / year / per capita in Central Europe. The Romanian fuel market has faced a lot of difficulties in recent years, registering overall sales volumes from year to year. As for 2014, the market shows a slight contraction of 1-2 percentage points in volume. The structure of the local market has not changed significantly over the past years and follows European trends where diesel consumption is predominant, with over two thirds of the total.

## Methodology

**Purpose:** The consumer's perception of the country of origin of the product, as well as the negative feelings towards a country, may influence its decision to choose among several products. In view of the numerous studies on the two concepts, we will conduct a local research to see how the choosing a power station can be influenced regarding people who drive.

Due to the increased globalization of markets, the Romanian fuel market is represented by many companies that originate in foreign countries. At present, the leader in the fuel market in Romania is the Omv-Petrom group controlled by the Austrian OMV (51.01%) with 544 filling stations; are the Russians from Lukoil with a distribution network consisting of 305 stations, and on the 4th place are the Hungarians at Mol with 159 stations. In addition to these companies, Romania is also expanding Gazprom and Socar. Taking into account the information presented above, the study aims to research the behaviour of fuel buyers from the perspective of animosity as the effect of the country of origin.



The purpose of this research is to analyse the incidence of animosity as the effect of the country of origin between the reasons to buy or not to buy fuel from gas stations from 3 countries (Russia, Hungary and Austria).

### Hypotheses:

**H1.** The level of knowledge of the respondent regarding the country of origin of the fuel distribution network brand is high (Josiassen and Harzing, 2008; Pappu *et al.*, 2007; Usunier and Cestre, 2008). Josiassen and Harzing (2008) said that from a competing perspective, country-of-origin effect is based on product familiarity and product involvement. So did Pappu *et al.* (2007) when they found out that there is a relationship between consumer-based brand-equity and country-of-origin effect. Finally, Usunier and Cestre (2008) stipulated that the level of knowledge regarding the country of origin for a product/service of interest is high.

**H2.** Consumers perceive products made in a developed country to be superior to those produced in developing countries (Josiassen and Harzing, 2008; Pappu *et al.*, 2007). Because the consumer perceive differently the quality based on their own brand-equity (Pappu *et al.*, 2007), they also find a relationship between the quality and the country-of-origin effect (Josiassen and Harzing, 2008). So, the developed countries and their products are perceived as being high in scale in comparison to developing countries and their products (Usunier and Cestre, 2008).

**H3.** Consumers of a developing market prefer imported products from a developed country (Josiassen and Harzing, 2008; Pappu *et al.*, 2006; Usunier, 2006; Chattalas *et al.*, 2008). Chattalas, M., Kramer, T., Takada, H. (2008) stated that the national stereotypes have an impact on the country of origin effect. Josiassen and Harzing, (2008) included among those national stereotypes the difference between developing and developed countries perceptions, arguing that the future of the country-of-origin effect depends on this perceived difference. Therefore, Pappu *et al.* (2006) said that the international commerce is helped by the consumer brand-equity and Usunier (2006) found it as being relevant.

**H4.** Consumers are avoiding to buy products from countries that engage in hostile, military, political or economic acts directed against their country (Amine *et al.* 2005). Based on a study case which analysed the situation between Taiwan and China for Acer Computers, Amine *et al.* (2005) stated that consumers tend to avoid buying products countries engaged in hostile, military, political or economic acts directed against their country.

**H5.** The higher the perceived animosity of a consumer towards a country, the more adverse its decision to buy products made from that country (Leong, *et al.*, 2008). Leong *et al.* (2008) explained the nature, antecedents, and consequences of the animosity of the consumers in international crisis. As an effect of it, they stated that there is the refuse to buy products with that specific country-of origin.

Given the 5 proposed hypotheses, we want to investigate whether they are valid for car fuel consumers.

## Research objectives

The main objective of the research is to determine the preferences in the choice of the fuel distribution network by the consumers on the Iasi market considering the degree of knowledge of the country of origin and the animosity towards it.

The secondary endpoints of the study are as follows:

1. Finding the proportion that the car is being supplied to by its owners.
2. Identifying the degree of knowledge of the fuel networks in the domestic market and the corresponding countries of origin.
3. Determining the perception of the countries of origin of gas stations present in the domestic market.
4. Determining the perception of general products originating in the respective countries (Russia, Hungary and Austria).
5. Determining the perception of the level of services offered by the existing fuel distribution networks on the domestic market.
6. Measuring the consumer's animosity towards the countries of origin of gas stations present on the domestic market (Russia, Hungary, Austria).

## Defining the reference population and the sample

To determine the collectivity we studied, we chose the random sampling method. We chose this option because each member of the collectivity can participate in the survey, the data being representative. The survey took place in Iași, and the chosen population is represented by Romanians living in Iași who own a car and which often refuel their personal or family cars. Given that the minimum age at which a category B driver in Romania can be obtained is 18 years old, the persons questioned will have to meet this age condition. According to the census conducted in 2011, the total population of Iasi Municipality was 290,000 inhabitants, of which 240,000 were equal or over 18 years of age.

For this study, we took into account a sample of 150 people meeting the specified criteria, representing 0.0006 of the total population of the municipality being a representative sample for the research to be carried out.

## Research design

In order to meet the objectives, we have chosen as a method of collecting data, the online survey based on the questionnaire. The questionnaire was conducted on the Qualtrics platform and then distributed online to various groups ("Radar Iasi", "Official radar Iasi", "You are from Iasi" or "Iasi News"), representative of the studied population, on the networks socialization. A characteristic of the questionnaire to be mentioned is that the data collected is



confidential in the sense that the anonymity of the respondents is guaranteed, thus ensuring the quality of the answers received.

The research tool has been built in such a way as to meet the objectives pursued. To make the questionnaire we used two scales to determine the existence of the two concepts of animosity and the effect of the country of origin with consideration in the analysis of food decisions.

Thus, for animosity, we opted for a scale developed by Jung *et al.* in 2002, used in most researches in this field with a number of 8 items through which participants manifest their agreement or disagreement. This scale measures the stable, situational and personal animosity shown by customers in the fuel distribution networks.

The second scale that measures the second concept researched in this study, namely the effect of the country of origin, was conceived by Pisharodi and Parameswaran (1994) as being a common scale in other research. This scale examines consumers' perceptions of the country in general, general products and specific products in this case the services offered by local fuel distributors.

We chose to study the concepts on the fuel distribution networks present on the Iasi city market. So we have opted for the main foreign gas stations that control the fuel market in Romania, namely OMV, which is currently the market leader with 51.01% of the country of origin in Austria; LUKOIL occupying the third position with the country of origin in Russia and MOL, which currently occupies the fourth position with the country of origin in Hungary.

## Analysis and interpretation of research results

The country of origin of the brands of gas station networks present on the local market is 63% known by the respondents to the questionnaire.

To observe the frequency of responses by gender, we can see the following important issues. Men know 55% of the country of origin of the fuel stations, due to the fact that men account for 67,45% of the total number of Romanian auto licenses according to promotor.ro<sup>1</sup> and from here we can deduce that they fuel the car at a higher proportion.

Regarding the proportion of women who know the country of origin of the networks they choose to fuel the car, it is 10%. According to the same study, the percentage of Romanian auto licenses is 29.7%, and we can conclude that females refuel less in comparison with males and that the percentage of those who know the country of origin is also less than 10%.

Thus, the first hypothesis (H1) that the level of knowledge of the country of origin is high is confirmed.

**H2 is confirmed**

<sup>1</sup> Promotor.ro (2017), <https://www.promotor.ro/masini-noi/news/statistica-politiei-despre-situatia-actuala-a-permiselor-16254980>.

**Table 1. The general product perceptions of the three countries (Likert scale)**

Statements	Averages		
	Russia	Hungary	Austria
Products in this country are unreasonably expensive	-0,33	-0,03	0,12
They are considered luxury products	-0,36	-0,68	0,01
They are manufactured with meticulousness	-0,43	-0,69	0,17
The products manufactured by these countries are imitations	0,15	-0,09	0,93
The manufactured goods are mainly industrial	-0,13	-0,48	-0,15
Products in this country are marketed in many countries	-0,05	-0,25	0,81
Products in that country are generally unattractive	0,24	0,17	0,71
Products are promoted intensively	0,45	-0,5	0,39
Products often require repairs	0,24	0,09	0,73
This country offers a wide range of products	0,02	-0,35	0,71
The products have a long service life	-0,21	-0,5	0,51
It is difficult to get possession of these goods	0,59	0,73	0,55
The country uses high technology for manufacturing	-0,59	-0,28	1,03
Products have a high value	-0,19	-0,35	0,71
The products in this country are available in Romania	-0,28	0,15	0,24
These are prestigious products	-0,04	-0,78	0,1
Per total, they are cheap products	-0,46	-0,85	-1
The average of the means	-0,13	-0,31	0,38

Data collected in table 1 are based on the Pisharodi and Parameswaran scale developed in 1994, measured on a 5 steps Likert scale (-2 Strongly Disagree; +2 Strongly Agree). The finding come from our own research.

In order to compare the general perceptions of products in the three countries concerned, we chose to calculate the averages for each claim, according to the authors of the scale elaborated by Pisharodi and Parameswaran (1994). An average of the means was of -0.13 for Russia, -0.31 for Hungary and 0.38 for Austria. According to these environments that reflect the answers of the people questioned, we can draw more conclusions:

- Firstly, there is a significant difference between consumer perceptions of general products in the three countries. Austria recorded the highest average of 0.38, which shows that respondents have a high perception of products originating in this country. If we look at the assertions we can see that they associate Austrian products with a high level of technology used for manufacturing (1.03), of high value (0.71), with a high diversity of them and a high degree of availability. The smallest value was recorded for the price variable (-1), the respondents opting for the disagreement. These high values can be taken into account regarding the fact that Austria is a developed European country and consumers associate products with the image of the country of origin.



- Secondly, developing countries such as Hungary and Russia do not enjoy a favourable perception of manufactured products, resulting from negative averages (-0.13 for Russia and -0.31 for Hungary). Interestingly, Hungary has an average under Russia, and this can be explained by the animosity felt by consumers, but this will be analysed in the following hypotheses. The smallest records recorded by Russia were for the high technology variables in the manufacturing process, the association with luxury products and the meticulous manufacturing process, the respondents disagreeing with these statements. Regarding the last ranked Hungary, the smallest mediums were for the association with luxury products, prestige and meticulous manufacturing.

Taking into account the averages registered by the three countries, we can conclude that respondents perceive products manufactured in developed countries (Austria) higher than those produced in developing countries (Hungary, Russia). Thus, given this data, hypothesis number 2 (H2) is confirmed.

**H3** is confirmed.

**Table no. 2 Country of origin perception averages (Likert Scale)**

Statements	Averages		
	Russia	Hungary	Austria
People are friendly.	-0,65	-0,91	0,29
People are beautiful.	-0,15	-0,68	-0,21
People are well educated.	-0,63	-0,49	1,26
People work hard.	0,08	-0,01	0,24
People have technical skills.	0,10	-0,19	0,87
The country offers high standards of living.	-0,27	-0,27	1,43
The country has a political orientation similar to Romania.	-0,80	-0,57	-1,09
The country is economically similar to Romania.	-0,93	-0,59	-1,44
The country is culturally similar to Romania.	-0,51	-0,66	-1,17
The country is actively present in international affairs.	0,15	-0,34	0,93
The country has high living conditions.	-0,13	-0,17	1,26
The average of the means	-0,34	-0,44	0,21

First of all, in order to test this hypothesis, we determined the perception of the respondents about the country of origin of the three gas stations in question. As can be seen in the table above, Austria dominates this ranking with an average of 0.21. This means that respondents have a positive perception about Austria, associating the country with high living standards (1.43), well educated (1.26) and active in international affairs (0.93). The opposite was Hungary with an average of -0.44, indicating a negative perception of the respondents towards the neighbouring country. Respondents have a negative opinion about the friendliness of the people in this country, which results from the average of -0.91 or the level of education -0.49. The middle position is Russia with a negative average of -0.34, hence



concluding that the perception of the people questioned about this country is negative. In conclusion, according to the registered media, respondents have positive perceptions of Austria due to their developed country status and negative perceptions towards Hungary and Russia probably due to the latest events committed by these countries (political conflicts with Hungary and military conflicts between Russia and Ukraine).

Secondly, we investigated the frequency of occurrence for fuel networks to see consumer preferences. The Austrian-based Omv-Petrom has a 72.7% rise, with Mol being followed by Mol (9.3%) and Lukoil (8.7%).

In conclusion, the consumers of a developing market represented by the respondents prefer the services offered by a gas station originating in a developed country (Austria). This hypothesis was confirmed in two stages: first, by establishing perceptions of the country of origin where Austria had the highest average (0.21) and the second stage by observing the frequency of occurrence of fuel distribution networks where the Austrian group Omv -Petrom had the highest frequency of 72.7%. Therefore, hypothesis number 3 is confirmed.

**H4** is confirmed

**Table 3. Averages regarding the experienced animosity (Likert Scale)**

Statements	Averages	
	Russia	Hungary
That country is not trustworthy.	-0,56	-0,41
This country has never been fair to my country.	-0,63	-0,47
The corresponding country is working with my country following its own interest.	-0,69	-0,48
The people of these countries have invaded my country	-0,13	-0,66
The commercial activities carried out by these countries in Romania are detrimental to the domestic economy.	0,19	0,19
I do not like the people in those countries	-0,13	-0,42
I feel angry when I have to do business with people with nationality in the countries mentioned	0,07	0,09
I do not want to be friends with the people who belong to these countries	0,29	0,21
The average of the means	-0,19	-0,24

To analyse this hypothesis, we used the Kwon Jung's scale of animosity that has a very high applicability. By this scale we measured the animosity felt by consumers towards the countries under consideration. After calculating the averages, we made the table above, which shows that the respondents feel animosity towards both countries, with Hungary being the worst (-0.24). Respondents feel animosity for Russia, especially by saying number 3 (-0.69), associating Russia's collaboration with Romania as damaging to the domestic economy. In relation to the frequency of occurrence of fuel networks, the number four hypothesis is confirmed because consumers prefer the services offered by a



country not involved in conflicts of any kind, influencing the purchasing decision and, in conclusion, avoiding the purchase of products originating in such countries.

**H5** is not confirmed.

**Table 4. Scale averages regarding stable animosity/ situational animosity/ personal animosity**

Statements	Averages		
	Russia	Hungary	Austria
That country is not trustworthy.	-0,56	-0,41	0,3
This country has never been fair to my country.	-0,63	-0,47	0,5
The corresponding country is working with my country following its own interest.	-0,69	-0,48	0,1
<b>Stable animosity average</b>	<b>-0,62</b>	<b>-0,45</b>	<b>0,3</b>
The people of these countries have invaded my country	-0,13	-0,66	1,1
The commercial activities carried out by these countries in Romania are detrimental to the domestic economy.	0,19	0,19	0,7
<b>Situational animosity average</b>	<b>0,03</b>	<b>-0,23</b>	<b>0,9</b>
I do not like the people in those countries	-0,13	-0,42	1,1
I feel angry when I have to do business with people with nationality in the mentioned countries	0,07	0,09	1,2
I do not want to be friends with the people who belong to these countries	0,29	0,21	1,3
<b>Personal animosity average</b>	<b>0,07</b>	<b>-0,04</b>	<b>1,2</b>
<b>Total</b>	<b>-0,19</b>	<b>-0,24</b>	<b>0,78</b>

Taking into account the results obtained from the averages calculations for each statement, we determined the extent to which animosity is felt by consumers. As we have seen in the first chapter, animosity is a negative concept due to certain events between countries that may have negative effects on consumer behaviour. Thus the animosity is directly proportional to the average, the higher the value, the less animosity feeling is felt. As can be seen in the table above, Austria recorded an average of (0.78) and this shows that there is no animosity felt towards this country. For the other two countries the feeling of animosity is felt at a high level (-0.19 for Russia and -0.24 for Hungary). If we break down the animosity on the three components (stable, situational and personal animosity) we can see that the highest share in the animosity as a whole is the stable animosity that represents 81% of the animosity towards Russia and 69% the animosity towards Hungary. This percentage shows that the predominant form of animosity experienced by the consumers involved in this study is the stable animosity that arose from historical events, being the most serious form of this concept. Besides, we can see that animosity is felt in Hungary in all three forms, while for Russia there is only one form of it, namely stable animosity. Regarding the choices of the networks of gas stations originating in the two countries we saw that the frequency of their occurrence was approximately equal, so the purchasing decision was for both unfavourable.

In conclusion, animosity influences the purchasing decision of consumers by pointing to the services of another company, but the consequence is the same regardless of the level of animosity felt. Thus, if consumers feel animosity for a particular country, they will redirect their purchases to the services offered by brands originating in countries for which they do not feel that. So the animosity level does not determine a certain degree of consumption as the action is the same, the straightening to other companies. Finally, hypothesis number 5 is denied, the animosity experienced by the consumer leads to the same consequence, namely loss of the client for the company.

To analyse in detail whether there are links between the two concepts (country effect and animosity), we have made correlations for each country. We can say that there is a connection between the two variables analysed (-0.565, sig. 0). In this case, there is a significant but inverse link between the animosity towards Russia and the perception of this country. There is also a mean power link between animosity towards Russia and the perception of general products (-0.316, sig. 0.08).

Regarding Hungary, there is an average power link between the animosity towards Hungary and the country of origin perception (-0.393, sig. 0), as there is an average power link between the animosity towards Hungary and the perception of the specific products (-0.310, sig. 0.001), both so inversely. Concerning Austria, there are significant links between the perceived animosity and the perception of the country of origin (-0.314, sig. 0.001).

## Conclusions

The main objective of this research is to determine the preferences in choosing the fuel distribution network by considering the two studied concepts. So we noticed that the respondents choose to refuel the 72.6% of the automobile in the Omv-Petrom group. This percentage is composed, however, of the incidence of the mother company Omv by 42.6% and the frequency of the Petrom distribution network by 30.1%. So we decomposed this percentage to see the share for each brand because some respondents could perceive the Petrom brand as still having its country of origin in Romania.

Given the scale of animosity, it was found that respondents feel this feeling rather towards Russia and Hungary, which is reflected in low averages (-0.19 for Russia and -0.24 for Hungary). Frequency of occurrence in consumer preference for choosing the fuel distribution brand in these two countries has been seen to be low, from which we can conclude that the manifestation of animosity towards the two countries determines the preference of choice.

Regarding the effect of the country of origin, the scale used was divided into three categories to study in detail this concept (country perception, perception of general products and perception of specific products). The results for this scale have shown negative perceptions of Russia and Hungary, negative perceptions for the general products in these countries, and positive perceptions of specific products in Russia. At this scale, respondents had positive perceptions for Austria



in all three categories. This confirms the idea that, just like animosity, the way the home country is perceived determines the preferences of the choice of the distribution network by the respondents.

We have found that there is a link between the extent to which animosity and the perception of the country of origin are felt. As the perceived animosity is greater, the perception of the country of origin is more negative. In conclusion, consumers choose 72.6% the services of a fuel distribution network originating in a country for which they do not feel animosity and the perception of it is positive.

The first secondary objective of the research was the proportion that the car is being fuelled by its own owners. The respondents are feeding 60% (90 respondents) on their own car. On average, respondents even feed their car in a proportion of 85.67%.

Another objective was to determine the perception of the countries of origin of gas stations present in the domestic market. To achieve this goal, the questionnaire contained a specific scale that measured this concept. Following the results, we were able to identify a negative perception towards Russia with an average of -0.34 and against Hungary with an average of -0.44. But we also found positive perceptions towards Austria, which recorded an average of 0.21.

The third secondary objective of the research was to determine the perception of general products originating in the respective countries. By the scale of the country of origin effect, we were able to achieve this goal. The data revealed an unfavourable perception for Russian products with an average of -0.13 and for products originating in Hungary with an average of -0.31. For products originating in Austria, positive perceptions were identified, resulting from the average of 0.38. This is also supported by the high number of respondents who prefer the services of the Omv-Petrom group (109 respondents).

The next objective is to determine the perception of the level of services offered by the existing fuel distribution networks on the internal market. For this analysis we calculated the average of the assertions corresponding to this scale, thus the positive value for Austria was averaged by 0.55 and for Russia 0.33. Thus, we can say that there is a positive perception of the services of the brands Omv-Petrom and Lukoil, yet consumers are loyal to the Austrian group. Hungary recorded a negative value (-0.09) from where we can conclude that respondents' perceptions are negative. These data can be found in Table 4.2 of the annexes.

At the last objective we had to measure the animosity of consumers towards the countries of origin of gas stations present on the domestic market (Russia, Hungary, and Austria). Thus, to achieve this goal, we used the scale of animosity consisting of 8 negative statements. After calculating the averages, there was an animosity for Russia (-0.19) and Hungary (-0.24). Looking further on, we can see that a cause for feeling this feeling is the stable animosity that arises from a historical event and has consequences at national level. Austria recorded an average of 0.78 where it was reported that there was no animosity towards this country.

In conclusion, how a brand is perceived can make a difference between success and failure for a company. Instead, it needs to fine-tune its promotion



strategy, more precise, whether it wants to associate the brand with the country of origin or the country of manufacture. We have come to the conclusion that the way consumers perceive the country of origin of the brand is an issue that can harm sales. They may associate certain strengths or weaknesses specific to a country with the brand in that country.

Another issue that should not be ignored is animosity. Animosity acts negatively, influencing consumer decisions. This study has identified animosity towards Hungary and Russia, and we have seen that this has influenced the preference of fuel distributors in these countries. For success, companies need to think about entry strategies in certain markets, also taking into account the animosity. As a distinct policy that a specific company can develop in this case is to dissociate the perceptions towards itself in comparison to the perceptions regarding the country of origin. Their strategies should include strong data or information related to their personal contribution to the country of destination, with respect to the culture, custom or particularities the destination consumers have. CSR strategies are welcome and active implication in society as being an involved actor.

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# THE TWOFOLD (INTERNAL AND EXTERNAL) DIMENSION OF EUROPEAN UNION'S MIGRATION AND ASYLUM POLICIES: RECENT CASES AND FUTURE SCENARIOS

Alfredo RIZZO\*

## Abstract

*European Union's policies on migration and asylum raise double-ditched problems. In the EU, the latter's Court stated that in these areas solidarity is a binding principle: consequently, EU Member States must comply with EU decisions assigning quotas of international protection seekers to each EU State. The paper inspects also agreements between, on one hand, EU Member States (or the EU as such) and, on the other, non-EU countries as origin or transit States of international protection seekers with the view of relocating such individuals to those latter countries. This practice raises doubts if latter countries were deemed non-safe states, e.g. in case they weren't part to 1951 Geneva Convention. These issues are relevant for the development of relations between EU and its member states as well as in the perspective that EU performs its international legal personality in full compliance to international law rules on migration and human rights protection.*

**Keywords:** migration law, European Union law, asylum policy, solidarity, international agreements.

## Introductory remarks

According to the report *Permessi di soggiorno per asilo politico e protezione umanitaria* ("Residence permits for political asylum and humanitarian protection", years 2015-2016) submitted by the end 2016 by the National Institute for statistics of Italy, in the two-years 2015/2016 the flows of people who have requested entry into Italy – and, consequently, into the European Union (EU) via Italy – for asylum or for other humanitarian reasons, assumed, even in absolute terms, dimensions that have never been reached in the last nine years, increasing from 9.971 units in 2007 to 67.271 units in 2016.

Between January 1<sup>st</sup> and October 31<sup>st</sup> 2016, 64.162 new permits for asylum and other forms of protection (provisional data) were issued to migrant adults: these figures in October of 2017 were close to the ones registered for the whole 2015 (64.515). At the beginning of 2016, 155.177 people were present in Italy with

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\*Alfredo RIZZO is researcher dr. at National Institute for Public Policy Analysis (INAPP) Italy; e-mail: a.rizzo@inapp.org.



a permit for reasons linked to political asylum or humanitarian protection, equal to 4% on the total number of residence permits. Considering just expiring permits, those granted specifically for asylum and humanitarian protection reached in general only the 10% out of the total permits. In the whole EU, in 2015 the applications examined at first were 592.680: out of these, 71.345 applications were examined in Italy. The protection has been granted, in various forms, in 52.5% of cases<sup>1</sup>.

Among the countries that had to manage at least 1.000 applications, Hungary is on the top of countries that rejected this kind of requests with only 15% of applications accepted. On the opposite, Denmark is a European Union country that has delivered a favourable opinion more frequently than average (81% of the cases examined). Italy (42%) has a lower recognition rate than average, considering that the percentage falls further if we consider decisions on the recognition of refugee status (5%) compared to 55% for Germany. Furthermore, non-EU citizens have accessed the latter country mainly for reasons of family reunification (32% in 2007 and 44% in 2015). However, the proportion of those same citizens accessing the Union specifically to obtain international protection rose from 3.2% in 2007 to 28.2 % in 2015. It is worth noting that in Italy, until December 2017, out of a total of 7.937 applications for international protection, 3.552 of these applications have been rejected<sup>2</sup>. Therefore, it must be assumed that in the mentioned time-frame (2015-2017) measures granting international protection did not rise comparably to the objective growth of related applications.

Above data prove that the general perception around the migratory phenomenon does not take sufficiently into account the “issue inside another issue” dealing with persons accessing European Union’s borders with the view of achieving protection according to relevant international law standards. It should also be taken into account that the procedures for assessing asylum or refuge applications seem eventually to be consistent with the aim of qualifying non-EU citizens demanding access at EU external borders mainly for humanitarian reasons. All in all, the pertinent question in legal terms is if the procedures for assessing these persons’ entitlement to get protection into the EU (and in the EU Member states) comply with relevant standards of international and EU law. However, these methodologies should be equally applied by all EU member states in accordance to requirements existing under both international and EU law. On the other hand, and more substantially, it cannot be forgotten that the protection of asylum seekers is not foreseen just by international legal sources, being generally regulated also in

<sup>1</sup> National Institute of Statistics (ISTAT) (2016) *Permessi di soggiorno per asilo politico e protezione umanitaria, 2015-2016*, Italy, 23 December 2016 (retrieved from: <https://www.istat.it/it/files/2016/12/Report-Permessi-Soggiorno2015-2016.pdf?title=Permessi+di+soggiorno+e+asilo+politico+-+23%2Fdic%2F2016+-+Testo+integrale+e+nota+metodologica.pdf>).

<sup>2</sup> Ministry of Interiors of Italy (2017), report, December 2017 (retrieved from: [http://www.libertaciviliimmigrazione.dlci.interno.gov.it/sites/default/files/allegati/dicembre\\_mensile\\_2017.pdf](http://www.libertaciviliimmigrazione.dlci.interno.gov.it/sites/default/files/allegati/dicembre_mensile_2017.pdf)).

most national legal systems, in some cases under relevant Constitutional law rules (e.g. article 10 n. 3 Italian Constitution).

The following pages deal with some recent cases where all main topics of international and EU law on refugees and migrants have been tackled. This praxis is paradigmatic for future steps to be taken in this field. In the light of current negotiating rounds on United Nations (UN) Global compact *for safe, orderly and regular migration*, a more comprehensive approach is suggested, consistently with aims of interested individuals' socio-labour inclusion in the receiving countries. On the other hand, same goals are pursued in the EU in compliance to established standards of the International Labor Organization (ILO) inserted into the current UN agenda for mentioned draft Global compact.

## 1. Relocation of international protection (and asylum) seekers inside the EU

Asylum is a fundamental human right with a „procedural” character, entailing the right for an individual of „asking for” – and not necessarily getting – asylum in a State different from that of nationality.

Asylum is only theoretically different from international standards on protection of refugees: actually, these standards protect individuals against subjection to *refoulement* (refusal) from the country of welcome to the country of origin or towards a “transit” State, if such *refoulement* entails a risk for life or liberty of same individuals due to their race, religion, nationality, belonging to a social group or due to their political opinion (UN 1951, see article 33; Chetail, 2014, 32).

Same protection has been foreseen also by other international legal means such as the European Convention on Human rights and fundamental freedoms (ECHR, CoE 1950) through a broader reading (in French, “*par ricochet*”) offered by the European Court of Human Rights (ECtHR) on ECHR’s article 3, banning torture and inhuman or degrading treatments. In that Court’s view, under that provision relevant crimes are put in a reciprocal evolutionary relationship. Indeed, national authorities’ behaviours, including prison treatments, might easily be considered equivalent to real torture instead of being considered just as inhuman or degrading treatments, through a sort of „theoretical advancement” of the factual elements under scrutiny revealing the true legal character of the examined national practice (ECtHR July 28<sup>th</sup>, 1999, Appl. 25803/94, *Selmouni v. France* and Feb. 29<sup>th</sup>, 2008, Appl. 37201/06 *Saadi v. Italy*).

Briefly, according to legal standards relevant at European level, Article 3 of ECHR, literally prohibiting torture and inhuman or degrading treatments, encompasses also *non-refoulement* of third-country nationals. In fact, that provision covers all cases where the sending of international protection seekers from an ECHR’s Member State back to their origin or transit states, might entail the risk that in latter countries same individuals become victims of national authorities’ behaviours banned by article 3 ECHR.

The ECtHR, under art. 3 ECHR and article 4 of Protocol n. 4 ECHR, has recently associated the legal effects of *refoulement* of international protection



seekers perpetrated on the high seas to the effects of *refoulement* of similar individuals from the territory of one ECHR's Member State, to the extent that same *refoulement* occurs from one vessel flying the flag of one Member State of the ECHR, therefore equating that vessel to the territory of one of those states to which ECHR applies under its article 1 (judgments of Feb. 23<sup>rd</sup>, 2012, Appl. 27765/09, *Hirsi Jamaa and others v. Italy*, and of Sept., 2015, Appl.16483/12, *Khlaifia and others v. Italy*).

Thus, *non-refoulement* applies whenever international protection seekers are under the authority of one ECHR's member State, even if the latter's agents operate abroad or on the high seas.

Even more amply and substantially, if *refoulement* entails the risk for international protection seekers of being subjected to treatments prohibited by mandatory rules of international law (i.e. article 40 UN 2002, so called *ius cogens* rules including the prevention of torture or of enslavement), such practice is subjected to a general mandatory ban, even if the persons concerned might represent a "danger" for the security of the receiving State (Picone, 2015, p. 7, Rizzo, 2016, p. 183, Sciso, 2011, p. 1228).

In essence, *refoulement* of international protection seekers is subjected to an absolute ban if it entails that same individuals are exposed, in their country of origin or in a State of transit, to treatments prohibited by international *ius cogens* rules. This ban exists regardless if the staying of international protection seekers in the host country might entail a likely danger for the security of that same country or even if such a staying might represent a danger in broader and more substantial terms (e.g. under international standards on fighting terrorism, Nascimbene, 2011, p. 310, Lenzerini, 2012, p. 737, Rizzo and di Majo, 2014, p. 2604, Favilli, 2015, p. 702).

Above principles extend to the EU. Firstly, art. 18 of the Charter of fundamental rights of the EU (EU 2000) merges asylum and the defense of international protection seekers' rights with the view of ensuring to both standards of protection the most effective shield under EU law. On asylum, according to the Dublin regulation (EU 2013 b, named "Dublin III" Regulation) only one EU member State of „first entry" must assess the legal status of non-EU citizens accessing same EU's external borders. According to the Court of Justice of the European Union (CJEU), an EU Member State that is not competent to assess an asylum application, can't nonetheless send same applicant back to another EU country presumably competent for assessing such application under Dublin Regulation, if asylum assessment's procedures in this second EU member State suffer from systemic weaknesses such as to expose same applicant to the risk of being subjected to torture or inhuman or degrading treatments (CJEU Dec. 21<sup>st</sup> 2011, cases C-411/10 and C-493/10, *N.S.*).

Above rules are now enshrined into an amended version of article 3 n. 2 of Dublin Regulation: in addition, *refoulement* to an EU „first entry" country can be made exclusively after a strict assessment of the factual circumstances surrounding each individual case (Rizzo, 2015, p. 538, Imamovic and Muir, 2017, p. 8).

Current EU policies on migration and asylum are drawn from the transfer in the European Community Treaty („communitarization”) of subject-matters at first regulated through international agreements between European states, i.e. the 1990 Dublin agreements. Same topics have been progressively transferred to a specific EU regulation (Dublin Regulation) still today under reform. EU law foresees also a „subsidiary” protection that widens Dublin regulation’s scope. Moreover, a „temporary” protection in the EU, based on presumptive criteria, deals with persons (groups) exposed to serious risks in the country of origin (EU, 2001). So, “temporary protection” under EU law concerns massive and unanticipated influxes of “displaced persons” coming from non-EU countries, broadening the scopes of Guiding Principles on Internal Displacement previously adopted by the United Nations Commission on Human Rights (UN 1998).

The solidarity principle for the implementation of EU policies and law on asylum and migration has been formally inserted by the Lisbon Treaty under Article 80 of the Treaty on the Functioning of the EU (TFEU, EU 2012). Recently, solidarity has been taken into account for the implementation of article 78 par. 3 TFEU (EU 2012). This provision allows EU institutions to take measures in urgent cases dealing with sudden influxes of third country nationals at EU borders. In similar circumstances, EU institutions resort to a special legislative procedure, requiring qualified majority in the Council and a non-binding opinion from the European Parliament. Recently, two EU member States (i.e. Slovakia and Hungary) have challenged, via article 263 TFEU (EU 2012), a decision of 2015 based on mentioned article 78 n. 3 TFEU for the temporary relocation of international protection seekers from Greece and Italy towards other EU member states (including the applicant states).

In the CJEU’s view, the challenged decision was aimed, inter alia, at implementing the solidarity principle enshrined in art. 80 TFEU (EU 2012; see CJEU, Sept. 6<sup>th</sup> 2017, Joined cases C-643/15 e C-647/15, *Slovak Republic and Hungary v. Council of the EU*). At point 291 of its judgment, the Court stated what follows: *„Where one or more Member States are in an emergency situation, in accordance with Article 78 (3) TFEU, the burdens arising from the temporary measures taken under this provision for the benefit of this or these Member States must, in principle, be distributed among all the other Member States, in accordance with the principle of solidarity and fair sharing of responsibilities between Member States, given that, under Article 80 TFEU, this principle governs the Union’s asylum policy”*.

Complainant States, inter alia (supported by Poland), objected that, for the purpose of relocating international protection seekers, EU institutions could have (and should have) made recourse to the provisions of mentioned Directive 2001/55 allowing, differently from Article 78 n. 3 TFEU, each EU Member State to voluntarily set the amount of international protection seekers to be received. In the CJEU’s view, the EU institutions’ choice of resorting to article 78 n. 3 TFEU as the legal basis of the contested decision, is placed outside the purposes of same Court’s assessment following an action for annulment (Article 263 TFEU, EU 2012), since this is a matter related to a “political choice” by EU institutions whose opportunity



could not be put at stake by the same Court. The latter Court consequently confirmed the legality of the procedure implemented by EU institutions and affirmed that the legal basis of the same contested decision was correct (Curti Gialdino, 2008, p. 101, Rizzo, 2017, p. 397, Morgese, 2018, p. 63).

On more substantial aspects of mentioned CJEU decision, it can be recalled that under article 2 of the Treaty of the European Union (TEU, EU 2012), the solidarity principle, listed among other EU's basic principles, stems from EU Member States' legal systems, being equivalent to a general principle of law. However, an infringement of solidarity (as well as of pluralism, the prohibition of discrimination, tolerance, justice and equality between women and men) perpetrated by one EU member State does not per se allow the European Commission to open a procedure aimed at formally assessing a breach of EU law. On the other hand, article 3 of TEU (EU 2012) on EU's objectives, at paragraph 3 specifies that EU promotes the solidarity "*between the generations*" and solidarity "*between the Member States*". The same Court of justice of the European communities in its decision of Feb. 7<sup>th</sup>, 1973, case 39/72, *Commission v. Italian Republic*, which inter alia dealt with Community regulations' effects (being sources of EU law directly applicable in the member States of the EU), stated what follows: "*the fact that one member State, in consideration of its national interests, unilaterally breaks the balance between the advantages and the burdens deriving from its belonging to the Community, affects the equality of the Member States under the Community law and determines discriminations against their citizens, first and foremost those of the State that transgresses the Community rules. (...) this lacking in the duties of solidarity accepted by the member states with their accession to the community shakes the founding of the community legal system*" (pp. 24 and 25).

Therefore, Articles 2 and 3 TEU must be read in a strongly evolutionary perspective. Indeed, these provisions, on one hand, establish the qualities that one State must have with the aim of taking part to the EU and, on the other, same provisions determine the features of the EU as such. Articles 2 and 3 TEU are consequently addressed to EU member states and at the same time qualify the same EU as the guarantor of an "European public order" resulting from the founding treaties. In this way, EU treaties end up enjoying peculiar features fit to distinguish them from other international treaties, becoming true „constitutional treaties" („traités-constitution"), as already stated by same CJEU in the well-known *Les Verts* case: "*The European economic community is a community based on the rule of law, inasmuch as neither its member states nor its institutions can avoid a review of the question whether the measures adopted by them are in conformity with the basic constitutional charter, the Treaty*" (decision of April 23<sup>rd</sup>, 1986, case 294/83, *Parti écologiste „Les Verts" v. European Parliament*).

Considering the above and according to specific studies at institutional level – e.g. the study named „*The implementation of Article 80 TFEU on the principle of solidarity and fair sharing of responsibility, even financially, between member states in the field of border controls, asylum and immigration*" (EU, 2011 b) – the

solidarity principle enshrined in Article 80 TFEU finds its conceptual matrix in the sincere cooperation principle (see article 4 n. 3 TEU, EU 2012).

Under the principle of sincere cooperation, Member States and EU institutions bear a general duty to respect EU law: consequently, they must cooperate „sincerely” with the view of respecting all obligations stemming from EU treaties and legislation. Such an imperative exists also, and particularly, where those obligations stem from provisions of EU law expressed through a broader wording nonetheless setting clear objectives to be pursued. The CJEU has made extensive use of the sincere cooperation principle particularly with the view of ensuring that certain EU law obligations, and also related individual rights, be effectively respected by public administrations, authorities and judiciaries of each EU member State. In the “Area of Freedom, Security and Justice” (where the principle of solidarity relates to border controls, asylum and migration policies), the CJEU, referring to police and judicial cooperation on criminal law, stated what follows: *„It would be difficult for the Union to fulfil its mission effectively if the principle of sincere cooperation (...) should not be imposed in the field of police and judicial cooperation in criminal matters (...)”* (CJEU June 16<sup>th</sup> 2005, C-105/03, *Pupino*). Reference to the principle of sincere cooperation in the *Pupino* case is all the more significant considering that the policy examined by the Court in that case (i.e. judicial cooperation on criminal matters) had still an “intergovernmental” character, due to European Parliament’s weak competences on same policy, before the Lisbon Treaty reforms. Sincere cooperation applies also to “horizontal” relations between EU and its member States more broadly, including “purely inter-governmental” areas (Common Foreign and Security Policy, Common Security and Defense Policy, see Article 24.3 TEU, EU 2012).

Comparably to the principle of sincere cooperation, the solidarity principle established by art. 80 TFEU is apt to perform mandatory effects where an EU act, even if drafted in broad terms, detects nonetheless clear objectives to be pursued. Being addressed to EU Member States only, that principle can anyway perform defensive effects for individuals whose rights might stem from the provisions of an EU act, depending also on this same act’s wording.

## 2. Recent EU and national practice on the “external” side of asylum policies

EU relocation decision challenged by Hungary and Slovakia dealt inter alia with a set of international law principles to which same EU law broadly conforms. However, that decision, based on article 78 n. 3 TFEU, had relatively limited scopes and effects. On the other hand, Directive 2001/55 would have never allowed EU institutions to compel EU Member States’ acceptance of international protection seekers’ specific quotas: on the contrary, mentioned EU relocation decision based on Article 78 n. 3 TFEU was meant to perform mandatory effects on EU member states.

Italy is the most important EU country facing migratory flows from Northern Africa. For the first time, the CJEU has made clear reference to the solidarity principle (Article 80 TFEU) particularly in favour of „first-entry” countries such as Italy. However, the problematic issues related to migratory flows from sea, rather





than overland, remain structurally different. We have seen how European Court of Human Rights (ECtHR) had awarded to individuals moving from North-African coasts the protection against *refoulement* „at sea”, as already granted to international protection seekers accessing the EU external terrestrial borders (being such borders equivalent to those of ECHR's member states).

On this sort of situations, it can be firstly reminded that the rescue obligation is foreseen by the United Nations Convention on the Law of the Sea (in particular article 98, UN 1982): such an obligation, having a general mandatory character, is binding on the Convention's members and on all operators (boats), public or not, sailing in both international and inland waters. Based on these principles, the “search and rescue” (SAR) practice has been established. Later, this practice has been ruled in details through the 1979 Hamburg Convention on marine research and rescue (UN 1979) establishing a system of Search and Rescue Regions (SRR) and, more substantially, requiring the States to adopt tools aimed at effectively meeting any request for assistance at sea (Caffio, 2017, p. 92).

The combined reading of above mentioned rules – *non-refoulement* at sea and the duty to search and rescue individuals in danger during navigation – gives an idea of how serious the internationally accepted commitments States must respect every time a migratory emergency occurs at their territorial sea or even at waters adjacent to same States' territorial sea. On the other hand, the issue of refugees and of migrants traveling by sea raises a number of specific problematic issues, including the need that the international obligation – binding both on States and on individuals – to save lives in danger at sea is fully respected at any circumstance. Moreover, the boundaries surrounding States' competence on migration policies remain still unsettled, considering how such policies can be implemented at national level only in full respect of international protection seekers' rights and in full respect of international human rights standards.

Above issues can be traced back to the protection of the right to asylum as a fundamental human right internationally granted and to the detection of obligations and rights stemming, for the States and for individuals, from relevant rules on the law of the sea. More generally, the question arises on how migratory flows can be regulated through international agreements between, on one hand, EU countries (and/or same EU) and, on the other, non-EU states. Moreover, the management at national level of international protection seekers raises more specific problems unavoidably connected to related requirements imposed at international and EU levels for the protection of individuals concerned.

EU member States and same EU have concluded international bilateral agreements aimed specifically at the management of international protection seekers. In the light also of a consolidated international praxis, EU can negotiate and approve “readmission” agreements with third countries for the transfer of individuals who in principle do not hold the right to get international protection any longer. Recently, a comparable practice, although if involving also individuals still entitled to ask for international protection, has been examined by the General Court of the European Union (Order of Febr. 28<sup>th</sup>, 2017, T-192/16, *NF v. European Council*). The case dealt with a “statement” (agreement?) between, on the one



hand, the Member States of the European Union and, on the other hand, Turkey for, *inter alia*, the readmission of non-EU nationals seeking international protection, mostly coming from Syria, entering Turkey and then approaching EU's external terrestrial borders through the so-called "Balkan corridor". Despite the European Commission's monitoring on the agreement's implementation, the General Court considered the EU/Turkey statement as a source (agreement) binding only on the EU member states, not attributable to the Union as such and, consequently, not subjected to the EU's judiciary.

In legal terms, states or international organizations can engage themselves internationally also through practice not formally strict. International organizations in particular can take on important international commitments even when the mutual obligations are contracted by persons who seem sufficiently qualified to represent such organizations in the light of the factual circumstances surrounding the conclusion of the international agreement. According to Article 8 of the Draft articles on responsibility of international organizations (UN 2011), the behaviour of "*an organ of an international organization, acting in this capacity, is assigned to the international organization*". Besides, art. 7 par. 1 of Draft articles on the law of treaties between States and international organizations (UN 1986) reads as follows: "*A person is considered as representing a State (...) if: a) He produces appropriate full powers; or b) It appears from the practice of the States concerned or from other circumstances that their intention was to consider that person as representing the State for such purposes and to dispense with full powers*". According to the International Court of Justice (ICJ), an international agreement should be traced back to the meaning that makes the rules of the Vienna Convention on the law of treaties applicable to same agreement even only by virtue of the chance that such an agreement, whatever its formal character, entails mutual rights and obligations for the contracting parties (ICJ July 1<sup>st</sup>, 1994, *Qatar v. Bahrein*, Rec. 112, pp. 23 ff.). On the other hand, the same Court of Justice of the European communities applied for the first time this less formalistic approach in its Opinion n. 1/75 of Nov. 11<sup>th</sup>, 1975 (Cannizzaro, 2017, p. 256).

In the light of the above, it must be considered how the EU/Turkey statement was negotiated by the rotating Presidency of the Council of the Union and by the President of the Commission; in addition, that statement was adopted at a European Council meeting on EU/Turkey relations, held on 18 March 2016 at the headquarters of the European Council. Finally, same „EU/Turkey statement”, spread in the form of a press release of the European Council and published on the latter's website, is formulated in such a way as to immediately convey the idea that the consensus around it had been directly agreed by Turkey together with the European Union (and/or with the latter's representatives besides those of the EU Member states). As a consequence, being the result of that consensus, the statement in question should be attributed to, on one hand, Turkey and, on the other, to EU as such.

Beyond formalistic aspects above, international law prevents States not only from rebuffing persons qualified as nationals. In fact, States must also protect in more general terms the individual right to life and the right of not being submitted



to torture or inhuman or degrading treatments (i.e. art. 3 ECHR, CoE 1950): this duty extends also in favour of international protection seekers if *refoulement* of these persons toward a „non safe” country of origin or toward an equally „non safe” transit State might put at stake same individuals’ life or safety. Accordingly, the so called EU/Turkey agreement reveals several critical elements linked to the situation of social, institutional and political instability in Turkey, as evidenced by the fact that, after the attempted coup d’état of July 15<sup>th</sup>, 2016, the ECHR’s implementation to Turkey had been „temporarily” suspended following Turkish government’s request submitted under ECHR’s Article 15 (CoE 1950). Such provision reads as follows: „*In case of war or in the case of another public danger threatening the life of the nation, any High Contracting Party may take measures derogating from the obligations under this Convention, to the extent that the situation requires it and on condition that such measures do not conflict with other obligations deriving from international law*”. However, even if ECHR’s implementation has been interrupted following the triggering of article 15 ECHR in favour of an ECHR’s member State who requested such activation, in this latter State the prohibition of torture or of slavery can’t be suspended; nor same State is enabled, under same conditions, to suspend the right to life and individual physical and spiritual integrity. Finally, even in case that article 15 ECHR is in force, in the concerned Member State of the ECHR no one can be forced to reveal his/her religion, conscience, thought or opinion, nor be accused for this reason. The Strasbourg Court has often ensured a large “margin of appreciation” to the ECHR’s Member States, acknowledging that national authorities are placed more appropriately than the international judge with the view of assessing when „*an emergency threatening the life of the nation*” under article 15 ECHR occurs (e.g., ECtHR Jan. 18<sup>th</sup>, 1978, *Ireland v. United Kingdom*, Appl. 531/71). An “inter-State” litigation (under article 33 of the ECHR, CoE 1950) aimed at disputing the ECHR’s article 15 implementation has been rarely brought before the ECtHR (see *inter alia* ECtHR’s decision of Dec. 18<sup>th</sup> 1996, *Aksoy v. Turkey*, Appl. 2198/93; Sheinen, 2016, p. 3).

Interestingly, France, unlike other Council of Europe member states at the same time signatories of the ECHR (essentially the United Kingdom and Turkey), applied art. 15 of same ECHR for the first time as a response to terrorist attacks occurred in Paris on November 13<sup>th</sup> 2015, giving a wide reading, already followed into the French legal system, of the “state of emergency” criterion.<sup>3</sup>

In this case, Turkish authorities applied the provision in question beyond the limits established therein. In fact, representatives of the Council of Europe expressed worries about the situation in Turkey for the correct application of same exemptions under Article 15 ECHR (CoE 1950), thus detecting situations where the Turkish authorities violated those individual procedural guarantees (right of defense) provided by the Strasbourg system and that same Turkish government

<sup>3</sup> Loi n° 2015-1501 du 20 novembre 2015 *prorogeant l’application de la loi n° 55-385 du 3 avril 1955 relative à l’état d’urgence et renforçant l’efficacité de ses dispositions*, JORF n° 0270 du 21 novembre 2015, page 21665.

could not put at stake via recourse to exemptions under same article 15 ECHR (CoE 2016a and 2016b). Furthermore, the Turkish government's violation of various human rights connected to freedom of expression and the press has been certified also in a report based on art. 19 par. 3 of the International Covenant on Civil and Political Rights (UN 1966) and made public on 18 November 2016 by the UN Special Rapporteur on the promotion of the freedom of opinion and expression at the end of a three-day mission to Turkey (UN, 2016a and 2016b).

At the European Union level, one could also make reference to the so called "*plainte*" (i.e. complaint): with this tool, any individual (including legal persons) can submit an informal request aimed at allowing that European Commission assesses if national authorities of one EU member State have infringed EU law. At a further step, this preliminary assessment allows same European Commission to subsequently and discretionally start a formal infringement proceeding against an EU member State in accordance to art. 258 TFEU (EU, 2012). In this case, via a complaint, the Commission could have started an informal procedure with the view of assessing if, by implementing the EU/Turkey statement in question, EU member States had infringed art. 18 of the Charter of fundamental rights of the EU (EU 2000). However, the Commission has constantly monitored the implementation of same EU-Turkey statement, thereby endorsing the contents of the latter, but also, ultimately, its legal character as a true source of EU law, highlighting both its positive and its several dubious features.<sup>4</sup>

With the view that the EU/Turkey statement would violate the right to asylum and the prohibition of *refoulement*, one could make recourse to the interim measures referred to in Rule 39 of the Strasbourg Court's rules of procedure (CoE 1959). With this tool, a question concerning the correctness of the relocation measure of a third-country national in the implementation of the EU/Turkey statement might be brought before same Court of Strasbourg by a judge of an EU Member State, which simultaneously is a member State of the ECHR, as is well known. Indeed, in the same ECtHR's case-law, Rule 39 of same Court's Rules of procedure has been applied in the light of same *non refoulement* criterion in cases of expulsion of third-country nationals from an ECHR Member State (e.g. ECtHR, Grand Chamber, March 23<sup>rd</sup>, 2016, Appl. 43611/11, *F.G. v. Sweden*).

Comparable difficulties arise from a Memorandum of Understanding (MoU) on cooperation in the field of development, the fight against illegal immigration, trafficking in human beings, smuggling and the strengthening of border security between the State of Libya and the Italian Republic published on February 2<sup>nd</sup> 2017 on the website of the Italian newspaper *la Repubblica*<sup>5</sup>.

Firstly, the Italian government didn't respect Italian Constitution's article 80: according to that provision, same government must request national Parliament's

<sup>4</sup>Among many others, see the European Commission report on the implementation of the statement under consideration, COM (2016) 792 fin. of 18 December 2016.

<sup>5</sup> *La Repubblica* (2017) *Migranti: accordo Italia-Libia, il testo del memorandum*, 2 February 2017 (retrieved from [http://www.repubblica.it/esteri/2017/02/02/news/migranti\\_accordo\\_italia-libia\\_ecco\\_cosa\\_contiene\\_in\\_memorandum-157464439/?refresh\\_ce](http://www.repubblica.it/esteri/2017/02/02/news/migranti_accordo_italia-libia_ecco_cosa_contiene_in_memorandum-157464439/?refresh_ce)).



authorization for the ratification of agreements having political content or implying financial commitments for Italy. Same MoU, in fact, entails a concrete mutual commitment between Italy and the ‘Republic of Libya’ aimed, inter alia, at guaranteeing that Italy supplies “*technical and technological support to the Libyan bodies responsible for fighting illegal immigration, which are represented by the border guard and the Coast Guard of the Ministry of Defense, and by the competent bodies and departments at the Ministry of the Interior*” (Article 1 c of the MoU, but similar expressions are spread in the text). Moreover, one can underline the intrinsically political character (in the meaning of mentioned Italian Constitution’s article 80) of an agreement foreseeing the detention of persons among whom those demanding international protection might be present, notwithstanding relevant international law rules on refugees binding on at least one of the contracting States, that is, Italy (considering how Libya is not part to the Geneva Convention and the New York Protocol).

It is also to be noticed that, on particularly sensitive issues – such as international protection of fundamental human rights – a sovereign State (Italy) has engaged itself with a country (the self-proclaimed “Republic of Libya”) whose statehood according to international law rules, i.e. precisely in order to detect if that “Republic” of Libya is fully entitled to engage itself internationally, is still not completely defined.

Finally, on the reception of international protection seekers, the qualification of Libya as an actual “safe” third country of transit or of origin is seriously questionable anyway.

The MoU’s provisions allowing the *refoulement* from Italy to Libya of international protection seekers raise many difficulties at European and international law levels, at least as far as detention methodologies applied in the refugees’ camps of that country are concerned, since various documents deplore the recourse to widespread violence under same methodologies (cases of torture, inhuman and degrading treatment, killings, rape, arbitrary deprivation of liberty, subjection to servitude or slavery, etc.; Amnesty International, 2016; UN, 2016c; UN, 2017).

If circumstances above will be confirmed, the responsibility of the State of destination (Italy) may arise for complicity directly in the commission of such violations, pursuant to art. 16 of the Draft Articles on International Responsibility of States adopted by the UN International Law Commission (UN, 2002), reading as follows: “*A State which aids or assists another State in the commission of an internationally wrongful act by the latter is internationally responsible for doing so if: (a) that State does so with knowledge of the circumstances of the internationally wrongful act; and (b) the act would be internationally wrongful if committed by that State*”.

## Concluding remarks

Above pages tried to show, through few significant examples, the high sensitiveness of migration and asylum policies at both political and legal levels.

Firstly, individual rights must be protected in accordance to national, international and European standards. There is now a serious risk that the current turmoil involving both EU member states and EU as such, also in the international scenario, impacts negatively on the aim that such consolidated human rights are fully granted. EU member states, primarily, must comply with relevant international and EU law standards particularly in cases of „intra-EU” resettlement of international protection seekers. The principle of solidarity between EU member states on asylum and migration policies aims at tightening the relevant obligations. With regard to the international policies of both EU and of its member states, agreements aimed at the resettlement of international protection seekers to countries of origin or transit States that do not comply with human rights standards should be prevented. On the other hand, the UN have further stressed and strengthened the undeniable ties connecting the protection of asylum and of refuge seekers with the protection of human rights at international level.

Current EU policies referred to socio-labour inclusion of third country nationals seeking (or enjoying) international protection in the EU could however represent an effective antidote with the view of avoiding an increasing impairment of mentioned individual rights (Murphy, 2013, p. 149 ff.). In particular, Directive 2013/33/EU (EU 2013a), under articles 14 to 17 requires schooling and education of minors, access to work in nine months from the entry in a EU receiving State and access to vocational training for same international protection applicants (Articles 16 and 17). Additionally, in accordance to Directive 2011/95/EU (EU 2011a) non-EU nationals benefiting from international protection in the EU have the right to access specific tools aimed at socio-labour integration (Article 34). Status’ beneficiaries have also the right to access employment and education in one host EU country (Articles 26 and 27). Same individuals must then obtain the recognition of professional qualifications, social and health care, housing and other special conditions relating inter alia to the condition of unaccompanied minors.

The drafting of UN Global compact on safe, orderly and regular migration is approaching its final rounds. The process is opened to UN member States and involves the EU as an observer, in accordance to a UN General Assembly Resolution of 2011 dealing with EU-UN relations. The Global compact won’t be legally binding anyway, but it nevertheless entails relevant aspects of, inter alia, socio-labour inclusion of refugees and of migrants in accordance to several existing conventions and resolutions adopted by the International Labor Organization. The results of the on-going process on the draft UN compact shall consequently be taken in due account with the view of harmonizing at best the different dimensions (international, regional and national) of the challenges caused by movements of persons that, for too many reasons (including economic and environmental crises), are globally increasing.



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# THE IMPACT OF EASTERN EUROPEAN CULTURE ON THE INTERNATIONAL TRADE

R.M. Ammar ZAHID\*, Aurelia ILIEȘ\*\*

## Abstract

*Business and economic decisions of individuals are influenced by cultural values. The current study investigates the impact of Eastern European culture on international trade. Well known Hofstede (1980) cultural dimensions are measured with unique proxies and their impact on the international trade (imports and exports) of Eastern European Countries (EEC) is analysed. Standalone and panel (fixed effect) regression models have been applied to the 20 years' data (1996-2015) of three representative countries (Poland, Lithuania, and Romania). Overall power distance is decreasing while uncertainty avoidance is increasing in the Eastern European countries over the time. The results show that power distance has a significant negative relationship with both imports and exports while individualism has a significant positive relationship with the imports and exports of the EEC. Uncertainty avoidance and masculinity vs femininity dimensions have no significant impact on the international trade of the region. Findings of the study may help the policy makers to increase the international trade of these countries by focusing on the influence of particular cultural dimensions.*

**Keywords:** Eastern European Culture, International trade, Hofstede cultural dimensions, Imports, Exports

## Introduction

Past four decades witnessed a dynamic research in the field of international business and it is likely to accelerate in future, as the process of economic globalization is continuously increasing (Venaik and Brewer, 2010). Comparative cultural research is becoming more widespread and understanding different culture received great importance (De Mooij and Hofstede, 2010). The impact of culture is widespread in all spheres of our lives. It has a strong influence on social systems and behaviour (Hofstede, 1980). Culture 'influences how people think, communicate, and behave' (Salacuse, 2004), affecting the ways businesses are conducted around world, the transaction costs, and finally, the volume of international trade. Some recent empirical studies found that cross-societal cultural differences are negatively related to bilateral trade flows (Shafer, Smith, and

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\* R.M. Ammar ZAHID, PhD, is assistant professor at Virtual University of Pakistan; email: amrzahid@gmail.com.

\*\* Aurelia ILIEȘ is PhD candidate at Alexandru Ioan Cuza University of Iasi, Romania; email: ilies.aura@yahoo.com.

Linder, 2005; Tadesse and White, 2010). Language, lifestyle and values are different from a society to another directly impacting the sales/purchase behaviour which is why we tend to believe that cultural values play an important role in international trade.

The main objective of the current study is to analyse the impact of cultural values on international trade of Eastern European Countries (EEC). In line with Chung (2007) we used the famous cultural dimensions by Hofstede; individualism, power distance, uncertainty avoidance and masculinity (Hofstede, 1980) and established their relationship with the international trade (imports and exports) of the three representative countries of Eastern Europe i.e. Romania, Poland, and Lithuania. Further, we also compared the trend in cultural dimensions of countries with each other. As well as, the impact of each country specific cultural values on the international trade.

Hofstede cultural dimensions are measured with the proxies used in prior studies (Noravesh, Dianati Dilami, and Bazaz, 2007; Sudarwan and Fogarty, 1996; Zahid, Taran, and Simga-Mugan, 2017). Specifically, Power Distance (PD) is proxied by Internet usage ratio, Urbanization rate, and Literacy rate. Uncertainty Avoidance (UA) is represented by Investment rate, Savings rate, and GDP growth rate. The divorce rate, Marriage rate, and Higher education rate are used as proxies for Individualism (IND). Healthcare budget ratio, Individual income, and Gender employment gap are used to represent Masculinity (MvF). International trade is measured by Imports and Exports of the countries. Panel regression with fixed effects and standalone regressions have been applied for the 20 years' data ranging from 1996 to 2015.

Overall, results show that there is a decrease in power distance and an increase in uncertainty avoidance and masculinity over the time in EEC, individualism shows a mixed trend. The findings suggest that power distance and individualism dimensions of the Hofstede cultural values have a significant impact on both imports and exports of EEC, while masculinity vs femininity and uncertainty avoidance does not have a significant impact on international trade. Panel regression coefficients show that an increase in power distance decreases the international trade (both imports and exports) while an increase in individualism dimension increases the imports and exports of the region. Country specific results show that individualism has a negative relationship with the exports of Poland, Lithuania, and Romania. Also, an increase in the femininity dimension of Romania increases the international trade of the country both in imports and exports.

The current study is novel in analysing the impact of cultural values on the international trade of EEC. To the best of our knowledge, it is the first attempt to link the unique cultural values of EEC with international trade. For the statistical analyses, we used data for a period of 20 years, from 1996 to 2015. The policymakers can use the findings of the current study to boost the international trade of the region by focusing on certain aspects of the culture.

Rest of the paper adopts the following structure: Section 2 presents the literature review and hypothesis development, Section 3 explains the data sources and methodology used and Section 4 is devoted to the presentation of empirical



findings and discussion of the results. The final section concludes the study with some limitations and future research motivation.

## 1. Literature review

Extant literature defines culture in a number of different ways. The degree of complexity of culture makes it hard to reach consensus in embracing a generally accepted definition of this concept. Cultural studies received great attention during mid-twenties, because of its comprehensive influence on all aspects of human behaviour. Linton, a recognized scholar of culture studies defines culture as “the configuration of learned behaviour and results of learned behaviour whose component elements are shared and transmitted by the members of a particular society” (Linton, 1945). Kroeber and Kluckhohn (1952) considered culture as the patterned ways of thinking, feeling and reacting. And the foundations of culture are made up of conventional ideas and values. Another view that prevails among the scholars is that culture is represented by a set of values, traditions, norms, and beliefs that are shared in a society. Hofstede (1980) defines culture as “the collective programming of the mind which distinguishes the members of one group from another”. Following the same logic, Rossi (1989) names it ‘unconscious infrastructure’, idea that is embraced by Schein (1985) too when he speaks about culture as ‘basic assumptions and beliefs that operate unconsciously’. Also, Cateora (2007) summarizes five elements of culture including cultural values, rituals, symbols, beliefs, and thought processes.

Cultural models are meant to define different patterns of thinking and behaving in dealing with issues related to the functioning of groups or individuals in societies. For the purpose of understanding cultural differences, several models have been developed, such as the Hofstede Model (Hofstede, Hofstede, Minkov, and Vinken, 2008), research conducted by Schwartz and Bilsky (1987), Hampden-Turner and Trompenaars (1993), and GLOBE Model (House, Hanges, Javidan, Dorfman, and Gupta, 2004). Among these the Hofstede Model has been extensively used in empirical studies (De Mooij and Hofstede, 2010).

In current global environment international trade plays key role in the economic growth and prosperity of countries. Previous studies also point out that national culture has significant impact on the wealth of nation. Understanding national cultural differences requires a deep knowledge of different behaviours and the motives for certain behaviours. For this reason, number of cultural frameworks were developed using different dimensions in order to better describe and characterize cultural differences. One of the most widely recognized frameworks for classifying national cultures is developed by the social psychologist Geert Hofstede who used data from the IBM employees in order to derive the cultural value dimensions, as we know today. The data has been collected with surveys, conducted between 1967 and 1973 reflecting information on more than 60 countries. Over 116,000 IBM employees were questioned about their work, a study that revealed four main cultural dimensions: power distance, individualism/collectivism, uncertainty avoidance, and masculinity/femininity.



The most important cultural dimension identified in Hofstede's research is nevertheless power distance, measuring the degree to which a culture accepts the distribution of power in a society. Different cultures have various ways of accepting status differences, the role of cultural dimensions being simply to account for different preferences and priorities and how to approach them on a daily basis.

Eastern European countries have many common cultural aspects. These countries are bounded not just by their geographic proximity, but also by a common destiny revealed in their history, forming a distinctive cluster within the European region (Albu *et al.*, 2017). The selected countries for this study are representative of the mixed characteristics of the Eastern European region and they also followed a similar development path. Nevertheless, historical events marked the values of these countries, especially German Nazi influence and Soviet dominance over the last century. It is considered that old soviet countries are more inclined to accept the hierarchical ruling and high social-class differences, are more obedient and have fear of authorities (Brancu, Guðmundsdóttir, Gligor, and Munteanu, 2015). The communism fall played a great role in transforming the beliefs of these countries through the exposure to occidental influence, democratic values, business internationalisation, liberty to travel and work abroad. Even though Poland, Romania, and Lithuania are members of the European Union and are sharing European values and beliefs there is much to be done on the orientation towards autonomy and equality values, individualism and competition.

It is widely recognized that cultural differences are important factors that may impinge on various aspects of international relations, including international trade. Lee (1966) argues that the root cause of most international business issues is the unconscious reference to one's own cultural values. Further, Doney and Cannon (1997) point out that "[the] researcher in the future should examine the role of national cultures in buyer-seller relationship". A recent study by Kristjánsdóttir *et al.*, (2017) analyses the effect of international trade on different national cultures and finds significant positive effects on countries' international trade. It considers an international trade of 21 countries, using World Bank data through an estimated function of the Hofstede cultural dimensions, GDP and population, and for the time period from 2000 to 2011. Using a gravity-model setting, they found that only the MvF dimension significantly affect international trade. Researchers analyse cross-country variations of international trade, using gravity models, findings indicate that the volume of international trade increases between areas that are geographically close to one another (Beckerman, 1956; Isard and Peck, 1954; Kristjánsdóttir, 2012, 2016). Similarly, (Borchert and Yotov, 2017) and Cali and Mulabdic (2017) also studied cross-country variations in exports. Also, exports are considered to be represented by a function of the economic size and distance between countries (Larue and Mutunga, 1993).

Following the recent literature, two main hypothesizes are considered to be addressed in this paper:



Hypothesis 1: International trade of EEC is affected by national cultural dimensions.

Hypothesis 2: International trade of EEC is affected differently by different cultural dimension.

The first hypothesis is based on the previous analyses on the relationship between culture and international trade, mostly on the exports component (Chaiyabut, 2013; Ghemawat and Reiche, 2011; Nes, Solberg, and Silkoset, 2007).

The second hypothesis assumes that international trade is affected differently by each cultural dimension. Previous analyses on the relationship between international trade and the Hofstede cultural dimensions are those by Chung (2007), (Hancioğlu, Doğan, and Yıldırım, 2014) and (Kristjánsdóttir, 2016) concluding that cultural dimensions have different impacts on the variations in international trade volume.

## 2. Data and research design

The objective of the current study is to analyse how the cultural dimensions of Eastern European Countries impact their international trade. Eastern European region has further three sub clusters; Visegrad countries (i.e. the Czech Republic, the Slovak Republic, Hungary, and Poland), the Baltic countries (i.e. Estonia, Latvia, and Lithuania) and the South Eastern group (i.e. Bulgaria, Romania and Slovenia) (Matousek and Sarantis, 2009). The sample of the study includes one representative country from each cluster of eastern European countries, Romania, Poland and Lithuania. Data for the period of 20 years extending from 1996 to 2015 has been downloaded from the World Bank, OECD statistics, and Eurostat websites. It covers the period pre and post EU membership, so the effect of EU membership on culture transformation will also be observed.

Cultural dimensions are theoretical concepts which cannot be directly measured. Based on the previous literature and theory, a series of proxies are used to represent the cultural dimensions (Noravesh *et al.*, 2007; Sudarwan and Fogarty, 1996; Zahid *et al.*, 2017). These cultural dimensions score each country on a scale of 0 to 100. The following variables have been used as proxies, in order to represent each cultural dimension:

1. *Power distance (PD)* represents the extent of hierarchical relations among individuals. It is measured by three proxies:

- a. *Internet usage ratio* (Individuals using the Internet as % of total population). The use of modern technology through the dissemination of information is viewed as a way to freely express one's own thoughts on different aspects of day-to-day life including legislative matters (Sudarwan *et al.* 1996). Availability of information creates a higher degree of equality among individuals and as a result, a low power distance.
- b. *Urbanization rate* (Urban population as % of total). A population that is concentrated in cities has better chances to be informed on different aspects that affect their well-being and it also gains access to more





resources than people living in rural areas. How people live is how they will think about the society overall (Noravesh *et al.*, 2007; Zahid *et al.*, 2017), this resulting in a low power distance.

- c. *Literacy rate* (Adult literacy rate of population over 15 years old %). Education shape people's thoughts and beliefs and also raise awareness of the individual's rights. Thus, societies with high levels of education are more inclined towards equality values, respectively, low power distance (Sudarwan *et al.*, 1996).

2. *Uncertainty Avoidance (UA)* is based on the assumption that the expectations and attitude towards future reflect society's attitude towards risks. It is also measured by three proxies:

- a. *Investment rate* (Gross fixed capital formation as % of GDP). This is considered to account for the investment policies and the risk-taking level that all the investments require. Therefore, a high level of investments involves risk-taking that means scoring low on uncertainty avoidance. (Sudarwan *et al.*, 1996).
- b. *Savings rate* (Gross domestic savings as % of GDP). Savings usually reflect fear of the unknown, of the unpredictable, a prudential financial behaviour being adopted. In this respect, high savings means high uncertainty avoidance (Sudarwan *et al.*, 1996).
- c. *GDP growth rate* (Changes in GDP growth as annual %). The GDP growth rate is used to account for the economic stability of the countries. The fear of future risks is diminished when thinking of economic stability, the score for uncertainty avoidance being low (Sudarwan *et al.*, 1996).

3. *Individualism (IND)* reflects the extent of unity among people within a community. Three proxies are used to measure it:

- a. *Divorce rate* (per 1000 persons) and
- b. *Marriage rate* (per 1000 persons). These two proxies are meant to surprise the institution of the family due to the idea that a society's inclination towards marriage or divorce will conclude on the individualism or on the single-status orientation. In this case, a low marriage rate and a high divorce rate will reflect a high level of individualism.
- c. *Higher education rate* (Total student enrolment at Bachelor degree as % of total population). It is considered that highly educated people are more inclined to the individualistic behaviour. They have better jobs, higher earnings and they are also more independent (Sudarwan *et al.*, 1996).

4. *Masculinity (MvF)* is based on the dominance of a particular gender characteristic in a society. It is also measured by three proxies:

- a. *Healthcare budget ratio* (Health expenditure as % of GDP). Usually, healthcare combined with carefulness and welfare are characteristics associated with female behaviour while strength, competition or power desire are characteristics attributed to male. In this regard, a high level of healthcare facilities reflects a feminist society, while the inclination on high financial gains is viewed as a male denomination.



- b. *Individual income* (GNI per capita, PPP current international USD). Same logic as the previous.
  - c. *Gender employment gap* (Difference between the employment ratios of male vs female population). This indicator accounts for gender roles in a society. If the workforce distribution is dominated by the male population, it will reflect a masculine culture (Sudarwan *et al.* 1996).
5. International trade is defined as the exchange of goods and services across the borders (between the countries). Therefore, it is measured from both dimensions that are Imports and Exports. Hence, imports of goods and services (% of GDP) and exports of goods and services (% of GDP) of the countries have been used as proxies for the international trade.

To analyse the influence of Eastern European Countries culture on the international trade, panel and standalone regression models have been applied. The cross section and time period fixed effects specification have been used to account for heterogeneity among countries, for country specific events. Two panel least regression models with fixed effect are estimated, as follow:

$$Imports_{i,t} = \alpha + \beta_1 PD_{i,t} + \beta_2 UA_{i,t} + \beta_3 IND_{i,t} + \beta_4 MvF_{i,t} + \gamma_1 LnP_{i,t} + \gamma_2 GDP_{i,t} + \mu_{i,t} + e_{i,t} \quad (1)$$

$$Exports_{i,t} = \alpha + \beta_1 PD_{i,t} + \beta_2 UA_{i,t} + \beta_3 IND_{i,t} + \beta_4 MvF_{i,t} + \gamma_1 LnP_{i,t} + \gamma_2 GDP_{i,t} + \mu_{i,t} + e_{i,t} \quad (2)$$

where  $i$  represents the country and  $t$  time.  $PD_{i,t}$  represents the power distance of  $i$ 's country for the period  $t$ . Similarly,  $UA_{i,t}$  = Uncertainty Avoidance of country  $i$  for the time  $t$ ,  $IND_{i,t}$  = Individualism dimension of country  $i$  for the period  $t$ , and  $MvF_{i,t}$  = Masculinity vs Femininity of country  $i$  for time  $t$ .  $LnP$  = Natural logarithm of Population, and  $GDP$  = GDP growth rate are the control variables.  $\beta_{1,2,3,4}$  are the coefficients of cultural dimensions,  $\gamma_{1,2}$  are the coefficients of control variables,  $\mu_{i,t}$  represents the fixed effects and  $e_{i,t}$  represents the error term.

Further, to see the effect of cultural dimensions' country wise, following multiple regression models have been estimated, one by one for each country:

$$Imports_t = \alpha + \beta_1 PD_t + \beta_2 UA_t + \beta_3 IND_t + \beta_4 MvF_t + \gamma_1 LnP_t + \gamma_2 GDP_t + e_t \quad (3)$$

$$Exports_t = \alpha + \beta_1 PD_t + \beta_2 UA_t + \beta_3 IND_t + \beta_4 MvF_t + \gamma_1 LnP_t + \gamma_2 GDP_t + e_t \quad (4)$$

Similar to panel regressions,  $PD_t$  represents the power distance for the time  $t$ .  $UA_t$  = Uncertainty Avoidance for the time  $t$ ,  $IND_t$  = Individualism dimension for the time  $t$ , and  $MvF_t$  = Masculinity vs Femininity of for time  $t$ .  $LnP$  = Natural logarithm of Population, and  $GDP$  = GDP growth rate are the control variables.  $\beta_{1,2,3,4}$  are the coefficients of cultural dimensions and  $\gamma_{1,2}$  are the coefficients of control variables.

### 3. Empirical results and discussion

#### Descriptive statistic

Table 1 exhibits the results of the descriptive statistics of the selected proxy variables for the overall sample and country wise. The last column provides the values of F-Ratio also known as group means difference test (null hypothesis: means of different groups are the same). F-Ratio values reject the null hypothesis for most of the variables, meaning that they have statistically different values among the countries. F-Ratio fails to reject the null hypothesis only in the case of Internet usage, GDP growth, and Individual Income. Although the mean values of the variables are close to each other in Lithuania, Poland, and Romania (showing regional similarities), F-Ratio results suggest that each country have unique cultural characteristics. Internet usage ratio has the highest standard deviation among all the countries and Literacy rate has the lowest standard deviation. Overall, variables have a uniform data distribution.

**Table 1. Descriptive statistics**

Country		Lithuania			Poland			Romania			Overall			F ratio
Dimensions	Proxies	Mean	Median	SD	Mean	Median	SD	Mean	Median	SD	Mean	Median	SD	
Power Distance	PD1	37.23	40.06	27.25	36.84	41.70	25.08	23.66	23.08	19.57	32.57	32.48	24.61	(2.041)
	PD2	66.80	66.77	0.21	61.26	61.40	0.44	53.52	53.45	0.52	60.53	61.40	5.51	(5168)***
	PD3	99.73	99.73	0.07	99.67	99.68	0.10	98.18	98.60	0.67	99.19	99.65	0.82	(101)***
Uncertainty Avoidance	UA1	21.21	20.64	3.19	20.73	20.34	1.95	24.71	24.30	5.04	22.22	21.64	3.98	(7.18)**
	UA2	15.93	16.07	3.15	19.53	19.70	2.00	17.73	16.20	4.31	17.73	17.92	3.56	(6.011)**
	UA3	5.59	6.68	5.53	4.13	4.07	1.71	3.49	4.04	4.54	4.40	4.56	4.27	(1.283)
Masculinity vs Femininity	MF1	6.38	6.43	0.48	6.24	6.23	0.45	4.99	5.32	0.75	5.87	5.97	0.85	(35.55)***
	MF2	49.36	49.53	1.00	45.26	45.16	0.40	45.27	45.00	0.79	46.63	45.67	2.09	(189.6)***
	MF3	15786	15255	7262	15786	14240	5846	11927	10375	5824	14500	13325	6502	(2.465)
Individualism	IN1	3.25	3.20	0.15	1.49	1.65	0.30	1.57	1.60	0.12	2.10	1.70	0.84	(473)***
	IN2	6.05	6.00	1.01	5.51	5.40	0.58	6.36	6.25	0.84	5.97	5.90	0.89	(5.39)**
	IN3	1.52	1.53	0.04	1.45	1.43	0.06	1.24	1.25	0.11	1.40	1.43	0.14	(79.42)***
International trade	XP1	55.69	51.15	15.93	35.15	35.90	8.48	32.65	32.81	5.18	41.16	37.86	14.90	(27.21)***
	IM1	61.46	58.06	12.67	37.38	37.49	6.84	39.46	40.68	4.17	46.10	42.42	13.90	(47.56)***
	N	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	60.00	60.00	60.00	

Note 1: PD1 represents Internet usage ratio (*% of total population*), PD2 Urbanization rate (*%*), PD3 Literacy rate (*%*), UA1 Investment rate (*% of GDP*), UA2 Savings rate (*% of GDP*), UA3 GDP growth rate (*%*), MF1 Healthcare budget ratio (*% of GDP*), MF2 Gender employment, MF3 Individual income (*PPP current international USD*), IN1 Divorce rate (*per 1000 persons*), IN2 Marriage rate (*per 1000 persons*), IN3 Higher education rate (*% of population over 15 years old*), XP1 Exports of goods and services (*% of GDP*), IM1 Imports of goods and services (*% of GDP*).

Note 2: \*\*\*, \*\*, and \* indicates significance level at 0.001, 0.05, and 0.01, respectively.



Figure 1. (Appendix A) shows the evolution of the socio-economic proxies used to account for the cultural dimensions for the period analysed.

We can observe a decreasing power distance in the Eastern European countries due to the increased access to modern technology by the wide population of these countries as a result of the internet usage. High values of urbanization can be observed for Poland and Lithuania and it has an increasing trend for Romania too. Literacy rate has a similar trend which is why we can conclude that power distance overall is decreasing.

Gross fixed investment rate, savings rate, and GDP growth rate has high fluctuations over the time, especially during a 2007-2009 financial crisis. Even though we can see an increase in gross fixed investment rate in that period, saving rate and GDP growth rate are on the verge of collapsing being more evident in the Lithuania case. It can be assumed that these fluctuations indicate a change in attitudes towards risk and uncertainty and that the increase in savings rate after the crisis would reflect an increase in the overall uncertainty avoidance.

The proxies used for the individualism dimension vary significantly over time indicating rather oscillations of individualist tendencies than an orientation towards individualism on the three countries. Divorce rate and marriage rate tend to fluctuate more, while higher education rate has slight fluctuations.

From the proxies used to account for masculinity/femininity dimension, only individual income can be retained to confirm the orientation of the countries towards masculinity. Gender employment gap and changes in the healthcare budget ratio have a rather unclear evolution which is why is difficult to relate them to the masculinity/femininity transition.

Overall, graphs of cultural dimensions indicate that there is a changing pattern over the time in the cultural dimensions of each country, evidence being consistent with studies conducted by Sudarwan and Fogarty (1996). Also, trends for individual countries seem to be close to each other while the differences reflect aspects related to the specifics of each country.

## Pearson Correlations coefficient

Before estimating the final model, it is important to check the correlations and multicollinearity between the explanatory variables. Table 2 presents the results of Pearson correlation estimation. Same as expected, most of the proxy variables used have significant high correlations with each other, such as Higher Education rate and Divorce rate proxies used to represent the Individualism dimension is significantly positively related with Masculinity vs Femininity and Power Distance dimension while significantly negatively related with Uncertainty dimension proxies. Hence, Marriage rate proxy for Individualism has been used in further analysis. Similarly, one proxy for each dimension is selected to avoid the high correlation problem. So, Healthcare budget ratio (% of GDP), Urbanization rate (%), and Savings rate (% of GDP) are used to represent the Masculinity vs Femininity, Power Distance and Uncertainty Avoidance respectively.

Further, VIF (variance inflation factor) test is applied to check the multicollinearity assumption, overall scores being less than 2. This means that estimations of regression analysis are not biased by collinearity threat.

**Table 2. Pearson Correlations Coefficient Matrix**

	IN1	IN2	IN3	MF1	MF2	MF3	PD1	PD2	PD3	POP	UA1	UA2	UA3	LNP	GDP
IN1	1														
IN2	0.14	1													
IN3	0.57***	-0.25**	1												
MF1	0.43***	-0.12	0.82***	1											
MF2	0.89***	0.12	0.45***	0.36***	1										
MF3	0.24**	0.22**	0.40***	0.64***	0.13	1									
PD1	0.25**	0.26**	0.37**	0.66***	0.13	0.97***	1								
PD2	0.76***	-0.19	0.84***	0.70***	0.75***	0.25**	0.22**	1							
PD3	0.45***	-0.22	0.90***	0.89***	0.35	0.50***	0.47***	0.82***	1						
POP	-0.87***	-0.25**	-0.23**	-0.10	-0.81***	-0.03	-0.04	-0.43***	-0.06	1					
UA1	-0.14	0.42***	-0.12	-0.26**	-0.32**	-0.06	-0.08	-0.37**	-0.21	-0.06	1				
UA2	-0.30**	0.02	0.07	0.25**	-0.40***	0.68***	0.61***	-0.16	0.23**	0.39***	0.21	1			
UA3	0.22*	0.04	0.26**	-0.01	0.10	-0.09	-0.11	0.19	0.19	-0.14	0.29**	0.10	1		
LNP	-0.95***	-0.17	-0.44***	-0.30**	-0.91***	-0.12	-0.12	-0.66***	-0.30**	0.96***	0.08	0.37**	-0.17	1	
GDP	0.14	-0.02	0.24**	-0.01	0.01	-0.11	-0.12	0.16	0.20	-0.04	0.26**	0.13	0.99***	-0.08	1

Where PD1 represents Internet usage rate (% of total population), PD2 Urbanization rate (%), PD3 Literacy rate (%), UA1 Investment rate (% of GDP), UA2 Savings rate (% of GDP), UA3 GDP growth rate (%), MF1 Healthcare budget ratio (% of GDP), MF2 Gender employment, MF3 Individual income (PPP current international USD), IN1 Divorce rate (per 1000 persons), IN2 Marriage rate (per 1000 persons), IN3 Higher education rate (% of population over 15 years old), LNP Natural Logarithm of Population and GDP is the Gross Domestic Product per capita.

\*, \*\*, \*\*\* denote significance at the 10%, 5% and 1% significance levels respectively

The objective of the current study is to find the impact of cultural values on the international trade, for that purpose eight regressions are being estimated, two panel regression with country and period fixed effects and six standalone multiple regressions (two for each country). The model and equations are given in the methodology section. The results are given in Table 3.

Model 1 (M1) presents the impact of cultural dimensions on the imports of the overall sample. Overall, as hypothesized, cultural dimensions have a significant impact on the imports of Eastern European Countries (EEC). Specifically, the findings suggest that power distance and individualism have a significant impact on the imports of EEC the rest of the variables having no significant impact. So, different cultural dimensions affect differently the imports of the region. A unit increase in power distance decreases imports (% of GDP) by 4.45 times. So, when there is low power distance, people are more oriented to purchase the imported products or acquire the services from the other countries. Surprisingly, a unit increase in individualism increases imports (%age of GDP) by 4.34 times.

Model 2 (M2) exhibits the relationship of culture with the exports of EEC. Similar to Model 1, only power distance and individualism variables have a significant impact on the exports. These findings are consistent with our hypothesis. An increase in power distance decreases the exports and an increase in individualism increases the exports of the EEC. The model fit test shows that both models explain more than 95% of the variation in the variables.

Since our analysis used the country level data, there may be present heterogeneity which affects the model predictability. Country and period fixed effects are applied to the regression to account for unobserved heterogeneity. The



validity of the model is measured with the redundant fixed effect tests (Likelihood ratio test), both f-statistics and chi-square values suggesting that the fixed effect model gives more appropriate estimates.

**Table 3. Regressions results**

	Panel (Fixed effects)		Poland		Lithuania		Romania	
	M1	M2	M3	M4	M5	M6	M7	M8
Dependent variable	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports
Power Distance	-4.45 (1.62)**	-6.12 (2.05)**	-6.29 (6.46)	-3.50 (4.82)	21.78 (7.53)	25.68 (8.91)	-0.54 (2.24)	4.18 (2.91)
Uncertainty Avoidance	-0.18 (0.42)	0.04 (0.53)	0.18 (1.03)	1.27 (0.77)	1.85 (1.36)	2.39 (1.61)	0.18 (0.37)	0.72 (0.48)
Masculinity vs Femininity	-1.87 (1.80)	-1.67 (2.27)	-0.31 (3.75)	3.71 (2.80)	-4.23 (3.24)	-8.54 (3.83)	3.96 (2.07)**	6.80 (2.70)*
Individualism	4.34 (1.43)**	4.04 (1.80)**	0.77 (1.82)	-2.60 (1.36)**	-0.16 (1.59)	-5.60 (1.89)**	-0.33 (0.67)	-2.83 (0.87)*
Natural log of Population	-44.70 (31.16)	-64.54 (39.37)	-734.58 (179.56)*	-851.76 (134.11)*	-171.56 (69.39)*	-281.47 (82.10)*	24.45 (55.18)	131.83 (71.84)
GDP growth rate	0.26 (0.23)	0.00 (0.29)	0.24 (0.48)	0.14 (0.36)	0.02 (0.46)	-0.49 (0.55)	0.62 (0.13)**	0.57 (0.17)*
R-Square	0.97 (37.85)**	0.96 (26.92)**	0.92 (23.41)**	0.97 (68.44)**	0.96 (49.92)*	0.96 (56.66)*	0.83 (10.65)*	0.81 (9.49)*
F-Test	*	*	*	*	**	**	**	**
<b>Redundant Fixed Effects Tests</b>								
Cross-section F	(6.51)** (20.49)**	(7.67)*** (23.51)**						
Cross-section Chi-square	*	*						
Period F	(1.87)** (44.85)**	(1.86)** (44.58)**						
Period Chi-square	*	*						
Cross-Section/Period F	(6.68)*** (101.00)*	(7.57)*** (107.20)*						
Cross-Section/Period Chi-square	**	**						

Note 1: \*\*\*, \*\*, \* indicate statistical significance at 0.01, 0.05 and 0.10 level, respectively.

Note 2: The standard errors are shown in parentheses below the coefficients.

M3 (Model 3) and M4 (Model 4) provide the results for the impact of Hofstede cultural dimensions on the imports and exports of Poland respectively. Findings suggest that there is no significant impact of cultural dimensions on the imports. However, a unit increase in individualism dimension decreases exports (% of GDP) by 2.6 times. M5 (Model 5) and M6 (Model 6) present the results for

Lithuania. Findings reveal that similar to Poland, only individualism dimension has a significant relationship with exports. An increase in individualism decreases the exports of Lithuania. Model fit tests show that all four models explain more than 95% of the variation in the variables.

M7 (Model 7) and M8 (Model 8) exhibit the relationship of Romanian cultural values with its imports and exports respectively. Results show that only masculinity vs femininity has a significant relationship with imports of Romania. An increase in femininity will increase the imports (% of GDP) by 3.9 times, while with respect to exports, masculinity vs femininity and individualism have a significant impact. An increase in femininity increases exports and an increase in individualism decreases the exports.

Overall, individualism dimension of Hofstede cultural values is most significant in both panel and standalone model.

## Conclusions

Cultural values play a major role in shaping the behaviour and decision making of societies. The purpose of the paper was to analyse the impact of national cultural dimensions on the international trade of three Eastern European Countries. A unique set of proxies adopted from previous literature has been used to measure the Hofstede cultural dimensions. Based on the analyses performed it can be assumed that there is a decrease in power distance and an increase in uncertainty avoidance and individualism in the Eastern European countries. Overall, trends for individual countries seem to be close to each other while the differences reflect aspects related to the specifics of each country.

Panel regression with fixed effects and standalone multiple regression models have been used to estimate the impact of cultural dimensions on the international trade. The findings suggest that power distance and individualism have a significant impact on the imports of Eastern European Countries (EEC), the rest of the variables having no significant impact. The country specific analysis shows that there is no significant impact of cultural dimensions on the imports in Poland. Masculinity has a significant relationship with imports in Romania. Only individualism dimension has a significant relationship with exports in Poland and Romania. Overall, results show that an increase in power distance will consist of a decrease in both imports and exports, while a decrease in individualism will increase imports and exports of Romania, Lithuania, and Poland.

Findings of the current study indicate that variations in national culture are affecting trade between countries. Power distance has an inverse relationship with both imports and exports which is why policy makers should focus on reducing power distance in order to enhance the trade with other countries. The main limitation of the current study is the use of the proxies for the cultural dimensions analysed, more appropriate indicators can be used in future researches. Also, there is a lack of theoretical background in linking the cultural dimensions with international trade. Further research could apply our findings and seek to analyse more closely why these cultural dimensions affect international trade in this way.





**Acknowledgments:** Authors thank reviewers and participants of “EURINT 2018 Reflecting on Europe’s (dis)order: scenarios for the EU’s future” international conference held at Alexandru Ioan Cuza University of Iasi, for their valuable suggestions and comments to an earlier version of this study.

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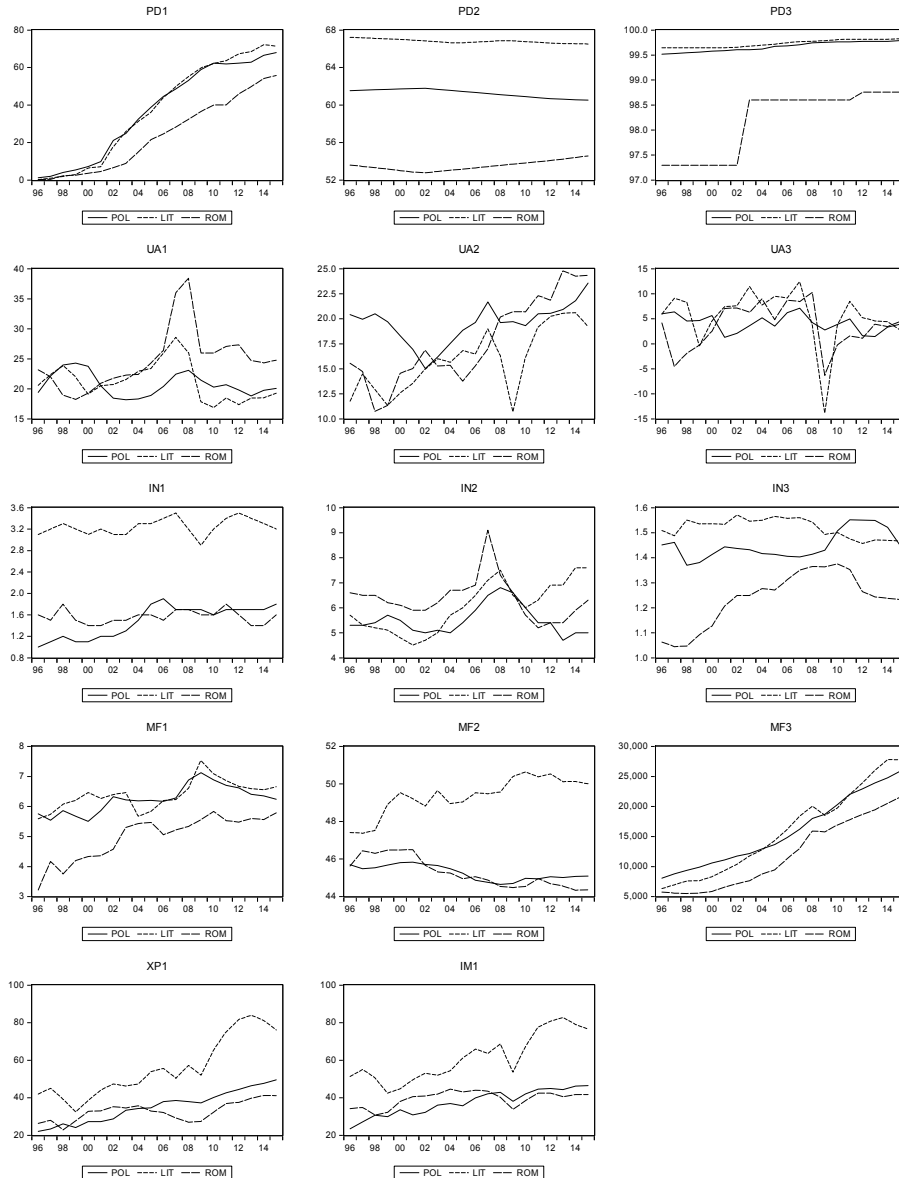
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## Appendix A

**Figure 1. Evolution of Hofstede proxies over the time**



Where POL represents Poland, LIT = Lithuania, ROM= Romania and PD1 Internet usage ratio (% of total population), PD2 Urbanization rate (%), PD3 Literacy rate (%), UA1 Investment rate (% of GDP), UA2 Savings rate (% of GDP), UA3 GDP growth rate (%), MF1 Healthcare budget ratio (% of GDP), MF2 Gender employment, MF3 Individual income (PPP current international USD), IN1 Divorce rate (per 1000 persons), IN2 Marriage rate (per 1000 persons), IN3 Higher education rate (% of population over 15 years old), XP1 Exports of goods and services (% of GDP), IM1 Imports of goods and services (% of GDP).



# RETHINKING EUROPEAN NEIGHBORHOOD POLICY: CHALLENGES AND OPPORTUNITIES FOR THE REPUBLIC OF MOLDOVA

Grigore VASILESCU\*, Cristina MORARI\*\*

## Abstract

*EU today copes with a range of challenges that have impact on its relations with neighbours. In this context authors highlight some important aspects as: the new concept of Europe and how can be understood the term of a New Eastern Europe; how evolves regional policy of EU towards the Republic of Moldova, Ukraine, Georgia and what are the achievements and difficulties of these states in their relationship with EU; how it is necessary to investigate ENP in the context of some new regional security problems; which is the role and impact of Russian Federation in the development of ENP and the Republic of Moldova relationship with EU etc.*

**Keywords:** EU, neighbourhood, regional policy, challenges, Eastern Europe

## Introduction

The issue of European Neighbourhood is one of those that emerged recently in the context of the enlargement of the European Union towards the East, especially towards the states of the former USSR. Faced with the complicated and contradictory realities of relations with the Russian Federation, which at one point declared openly its interest in this area, advancing the policy of the so-called “near neighbourhood”, the European Union was forced to think and implement an Eastern-oriented policy that declared its European orientation with the prospect of joining the community. This has resulted in the so-called European Neighbourhood Policy as a component and very important part of the Common Foreign and Security Policy (CFSP). Since the launch of this policy in 2003, there have been years in which major changes have taken place, events that either have confirmed or questioned the need for and effectiveness of this policy have taken place. We have come today to talk and even discuss the need to rethink the European Neighbourhood Policy. How should this policy be rethought? What is seen as positive about the European Neighbourhood Policy and what should be revised? These and other questions are obviously interesting and require answers.

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\* Grigore VASILESCU is professor at the Moldova State University, Chisinau, Republic of Moldova; e-mail: vasilescugr51@gmail.com.

\*\* Cristina MORARI is PhD at the Moldova State University, Chisinau, Republic of Moldova; e-mail: morari.kristina@gmail.com.



## 1. The European Neighbourhood Policy: a possible direction of rethinking

The European Neighbourhood Policy (ENP) has been advanced from the very beginning as a policy of regulating relations with the South and Eastern European countries (Dragan, 2015). Initially, the ENP was launched in 2003, endorsed in 2004, and was a new approach to relations between the European Union and its neighbours, an approach that surpassed the traditional one based on simple co-operation. This policy was a framework to strengthen neighbourhood relations and aimed at stepping up cooperation with wider EU neighbouring countries to create an area of prosperity and good neighbourhood, a “circle of friends” at the Union’s borders. The main objective of the ENP, as shown in the strategic documents of the EU, is sharing the benefits of EU enlargement in 2004 with its neighbouring countries. Another objective is the one set by the European Security Strategy of 2003, namely increasing security in the neighbourhood of the enlarged Union. ENP does not offer the prospect of EU countries concerned, but also allows a privileged relationship with neighbours and better focus efforts in areas of vital importance to European standards near the countries concerned.

In 2011, the ENP was revised as a result of the riots in the Arab world. The revised ENP objective of the EU was to support partners that undertake reforms in the areas of democracy, the rule of law and human rights; to contribute to their inclusive economic development and to promote a viable partnership. The renewed ENP provided for enhanced cooperation in the political and security spheres, supporting economic and social development, stimulating growth and job creation, stimulating trade and strengthening cooperation in other sectors. Under the new ENP, an incentive-based approach (“more for more”) was applied, which provided flexibility for a modulated financial assistance regime on the basis of progress made by ENP countries in the field of democracy and respect for human rights.

After more problems arise, in 2015 the EU proposes a new approach to the ENP, which does not actually provide for political integration and brings nothing new to the associated countries, but urges them to make reforms. The new ENP was based on a stronger “differentiation” of partner countries according to the proven aspirations and ambitions, as well as individual performance in the implementation of reforms. The main element of the new ENP is, as experts have said, to strengthen the security and socio-economic stability of the 16 neighbours in the south and east. New emphasis was on stepping up cooperation with security partner countries, particularly in the fields of conflict prevention, counter-terrorism and anti-radicalism policies. It was also envisaged to primarily take into account the aspirations and needs of each partner state<sup>1</sup>.

*What really happened to the ENP?* As some European policy experts note, unlike the success of eastern enlargement efforts that transformed former communist countries into prosperous market democracies, the European Neighbourhood Policy was a spectacular failure. It offered money, technical

<sup>1</sup> Timpul (2015), Moldova și noua politică europeană de vecinătate, 8 December (retrieved from <http://www.timpul.md/articol/moldova-si-noua-politica-de-vecinatate-84184.html>).



assistance and access to markets, but not membership to 16 countries from East to South in return for adopting democratic, administrative and economic norms of the European Union. “As we now see the situation”, former Swedish Prime Minister Carl Bildt said at the beginning of 2015, “it is difficult to avoid the conclusion that we are surrounded not by a circle of friends but by a circle of fire.” Failure to stabilize or democratize the EU’s neighbourhood was partly the result of forces that Brussels could not control: Russia’s resentment regarding the collapse of the Soviet Union, as well as political and sectarian disputes in the Middle East (Mareş, 2015). Thus, especially after 2015 with the events in Ukraine, the ENP has come to a neighbourhood crisis, to a total failure (Polis, 2015).

Another very important aspect of what happened to the EU ENP to which we want to draw attention. All the European Union’s neighbours were put on a common list: the Southern ones – Algeria, Egypt, Israel, Jordan, Lebanon, Libya, Morocco, Palestine, Syria, Tunis and the Eastern ones – Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine. Thus, states that are actually European, at least geographically, as well as the Republic of Moldova, have come to be neighbours with Europe/European Union. As a result, the policy of these states, and especially the citizens’ conscience, has gradually begun nurture the idea that they are in fact EU neighbours, not Europeans. And here comes the big question: Are we Eastern Europeans, Europe’s neighbours, or are we still Europeans? The question is not trivial and simple at all. It is a question of which many speculations, many demagogies and manipulations have been and are being made for which reason this question, and in general, all the European Neighbourhood Policy must be rethought.

In our view, the ENP should be first and foremost rethought not in terms of neighbourhood, but in terms of Europeanity and in terms of European diversity. The issue needs to be examined from the point of view of unity and difference, of what is (and can be, including through Europeanization) common, and what is different, specific. If this dialectic is not taken into account, the unity of the opposites, the differences, in a way, then, although in the recent years it seems that the mistake has been understood, we still have what we have. The same requirements, unique standards (which obviously should exist, although without generalisation), sometimes produce extreme results. From this perspective, we should also look at the issue of future European enlargements, in general the issue of the European future.

## **2. Rethinking European Neighbourhood Policy in the context of a New Eastern Europe**

Europe is a continent of great diversity. The European countries reunited within the Council of Europe, which is the largest human rights organization on the continent, are national states with different own histories, different cultures, traditions, customs, etc. And so are the Member States of the European Union, now 28, including the UK, which is still part of the EU until the conclusion of the BREXIT negotiations. All the European countries are part of the great notion of





Europe, but at the same time they are also parts of a different Europe (Revistă de sinteză, 1999). According to Duțu (1999), when asking ourselves “How many Europes are in Europe?”, the answer should be formulated according to different criteria: geographical, historical, cultural and civilizational, confessional, political etc.

Thus, from a geographical point of view, we are talking about Western Europe and Eastern Europe, Northern and Southern Europe, Central Europe, Scandinavian Europe, the Balkans, etc. They differ not only geographically, territorially, climatically, and so on, but also from a cultural point of view, of belonging to the Western or Eastern culture, as well as from the point of view of the level of economic development, etc. From a historical point of view, we speak of Ancient, Medieval, Renaissance, Modern, Enlightenment, Contemporary Europe. These Europes are not just historical notions. They are also notions of the present, because what created the epochs, stages, and periods of the past, at least many of these creations, are being preserved and form the cultural, material and spiritual heritage of today's Europe. From the cultural and civilizational point of view, we speak of Anglo-Saxon or Germanic Europe, the Latin Europe (formed from those states and regions of Europe in which a Romance language is spoken and which have a culture distinct from Germanic and Slavic cultures. Latin European countries are Andorra, France, Italy, Moldova, Monaco, Portugal, Romania, San Marino and Spain), Slavic Europe (consists of those states and regions of Europe that speak a Slavic language and have a distinct culture from the German and Latin cultures, and contains the following states: Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Montenegro, Poland, the Czech Republic, the Republic of Macedonia, Russia, Serbia, Slovakia, Slovenia and Ukraine). These, being distinct by traditions, customs, languages, etc., taken together, form what we call European civilization.

From a confessional point of view, we speak of Catholic Europe, which, according to some authors, is the most genuine Europe (Marga, 2001, p. 29), Orthodox Europe, Protestant Europe, the Europe of different and many religious sects. From this point of view, we have a very large division of Europe, it being once all united under Christianity. (Duțu, 1999). From a political point of view, we speak of the social democrats' Europe, the European People's Party Europe, the Europe of Conservatives, the Europe of the Greens, the Ecologists, the Europe of the Socialists, the Europe of Nations and Freedom, the Liberals' Europe, the Europe of Reformists, the Europe of the nationalist and Eurosceptic parties, Europe of the European Left etc. These and many other parties, political orientations are active in European countries, they form different alliances, associations, transnational factions, including within the European Parliament, having different views on the present and the future of Europe. People also mention the Old Europe, related to the Western one, most of which belongs to the West, and the New Europe, with particular reference to the countries of Eastern Europe, those formerly belonging to the so-called socialist camp, Small Europe and Greater Europe, Old and Young Europe.



From a geopolitical point of view, there are other terms of a Western or Occidental Europe (though the concepts of Western and Occidental do not coincide), which is mainly distinguished by history and culture from the Eastern Europe.

From the point of view of transatlantic relations, at least five Europes are mentioned (this is an idea originally launched by Jurgen Habermas and Jacques Derrida in the famous paper “Old Europe, New Europe, Core Europe: Transatlantic Relations After the Iraq War”): Atlantic Europe, the best illustration of which is the UK, Europe itself, the essential one (Core Europe) or/and Old Europe, presented at this level especially by Germany and France, New Europe, a concept that designates the group of the new Member States of the European Union, a very important concept in the context of our examination, a non-aligned or neutral Europe (Non-aligned Europe), which includes the non-member states of the North Atlantic Treaty, namely Sweden, Ireland, Austria and Finland, and Periphery Europe, the exponent of which is Russia, an actor labeled as a generator of discord at both the European Union level and at the level of transatlantic relations<sup>2</sup> (Păun, 2008). And yet many, many other Europes from different points of view – Europes from the point of view of mentalities, Europes of the regions, Europes from the anthropological point of view, etc.

In this brief presentation we seek to analyse the Europe’s degree of diversification. And let us keep in mind that the discussions in this regard have not ended yet. Thus, lately, especially after the recent internal and external crises that the European Union, Europe as a whole, is passing through, the idea has been advanced and more discussions are breaking out about a Greater Europe, a Europe not only from the Atlantic to the Ural, but a Europe from Lisbon to Vladivostok, a Europe that includes the Russian Federation. So it is a Europe of the Council of Europe if not possibly a large European Union, which would include all European countries, including Russia, in perspective. (On the subject of relations with Russia, we will come back below in another context).

A so-called New Eastern Europe is also being discussed lately, given the fact that we already have an Eastern Europe, including the countries that formerly belonged to the socialist camp, that is to say, such countries as Poland, Hungary, the Czech Republic, Slovakia, Romania, Bulgaria, so the states that joined the European Union in the latest enlargement waves of 2004 and 2007.

The New Eastern Europe forms the states of Eastern Europe that previously belonged to the former USSR and now forms the group of states of the so-called Eastern Partnership, namely Ukraine, Belarus, Moldova, Armenia, Georgia, Azerbaijan. How does this New Eastern Europe differ, and what characterizes it, the states in this area? We can highlight some peculiarities, differences, characteristics that, in our opinion, should be taken into account, including the elaboration and promotion of the European Neighbourhood Policy, its rethinking under the current conditions.

<sup>2</sup> Nicolae Păun (2008), “Vocile” Europei și limitele ale parteneriatului transatlantic in „Monitorul de Cluj” (retrieved from [www.monitorulcj.ro/cms/site/m\\_cj/news/53959](http://www.monitorulcj.ro/cms/site/m_cj/news/53959)).

- The states in this group are ex-Soviet, ex-communist states in the so-called transition, a transition that, for some states, like the Republic of Moldova, takes too long;
- The states in this Europe are states at the confluence or even the collision of two geopolitical zones, the Western or the Occidental one, and the Eastern one, Oriental.
- These are countries on which both the European Neighbourhood Policy (ENP) and Russia's policies of the "near abroad" are extended.
- The states in this area, at least some of them, such as the Republic of Moldova, Ukraine, Georgia, but also Armenia and Azerbaijan, face separatism, frozen conflicts, aggressive actions on the part of Russia, including economic embargos, energy blackmail, cyber attacks, other different actions of the so-called hybrid war etc.

All these realities should be taken into account, including in the framework of the European Neighbourhood Policy, when attempts are being made to rethink this policy, especially the policy towards the Eastern Partnership states in this area of the New Eastern Europe.

The interests of Russia in this area should be taken into account to a certain extent; regardless of how complicated this might be, given the influences on the region that come not only from the West, but also the East. Of course, along with consistent efforts to change, in line with the current demands of democratization, Europeanization, modernization, the behaviour of Kremlin governance both internally, in relation to its own citizens and its own problems, and externally, in relation to the neighbours, the European states, the states of the world. It must be acknowledged that this is the current geopolitical situation. Policy changes and opportunities need to be rethought from the perspective that the New Eastern Europe area is a contact one, thus an area of cooperation, collaboration, a joint discussion and problem-solving area, not an area of new conflicts, new divisions of Europe, or contradictions.

### **3. Rethinking European Neighbourhood Policy in the context of EU-Russia relations**

The European Neighbourhood Policy under the current conditions, in the context of the dramatic changes taking place, must be rethought also from the perspective of relations between the European Union and the Russian Federation. It is strictly necessary to take into account the new realities: the radical changes that take place in Russian politics; the forceful return of Russia on the international arena; Russia's claims of global power; invoking the interests that Russia would have in its immediate neighbourhood, including in the New Eastern Europe or the Eastern Partnership area of the European Union.

In this new context, a rather complicated one, Russia should not be excluded from solving the problems faced by the New Eastern European states, especially since many of these issues were also created by Russia, or at least given Russia's



interests in this area. No new divisions must be created in Europe, new walls, new conflicts, because we already have so many, those in the Republic of Moldova, Ukraine, Georgia.

Our opinion is that Russia should participate in the European processes, even if it does not want it; it must be imposed through communication strategies, common interest, through diplomatic, economic, political and other means. This is because without Russia, without this power, as demonstrated by the current realities, it is and will be difficult to solve many of the problems of European integration and unification, European enlargement, issues related to the prospects of joining the European Union of the states of this New Eastern Europe from the Eastern Partnership, prospects for Moldova's accession to the EU as well. The chances of Republic of Moldova of joining the European Union, depend also on Russia, depend also on how much it will succeed in working with Russia, convincing it, discussing together and solving problems.

It is time to recognize that a Greater Europe, a European Common House, cannot be built or become possible without Russia neither now nor in the immediate future. It has been discussed repeatedly on this regard and different ideas have been exposed. Many authors have considered and still consider that Russia is definitely not a European country. This opinion is held inclusively by the Romanian author Andrei Marga (Marga, 2001, p. 25-27). We do not completely agree with this point of view. Yes, for certain reasons and criteria, especially those related to culture, mentality, democracy, living, rights and freedoms, etc., Russia may not correspond to the notions of Europeanness, Europeanization. But Russia is still the European country geographically, although this is not the most important factor. Russia, unquestionably, is a European country from a historical point of view, because it has been included in the history of the past and took part in the European processes, the European events. And from a civilizational point of view; Russia is also a part of Europe, of European civilization, a component of which the Slavic civilization is. From this point of view, the Russians are closely connected and linked historically, culturally to the Slavic peoples of Europe, including the Western Slavs living in EU Member States. Especially since Russia is currently actively involved in European affairs, it maintains and develops relations with the European states, and also, it has to be said, creates new problems.

During the course of history, Russia also made efforts to approach Europe, form example Russia of Peter the Great or Russia of the epoch of the great empress Catherine II etc.

The conclusion may be that Russia can be included in Europe, not excluded. It would be necessary in this respect for the European Union to develop and implement, in the frameworks of the European Neighbourhood Policy and the Eastern Partnership, in agreement with the states in this area, especially with the states that have signed Association Agreements with the EU, such as the Republic of Moldova, Ukraine, Georgia, certain communication strategies with Russia. Permanent high-level contacts between EU and Russian leaders are also needed, contacts that in recent years, especially after 2014, after Russia's annexation of Crimea, have not really been made.

#### **4. Rethinking the European Neighbourhood Policy from the perspective of the “Moldovan integration policy”**

From our point of view, the European Neighbourhood Policy, especially when it comes to the Republic of Moldova, should also be discussed and rethought from the point of view of the so-called “Moldovan integration policy”. Here we are considering the fact that, as it happened in Moldova in many objective circumstances, but also largely subjective ones, we differ in everything, including the European integration policy promoted by the Moldovan authorities. Even in 2004 it was signalled this policy that it is speculative, declarative, duplicate, and demagogic. (Vasilescu, 2004, p.10-19). Minor changes were operated during the last 14 years. Something has been added to those characteristics, equally particular for our policy: Trickery (trickery in Moldovan politics has also been discussed in our country). This has been particularly characteristic of the governments under the so-called “European Alliance for European Integration” since 2009. When failing to create a ruling coalition, they hidden under the umbrella of discussing principles and values, while in reality negotiating the seats, offices, spheres of influence. Instead of implementing the provisions and commitments assumed by signing the Association Agreement, they resorted to a new trick, to the so-called “central government reform”. They’ve got rid of a few more ministerial offices, maybe the undesirable ones, they’ve made some mergers, a few reshuffles. In our opinion, it is nothing but a reason for “adjusting the provisions of the Association Agreement to this reform”. To adjust means to postpone, as much as possible, at least until 2020, the real, stringent, necessary reforms.

In this situation the European Union, the European leaders, the European institutions do not even seem to know what to come up with, what to propose to really adjust the European Neighbourhood Policy to the realities of the neighbouring countries of the Eastern Partnership, including the realities of the Republic of Moldova. Various conditionality policies have been devised and proposed, both positive and negative. A new ENP, a revised ENP (2011), a renewed ENP (2014-2015), a new realistic policy was put forward. Various neighbourhood assistance instruments were created and advanced, including the European neighbourhood instrument, the new financial instrument that will provide incentives in the neighbourhood countries that best perform their actions by 2020 (ENPI Info Centre, 2014). All this to find viable solutions to support and motivate states such as the Republic of Moldova, which from the “success story of the Eastern Partnership” has become a slacker, failing the neighbourhood policy exam. It has also been proposed, in the context of a new neighbourhood policy, that the European Union should apply the experience of the Instrument for Pre-Accession Assistance in Moldova as well as in Ukraine and Georgia. In order to increase the impact, it was proposed that the EU financial assistance be concentrated on the areas requiring the most reforms or investments to meet the accession criteria. It was also envisaged that the new ENP would provide more practical and visible public benefits in the shortest time possible. In the case of Moldova it is considered



that this can be done by channelling more assistance to support sustainable agricultural and rural development (European Commission, 2015).

However, regardless of what is being proposed or done, as long as the official policy in the Republic of Moldova remains demagogic, speculative, as long as there is not enough openness, transparency, as long as the integration policy is not an honest one, truly credible both inside the country and on the outside, as long as any rethinking of the European Neighbourhood Policy remains unnecessary, inefficient, it will not give the necessary results.

The last point we would like to draw attention to here in the context of rethinking the European Neighbourhood Policy is security. This, in view of the circumstances created, of the problems that have arisen, has become of paramount importance for the European Union as a whole, for the whole of Europe, including the countries of Eastern Europe. The fact that this aspect became of prime importance is also demonstrated by the first joint inter-parliamentary conference on regional security issues and the prospects for European integration “Georgia, Moldova and Ukraine: Eastern Partnership and Current Security Challenges” organized in Chisinau in March 2018. The Inter-parliamentary Summit drew attention and discussed the issues of information security, energy and the current common challenges, economic growth and the rule of law in the Eastern Partnership. It was intended that the summit should lead to a dialogue between the three states that would lay the foundations for security cooperation mechanisms in a tense regional context as a result of the growing division between East and West after the crisis in Ukraine at the end of 2013 and early 2014.

Of course, it is a good thing for these three states concerned to try to discuss and jointly settle the issues of security, economic development, European integration, etc. Especially, since it is expected that such meetings and contacts will be permanent. In our opinion, in this process of discussion, negotiation, search for solutions, problem-solving, together with the European and Euro-Atlantic institutions and structures, it would be necessary and important to include Russia as well. Without its participation, without reasonable compromises, without taking into account the interests of all the parties involved, it will be very difficult to make some progress in this area of the New Eastern Europe, including the European Neighbourhood Policy.

## Conclusions

European Neighbourhood Policy should be rethought and adjusted to new realities and evolutions on international arena. In this context, an important dimension has the development of the new concept of New Eastern Europe. EU should build its relationship with New Eastern Europe states in terms of Europeanity, in terms of European diversity, including European’s diversity in Europe. Also, it is important to not exclude Russian Federation from European processes, especially from perspective of closer cooperation between EU and Republic of Moldova, Ukraine, Georgia etc. For Republic of Moldova it is important to focus on reforms according to EU requirements, but also according to





its national specific as well. Thus, it should use all opportunities that ENP and EaP offer in order to advance on its European integration process.

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# FEATURES OF THE ESTABLISHMENT OF DECENTRALIZATION PROCESSES IN UKRAINE WITH THE SUPPORT OF EU FUNDS AND INTERNATIONAL TECHNICAL ASSISTANCE PROGRAMS

Sergii BOSTAN\*

## Abstract

*Decentralization is one of the most important reforms for many countries in the world over the past two decades. The decentralization process in Ukraine envisages a comprehensive reform of the administrative-territorial system, as well as the educational and medical spheres. Introduction of changes in the system of public administration and territorial organization of power, strengthening the role of local self-government and enhancement of community capacity are important steps towards modernization of the country. The present paper seeks to answer how the decentralization reform contributes to establishment of a new system of social relations in Ukraine considering foreign practices and experience. The paper argues that the new system of territorial organization in Ukraine increases the level of development of the amalgamated hromadas and enhances their capacity. The efficiency of decentralization process in Ukraine is closely related to cooperation between public authorities, international donors and civil society institutions.*

**Keywords:** decentralization, amalgamated hromada (AH), public authorities, international investments, capacity development

## Introduction

The development of local self-government is one of the key features of a modern democratic state. Decentralization and delegation of powers from the centre to the regions based on subsidiarity are important aspects of competent communities' development and strengthening the influence of citizens in decision making process. These principles correspond to the norms of the European Charter of Local Self-Government and are in line with the strategy of the European Union.

The standard model of decentralization does not exist, the processes and procedures differ from each other and depend on the main goals and objectives and also on the organizational structure and implementation mechanisms. The process of decentralizing functions between central and local governments is extremely

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\* Sergii BOSTAN is PhD at Yuriy Fedkovych Chernivtsi National University, Ukraine;  
e-mail: [sergii.bostan1987@gmail.com](mailto:sergii.bostan1987@gmail.com).

complex. It addresses the aspects of finance, administration, control, regulation and accountability, which are in fact elements of the relationship between different levels of government. In addition, the implementation of decentralization, unfortunately, is not always smooth. Despite the joint efforts of political and economic forces that generate the need for decentralization, there are often gaps between reality and goals, caused by politics and legislation.

The main objectives of decentralization are to improve the efficiency of the public sector and the quality of life of the population. Decentralization is seen as an integral part of the solution to the problems caused by the growth in requirements faced by public services and an increase in people's hopes for more effective implementation of their functions by public institutions. From a policy perspective, decentralization should help improve the planning and performance of public services, allowing for local needs and conditions to be taken into account while achieving regional and national goals.

Jean-Paul Faguet from London School of Economics and Political Science, noted that the most important theoretical argument concerning decentralization is that it can make government more accountable and responsive to the governed. Improving governance is also a central justification of real-world reformers (Faguet, 2014). Decentralization reform have been announced in several dozen countries as diverse as Bolivia, Cambodia, Ethiopia, France, Indonesia, Japan, Peru, South Africa, South Korea, Uganda, the UK, and many others. The trend encompasses all of the world's regions, and includes nations rich and poor, large and small, and with very different colonial histories. In short, decentralization is being implemented essentially every- where. According to Campbell, in Latin America "local governments began spending 10–50% of central government revenues." Campbell calls this "the quiet revolution" and argues that it has generated a new model of governance based on innovative, capable leadership, high popular participation, and a new implicit contract governing local taxation (Campbell, 2001).

We believe that for transitional states decentralization is a good tool for the development of democratic institutions of power. Not always decentralization processes have passed exceptionally in democratic systems, but a departure from centralized ways of governing and making decisions is a good step towards building a more balanced model of organization of the state system. Establishing new orders on the basis of transparency, subsidiarity, a parity distribution of powers and responsibilities can change the social order and the political system.

Patrick Heller noted, that across the political spectrum, the disenchantment with centralized and bureaucratic states has made the call for decentralization an article of faith. Strengthening and empowering local government has been justified not only on the grounds of making government more efficient but also on the grounds of increasing accountability and participation (Heller, 2001).

The famous Polish researcher Kataryna Wolczuk in her article „Catching Up with ‘Europe’?” Constitutional Debates on the Territorial-Administrative Model in Independent Ukraine” analysed the transformation processes of the state system in Ukraine in the years of the state formation. And despite the European choice,



Ukraine continued to build a centralized model of management and allocation of financial resources. K. Wolczuk noted unwillingness and unreadiness of the ruling elites to give responsibility and power to the local level, thereby increasing capacity and self-sufficiency of regions (Wolczuk, 2002). But it is worth noting that the years have passed and the political situation in the country has changed. And despite Russia's annexation of the Ukrainian Crimea, Russian support of separatist terrorist organizations in the eastern regions, the country continues to move in the European direction of development. This includes issues of decentralization and territorial organization, transfer of powers and responsibilities to the regions. The presence of political will and vision of reforming the territorial organization of power among the current political elite of the country with the financial support of international funds and initiatives are able to advance the country in the way of reforming the system of local self-government.

The decentralization process and the reform of the territorial organization of power in Ukraine were launched with the adoption of the following documents: the 2014 Law „On Cooperation of Territorial Communities” and the 2015 Law „On the Voluntary Association of Territorial Communities”, the 2015 Law „On the Principles of State Regional Policy”, the 2014 Resolution of the Cabinet of Ministers of Ukraine „On Approving the Concept of Reforming Local Self-Government and territorial organization of power in Ukraine”(no. 333, April 1). Creating a legislative framework for decentralization became a jump-start for the improvement of the functioning of the new system of local self-governance. The aforementioned laws delegate the same powers and financial preferences to the territorial communities in the way they are allocated by the state to cities of regional importance.

Territorial decentralization envisage creation of public administration institutions that empowers local authorities for governing within the administrative-territorial units independently from the state authorities, not being directly involved in their hierarchical system and subordination. According to *Polish Scientist E. Rushkovsky territorial decentralization includes three integral components*:

1. *Political Decentralization*. According to this approach the public-law status of local self-government institutions stems from the specific method of their formation and their representative character. The corresponding constitutional guarantees of formation of a system of local self-government institutions, their content and organization enable their independence from the state.

2. *Administrative decentralization* suggests that objectives of the local self-government institutions, as well as their functions and powers are to satisfy the public interests within the territory.

3. *Financial decentralization* implies the availability of own financial and material resources and means the authority over the ownership, maintenance and disposal of financial resources owned by communities (Kosikowski and Ruśkowski, 2006).

The first stage of decentralization helps to differentiate the powers and responsibilities of public authorities and local self-government, to strengthen the



capacity for local communities' development and their financial autonomy. Today, it is possible to state the beginning of fiscal decentralization, the launch of the process of voluntary association of communities, the development of mechanisms and tools for their support by the state, the development of a system for providing public services to the population by local governments, and the formation of plans and strategies for socio-economic and regional development of territories.

Concurrently, the implementation of administrative and territorial reforms should take into account the realities of political life in the country, proposing changes to the Constitution of Ukraine in terms of territorial structure, balance in the distribution of powers in the regions, amendments to the electoral legislation and other laws and regulations. Furthermore, it is expedient to consider the possibility of reformatting the existing system of distribution of powers between the executive and legislative branches of power via increasing the autonomy of local self-government.

The paper considers both internal and external dimension of decentralization reform in Ukraine. As far as the internal dimension is concerned, the paper shows political transformation in Ukraine with regards to changes in regional policy and territorial structure of the country, reform of local self-government, departure from bureaucratic centralized decision-making methods since the Euromaidan raised civil society in Ukraine to a new level of development and thus made these transformations possible. From the external perspective, the paper presents data on programmes and initiatives which were successfully launched in Ukraine in 2014-2015 time framework with the support of international donors (both the EU and the USA).

## **1. Internal political transformations in Ukraine on the path of decentralization of power**

In 2015, 794 village, town and city councils, which include 2015 settlements, voluntarily united in 159 amalgamated hromadas (AHs), which accounted for 7.1% of the total number of territorial communities in Ukraine. The total area of all AHs was 35,807 km<sup>2</sup>, which corresponded to more than 6% of the Ukrainian square, except of Kyiv and Crimea (see Figure 1)

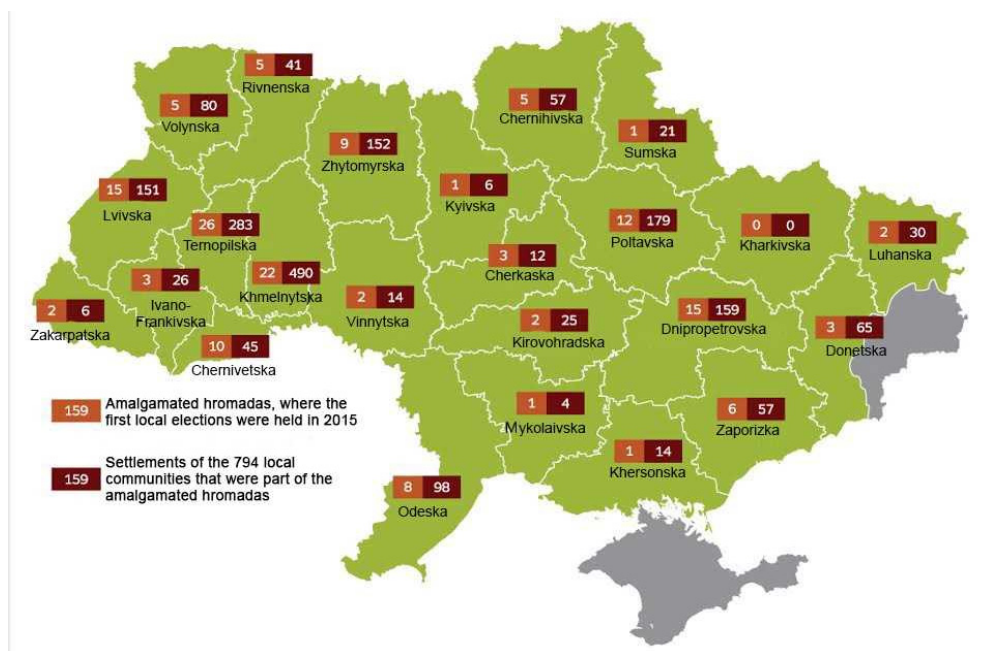
They became the first communities formed by the new principles of the formation of the territorial power of Ukraine, laying the foundations for the development of decentralization processes. As of January 1, 2016 year, the population living on the territory of these communities amounted to 1386.5 thousand people, which was 3.8% of the total population of Ukraine (excluding Kyiv and Crimea). All AHs, in which October 25, 2015, local elections took place, in 2016 came direct to intergovernmental relations with the state budget (Ministry of Regional Development, Building and Housing and Communal Services of Ukraine, 2017).

In 2016, the income of the general fund of local budgets of 159 amalgamated hromadas, taking into account transfers from the state budget, amounted to 7.1



billion UAH, which is more than 7 times more than in 2015, the budgets of local councils included in composition of AH.

**Figure 1. Local self-government reform based on the principles of decentralisation of power – the first 159 amalgamated hromadas in Ukraine**



Source: Ministry of Regional Development, Building and Housing and Communal Services of Ukraine (2017)

Due to the financial decentralization, the own revenues of the budgets of the combined communities grew by more than 3 times (by UAH 2.3 billion) compared to 2015 (from UAH 1 billion to UAH 3.3 billion). An increase in the respective indicators indicates an increase in local incomes, additional opportunities and, accordingly, the capacity and development of specific communities. Thus, the average indicator of own income of the united communities per 1 resident of AH increased from 700 UAH. up to 2345 hryvnas. This positive dynamic confirms the growth of the capacity and opportunities of local communities and local authorities, because of the introduction of decentralization changes in the structure of the administrative-territorial structure and public administration (Cabinet of Ministers of Ukraine, 2017).

In 2016, the process of association of territorial communities went more successful, and thus, during the year, 208 new AHs were formed, which was 8.4% of the total number of territorial communities in Ukraine. The total area of all formed amalgamated hromadas in 2016 amounted to 9% of Ukraine's area. Positive results and first achievements in the process of community consolidation, transfer of authority and resources have become an example for others, raised

awareness and confidence among the population to the reform and the state authorities that implement it, which in turn increased the number of those wishing to join processes of decentralization, having received additional opportunities for the development of their own communities.

The amalgamated hromadas are given additional powers and appropriate financial resources, which retain 60% of the personal income tax, 100% of the property tax, 100% of the single tax, 100% of the excise tax on retail trade (tobacco, alcohol, petroleum products), 100% of the profit tax on utility companies of AH, 100% of payments for the provision of administrative services and other fees and charges. Thus, changes in the distribution of taxes and fees between local, regional and national levels significantly stimulate communities to consolidate and accumulate additional funds in local budgets, which are aimed at improving the socio-economic indicators of the region and its infrastructure.

According to the current legislation, local self-government bodies in Ukraine receive financial assistance for the development of territories. The main mechanism for regulating state regional policy is the State Fund for Regional Development (SFRD). It is through this fund that investments in regional development projects are made that are in line with the strategies and plans of the respective regions. Thus, in 2016, the State Fund for Regional Development supported 69 projects prepared and implemented by the amalgamated hromadas for a total amount of more than 134 million hryvnias. In percentage terms, 60.9% of projects concerned educational establishments, 12.7% – water supply and sewage facilities, 8.8% – health and social welfare institutions, 3.8% – sports facilities, 2.9% – cultural establishments, 2.5% – objects of heat, gas, energy supply, 0.8% – nature protection, 6.9% – other objects and activities (Ministry of Regional Development, Building and Housing and Communal Services of Ukraine, 2017).

Moreover, to support the amalgamated hromadas, the state provides subventions to local budgets for infrastructure development. The funds are distributed among the budgets of the amalgamated hromadas in proportion to their area and the number of rural population. So in 2016, 3 billion UAH were allocated to infrastructure development from the state fund of regional development, 1 billion in the form of a subvention for development infrastructure of the amalgamated hromadas and 1 billion in the form of a subvention for the socio-economic development of the territories (Ministry of Regional Development, Building and Housing and Communal Services of Ukraine, 2017).

For these subventions and funds of local budgets, 523 local governments implemented more than six thousand different projects. It is firmly believed, that the regions and territorial communities were able to start systematic implementation of their own development strategies, work in the field of project management and investment attraction. Increasing the financial autonomy of the regions is a first step towards building the capacity of communities and increasing the indicators of the level of socio-economic provision of the population.

Getting new opportunities increases the community's potential for socio-economic development, infrastructure improvements, investment attraction, and use of innovative technologies and foreign practices of municipal governance.





According to reaction for decentralization of the population, after analysing a sociological survey conducted in the first years of implementation of the reform by the Swiss-Ukrainian project about support for decentralization in Ukraine DESPRO (DESPRO – Decentralization Support in Ukraine is a Swiss-Ukrainian project „Decentralization Support in Ukraine”, funded by the Swiss Confederation through Swiss Cooperation Office (SDC) and implemented by the Swiss Centre for Resource and Consultation on Development (Skat)), we will receive a rather interesting dynamics. In particular, summing up the majority of the opinions of the respondents, one can conclude that in 2014 knowledge about the subject of discussion was rather fragmentary, without a complete idea of the essence of the reform and the confusion in the notions of „federalization”, „separatism”, etc. In 2015, there was a perception of decentralization as the № 1 reform in the state, an understanding of the essence of decentralization as the transfer of powers and finance to the local level. People began to realize that each step in implementing the reform would relate to them in person. The year 2016 had been already marked by the fact that people were ready to participate in the implementation of the reform, the awareness of the need to learn to live in new conditions, the need for skills and knowledge in managing and democratic interaction, „man – community – power”.

In 2014-2015, some people expressed fears that decentralization would lead to the collapse of the country, increased corruption and increased dependence on local „princes,” a threat to national security. In 2016, the majority began to realize the positive significance of the reform for local development and community participation in solving local problems, providing finance, empowering local authorities, and responsibility of communities and local authorities (DESPRO, 2016).

Therefore, despite the presence of significant problems in society, insufficient development of economic life and social security, absence of guarantees of national security, the population gradually begins to understand the logic of transformations in the vertical power: strengthening of local self-government, transfer of powers to the level of communities, financial decentralization, community participation in decision-making, division of competences and responsibility. During the period of hostilities and the partial occupation of its own territory, a slight confidence in the government as a political institution and a low level of socioeconomic support, the presence of a positive dynamics of perceptions by the population of decentralization processes that include education and health reform, administrative and territorial structure, and more a number of important changes in the political and socio-economic life of the country, are a good sign on the way of further implementation of reforms, attracting foreign experience and innovators one is in government.

It should be noted that the availability of the first stories of successes in the implementation of decentralization processes in the country begin to meet the main expectations of this reform. The key principles that should become the norms of the state structure and characterize the relationship between the centre and the regions are the following:

- efficiency: improving the administrative and cost-effectiveness of allocating scarce resources in connection with a better understanding of local needs;





- mobilization: the broad collective participation of the local population in the activities of local institutions should strengthen the processes of decision-making and the development of democracy;
- subsidiarity: diligence is enhanced by ensuring that democratically elected officials are accountable to their constituents;
- transparency: the relationship between the money paid by taxpayers and the level of services provided at the local level is clearly traced (Food and Agriculture Organization of the United Nations, 2005).

An important aspect of the further implementation of the reform is political stability, economic opportunities and support from the public. Civil society should actively participate in changes in the model of public administration and not allow to halt the way in implementing the reform. If the reform of local self-government is successfully implemented, further changes in the political system of the country will occur much more quickly. Since decentralization is closely related to the reform of education, health care, social sphere, etc. Thus, these will be comprehensive changes within the country that will be able to approximate a step closer to integration with the European Union. Therefore, support from international partners, attraction of foreign investments, exchange of experience and best practices with states that have already passed the way of reforming the administrative and territorial structure is very important.

## **2. The foreign support of Ukraine by international partners in the context of the spread of decentralization processes**

Decentralization in Ukraine is possible, including thanks to strong support from international partners. Currently, 15 different international projects in Ukraine are designed to develop decentralization processes in Ukraine.

Earlier than all, actually on December 24, 2007, the Swiss-Ukrainian project „Support to Decentralization in Ukraine” DESPRO, funded by the Swiss Confederation and implemented by the Swiss Center for Development Resources and Consultations (Skat), began its work. The mission of the project is to optimize the management system and promote effective local development in Ukraine, which aims to improve the level of provision of services at the local level and intensify the process of democratization in the country. The project runs until the end of 2017, with a budget of 9.3 million Swiss francs. The project is functioning in five regions of Ukraine: Vinnytsia, Dnipro, Ivano-Frankivsk, Poltava and Sumy<sup>1</sup>. The two-way international DESPRO project with its main partner in Ukraine, the Ministry of Regional Development, has long been engaged in improving the quality of provision of administrative and municipal services at the local level, strengthening the capacity of the regions and involving communities in the process of reforms implemented in the context of decentralization.

Since October 2011, the project „Strengthening the Local Financial Initiative in Ukraine (IMF-II) Implementation”, funded by the United States Agency for

<sup>1</sup> Read more about DESPRO: 10 years in Ukraine (<http://despro.org.ua/despro/project/>).



International Development (USAID), is being implemented by the All-Ukrainian NGO „Institute for Budget and Socio-Economic Research”. The duration of the project by the end of 2017, and its budget – 4.7 million US dollars. The main activities of the project are assistance to central and local authorities in implementing and improving the program-target cycle in the budget process, improving the system of internal control and audit of public finances, promoting the development of participatory budgets in Ukraine<sup>2</sup>. This project is very important, as it concerns transparency of finances, the introduction of new practices of budgeting, and the involvement of the population in the management of municipal and municipal resources, which should result in the openness of the financial system and the creation of a system that will tackle corruption in the relevant field.

In November 2013, the international project „Gender Budgeting in Ukraine” was launched, funded by the Swedish International Development Cooperation Agency (SIDA). The duration of the project by the end of 2018 and its budget is SEK 46.6 million. The project aims to increase the cost-effectiveness and transparency of budget allocations, taking into account the different needs of women and men through the introduction of gender-based budgeting<sup>3</sup>. In essence, this project aims to form a profile of ministries and local authorities about the importance of implementing gender budgeting, to promote the reform of public finance management systems, and to develop, based on the experience of other European countries, the first gender-oriented budget in Ukraine.

Since January 2014, the UNDP / EU Community-Based Community Based Approach to Local Development is being implemented and co-funded by the United Nations Development Program in Ukraine and the European Union. The duration of the project by the end of 2017, and its budget is 23.8 million euros. This project is a long-term and comprehensive capacity-building initiative aimed at promoting sustainable local development in Ukraine. The project supports community-based governance and community-led initiatives to improve the living conditions of people in rural and urban areas throughout the country<sup>4</sup>. This project aims to increase awareness of the importance of decentralization processes, to shift the emphasis on strengthening the role of local self-government and communities themselves, engaging best practices and sharing best practices in reforming the public administration system. In addition, an important part of this project is the increase of energy efficiency at the local level.

Since September 2014, the Swedish-Ukrainian project „Support for Decentralization in Ukraine”, funded by the Government of the Kingdom of Sweden through the Swedish International Development and Cooperation Agency (SIDA), is

<sup>2</sup> USAID (2011), Project „Strengthening Local Financial Initiative-II” ([http://www.ibser.org.ua/project\\_mfsi](http://www.ibser.org.ua/project_mfsi)).

<sup>3</sup> Ministry of Finance of Ukraine (2013), Project „Gender Budgeting in Ukraine” (from <http://grbproject.org/content/o-proekte/>).

<sup>4</sup> UNDP (2014), About the „Community Based Approach to Local Development III” project (<http://www.cba.org.ua/ua/pro-nas/proekt-cba>).

being implemented by SKL International, a subsidiary organization of the Swedish Association of Local Authorities and Regions (SALAR). The main activities of the project are decentralization in the field of education, financial decentralization and dissemination of information on reforms in the country, attracting foreign experience<sup>5</sup>. This project, together with the Ukrainian Government and the Verkhovna Rada of Ukraine, is responsible for coordinating activities in the field of financial decentralization, conducting international expertise, financial monitoring and control, advocating legislative initiatives in the field of education and health, and disseminating European experience in the area of decentralization.

Since October 2014, the project „Local Self-Government and Rule of Law in Ukraine”, funded by the Swedish International Development Cooperation Agency (SIDA), is being implemented by the Folke Bernadotte Academy. The project runs until the end of 2017, with a budget of SEK 28.3 million. The main objective of the project is to strengthen the rule of law in the provision of public services by local self-government bodies<sup>6</sup>. This project aims to strengthen the capacity of local authorities and civil society institutes to increase transparency and improve the efficiency of public services.

On November 10, 2014, the Expert Support for Governance and Economic Development (EDGE) project, funded by the Government of Canada and implemented by Agriteam Canada Consulting Ltd., began in Ukraine. The project will run until July 31, 2019, with a budget of \$ 18.8 million Canadian dollars. The main task of the project is to assist the Government of Ukraine in implementing reforms and commitments undertaken in this area<sup>7</sup>. This project, jointly with partners in Ukraine: the Ministry of Economic Development and Trade of Ukraine, the National Anti-Corruption Bureau, is engaged in the implementation of sectorial decentralization, supports reforms in the field of education and health, and helps the Ukrainian authorities to communicate with other foreign partners and donors who are ready to support Ukraine.

The project „Restoration of Governance and Reconciliation in the Territories of Ukraine Affected by the Crisis” began in early 2015 and will continue until the end of 2017. Project implementation is possible thanks to the financial support of the United Nations Reconstruction and Peacebuilding Program, the Swiss Confederation and the Kingdom of Sweden (SIDA and SDC). The project budget is 3 million US dollars. The aim of the project is to overcome the negative consequences of the armed conflict in Ukraine, reduce the risk of its repetition and

<sup>5</sup> SKL International, Decentralization for the sake of democracy – Ukraine 2014-2018 (<http://sklinternational.org.ua/ua/about/%d1%96%d1%81%d1%82%d0%be%d1%80%d1%96%d1%8f/>).

<sup>6</sup> SIDA (2014), Local Self-Government and Rule of Law in Ukraine (<http://donors.decentralization.gov.ua/project/msvpu>).

<sup>7</sup> EDGE (2014), The Expert Deployment for Governance and Economic Growth Project (<http://edge.in.ua/>).



eliminate existing dissatisfaction<sup>8</sup>. This project is aimed at solving an extremely important problem in the country, namely, the restoration of the governance system in Donetsk and Luhansk regions, which would respond to the basic needs of the local population and increase their level of trust in the authorities and national security structures. The spread of decentralization processes to the eastern regions of Ukraine is extremely urgent and at the same time requires additional attention, since their goal is to strengthen the regions and their capacities, rather than the self-proclaimed formations that are not functioning in the legal field and create tensions on the eastern borders of the state.

The International Partnership for Urban Development (PROMIS / PLEDDG) project launched on March 27, 2015 and will last until June 30, 2021, has a budget of \$ 19.5 million and is funded by the Government of Canada. Realized in four regions of Ukraine: Vinnytsia, Zaporizha, Ivano-Frankivsk and Poltava. Its goal is to strengthen the municipal sector in Ukraine, to implement effective democratic governance and accelerate economic development<sup>9</sup>. In the process of implementing this project, ideas for the implementation of „open government” and effective management in local self-government bodies were proposed. It is also meant to promote the development of small and medium-sized businesses as the basis for the formation of capable communities at the local level at the regional level.

From May 1<sup>st</sup>, 2015 until March 31, 2019, the EGAP (E-Governance for Accountability and Participation), funded by the Government of the Swiss Confederation and implemented by the Eastern Europe Foundation and the Innova Bridge Foundation, operates in Ukraine, a project called „Electronic Governance for Public Accountability and Empowerment.” The project budget is 4.3 million Swiss francs. The target regions of this international program are Vinnitsa, Volyn, Dnipropetrovsk and Odessa regions of Ukraine. This program is aimed at using the latest information and communication technologies that will help improve the quality of governance, improve the interaction between authorities and citizens and promote social innovation in Ukraine<sup>10</sup>. Thanks to the implementation of this program, citizens will have the opportunity to access information related to the provision of public and administrative services. This system will become more transparent and open, and thus reduce corruption risks and improve the service and quality of the data received. The introduction of e-governance and elements of e-democracy in public authorities and local self-government will simplify bureaucratic procedures, improve communication with people and give citizens more opportunities to participate in community governance.

The project Development of the course for strengthening local self-government in Ukraine (Puls) is being implemented in Ukraine from December

<sup>8</sup> SIDA & SDC (2015), Restoration of governance and reconciliation on the territories of Ukraine affected by the crisis (<http://www.ua.undp.org/content/ukraine/uk/home/operations/projects/recovery-and-peacebuilding/restoration-and-reconciliation-sida-sdc.html>).

<sup>9</sup> PLEDDG (2016), The project of international technical assistance „Partnership for Urban Development” (<http://pleddg.org.ua/ua/pro-promis/fokus-promis/>).

<sup>10</sup> EGAP (2015), E-government for the accountability of authorities and community participation (<http://egap.in.ua/>).

2015 and will be completed in December 2020, funded by the USAID and implemented by the Association of Ukrainian Cities. The budget is 8.2 million US dollars. It is aimed at creating a favourable environment for the implementation of decentralization in Ukraine, strengthening local self-government and deepening democratic processes of territorial communities' development and stability of the state. The project operates in all regions of Ukraine and consists of three components: the formation of a legal framework for decentralization, increasing the resources of local self-government and strengthening the capacity of reformers<sup>11</sup>. An important area of project realization is the motivation of communities to unite, disseminate best practices and best practices in decentralization processes, the benefits of completing the merger procedure, and opportunities for sectorial reforms.

The largest international program for decentralization in Ukraine, „U-LEAD with Europe. The program for Ukraine on empowerment at local level, accountability and development” is implemented from January 2016, funded by the European Union and its member countries Denmark, Estonia, Germany, Poland, Sweden and implemented by Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) and the Swedish Agency for International Cooperation and Development (Sida). The project runs until June 2020, with a budget of 102 million euros. The aim of the program is to strengthen the capacity of key actors at the national, regional and local levels to implement regional policy and decentralization reform, as well as to improve the level of provision of administrative services at the local level for Ukrainian citizens<sup>12</sup>. This program is a leader in the events held in Ukraine and assimilation of funds, has a rather high institutionalization of its own structure and close partnership and organizational links with its main partners, the Ministry of Regional Policy development, construction and housing and communal services of Ukraine and separate subdivisions of the institution by the Centers of Local Self-Government Development. Supporting communities and implementing measures to increase their capacity and development is an important part of the functioning of this program in Ukraine.

UNDP and UN Women's Joint Program „Restoration of Management and Reconciliation in Crisis-affected Communities of Ukraine” is being implemented in Ukraine from May 2016 and will end in November 2017. The program provides for events in Donetsk and Luhansk regions and has a budget of 10 million euros. The objectives of the program are to strengthen the capacity of local authorities in planning reconstruction processes and the provision of gender-sensitive services in the context of decentralization, improving the safety of women and men in

<sup>11</sup> Association of Ukrainian cities (2015), Project „Development of a course for strengthening local self-government in Ukraine” (Pulse) (<http://2.auc.org.ua/page/proekt-%C2%A%BBrozbka-kursu-na-zmitsnennya-mistsevogo-samovryaduvannya-v-ukraini%C2%BB-puls>).

<sup>12</sup> U-LEAD (2016), U-LEAD with Europe (retrieved from <http://u-lead.org.ua>).



conflict-affected communities, restoring social cohesion and promoting confidence building among local authorities and communities<sup>13</sup>.

DOBRE (Decentralization Offering Better Results and Efficiency) funded by the United States Agency for International Development (USAID) at US \$ 50 million, is scheduled for five years from 2016 to 2021. The executor of this program is the international non-governmental organization Global Communities, which, along with its partners: Social Boost, the National Democratic Institute (NDI), the Ukrainian Crisis Media Center (UMCM), the Foundation for the Support of Local Democracy (Poland), the Malopolska School of Public Administration at the Krakow University of Economics, direct their activities within the framework of the project to create conditions for the joint territorial communities to better manage resources, improve the quality of utilities, stimulate the local economy and increase Attract the involvement of citizens. Implementation of the program takes place in seven oblasts: Dnipropetrovsk, Ivano-Frankivsk, Kirovograd, Mykolaiv, Ternopil, Kharkiv and Kherson regions<sup>14</sup>. An important area of work under this program is the support of civil society institutions and their involvement in community management. This aspect of the project's activities is aimed at combating corruption, increasing the level of openness and transparency of government bodies, and activating citizens in matters of public services.

Starting in December 2016, the project „Sustainable Local Development in Rural Regions of Chernivtsi and Odesa Oblasts” started, which will continue until May 2018 and is funded by UNDP for 500 thousand euros. The project aims to promote the welfare and life of the most vulnerable populations in both oblasts, in particular by promoting sustainable and comprehensive socio-economic local development, strengthening local governance and encouraging the implementation of community-based initiatives<sup>15</sup>. This project is intended to support the community monitoring system of local government activities and lobbying, advocacy skills, and the potential of civic organizations.

All these international projects are clear evidence of support of the world community of political changes in Ukraine and readiness to reform the country. Support from the European Union is very important for Ukraine, since the signing of the Association Agreement with the EU is a strategic foreign policy document of the country. European integration, as an idea, was the reason for the last two revolutions in the country, during which citizens defended the right to build a European model of state development, on the basis of European values and standards. Therefore, loyalty to the European ideals of building a modern state is an important factor for Ukrainian society.

<sup>13</sup> UNDP (2016), Restoration of governance and reconciliation on the territories of Ukraine affected by the crisis (<http://donors.decentralization.gov.ua/project/unwomen>).

<sup>14</sup> USAID (2016), Program DOBRE (<http://donors.decentralization.gov.ua/project/dobre>).

<sup>15</sup> UNDP (2016), Sustainable local development in rural areas of Chernivtsi and Odessa oblasts (<http://donors.decentralization.gov.ua/project/sldra>).



Johannes Hahn, Commissioner for Enlargement and European Neighbourhood Policy, said that decentralization is crucial for further democratic transformation of the country, modernization of the country and improvement of public administration. At a meeting with President of Ukraine Petro Poroshenko, the European Commissioner noted that he is impressed with the implementation of reforms and real progress, despite the extremely complex circumstances and the external threat facing Ukraine. This is especially true in the area of decentralization<sup>16</sup>.

The attraction of foreign investment, expert support and technical assistance is an important step towards the successful implementation of the reform of the administrative-territorial system. The use of international experience is an important factor in the implementation of major changes in the system of public administration and local self-government. The participation of international partners in the implementation of reform in Ukraine is a guarantee of the openness of these processes and one of the elements of transparent use of funds, which is an important element in the fight against corruption.

## Conclusions

The first years of decentralization in Ukraine demonstrate the presence of political will in the leadership of the state to implement plans in the field of decentralization. The assistance of international partners has also become an important aspect that contributed to the development of decentralization processes in the state. In fact, decentralization has become the most successful initiative of the government, which is more strongly supported by the population and has concrete results. The exchange of best practices, the establishment of vertical and horizontal communication, and the improvement of dialogue with the population greatly increased the awareness of the population about this reform, which positively affects the dynamics of its perception. Strengthening the role of local self-government, attracting significant investments and improving community capacity have a positive effect on the development of decentralization processes and the increase of the number of communities in Ukraine. With the strong support of international partners and the availability of coherence in the actions of the authorities at all levels, the advancement of administrative and territorial reforms and sectorial reforms should become the first stories of the success of the new government on the way to reforming the country and its European integration.

The change in the administrative-territorial system established in the years of the Soviet Union, the elimination of districts, the formation of capable communities and the development of horizontal ties are intended to change the philosophy of perception of the people by the authorities as such, increase the level

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<sup>16</sup> Ukrainian Pravda (2015) European Commissioner Hahn is impressed by the seriousness of reforms in Ukraine, 11 September (<https://www.pravda.com.ua/news/2015/09/11/7080983/>).





of trust in public institutions and involve the community to decision making processes.

An important aspect that has affected the irreversibility of local self-government reform in Ukraine is its guarantees and commitments to European and international partners. Political, methodological and financial support from the EU funds and international technical assistance are important factors in implementing changes in the country. Involving foreign experience in implementing reforms, in particular in the area of decentralization, promotes the use of the most successful practices and success stories that can be used in Ukrainian realities.

But it is important not to forget that decentralization is not a panacea, its possibilities are limited by the set of cultural, historical, economic, legal and financial difficulties faced by the countries that implemented this reform, including Ukraine. Restoring or balancing the forces and functions of various levels of government is usually a complex political and administrative task. The transfer of responsibilities to local governments requires significant reshuffling in political, financial and administrative authorities. More importantly, in some countries it is a significant step forward in eliminating the structures of central-directive management.

The formation of a new vision of the distribution of power and authority, budgets and taxes, opportunities and responsibilities should eventually create a new system of organization of the administrative-territorial system in the country. That, in its turn, will completely change the existing procedure for the implementation of state policy in the regions. Guided by the principle of subsidiarity and with all financial and legislative capacity, at the community level, it will be possible to solve most of the issues relating to the living conditions of their residents.

Thus, decentralization can become a serious step for Ukraine in the path of important changes, which in the early 90's of the twentieth century, overcame most of the countries of Central and Eastern Europe, integrating into the European Union.

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# THE FUTURE OF THE EUROPEAN ECONOMIC AND MONETARY UNION: CHALLENGES AND SOLUTIONS FOR A SOLID CONSTRUCTION

**Cristina DUHNEA<sup>\*</sup>, Silvia GHIȚĂ-MITRESCU<sup>\*\*</sup>,  
Andreea-Daniela MORARU<sup>\*\*\*</sup>**

## Abstract

*The article aims at analysing the debate regarding the future of the European Economic and Monetary Union as a core structure that will be capable to ensure the development of the European Union and to reach the fundamental goal of the free movement of the capital. Considered by many built on a weak foundation, the discussion regarding how the European Economic and Monetary Union must be restructured became an urgent problem to be solve in the light of the last ten years political and economic events (international financial crisis, euro crisis, the radical view of several European political leaders elected after 2014). Our research focuses on different points of view regarding the future structure and regulation framework of the European Economic and Monetary Union as a critical qualitative research in order to put together the advantages and disadvantages of such opinions and the validity of arguments in their favour. Our research has as starting point the 2012 Four Presidents Report and the 2015 Five Presidents Report facing the opinions of the academia and the European financial market reality. We analysed different future developments proposals in order to identify the validity of concepts such as a banking union, new tools and mechanisms designed to contribute to the accomplishment of a functional Economic and Monetary Union. The article ends with several conclusions regarding the process to develop a deeper Economic and Monetary Union in the EU.*

**Keywords:** Economic and Monetary Union, Eurozone, integration, convergence

## Introduction

One of the most important goals set in the 1950s for the future economic, social and political construction of Europe was the free movement of capital. The decades that followed had been characterized by numerous initiatives (the creation

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<sup>\*</sup> Cristina DUHNEA is associate professor at Ovidius University of Constanta, Constanta, Romania; e-mail: cristina@duhnea.net.

<sup>\*\*</sup> Silvia GHIȚĂ-MITRESCU is lecturer at Ovidius University of Constanta, Constanta, Romania; e-mail: mitrescu.silvia@gmail.com.

<sup>\*\*\*</sup> Andreea-Daniela MORARU is lecturer at Ovidius University of Constanta, Constanta, Romania; e-mail: moraru.ad@gmail.com.

of mechanisms and procedures, institutional structures, legal frameworks, a new currency) aimed at achieving this objective. However, decades later, we are still facing a challenge – the completion of a European mega-project – the functional Economic and Monetary Union with a high level of financial integration and real convergence at the European level.

The first steps were taken by creating an exchange rate union with a fixed range within which the currencies of the EU member states could fluctuate, the monetary snake, aiming at diminishing the risks and the imbalances. The fragile equilibrium created was broke sooner than expected facing the oil crisis and the mechanism was abandoned in order to allow the member states to deal with the economic shocks. In the 70s rose the first initiatives to establish at European level a certain part of the annual GDP to be used to adjust the economic and financial imbalances.

Starting from late 1980s and 1990s, after concluding that just little real progress was made in the direction of achieving the financial integration across Europe, numerous actions and more coordinated decisions were taken: the decision to set up an Economic and Monetary Union( 1988- mandated a committee chaired by Jacques Delors to set up a process and actions to be made ), a new treaty for a new and more complex construction was signed, The Maastricht Treaty, the creation of the European System of Central Banks (1993) and the European Central Bank(1998) were set up, the European Monetary Institute (EMI) was created in 1994 and starting with 1997 a new exchange rate mechanism was in place – ERM II; a new currency was created – European currency named Euro – 1999, and the Eurozone was born based on the Maastricht criteria for convergence; the Stability and Growth Pact was adopted by the European Council in June 1997 – with regulations regarding budgetary discipline in the EMU( The Pact was subsequently amended with conditions and directions of action- 1998, 2005, 2011 and its content is still under debate in the light of the financial crisis that saw European Union and the Eurozone strained by imbalances.

At the end of a decade (1988-1998) the first form of a European Monetary Union was finalized: a legal framework, a central bank for the new monetary system – European Central Bank, a new currency – Euro – 1999 (with initially 11 EU member states and 12 from 2001 when Greece adopted the single currency). Unfortunately, 30 years later, enlarged at 19 EU member states, the Economic and Monetary Union is far from being a well-functioning and stable European construction which was brought to the edge of the failure when the international financial crisis hit the European financial markets and have had little to do facing the Euro crisis.

The present paper focuses on the different points of view regarding the future structure and the regulation framework of the European Economic and Monetary Union as a critical qualitative research in order to conclude if the planned actions, institutional structures and proposed tools and mechanisms have become effective instruments to complete the Economic and Monetary Union. Our research has as starting point the 2012 Four Presidents Report and the 2015 Five Presidents Report facing the opinions of the academia and the European financial



market reality, as the latest attempts of the European Union to complete the EMU. The context of launching the debate regarding the efficiency of the mechanisms and procedures of the EMU is the analysis of the international crisis from 2007-2008 impact on the EU member states with focus on the euro area members. We analysed different future developments proposals in order to identify the validity of concepts such as a banking union, new tools and mechanisms designed to contribute to the accomplishment of a functional Economic and Monetary Union. The article ends with several conclusions regarding ways to develop a deeper Economic and Monetary Union in the European Union and the effectiveness of the measures already taken.

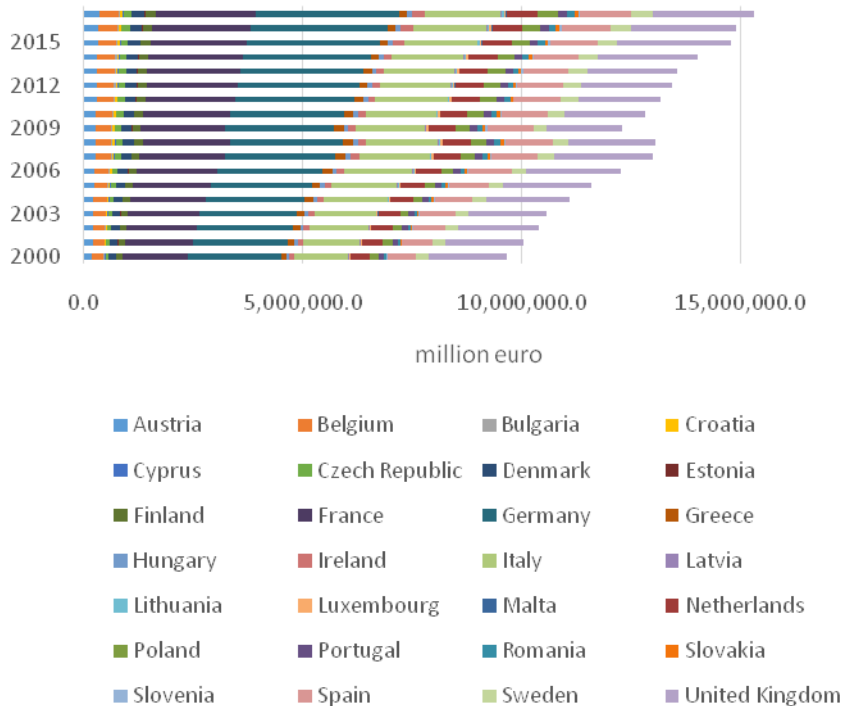
## **1. Challenges and facts regarding the reconstruction of Economic and Monetary Union**

The success of the European Union mechanisms and constructions such as the Economic and Monetary Union, ensuring the 3 pillars – the free movements of goods and services, people and capital was easy to be considered successful prior to the global crisis that hit the European economies in the summer of 2007.

The crisis, considered especially a financial crisis, at least at the beginning of it, and turned into a sovereign debt crisis, raised important questions regarding the solidity of the European economies and showed their vulnerabilities. Obviously, the crisis was the most important challenge for the euro area member states economies as they were forced to deal with additional issues coming from the membership to a monetary union with a single currency.

To see the impact of the crisis on the European economies we analysed several indicators that can summarize the evolution of the economic climate within the EU and Euro area in the last almost twenty years.

The first and most important indicator of an economy's activity is the value of its' gross domestic product, reflecting the value of all goods and services produced minus the value of goods and services used for their production. We therefore begin our analysis of the general economic context with the evolution of the nominal GDP value. At the EU level, the GDP at current market prices total value has seen an increasing trend since 2000, with the exception of 2009 when the effects of the economic crisis on the GDP value were most acutely felt. Figure 1 shows the evolution of the nominal GDP for the Union as a sum of the evolutions of each member's GDP.

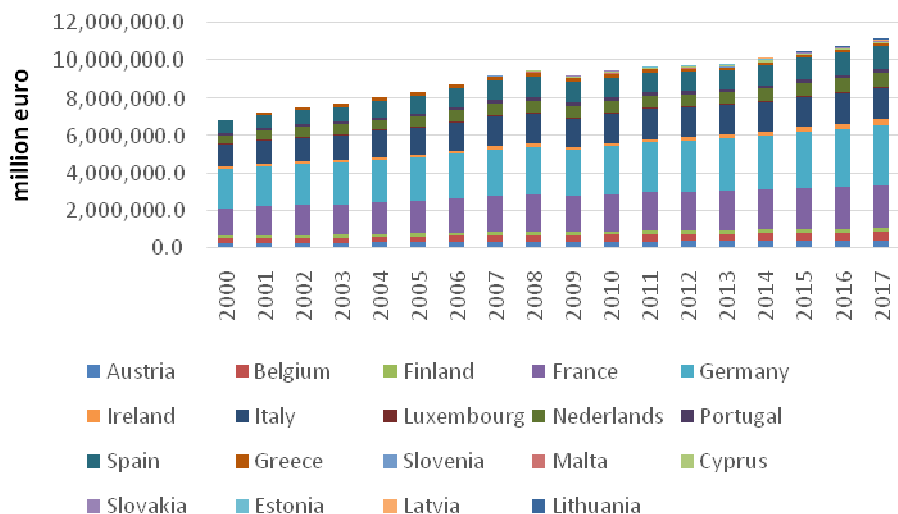
**Figure 1. The evolution of EU's GDP between 2000 and 2017**

Source: authors' compilation from EUROSTAT data 2000 -2016

The countries whose economies have contributed most to the Union's GDP throughout this period were Germany with a contribution between 19.3% and 21.9%, United Kingdom with a contribution between 15.1% and 18.5%, France and Italy each contributing with 12 to 15 percent to the total GDP. The other member states' GDP, with the exception of Spain, represented less than 3 percent of the total throughout the analysed period. Since the four above-mention economies' GDP adds up to more than half of the EU's total, it safe to say that, after the finalization of the Brexit process, the UE's economy will lose one of its' most important components and is likely to become a three-stroke engine.

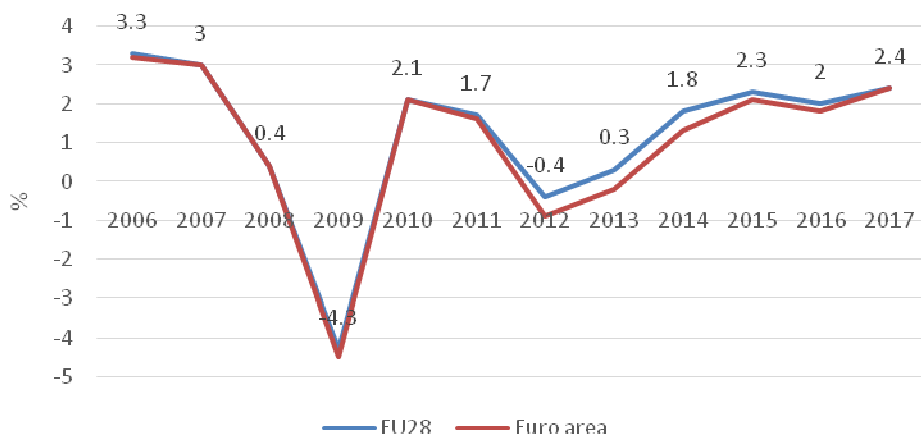
Throughout the analysed period the countries that compose the Euro area, regardless of their number, amounted around 70 percent of the EU's GDP. Since Germany, France and Italy were amongst the first eleven countries that adopted euro as their currency in 1999, the evolution of their GDP had the biggest influence on the Euro area's aggregated GDP, the newer Eurozone members having a small contribution to the total GDP. Figure no. 2 shows the evolution of the nominal GDP for the Euro area as a sum of the member states GDP, taking under consideration the year of their assertion to the European currency.



**Figure 2. The evolution of EA's GDP between 2000 and 2017**

Source: authors' compilation from EUROSTAT data 2000 – 2017

At first glance, the evolution of GDP at current market prices may prove that the EU's economy was able to recover from the financial crisis, the only year with a smaller GDP value compared to the previous being 2009. But, if we take the analysis one step forward and use the real GDP growth-rate as a measure of the dynamics of economic development the conclusion seems to change. Figure no. 3 shows the growth rate of GDP's volume as a chain-linked series for the EU and EA.

**Figure 3. Evolution of the real GDP growth for the EU and EA, 2006-2017**

Source: authors' compilation from EUROSTAT data 2006 -2017



When GDP at current prices is valued in the prices of the previous year and the volume changes are related to the level of a reference year, we can observe a slight decrease in value in 2007 followed by a more significant decrease in 2008 and a plunge into the negative zone in 2009. After the 2010 rebound, the growth rate slowed down and reached another negative value in 2012, increasing slightly afterwards. In 2017, the real GDP growth-rate was still lower than that before the crisis.

Although the Euro Area real GDP growth-rate average only shows a slowdown in growth, a country-wide analysis reveals large disparities between GDP evolutions. For example, in 2009 countries such as Estonia, Lithuania, and Latvia have experienced a negative growth-rate of around 14 percent, while Cyprus, Belgium or Malta registered GDP decreases between 1.8 and 2.5 percent. In 2012, half of the Euro Area countries had negative GDP growth-rates while the other half had a positive evolution of their real GDP growth-rate.

We can thus conclude that, even if in terms of nominal GDP, the EU's economy overcame the financial crisis, the real GDP growth-rate has slowdown in the last ten years and there are large differences in the evolution of the member states' economies, highlighting the need for new economic and financial mechanisms.

The next aspect that we believe is important for the general economic and financial context of this paper is the evolution of the unemployment rate. As stated by the Okun's empirical law and generally accepted by the economic theory, the unemployment rate evolution influences that of the gross domestic product, an increase of the unemployment rate leading to an increase of the GDP for the developed economies and a decrease of the GDP for the under-developed ones.

The analysis regarding the unemployment situation on European Union and Euro area level between the years 2005-2017 reveals some interesting results. It must be mentioned that the specific indicator included in our analysis was the one who reflects the percentage of unemployed EU or EA citizens related to the total number of population. The data are presented in the figure no.4.

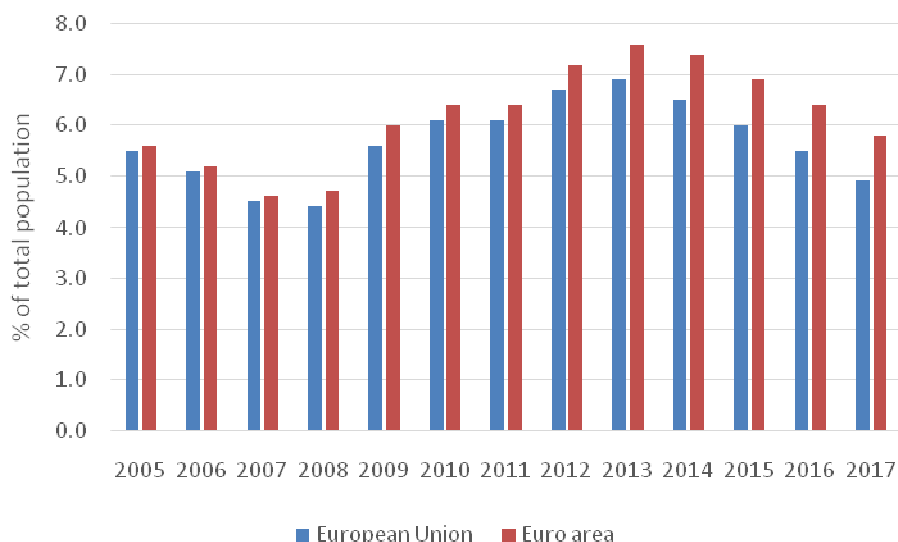
Based on the evolution of the considered indicator, in the above mentioned period of time, we can point out a normal evolution associated with the general economic background. Thus, we could notice that between 2005 and 2008 (the starting year of global financial crisis) a steadily decreasing evolution was registered. The favourable evolution of the overall economical context has generated a constant improvement of the employment rate in the EU and EA space.

The period encompassed between 2009 and 2013 was marked by a constant increase of the unemployment rate in the European Union and Euro area. The peak was reached in 2013 with the value of 6.9% of unemployed people related to the total population of the Union and 7.6% in the Euro area. This situation indicates an interesting fact, considering that the year 2013 represents a moment in time when the global economy had overcome the crisis period and the first signs of recovery were noticed from previous year. Even if the economical evolution had restored its positive trend the unemployment rate had reached its highest level. This situation leads to the conclusion that the EU economy needed an adjustment period of time with its new coordinates. From 2014 to present times the evolution of the



unemployment rate in the EU and EA was constantly a decreasing one, reflecting the positive economical trend. Throughout the entire period of analysis, the unemployment rate in the Euro area was superior in value to the one in the EU.

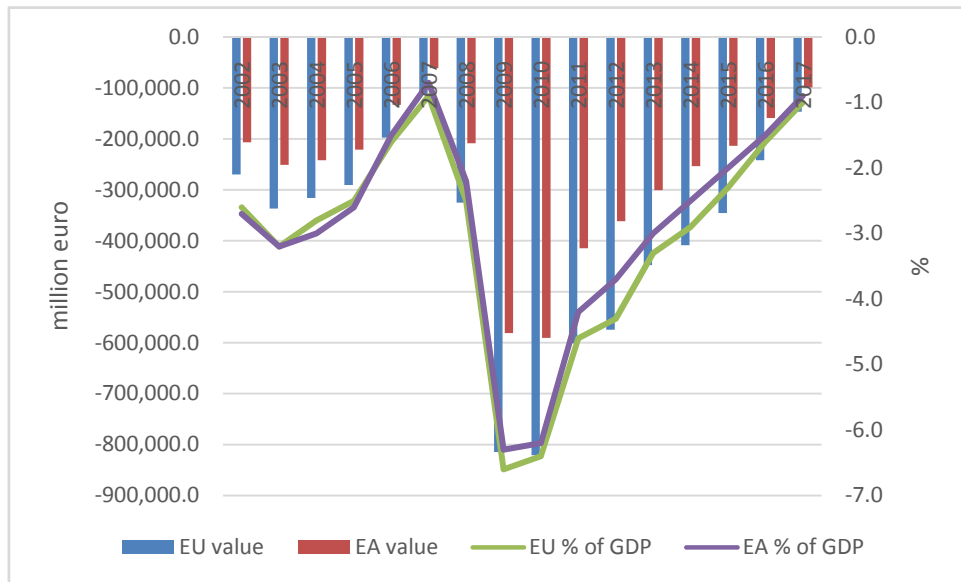
**Figure 4. Unemployment rate evolution for the EU and EA between 2005-2017**



Source: authors' compilation from EUROSTAT data 2005 -2017

Another aspect of our analysis of the economic and financial context within the European Union and the Euro area intends to prove that the preservation of EU's living standards, as reflected in the positive trend of its' GDP, was made at the expanse of an increasing deficit. Figure no. 5 shows the evolution of government deficit both in nominal value and as a percentage of GDP.

Throughout the entire analysed period the EU's economy, seen as a whole, registered deficits, even though some member states were in surplus situations. In 2007, the value of the deficit was the smallest of only 112,899.1 million euro representing 0.9% of GDP. Since 2008 and more significantly in 2009 and 2010, the government deficit increased reaching 820,976.5 million euro, and a 6.6 percent of GDP. This demonstrates that, in order to surpass the economic crisis, governments resorted to borrowing, especially in the developed countries such as UK, Germany, France, Italy or Spain, countries that also represent the largest portion of EU's GDP. Since 2011, the government deficit has set on a downward trend, both in nominal value and percentage of GDP, some of the member states, mostly the less-developed economies, being able to register budgetary surpluses. Ten year after the beginning of the financial crisis, in 2017, the value of government deficit was 146,589.5 million euro, 1% of GDP.

**Figure 5. The government deficit evolution in EU and EA between 2002-2017**

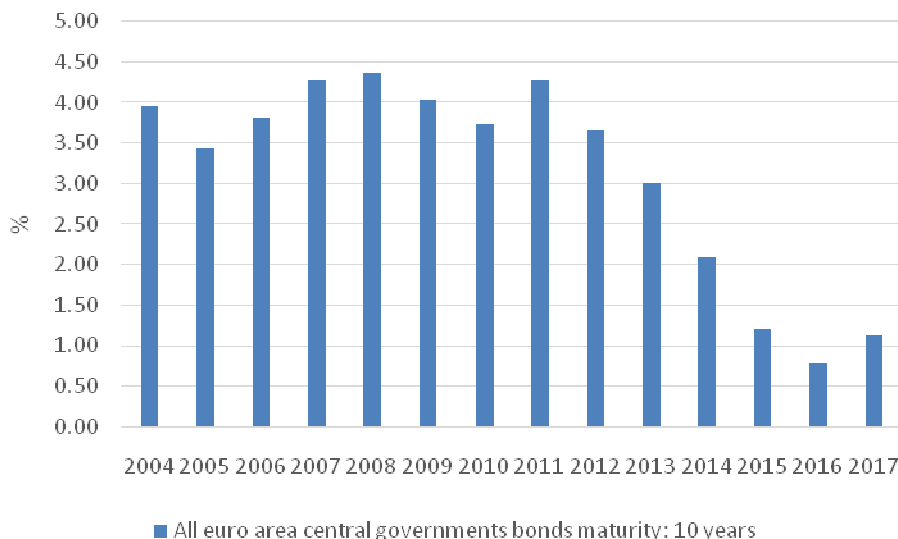
Source: authors' compilation from EUROSTAT data 2002 -2017

The Euro area member states followed the same evolutionary trend of the government deficit as the entire European Union. However, meeting the convergence criteria has made the deficit level for these countries to be lower than the average of the European Union.

In relation with the previous indicator, we believe important to stress out the evolution of the euro yield curve for central government bonds, since it reflects the asset pricing process on financial markets. Figure no. 6 shows the evolution of zero-coupon yield curve spot rate for central government bonds with 10 years maturity.

As shown by the data in the above figure, the EA yield curve has had a sinuous evolution throughout the last period of time. Since the yield curve represents the relation between the cost of borrowing and the maturity of government bonds and it reflects the expectations that investors have in the evolution of an economy, a "normal" yield curve should rise for longer maturity. The similarity in the evolution of the yield curve form before the 2007 financial crisis and that form 2015-2016 might suggest that the investors are once again concerned with the evolution of the EA economy and that we might be in the eve of a new financial crisis.



**Figure 6. The euro yield curve for the EA between 2004 and 2017**

Source: authors' compilation from EUROSTAT data 2004 -2017

In this economic and social context and in light of the new challenges that EU is facing, we believe that it is important to discuss the importance of a new, improved, architecture of the financial system, able to answer the needs of the EU member states and particularly of the Euro area countries, to better manage economic and financial crisis and to contribute to the development of the EU's economy.

## 2. Reinforcement of the Economic and Monetary Union – concerted actions

The crisis affecting the European Union' economies, showed, especially for the euro area economies, that the structure and the functionality of the Economic and Monetary Union, in terms of mechanisms and instruments to face systemic shocks, is unable to fulfil its primary goal – to offer a stable and prosper economic environment for the member states to develop and lost its attractiveness for those EU member states preparing to become a part of it.

After 2008, at European level, started a process of reshaping the Economic and Monetary Union and several reforms were initiated. In this process some of the existing mechanisms and tools were reorganized and new ones were created in order to deal with the vulnerabilities showed during the crisis:

*The European Semester* – introduced in 2010, was reinforced by creating an instrument for preventive surveillance of the economic and fiscal policies of its member states with the primary goal of enforcement of economic policy coordination. The European semester has a fixed calendar deadlines to take several steps: in March, the European Council will set economic policy priorities based on the Annual Growth Survey of the European Commission with recommendations regarding the budget policy and the economic policy; in April, the member states will submit to the

Commission their medium-term budgetary and economic strategies taking into account the recommendations. The Commission will assess the action-plans of the member states and the Council will vote for them; in June and July, the European Council and the Council will provide country-specific policy advice on general economic policy and budget policy. In the next year the Commission will assess the level of implementation of the recommendations received by the member state. *The Macroeconomic Imbalance Procedure (MIP)* was introduced in 2011 with the aim of identifying, preventing, and addressing the accumulation of harmful macroeconomic imbalances and monitor their correction through recommendations and even sanctions for a particular member state (European Commission, 2016). Because, at European level, one of the issues considered when discussing the possibilities to better react at a crisis' effects was the lack of the alerting mechanisms, all the actions and initiatives taken considered a plethora of alerting tools and instruments such as the alert mechanism report (a scoreboard of selected indicators to screen EU countries for potential economic imbalances needing policy action), the annual growth survey or the in-depth reviews( triggering other actions( such as specific monitoring) depending on the results).

*The reforms of the Stability and Growth Pact (2011-2013)*

*The European Stability Mechanism (ESM)* established on 27 September 2012 as a permanent crisis mechanism tool for the Eurozone offering access to financial assistance for the member states facing financial problems, and replacing two other temporary instruments created in 2010, the European Financial Stability Facility (EFSF) and the European Financial Stabilization Mechanism (EFSM).

*The European System of Financial Supervisors (ESFS)* was created in order to strengthen the financial regulation and especially supervision, having as components the European Banking Authority, The European Insurance and Occupational Pensions Authority and The European Securities and Markets Authority. The new construction had the main objective to tighten supervision of all financial markets' segments especially in the direction of the EU legislation implementation at national level. Supplementary, a new macro – prudential watchdog was created – the European Systemic Risk Board (ESRB).

Even during a four years span many actions were taken, a diversity of new or existing tools and mechanisms were put into place in order to fight the crisis 'effects and to sustain the EMU, in 2012 the European Union recognized that the present architecture of the EMU it is not a well-functioning structure, failing to overcome the problems triggered by the financial and sovereign debt crisis and repeatedly call the member states and the European institutions to take action.

In our opinion, the position of the European Commission was a non –combat type one because, at the end of 2012, different official positions and communications of the Commission recognized two simple trues: many actions were taken and considerable financial, administrative and legislative efforts were made to tackle the crisis and to progress toward a functional Economic and Monetary Union but the results failed to reach the expectations and that more actions are needed to be developed for a future viable construction.



In November 2012, the European Commission launched a “European debate” regarding the ways to achieve a “deep and genuine EMU” (EC, 2012). With that occasion was widely recognized that all the efforts made at European level to overcome the crisis and to complete the EMU were sabotaged mainly by the Member states as they didn’t properly implemented the regulation and did not comply strictly with the European rules as the instruments envisaged were too soft to be seriously taken into consideration (lack of strong supra-national EU-level institutions for bank supervision, lack of appropriate governance of the financial sector).

We consider that, for the first time, an official position of the European Commission recognize that despite of the multitude of mechanisms implemented and the actions taken, the European Union and the euro area was facing a re-fragmentation of the EU’s financial markets, a reinstallation of the constraining power of national borders (European Commission, 2012, p.10), a step back from the ultimate goal of the free movements of persons, capital and goods and a threat to the economic and financial integration.

The European Commission stated that, in order to have a “deep and genuine EMU” a full banking union and a full fiscal and economic union are needed, and most important it was recognized that a political union must be fulfil as the basic support of these. The most important step of this process, at that moment, was the report known as the 4 Presidents report created by the President of the European Council, the President of the Commission, the President of the Eurogroup and the President of the European Central Bank, envisaged to be a specific and time-bound road map for the achievement of a genuine Economic and Monetary Union.

The 4 Presidents report recognized, again, that the actual way of how the Economic and Monetary Union function is far from being the structure capable to absorb shocks, to protect its members from imbalances and to help them to prosper. The report proposed a process to be developed in three stages in order to have in the end real improvements (Van Rompuy *et al.*, 2012, 4-5):

*Stage 1 (End 2012-2013) Ensuring fiscal sustainability and breaking the link between banks and sovereigns*

The completion of the first stage should ensure sound management of public finances and break the link between banks and sovereigns, considered the main reason for the rapid spread and the concerning depth of the crisis.

The five key elements of the first stage were:

- The completion and thorough implementation of a stronger framework for fiscal governance (‘Six-Pack’; Treaty on Stability, Coordination and Governance; ‘Two-Pack’).
- Establishment of a framework for systematic ex ante coordination of major economic policy reforms, as envisaged in Article 11 of the Treaty on Stability, Coordination and Governance.
- The establishment of an effective Single Supervisory Mechanism (SSM) for the banking sector and the entry into force of the Capital Requirements Regulation and Directive.

- Agreement on the harmonization of national resolution and deposit guarantee frameworks, ensuring appropriate funding from the financial industry.
- Setting up of the operational framework for direct bank recapitalization through the European Stability Mechanism (ESM).

*Stage 2 (2013-2014) a complete integrated financial framework*

With two key elements, this stage aimed to obtain:

- An integrated financial framework through the setting up of a common resolution authority and an appropriate backstop to ensure that bank resolution decisions are taken rapidly and considering the best interest of all members.
- The creation of a mechanism for stronger coordination, convergence and enforcement of structural policies based on arrangements of a contractual nature between Member States and EU institutions on the policies countries commit to undertake and on their implementation. This mechanism will take into consideration to offer financial support to a specific member state but this support will be considered only temporary and the use of it will be targeted to specific issues to be solve using flexible procedures.

*Stage 3 (post 2014) as final step to develop the process of reshaping and reinforcing the EMU is the creation of a shock-absorption function at the central level*

In the last stage two key directions were set:

- Establishing a well-defined and limited fiscal capacity to improve the absorption of country specific economic shocks, through an insurance system set up at the central level. Such a construction was considered as complementary for the contractual arrangements established in the stage 2 and capable to stimulate the member states to ensure sound economic policies.
- An increased degree of common decision-making on national budgets and an enhanced coordination of economic policies, particularly for taxation and employment, based on the Member States' National Job Plans.

The report was, in our opinion, a very optimistic position of the European Commission, with a very well designed process to bust the development of the Economic and Monetary Union in order to reach the potential foreseen by its founders. When launched, as the concerted ultimate initiative, at European level, for a new Economic and Monetary Union, the report was appreciated by the academia as well as by the economic environment, being considered a proof of a convergent political will to take real measures to real problems and vulnerabilities revealed by the crisis, especially by the sovereign depth crisis.

Think tanks all over the European Union (Foundation Robert Schuman, Notre Europe – Jacques Delors Institute, Bruegel, etc.), produced a plethora of policy papers, research articles and recommendation papers in order to support the institutional efforts at European level but, after two years of implementing the process set up by the report, the results were far from being close to the finality foreseen by the 4 Presidents report.

At the end of 2014, the deadline to enter in the post process period, several key elements of the three stages were in place or in an ongoing phase, some of them were still in a projection phase and some didn't exist. Summarizing the





achievements, we can stress out that, from the four bold directions to develop according the 4 presidents report, just in regard of the banking union completion some progress was made with the single supervisory mechanism becoming functional in 2013 and the single resolution mechanism in 2015.

### 3. The latest attempt to create a real Economic and Monetary Union

2015 marked, one more time, a series of actions and initiatives of the European Union to achieve a well-functioning Economic and Monetary Union and to progress towards a real economic and financial integration. In February 2015, the President of the European Commission launched a discussion regarding the future of Economic and Monetary Union through an analytical note, pointing out the economic and financial context that showed the weaknesses and the fragile structure of the EMU, the steps already made after 2010 as lessons learned from the crisis, and the necessity of a serious debate regarding the actions to be taken in order to achieve a real financial integration in the European Union and an Economic and Monetary Union capable to ensure a real convergence and to offer an healthy economic environment for EU member states future development. The president of the European Commission proposed several questions and dilemmas to be answer in the preparation process of the second report of the four presidents (Junkers *et al.*, 2015, p. 8).

**Table 1. Questions and dilemmas**

Questions and dilemmas ahead of the second report of the four presidents	Sound fiscal and economic policies in the euro area
	Solutions to ensure better implementation of the rules of economic and fiscal governance, and more importantly, is the current framework capable of protecting the euro area from shocks and helping it to develop
	The validity of strong rules and strong common institutions as a solution and to what extent?
	Instruments and measures needed when national policies don't comply with the European rules
	Institutional and legislative constructions on fiscal policy and financial markets are able to prevent future crises, especially sovereign debt crises
	Ways to ensure a fair private risk-sharing through financial markets in the euro area in order to better absorb the shocks
	Forms of a stronger governance: conditions, structural reforms, ways to foster real convergence
	Means to achieve accountability and legitimacy in a multilevel setup

Source: authors' compilation based on Analytical note (Junkers *et al.*, 2015, p. 8)

The position expressed in the Analytical note have fuelled concerns as it put under discussion every single angle and aspect regarding the Economic and Monetary Union. As we can see from the wide range of issues raised by the President, the document can be considered a recognition of a failure at European level regarding multiple aspects: a functional EMU, a real financial and economic integration process, well design regulation and institutional framework.

Specialists and researchers, independently or affiliated to a think tank, offered different opinions and recommendations regarding the measures to be taken and directions of developments for the future architecture of the process of completing the Economic and Monetary Union. To see how these interested parties developed directions and measures we analysed the policy paper of one of the most active think tank in the European monetary and financial issues – Notre Europe – Jacques Delors Institute.

The directors and research fellows at the Jacques Delors Institute and Jacques Delors Institute – Berlin prepared, in February 2015, a Policy Paper, prior to the report on the future of EMU expected in 25/26 June 2015 from the President of the European Commission known as the Five Presidents report, based on an Analytical Note published in February 2015. The document set up several principles and guidelines “for the effective functioning of EMU” and a deeper financial integration considering that is absolutely necessary to have at all levels “a serious debate on EMU’s long-term perspective” (Bertoncini *et al.*, 2015, p. 1).

**Figure 7. Directions to take actions for strengthened EMU**



Source: authors’ compilation after Bertoncini *et al.* (2015)

The policy paper gave specific recommendations regarding each of the 5 directions identified to be the solutions for the concerns/questions subject to debate in the Analytical Note, also called by the authors “Junker’s questions”, which are supported by other research works in the field:

### **Compliance with the EMU rules and procedures**

The measures to be taken in order facilitate the compliance with the EU rules and procedures refers to the fact that these need to be well-designed and to be seen as legitimate by those subjected by them. In the authors’ view, the directions for

improvement are: the deadline extensions for deficit correction to be based more explicitly on reform progress (additional the temporary deviations from the medium-term budgetary objectives will be acceptable when the justification is a necessary public investment); the extension of the ‘investment clause’ to countries under the corrective arm.

Talking about the macroeconomic surveillance, the mentioned policy paper stresses the idea that “social imbalances need to be taken into account in the application of the macro-economic imbalance procedure (MIP)”, an idea supported by an extensive previous research works but which remained for more than a decade just a theoretical conclusion (Fernandes, S. and Maslauskaitė, K. 2013, p. 14; Pochet *et al.*, 1999, p. 61) as the various articles and authors raise more questions than gave answers in the attempt to link the social European dimension to the development of the Economic and Monetary Union.

An answer for how to stimulate a real implementation of EMU rules and procedures could be, as several authors established, maintain a balance between sanctions and incentives: that means to change the current view of the EMU governance as based mostly on sanctions with the immediate effect of triggering the domestic resistance. A direction for development of a more effective European Monetary Union could be to introduce positive incentives, particularly for implementing structural reforms and financial incentives might be an option (Bertoncini *et al.*, 2015, p. 4). One of the reasons for the difficulties to dealing with non-compliance at the EMU level, which we agree with, is a non-credible major sanction – the exit from EMU. For this essential sanction for a non-compliant state to become an effective solution, without creating a path easy to take, an option could be to operationalize the bank union and the assistance schemes, as the exit from EMU of a state could affect the stability of the Eurozone.

### **Lack of governance instruments and the need of structural reforms/real convergence**

The authors of the policy paper mentioned above support the “soft” point of view regarding the way in which the reforms should be promoted instead of a stronger governance mechanisms on the European level, reforms based on the cooperation of the EU member states and particularly between those that are part of the Eurozone, as well as Rubio (2014, p. 19) or Enderlain *et al.* (2012).

Bertocini *et al.* (2015, p. 7) proposed several directions for development of the structural mechanisms: efficient adjustment mechanisms that would prevent large imbalances between euro-area members (strengthening the real-exchange rate channel, setting of common euro area standards in areas such as the labour market, taxation or pension rights); a clearer and more effective crisis prevention and resolution mechanism through new European institutions as an European Monetary Fund (EMF) replacing the European Stability Mechanism and a reinforced bank union.

We agree with the policy paper stating that, in order to have a real financial integration and a functional Economic and Monetary Union, is absolutely necessary to complete the bank union as The Single Resolution Fund (SRF) is

small compared to banks' balance sheets. Two more proposals are in line with the desire of a new European Monetary Union creation, one that is capable to ensure the absorption of the asymmetric shocks: to set up a European Deposit Insurance scheme and going further to create a Capital Market Union.

All these new measures and new institutions represent key points for the ultimate goal of deepening the economic and financial integration and establish a new Economic and Monetary Union with the condition that the EU member states are willing to cooperate and have a common objective – to reach a real convergence and to fulfil the economic and financial integration.

As a conclusion, the policy paper of the Notre Europe – Jaques Delors Institute experts pointed out five key elements, which will contribute to the future development of a functional Economic and Monetary Union (as in figure below).

**Figure 8. Elements for the future actions to be taken to strengthen the EMU**

- Common rules that take into account the broader goals of the monetary union and provide an adequate balance between sanctions and incentives.
- Real convergence among EMU countries through structural reforms.
- A complete banking union that includes a fiscal backstop and a European deposit insurance.
- Stronger institutions in the area of economic governance, namely a European Monetary Fund
- A more explicit institutional structure for the euro area that increases the accountability and legitimacy of the new governance instruments on the parliamentary and executive level.

*Source:* authors' compilation after Bertoncini *et al.* (2015)

In the attempt to bust the reshape of the vulnerable Economic and Monetary Union, in June 2015, a new action was taken by the European Commission through a report designed to propose a strategy for achieving the solid construction that EMU was meant to be. The report, known as “the Five Presidents report” has been prepared by the President of the European Commission, in close cooperation with the President of the Euro Summit, the President of the Eurogroup, the President of the European Central Bank, and the President of the European Parliament.

Considering the Economic and Monetary Union a work in progress, the report states that, for the completion of the Economic and Monetary Union, is important to make a real progress in four different directions:

- a genuine Economic Union that ensures each economy has the structural features to prosper within the Monetary Union.
- a Financial Union that guarantees the integrity of Euro currency across the Monetary Union and increases risk-sharing with the private sector. In order to



be able to do so, the European Union must finalize the Banking Union and accelerate the Capital Markets Union completion.

- a Fiscal Union that delivers both fiscal sustainability and fiscal stabilization.
- a Political Union that provides the foundation for all of the above through genuine democratic accountability, legitimacy and institutional strengthening.

Often accused of being unable to take real measures and put in place efficient mechanisms to accomplish the goal of having a functional Economic and Monetary Union in terms of financial integration and real convergence, the European Commission committed through the voices of the 5 Presidents to a process developed in two stages with a timeline of ten years (Junkers *et al.*, 2015, 5):

Stage 1 (1 July 2015 – 30 June 2017) – named “deepening by doing”, was dedicated to a process of reviving and rearranging the existing instruments and mechanisms in order to boost competitiveness and the structural convergence with the final goal to complete the Financial Union, “achieving and maintaining responsible fiscal policies at national and euro area level, and enhancing democratic accountability”.

Stage 2 – named “completing EMU” will focus on the convergence process reinforced by a set of commonly agreed benchmarks for convergence that could be given a legal nature. Reaching these standards and continuously adhering to them will represent the main condition for the euro area Member States to participate in a shock absorption mechanism for the euro area.

The report envisaged a final stage (at the latest by 2025) with all the projected actions and steps fulfilled that will provide a so call “deep and genuine EMU” as “a stable and prosperous place for all citizens of the EU Member States that share the single currency, attractive for other EU Member States to join if they are ready to do”.

If in 2012, the road map to achieve a “deep and genuine EMU” was facing a wave of support from the academia and the business environment, in 2015 the initiatives of the European Commission were critically analysed and interested parties had various positions.

The European Economic and Social Committee expressed its opinion, on September 2015, regarding the envisaged process of completing the Economic and Monetary Union through an opinion. The EESC position is firmly against continuing the austerity policy based on spending cuts without a solid investment plan “to generate revenue through growth, social cohesion and solidarity”. The EESC stressed out that the Community method to build a more democratic and social EMU is the best way to allow the EU’s social policy objectives to be reach. Analysing the five presidents’ report, the EESC pointed out some directions of disagreement with its view: given the little progress made with the proposed anti-crisis policy, the enhanced structural reforms without an adequate social union as a primary goal of the EMU is a wrong path to be taken but the report speaks only about fiscal, financial and political union; strongly supports the full „parliamentarisation” of the euro area, giving the social partners a real involvement in the construction of the EMU must be a priority as the European social model is the foundation of the European Union as “a serious debate on a well-founded



architecture of the EMU, implying a consensus concerning economic and social objectives as well as agreed governance, is unavoidable” (EESC, 2015, p 10); encourages the Macroeconomic dialogue in the euro area for the development of a more democratic and social EMU; underlines the importance of a “smooth interaction between monetary and budgetary policy and wage development in order to ensure more growth and jobs, boosting confidence in monetary union” (EESC, 2015, p 11).

ADEMU<sup>1</sup> Scientific Coordinator Ramon Marimon, responding to a survey regarding the five presidents’ report, declared that “it is a step ahead towards the policy and institutional consolidation of the Euro area. Unfortunately, this does not necessarily imply that they guarantee economic growth and financial stability in the Euro area”. Marimon’ opinion on how effective will be the implementation of the process presented by the report points out that the key elements for a successful completion of EMU remained undefined.

Another European think tank, Jacques Delors Institute, expressed cautiously its opinion on the process proposal considering that important substantial elements are included (a drive to complete the Banking Union by mid-2017 and a proposal to formulate binding “convergence indicators” that decide whether a country may accede to an EMU-wide shock-absorption mechanism) but underling that the report failed to discuss: improvements to the European Stability Mechanism’s governance and accountability and measures to deal with a sovereign default in the euro area (Enderlein and Haas, 2015, p. 1).

To summarize, as other opinions (of Bruegel or BusinessEurope) go in the same direction, we consider that the planned process of completing a well-functioning Economic and Monetary Union represents a step in the right direction emphasizing the need to urge the achievement of the banking, fiscal, capital markets and political unions, but being too vague regarding the means to boost the competitiveness, to trigger real economic convergence and to ensure a social union as well, the results expected will be delayed, again.

After two years of implementation, the history of the process of completing the EMU repeated: some of the measures and instruments became functional (the Single Supervisory Mechanism and the Single Resolution Fund) but the last pillar of the banking union – a European Deposit Insurance Scheme (EDIS) is still not in place and the perspectives aren’t optimistic (especially for political reasons and due to national positions of the Member states); for the other steps to be made little and insignificant progress was registered. We consider that one more minus of all initiatives taken is a very little importance gave to the EU member states that are not members of the Eurozone even the declared future goal of the European Union

<sup>1</sup> ADEMU (A Dynamic Economic and Monetary Union) is part of the Horizon 2020 work program topic Resilient and sustainable economic and monetary union in Europe (EURO-1-2014). The primary focus of the project is on the dimension – The impact of macroeconomic and social imbalances on economic stability. <http://ademu-project.eu/project-overview/>; <http://ec.europa.eu/research/social-sciences/index.cfm?pg=newspage&item=150720>.





is to enlarge it and to offer a safe economic, financial and social environment that will allow to growth and prosper for the members of the European Union.

## Conclusions

The present paper had as goal to investigate and to analyse the process of completing the Economic and Monetary Union, designed and implemented by the European Union, after the weaknesses showed by the crisis from 2007 – 2008.

After analysing the steps made from the 80's until now to fulfil the goal of free movement of the capital in the European Union and to have a well-functioning Economic and Monetary Union, we can draw several conclusions:

- Created during a decade, the Economic and Monetary Union was put to a real test by the financial crisis from 2007-2008 and failed to pass;
- For the a four years span a variety of measures were taken, several new mechanisms and instruments were created but the actions taken were not well coordinated and the results expected did not appear.
- The first initiative to develop a process to complete the EMU was viewed as a good plan and was considered a proof that the political will among the EU member states is to support the measures envisaged to be taken.
- The credibility of the European institutions dropped as the processes designed failed repeatedly to become a reality.
- The resistance of the EU member states, especially of those in the euro area, to the implementation of these processes proves that the financial integration and the real convergence is more of an ideal to discuss about than an immediate and real goal of the EU member states.

Even a plan “well designed” is in place from 2015 the failure of become a reality is recognized by European Union that kept producing more papers (white paper, reflecting paper) and kept coming with new “possible ways” to solved the problems that prevented achieving a genuine economic and monetary union.

In our opinion, the solution is not to create every couple of years new plans, new tools and new institutions or regulatory bodies at European level in order to finalize the EMU but to find the way that the political will across the European Union (representing a diversity of cultural, religious and social communities) consider that is in the best interest of the EU members to genuinely follow the rules, and implement the mechanisms already in place. On the other hand, the European Union must be able to function as a supra-state structure which decides in the direction of the general good and is not biased in decisions on penalizing those economies that endanger the balance and the development of the Economic and Monetary Union regardless of which member states they belong to.



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# EVALUATION OF THE LEVEL OF MOLDOVA'S ECONOMIC SECURITY IN THE PROCESS OF EUROPEAN INTEGRATION

Corneliu MUNTEANU\*

## Abstract

*Currently, the analysis of the modern concept of economic security and different economic approaches to economic security of the state became as urgent as it has never been earlier. The modern concept of economic security is understood as the state of the economic system that allows it to develop in a sustainable, dynamically way and to solve the problems so that the state will have the possibility to develop and to implement effectively its economic objectives. Thus, we found out that economic security can be analysed throughout two main approaches: microeconomic and macroeconomic. Both approaches focus on main macroeconomic indicators that we had as an aim to analyse and to quantify the general economic security. Despite the quantitative indicators, we concluded that there are three most important qualitative indicators: economic independence; the economic stability and sustainability; the ability to progress. These are crucial in a rapidly developing world.*

*Keywords: economic security, risks, economic vulnerabilities, threats, critical thresholds*

## Introduction

Economic security is a set of internal and external conditions that contribute to the efficient dynamic growth of the national economy, its ability to meet the needs of society, state, and individual in order to ensure competitiveness on foreign markets, guaranteeing all types of threats and losses. It should be noted that the impact of external threats and the majority of internal ones on the economic security of the Republic of Moldova are manifested firstly at the state border. Consequently, the full range of measures to protect the country's economic interests should be carried out primarily in the border area of the country.<sup>1</sup>

## 1. Main approaches for analysing economic security

Economic security is often defined in general terms, as follows: "economic security of one or another system is meant the sub-system status which provides

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\*Corneliu MUNTEANU is PhD, lecturer at the Academy of Economic Studies from Moldova, Chisinau, Republic of Moldova; e-mail: munteanu.corneliu23@gmail.com.

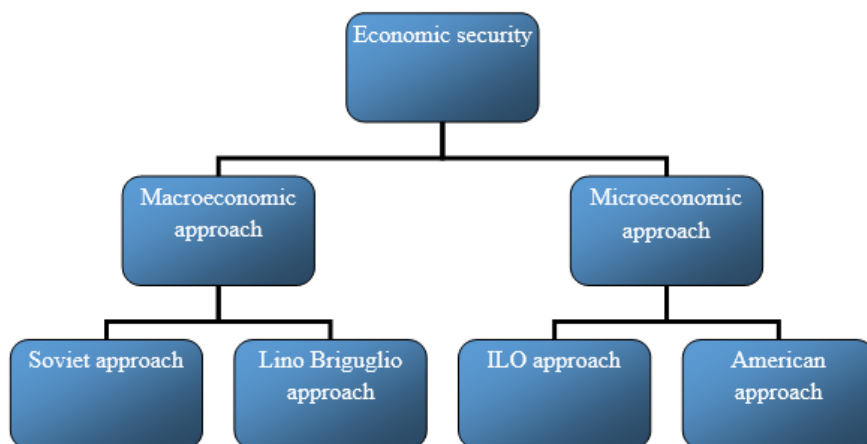
the ability to achieve the purpose of the whole system” (Tambovtev, 1995; Senceagov, 2002). From the other side, B. Buzan mentioned that “the term “economic security” has undergone numerous changes in the last 50 years and now, economic security is to ensure the welfare of the future.” (Buzan, 1984). However, we can notice that these definitions are general ones and underlines that economic security is more dependent on the production potential and economic growth is a result of effectively promoted economic policies.

A significant influence on the process of economic security quantification plays the component indicators and their dynamics over time. Evaluation of the main indicators characterizing the economic security lets out some moments that can reduce the vulnerability of the national economy (Munteanu, 2015).

Based on the economic literature we distinguish two approaches:

- Microeconomics – high standards of living for citizens;
- Macroeconomic – increasing the national economic power. (Figure 1)

**Figure 1. The main approaches in the economic security quantification process**



Source: Munteanu, 2016

The Soviet approach uses the methodology of „ceiling” or threshold indicators. These indicators are used to mark the limits of that indicator and to find the level of overall economic security. In the opinion of all researchers in the field of economic security, the indicators characterize the limits, the ignorance of which „hinders the normal development of the economy and of the social sphere and leads to the formation of destructive tendencies in the sphere of production and the quality of life.” (Kovaleva and Kuklina, 2003 p. 455). In case of violation of the critical level, the sustainable economic development of the state may be disturbed.



**Table 1. The Soviet approach: Evolution of the main macroeconomic indicators for the period 2014, 2016**

Indicator	Critical threshold	2014	2016
GDP/cap, \$	17 719	2 505	1 913
Inflation, %	20	5.1	6.4
Share of underground economy in GDP, %	15-20	27.7	38
<b>Trade Security</b>			
% of exports in GDP	70	42.1	43.3
% of imports in GDP	60	79.8	71.8
% of 3 product groups imported from total imports	30-35	22.8	59.1
% of 3 product groups exported from total exports	20-25	27.3	58.5
Main export partner, %	25-30	18.55 (Ro)	25.1 (Ro)
Main import partner, %	15-20	15.1 (Ro)	13.7 (Ro)
% of re-export from total exports	20-25	34.6	34
<b>Energetic Security</b>			
Net import of energy resources (% from total consumption)		89	70.8
<b>Financial Security</b>			
% Gross state debt in GDP	25	32	38
% Budget deficit in GDP	-3	-2	-1.8
<b>Social Security</b>			
Unemployment, %	7	3.9	4.4
Life expectancy	70	69	71.2
Education expenses, % from GDP	10	8.35	6.32
Difference between incomes of 10% richest and 10% poorest	x 8	x 7	x 4
% of R&D expenses in GDP	2	0.35	0.37

Source: own representation based on data from National Bureau of Statistics

The obtained results indicate that the Republic of Moldova is going through the economic transition period due to the delay of structural reforms and strong macroeconomic shocks. The year 2000 showed signs of a slight recovery of the economy on the background of inflation's decrease. The average GDP growth rate before the global economic crisis in the period 2000-2008 was 5.9%. However, the global economic crisis has considerably affected the immediate outlook of the Republic of Moldova. In 2009, Moldova experienced an economic fall of 6.5%, but 2010 brought a particularly good economic increase of 6.9%.

However, the Moldovan economy shows some signs of recovery: increasing investment in fixed assets, increasing foreign trade, increasing public revenues and expenditures, etc. Real wage growth and economic growth in the real sector: agriculture, industry, transport services, etc., money transfers from abroad have led to increased consumption. At the same time, the appreciation of the national

currency and the intensification of the inflationary process continue. Vulnerability to external factors remains current.

The process of the evolution of the Moldovan economy is vulnerable and slow due to the whole list of shocks, internally as well as externally, with which it is confronted. In conclusion, we will note that the method of analysing threshold indicators is of great practical importance in the process of assessing the level of economic security. These indicators as a whole scans the country's economic situation and equally indicates the level of security. This method makes it possible to determine the state and identify ways to improve the economic security of the Republic of Moldova.

The approach of Lino Briguglio, a professor at the University of Exeter, UK, has two dimensions: economic vulnerability and resilience. The scientific community accepts this methodology because it includes policy analysis and efficiency framework to promote reforms in economies studied.

The most complex methodology, from the microeconomic approach, is the calculation of the economic security index according to the World Labor Organization. Seeing evolution in time, we categorize that the contemporary economic security studies (after the cold war) uses the Anglo-Saxon approach, which is based on the report of the world Organization of labour. It launched methodology of calculating an economic security index (ESI), starting from the identification of the 7 dimensions that make up the socio-economic security. Each of these dimensions is quantified through an index, calculated based on other variables, Economic Security Index (ESI) (Annex 1) is calculated according to the formula:

$$ESI = LMSI + EPSI + JSI + SSI + WSI + 2 * RSI + 2 * ISI \quad (1)$$

where: LMSI – Labour Market Security Index

EPSI – Employment Security Index

WSI – Work Security Index

ISI – Income Security Index

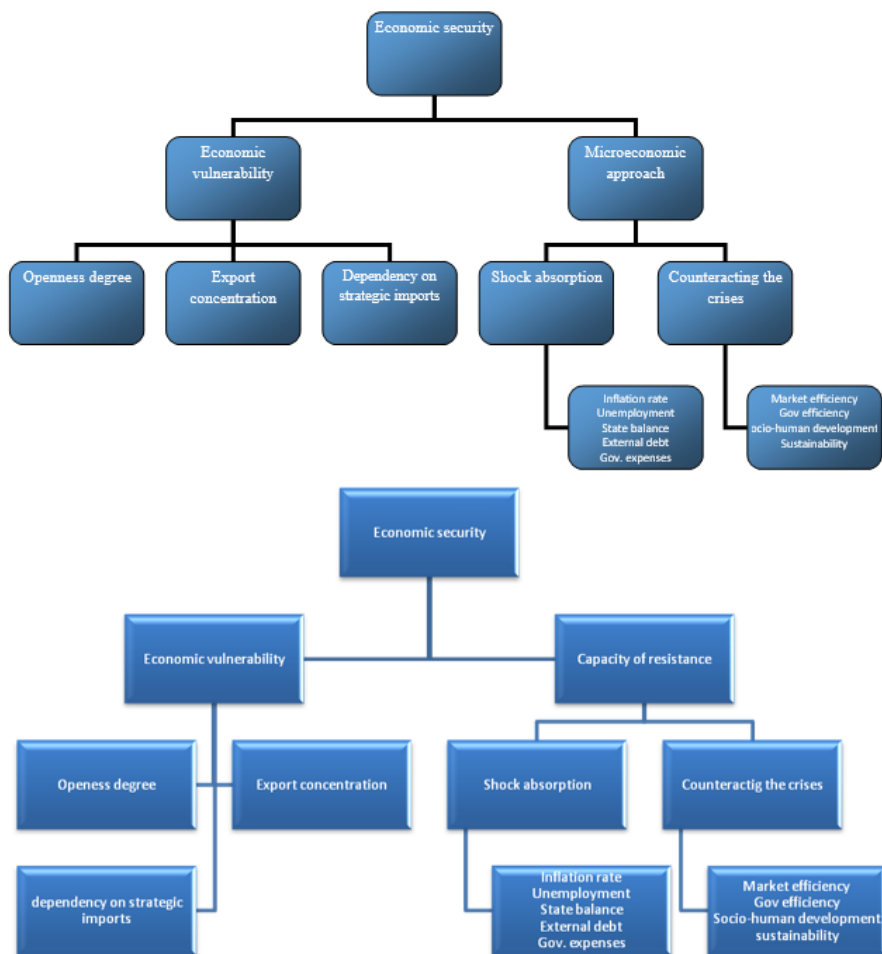
RSI – Representation Security Index

SSI – Skill Reproduction Security Index

JSI – Job Security Index

Income Security Index and the Representation Security Index are offered a double share, because it is presumed that basic income and voice representation stands as fundamental for economic security of any person. These two complement each other, and together are essential for equal good opportunity to pursue occupation.



**Figure 2. Economic security quantification model (Lino Briguglio)**

Source: own representation based on Briguglio (2008)

**Table 2. Economic security and its components (ILO approach)**

Country	LMSI	EPSI	WSI	ISI	RSI	SSI	JSI	ESI	Place in the world (out of 96 states)	Economic security category
Sweden	0,955	0,951	0,938	0,912	0,995	0,888	0,811	0,977	1	Etalon
Finland	0,862	0,960	0,931	0,868	0,921	0,863	0,940	0,947	2	Etalon
Norway	0,981	0,762	0,940	0,941	0,910	0,863	0,750	0,926	3	Etalon
.....										
Latvia	0,662	0,544	0,633	0,694	0,571	0,652	0,615	0,587	27	Etalon
Lithuania	0,593	0,475	0,665	0,622	0,563	0,686	0,673	0,556	30	pragmatics
Ukraine	0,511	0,594	0,569	0,590	0,535	0,655	0,633	0,524	35	Much to do
Rep. of Moldova	0,622	0,477	0,432	0,624	0,516	0,623	0,526	0,495	43	Much to do

Country	LMSI	EPSI	WSI	ISI	RSI	SSI	JSI	ESI	Place in the world (out of 96 states)	Economic security category
Romania	0,616	0,417	0,590	0,514	0,527	0,589	0,483	0,456	44	Much to do
.....										
Nepal	0,295	0,114	0,138	0,340	0,289	0,132	0,126	0,051	90	Much to do

Source: International Labor Organization, 2004<sup>2</sup>

## The American approach

This approach is completely different from the previous ones. For having the whole “picture” we’ll present shortly it in this paragraph. Index of Economic Security (ISE) is a part of the microeconomic approach that measures the rate of American citizens is a decrease of 25% of disposable income family, or because of a decrease in income or an increase in medical expenses or a combination of both, and that have a lack of adequate financial security to deal with these situations. A higher ISE Index indicates, therefore, a greater insecurity, just like a rising unemployment rate that gives alert signals. ISE is officially calculated from 1986 to 2013 on the basis of current survey data, the Census Bureau’s official source for measuring poverty and unemployment. Because ISE is a conceptual framework, however, it can be measured from multiple sources. Previously, ISE was calculated using the Income Survey and Participation Program, another data source is the Census Bureau, which has data since 1985. In addition, a more limited version of the index is available using the Income Dynamics Study Panel, which dates back to the late 1960s. ISE itself includes the real economic losses of the population, not those who fear or are vulnerable to certain threats. The threat of such losses is real and becomes more and more dangerous for all Americans (Munteanu, 2016).

Economic security is a general concept that can be the subject of interpretations. However, several convergent approaches make it possible to faithfully determine which countries have a higher level of economic security and are more vulnerable. In this respect, we have developed an econometric model to identify the factors that influence the level of economic security and the measure to which each factor influences economic security. In order to achieve such a model, a necessary condition is the identification of a dependent variable – which would embody, by its value, the level of economic security of a country at a given moment. At the same time, using the Briguglio model, we will analyse which components are more relevant to determining economic security and include them as independent variables in the model. For the econometric model, the same components of economic security as described by Briguglio (Briguglio, 2008) will be used, and for each component, the most relevant indicators will be identified. The purpose of the model will ultimately be to show the opportunities for

<sup>2</sup> International Labor Organization (2004), Socio-Economic Security Programme, Economic Security for a Better World.





increasing the level of economic security of the Republic of Moldova, if any of the analysed factors would improve or change.

Various international organizations are currently calculating indicators that describe economic security. Among them are:

- The Economic Security Index proposed by Jacob S. Hacker, Gregory A. Huber, Austin Nichols and others (Hacker, *et al.*, 2012) – is an index of the population's perception of the possible economic losses they have suffered or real inflation (adjusted for inflation) of at least 25% compared to the previous year. The figure is expressed as a percentage of the adult population. It is calculated only for the US at the level of each state.
- The economic security index calculated by the World Labor Organization – is a perception indicator of the safety of individuals at work. It is a composite index that incorporates a number of factors such as (Munteanu and Tamosiuniene, 2015) labour market security index, employment security index, occupational safety index, income safety index, security representation index, skill development security index, and job security index.

In addition to these indicators, there are some more specific related to food security, health security, military security, etc. What is common for the indicators listed above is that they cannot be used to develop the proposed economic model because insufficient data is available at country level for some time periods and because these indicators refer more to the individual aspect of the population than at the macroeconomic level, so it would be difficult to perform a comparative analysis between one of these indicators and other macroeconomic indicators.

A compromise solution is to use a proxy indicator, which substitutes the pointer we are looking for, but it is not available in the required format. The use of proxy indicators in econometric models is a normal and welcomed practice but requires further justification for their use. The proxy indicator means an indicator that measures something similar, sometimes different, but which yields almost identical or similar results to those desired.

The proxy indicator proposed for our model is the Fragile States Index (2015) or FSI – calculated the Fund for Peace. It does not directly measure economic security, but by analysing its values, we can conclude that there is a direct and close link between the values of the FSI and the economic security of different groups of countries. FSI is a composite index, containing 12 secondary indices, divided in 4 categories: (1) Cohesion – Security Apparatus, Factionalized Elites, Group Grievance; (2) Economic – State Legitimacy, Economic Decline, Uneven Economic Development, Human Flight and Brain Drain; (3) Political – Public Services, Human Rights and Rule of Law; (4) Social – Demographic Pressures, Refugees and IDPs, External Intervention. Most of these indicators determine, to a certain extent, the level of economic security of a country.

The main arguments for using FSI in the model as a dependent variable are: (1) there are historical and complete data for a fairly long period to build a robust econometric model; (2) there are country-wide data for all the world's states, including recent ones, such as South Sudan; (3) there is sufficient variability in FSI values for the countries we have planned to analyse.

The former FSI was called the „Failed States Index,” i.e. the Failed States Index, later the term „Failed” was replaced by „Fragile”. Values FSI can be between 12 and 120. At least 12 means the lowest level of fragility, which in fact means a very high stability of the country. On the other hand, higher values, which can reach 120, mean a high degree of vulnerability.

For example, in the latest report of the Fund for Peace organization, published in 2015 (the Fund for Peace, 2015), the most fragile states were designated:

- South Sudan – 114.5
- Somalia – 114.0
- Central African Republic – 111.9
- Sudan – 110.8

These countries have been mentioned as having a very high risk of losing statehood, as demonstrated by the fact that Somalia has practically not been functioning for several years, and Sudan and South Sudan face various problems, even if they have reached to a separation agreement. On the other hand, the states with the smallest values of the FSI in the 2015 report are: Portugal, Germany, the Netherlands, Austria, Canada, Ireland, Australia, New Zealand, Switzerland, Luxembourg, Denmark, Norway and Sweden with values between 20.2 and 29.7, declared sustainable countries; Finland – 17.8 – the only country declared to be very sustainable.

It can be noticed that the FSI, in addition to showing the level of fragility of the state, also determines certain economic security. Higher and more developed countries have lower values for the FSI, while poorer countries, facing conflicts of a different gender, with a poorly developed economy, have much higher FSI. Thus, we will continue to follow the assumption that FSI is a proxy variable for the economic security of a country.

Regarding the construction of the model, in its structure on the right side of the model, we will use the following categories of variables: (1) Dummy variables, including: (i) Regional variables, identifying the country’s membership of an international organization or geographic territory; (ii) Time variables to identify whether in some years the relationship between the FSI and the independent variables has changed significantly compared to the overall situation; (2) continuous variables, according to Briguglio categories: (i) Openness of the economy; (ii) Concentration of exports; (iii) Dependence on strategic imports; (iv) Crisis Response; (v) Shock absorption.

If Briguglio’s model will be considered only variables that are publicly available and provides data for the timeframe and for the list of countries included in the model. Thus, the econometric model will contain panel data, in which each observation represents the values of the variables analysed for a particular year in a given country.

The time horizon taken into account is the 2009-2014 period (6 years), as it is a recent, relevant time span, provides a certain dynamic and variability of the indicators, and the data are available almost entirely for this range. Data for 2015 is



only available for some variables and is not definitive in all cases, so 2015 was not included in the model.

The geographical horizon comprises a list of 28 states, including all ex-USSR states, all the states of the former Yugoslavia, Albania, Hungary, Romania, Bulgaria, the Czech Republic, Slovakia and Poland. What characterizes them is a past with a socialist economy, a transition to a market economy, and the fact that these countries are currently at different stages of economic development and integration into regional structures, such as the European Union, the Euro-Asian, CIS, NATO and others. These countries are relevant to a model in which Moldova is included, as it is a practically complete list of countries with which Moldova could be compared, other countries being much more diverse and / or geographically distant.

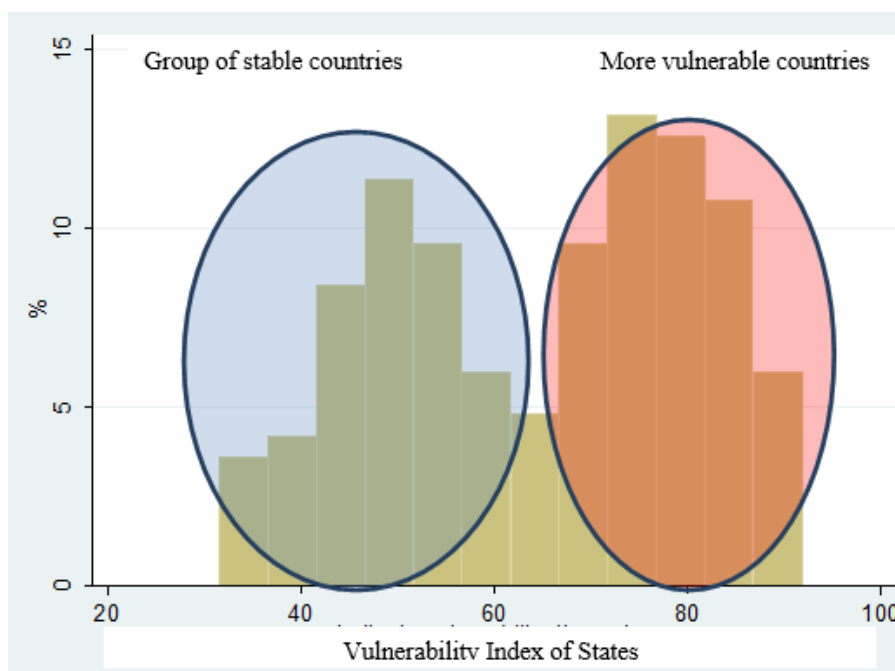
In total, the model contains 167 records (the Turkmenistan registration for 2014 was omitted as it contained very few data), 17 continuous variables and a number of dummy variables.

The dummy variables are: 1. EU – belonging to the European Union. In the case of Croatia, for some of the entries, „EU” will be 0 – 2009-2012 and 1 for the period 2013-2014, after joining the EU; 2. NATO – membership of the NATO bloc. For Croatia and Albania will be considered only the years since joining NATO; 3. UV – belonging to the Euro-Asian Customs Union. Armenia and Kyrgyzstan joined in 2014, and Russia, Kazakhstan and Belarus in 2010; 4. Balkans – belonging to the geographical region of the Balkans, includes the countries of the former Yugoslavia and Albania; 5. Baltic – belonging to the geographical region of the Baltic Sea, includes Lithuania, Latvia and Estonia; 6. CSI – membership of the Commonwealth of Independent State. Countries that will have the „0” values for all the dummy variables listed above are former Soviet Union countries that have not joined the EU, the EAA or the CIS; 12. The model uses the Eurasian Customs Union instead of the Eurasian Economic Union because the latter was only set up in 2015; 13. At present, the World Bank uses gross national income per capita instead of GDP per capita for international comparisons, „a1” ... „a6” – dummy time variables for years 2009, 2010, 2011, 2012, 2013 and 2014. The coefficients for these variables will determine whether or not that year had some general influence on FSI.

Continuous variables: (1) The dependent variable: fsi – the state fragility index; (2) independent variables: gdp\_gr – annual real GDP growth, %; gni\_cap13 – Gross National Income per capita; exp\_gdp – the share of exports of goods and services in GDP; bp\_ext\_gdp – external balance of payments in GDP, %; commerce\_pib – share of foreign trade in GDP, %; imp\_pib – the share of imports of goods and services in GDP; imp\_cr – annual import growth, %; exp\_cr – annual export growth, %; rem\_pib – share of received remittances in GDP, %; bp\_pib – balance of current payments in GDP, %; econ\_pib – the share of savings in GDP, %; unemployment – unemployment rate, total, %; inflation – inflation rate, total, %; imp\_ener – energy import rate in total energy consumption; mil\_buget – the share of defense expenditures in the state budget; edu\_pib – the share of spending on education in GDP.

Source data for econometric model developed by the author, are in particular: FSI – organization Fund for Peace, continuous variables – World Bank, Dummy variables – created by author according to official EU, NATO and Eurasian Customs Union reports, for some data were used other public sources and in particular for education and defence budgets for 2013 and 2014 it was considered the same value as in 2012. In order to convince us that there is enough variability in the FSI dependent variable we will analyse its distribution:

**Figure 3. Distribution of FSI values in the econometric model**



Source: own representation

Thus, FSI has values between 31.6 and 91.84 with a mean square deviation of 16.03. From Figure 3 it can be seen that there are two groups of countries: the first with higher stability and the second with a certain vulnerability. Suppose it is the countries of the European Union that form the first group and the other countries – which form the second group.

We will analyse how each regional group influences the FSI value. We will use the Student test to determine if membership of a regional group means that the FSI value is significantly different from the average for the other countries that are not part of this group or not.

Table 3 shows that the countries of the Balkan region are not significant, while membership of other organizations makes the group of countries differ from the rest of the countries by a higher or lower level of the FSI.



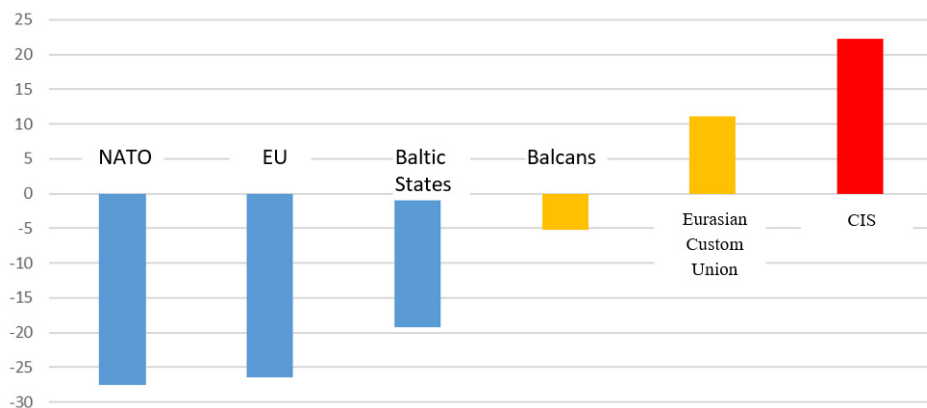
**Table 3. Student Test for comparison of FSI media for a few regional groups compared to other countries' average.**

Regional group	Variable	Number of observations	Average FSI group	Difference from the average of other countries	Value of the t-Student test
CIS	csi	55	79.6	22.2	-11.1
Balcans	balcani	48	61.0	-5.2	1.9
Baltic states	Baltica	18	47.5	-19.3	5.2
Eurasian Customs Union	uv	17	74.7	11.1	-2.75
EU	ue	56	47.1	-26.5	16.1
NATO	nato	68	48.3	-27.6	20.6

Source: own representation

Note: \*\*\* – the significance is 0.001 or less, ,,,, – the significance is greater than 0.05

Figure 4 shows that membership of the NATO bloc provides greater security to member countries, even if it is a country that has recently joined NATO, all the NATO member states of the model studied by us joined in 2004 or later. At a short distance, it is a member of the European Union – as a factor of stability and increased economic security.

**Figure 4. The difference between FSI in several groups of countries compared to the FSI average of the other countries included in the econometric model**

Source: own representation

Note: the CIS organization, Republic of Moldova is a member, is in red. The organizations / region of the Baltic countries are hatched in blue

The Baltic Sea group, although coming from the USSR, has a relatively high level of security over the rest of the countries included in the study, many of which

are EU members. Another pole is CIS with increased vulnerability. Something more stable are the countries of the Eurasian customs union.

Student tests on dummy type and FSI variables showed that no individual year is significantly different from the average over the other years. Thus, in the econometric model we will omit the variable „Balkans”, because it does not have a clear influence on FSI and we omit the dummy time variables, from the same reason.

**Table 4. Coefficients of correlation between FSI and the continuous variables in the econometric model.**

gni_cap	exp_pib	comert_pib	bp_ext_pib	imp_pib	imp_energ	bp_pib	somaj
-0.87	-0.60	-0.53	-0.33	-0.32	-0.27	-0.12	-0.03
exp_cr	imp_cr	edu_pib	econ_pib	inflatie	mil_buget	rem_pib	
-0.01	0.01	0.0675	0.15	0.25	0.3639	0.53	

Source: own representation

Table 4 shows that the available personal income per capita, the share of exports in GDP, external trade relative to GDP, the external balance of payments versus GDP and the value of GDP-related imports have a reverse link with the FSI, with at least an average. This means, in fact, that they have a positive influence on economic security because the value of the FSI decreases with the increase in the level of stability.

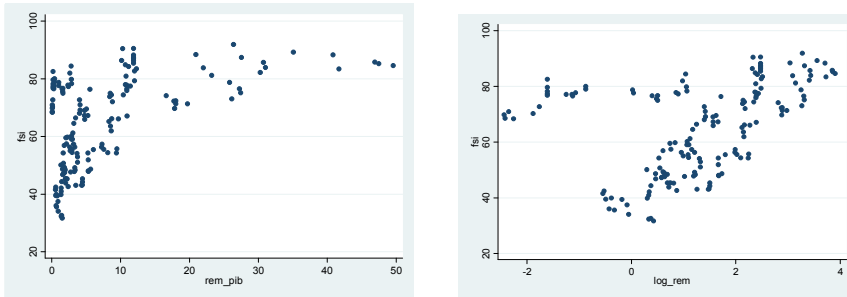
At the same time, inflation, defence spending and remittances have a direct link with the FSI, which means that these indicators raise the vulnerability of states and reduce economic security.

Some indicators, such as the increase in imports or exports, the value of imports into GDP or unemployment are not related to the FSI change. However, these variables will be included in the model for control considerations and because they may have combined effects with other factors.

Linearity of linkage between continuous variables and FSI. To make sure that the link between the FSI and each of the independent variables is linear, we will follow the cloud of points and try to trace some trends.

The link to FSI and remittances is not linear but logarithmic, so in the model we will use the log variable (rem\_pib) to linearize the link between FSI and remittances. Figure 5b shows the more linear character of the link, but there are some points that would represent another linear bond. Because we have a fairly small sample, we will not separate these links in two.



**Figure 5 (a, b). The link between FSI and remittances before and after logging**

Source: own representation

With respect to other variables, there was either a quasi-linear relationship or a relatively chaotic distribution of dither cloud.

### Econometric modelling

We will use a classic linear model with panel data (2009-2014 period), where we will control the effect of time and geographic effect. We will build a regression where FSI will be the dependent variable, and the other – independent. To develop the significance level of the model, we will follow the Akaike criterion (AIC) and the determination coefficient R<sup>2</sup>.

From the prepared variables, we will make the following initial selection:

- The share of foreign trade in GDP will be the only foreign trade variable included in the model, as suggested by Briguglio's model. Preliminary analyses have shown that it is a more representative variable compared to the share of exports and the share of GDP import for this model. Also, the increase in imports or exports have proved to be factors that do not significantly affect the FSI.
- We will avoid overlapping geographic regions and we will look at the dummy „ue” and „csi” variables, the third group of countries being those that are neither EU members nor CIS members.
- The balance of payments in GDP correlates strongly with the share of remittances in GDP and the last variable will be retained in the model.

We analysed 3 models (Annex 1) and we will finally consider Model 3 as the best and final with the following:

- The coefficient besides the inflation variable is relatively insignificant ( $p = 0.145$ ), which we want to keep this variable in the model because it is an important factor and we want to keep in mind.
- The coefficient next to the „rem\_pib” variable is also not very significant, but it falls within the error of  $\pm 10\%$  ( $p = 0.08$ ).
- The model suffers from heterozygousness in the independent variables, i.e. there is no constant variation of the errors, increasing with the increase of the values. However, for such a set of data, such a phenomenon is rather characteristic and can be more difficult to correct, because the transformation



of some variables by logarithm is not possible due to the presence of negative values. Other methods could affect the level of interpretation of model data.

- The phenomenon of error self-correlation may be present, but it is not a very powerful one because it is only 6 years of observation. Although the FSI has declined in the environment for this group of countries from 2009 until 2014, however, year-to-year deviations are not very significant, and the evolution of the independent variables could follow another trend.
- There is no multicollinearity, as shown by the inflation index of the variance, which is in the average 1.86 and maximum 2.88. The average of the index below 2 and an individual value below 4 is considered to be very good.
- The remittance variable was used without logarithm because in this case the final model contained more significant variables than the logarithm form.
- According to R<sup>2</sup>-adjusted, Model 3 better explains the relation between FSI and independent variables, compared to Models 1 and 2. The Akaike criterion (AIC) is also better for Model 3. It is considered to be better AIC if it is smaller, and a better-adjusted R<sup>2</sup> is one that has a higher and closest value to 1.

$$FSI = 76.41 + 5.59 * csi - 7.5 * ue + 0.11 * rem_{pib} + 0.18 * econ_{pib} + 0.07 * inflatie + 0.25 * mil_{buget} - 0.05 comert_{pib} - 0.0014 * gni_{cap}(2)$$

## Conclusions

The economic security of the country in the current international environment is an important element of the security of the world, in the context of globalization.

For assuring it, we conclude that first of all, the state has to assure its independence (ex: diversification of trade partners, assure a solid and robust financial system, diversify the energy suppliers, etc.). For Republic of Moldova, this can be achieved only through joining a regional union. According to the quantitative research, presented above, if a country is a CIS member, the FSI value increases in the environment by about 5.6 points. In the case of Moldova, the exit from the CIS would mean an improvement in Moldova's rankings in the FSI rankings from 96th to 114th, where „low” countries are. On the other hand, if a country is a member of the EU, an FSI value increases in the environment by about 7.5 points. For Moldova, leaving the CIS and joining the EU would mean a lower FSI of 13.1 points. Moldova could reach the 125th in the ranking in the group of „relatively stable” countries.

Secondly, the economic stability and sustainability needs to be strengthened. There are several economic indicators that can describe the current situation. Republic of Moldova, as many other countries in the world, is dependent on remittances that come daily and mainly have an impact on its consumption. In the model, this indicator shows a direct correlation with the economic security, so that the remittances' weight in GDP of 10% leads to lower economic security, i.e. the FSI, by 1.1 points. The difference is not a very important one, but the negative influence of remittances on economic security is important. Also, the share of savings in GDP has a direct correlation with the FSI, i.e. a higher level of savings



leads to a greater vulnerability of the country. For each 10% of savings in GDP, FSI increases by almost 2 points. Inflation also has a negative impact on economic security. However, the coefficient of 0.072 shows that only very high inflation can significantly affect economic security. Expenditure on defence correlates directly with FSI. Countries that spend more have a higher vulnerability. This could be a consequence, rather than a cause, it is certain that at 10% defense spending, FSI increases by about 2.5 points. Gross national income per capita is the main factor that differentiates countries that are more vulnerable than those with greater economic security. At every 10000 USD / capita in addition, the level of security increases (FSI decreases) by 14.3 points.

Thirdly, the ability to economic progress is the essential ingredient in the process of assuring economic security of a country. This ability is consolidated if the economy is interconnected with others. Opening the economy has a positive influence on the security of the economy. However, the value of the coefficient is also not very high, with only -0.55 declining FSI per percent of foreign trade in GDP.

Finally, the accession of a country to the EU or to the CIS itself involves dramatic changes in security. The econometric model has shown that there is this effect of belonging to an economic / political block, but has also shown that the welfare of the population is even more important.

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**Annex 1.**

<b>Nr.</b>	<b>Indicator</b>	<b>Formula</b>
1	LMSI	whether or not the country has ratified ILO Convention No.122 on Employment Policy, 1964; whether or not the government or constitution of the country has a formal commitment to “full employment”; the existence of an unemployment social security scheme and of legislation banning gender discrimination in recruitment.
2	EPSI	$EPSI = R + N + RB + D + UL$ where R = 1 if the percentage share of the workforce without regular employment contracts was less than 10%, 0 otherwise. N = 1 if the notice period normally given to workers being retrenched was greater than the statutory minimum, 0 otherwise. RB = 1 if the firm provided workers being retrenched with any benefits other than severance pay, 0 otherwise. D = 1 if the number of workers retrenched was less than average for all firms in the previous year, 0 otherwise. UL = 1 if workers were placed on unpaid leave by the enterprise in the three months before the date of remuneration, 0 otherwise.
3	WSI	$WWSI = SAFETY + ACCID + ACC.CL + ACC.D$ where SAFETY = 2 if there was a safety committee and safety department, 1 if there was a safety committee or department, but not both, 0 otherwise; ACCID = 1 if the number of work accidents as a proportion of the workforce was less than the mean average, 0 otherwise. ACC.CL = 1 if there was any accident in the past year that resulted in the closure of the establishment for one day or more, 0 otherwise. ACC.D = 1 if there were any accidents at work that resulted in one or more deaths, 0 otherwise
4	ISI	$Min/Emp + M + AW/Ws + FB$ where Min/Emp = 1 if the percentage of the workforce paid the minimum payment is below 5%, 0 otherwise; M = 1 if the minimum wage exceeded 50% of the average in firm, 0 otherwise; AW/Ws = 1 if the average wage is above sector’s average wage, 0 otherwise; FB = 1 if the firm paid more than eight types of non-wage benefits, 0 otherwise
5	RSI	Thus, a value of 1 is given if the country has ratified Convention No. 87 on Freedom of Association and Protection of the Right to Organise, 1948, and 0 otherwise; a value of 1 is given if it has ratified Convention No. 98 on the Right to Organise and Collective Bargaining, 1949, 0 otherwise, and a value of 1 is given if it has ratified Convention No. 141 concerning Rural Workers’ Organisations, 1975, and their role in economic and social development, 0 otherwise. Fourth, a value of 1 is given if the country’s laws have no restriction on the type of union that can be formed. The reason for this is that national and sectoral unions provide a greater degree of collective representation than is possible when only local or plant-level unions are allowed. Fifth is the existence and coverage of a law on collective bargaining. This has three possible values: 0 if there is no law or other formal instrument on collective bargaining in the country, 1 if such a law exists but with a limited coverage, and 2 if there is a law with near-general coverage
6	JSI	$JSI = SAT1 + SAT2 + SAT3 + PROM1 + PROM2$ where SAT1: If very satisfied or satisfied with nature of work = 1; otherwise 0 SAT2: If very satisfied or satisfied with autonomy/independence = 1; otherwise 0



Nr.	Indicator	Formula
		SAT3: If very satisfied or satisfied with opportunity for promotion = 1; otherwise 0
		PROM1: Promotion in terms of Use of skills = 2 if yes, 1 if "neither promoted nor downgraded", 0 if downgraded
		PROM2: Opportunity for future promotion in terms of Use of skills = 1 if yes, 0 otherwise

## Annex 2. Results of the models 1-3

Variables	Model 1		Model 2		Model 3	
	Coef.	Significance	Coef.	Significance	Coef.	Significance
csi	6.703	***	6.205	***	5.588	***
ue	-7.402	***	-7.170	***	-7.452	***
pib_cr	-0.051					
rem_pib	0.106		0.114		0.108	
econ_pib	0.207	***	0.188	***	0.180	***
somaj	0.080		0.064			
inflatie	0.068		0.079		0.072	
imp_energ	0.004					
mil_buget	0.228	*	0.240	**	0.248	**
edu_pib	-0.150					
comert_pib	-0.049	**	-0.050	***	-0.050	***
gni_cap	-0.001	***	-0.001	***	-0.00143	***
_cons	75.168	***	74.949	***	76.416	***
Statistics:						
R <sup>2</sup>	0.9034		0.9029		0.9025	
R <sup>2</sup> adj	0.8959		0.8973		0.8975	
AIC	1035.280		1030.231		1028.917	

Notă: \*\*\* – p<0.001, \*\* – p<0.01, \* – p<0.05

# REASSESSING EU-JAPAN STRATEGIC PARTNERSHIP: EU'S ENGAGEMENT IN ASIAN SECURITY AND JAPAN'S PROACTIVE PACIFISM

Cornelia Alexandra LINCAN\*

## Abstract

*EU and Japan have been constantly updating their cooperation through joint declarations and summits. Yet, in spite of the fact that this year they will finally conclude an economic agreement and a strategic partnership, the cooperation is restricted to non-military sectors. Thus, a particular attention is given to economic cooperation and promotion of a non-proliferation regime, while both actors are refraining from extending their cooperation at a military level. Taking into account EU's global strategy and its overall normative power projection, as well as Japan's redefined proactive pacifist stance, the aim of this research is to explore these sectors of cooperation and to find explanations for the limits. Therefore, the paper will focus, on the one hand, on the firmly institutionalized bilateral cooperation between EU and Japan, mostly based on economic and political agreements. On the other hand, the paper will analyse the relations between EU member states and Japan and will show that these arrangements are far more comprehensive and are focusing more on military aspects of security than the ones concluded between the EU institutions and Japanese government.*

**Keywords:** EU-Japan strategic partnership, foreign policy, proactive pacifism

## Introduction

European Union has been constantly reshaping its policies, especially those related to defence in order to address security challenges. Recently, European Union has been facing unprecedented security threats that came from both within and outside its borders. For that reason, issues as Brexit, refugee inflow, rise of populist parties and a reluctant position of the U.S. regarding the military and economic involvement in Europe have been constant topics of discussion on Brussels agenda. Against this background, the member states have deepened their defence cooperation and reaffirmed their security commitments by adopting a new framework, Permanent Structured Cooperation (EEAS 2018). Furthermore, as a response to these challenges and, in accordance with its global strategy, EU has been fostering its relations with the other global partners.

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\*Cornelia Alexandra LINCAN is PhD candidate at National University of Political Studies and Public Administration, Bucharest, Romania; e-mail: cornelia.alexandra.lincan@gmail.com.

One such example is Japan: due to their similar interests in preserving an open maritime system and a non-proliferation regime (Kirchner, 2017), EU and Japan have reaffirmed their commitment to improve the relations by issuing several joint declarations and by updating their security cooperation. Nonetheless, over the last years, Brussels and Tokyo have established a framework for regular bilateral meetings and have paved the way for the conclusion of both an economic agreement and a strategic partnership, agreements that will be signed this year. However, a closer look at the two partners reveals that the collaboration is limited to non-military sectors. Thus, a particular attention is given to economic cooperation and promotion of a non-proliferation regime, while both actors are refraining from extending their cooperation at a military level, by adding regional security on their common agenda.

Taking into account EU's global strategy and its overall normative power projection, as well as Japan's redefined proactive pacifist stance, the aim of this research is to explore these sectors of cooperation and to find explanations for the limits. Therefore, the main research questions examine EU-Japan relations: *which are the factors that influence and promote/constrain EU-Japan cooperation? Are they internal, arising from domestic policies and the interests of the member states of the EU? Or are the exogenous factors, such the influence of other regional actors, more important in shaping the convergence in threat perception of both EU and Japan?* The main assumptions highlights on the one hand the complex dynamics between EU and Japan and, on the other hand, Japanese domestic constraints and Asian regional security context. Consequently, in spite of a firmly institutionalized bilateral framework, for the time being, EU member states have more comprehensive security arrangements with Japan than EU has with the Asian state. Moreover, due to its self-imposed limits and regional dynamics, Japan is not showing at the moment willingness to extend cooperation with EU beyond the current economic and normative collaboration.

On the grounds that the paper is dealing with the study of a complex security relationship between an international organization and a state, and more precisely with the examination of specific policies and behaviours, a foreign policy analysis (FPA) is indicated in this context. FPA, as a bridging discipline and a sub-field of the international relations theories, connects systemic variables with domestic environment (Hermann, Kegley and Rosenau, 1987). Moving beyond individual, state-centric or systemic explanations, foreign policy analysis emphasizes simultaneously actors' intentions, objectives and actions and the response of other units of the international system to these patterns of behaviour (Gerner, 1995). In fact, FPA is not a homogeneous body of literatures and makes use of multiple theories. In doing so, the analysis is not restricted to the outcomes, but it is also concerning the processes- how a policy is formed, who is the actor proposing the policy and why the policy is drafted (White, 2001, 29). This framework becomes particularly useful since the paper not only makes a policy analysis of a state-Japan-, but it also pertains to the area of EU studies and EU foreign policy. In clarifying this latter concept, Brian White moves from a state-centric approach and differentiate among EU policies and the actions of the member states. In other



words, he outlines a European foreign policy system, based on three pillars: community foreign policy, defined through the external actions, a Union foreign policy (CFSP) and the national foreign policies shaped by the interests of the member states of the EU (White, 1999, 44).

In order to address the research questions and validate the assumptions, the paper will rely on White's foreign policy framework, as the analysis will be structured on two main sections: the first one will evaluate EU-Japan relations and will focus their institutionalization through joint declarations, common operations and regular summits. Furthermore, the empirical investigation will examine the factors influencing the security agenda of both EU and Japan and it will briefly address cooperation between Japan and member states of the EU, more precisely Germany, France and UK. Ultimately, the focus will switch to Japanese domestic limitations and recent policy developments invoking a proactive pacifist strategy. In doing so, the research will mainly analyse the documents outlining the landmark EU-Japan decisions (joint statement and other official declarations), but also those pertaining to the internal security policies of both EU and Japan. Overall, for the data collection, open and written sources will be employed for a relevant analysis. Nonetheless, with regards to the methodological limitations, the language barrier is the most important one, as the analysis only used documents written in or translated into English.

## **1. EU-Japan- evolution of security relations**

As mentioned in the introductory part, interactions between European Union and Japan have mainly economic and normative bases. The relations were officially established in 1958, just one year after the creation of the European Community (EC). Having in common security dependency on the United States, economic and diplomatic ties came as a natural development. Both Japan and the members of the European Community, quickly realized that the most convenient strategy during the Cold War period was to rely on U.S. Security umbrella and to focus instead on economic reconstruction; as such, Japan was following Yoshida Doctrine, a strategy which promoted strong ties with the U.S, restricted rearmament, a prohibitive policy on export of arms, a limited 1% of GNP defence spending, a clearly articulated defence modernization program and most importantly, concentration of resources on economic sector and not on development of military capabilities. Furthermore, at the domestic level the law creating the Self Defence Forces in 1954 and subsequent 1957 Basic Policy for National Defence operated within the self-imposed constraints of a limited defence principle. The former came as a result of a constitutional reinterpretation, which allowed for the creation of military forces, on the basis that they would employ minimum force required for individual self-defence (Self-Defence Forces Act, 1954). Nonetheless, before its enactment, the Diet took precautionary measures, by adopting a resolution which banned collective security initiatives, and thus avoiding any international obligations. The latter defined "prevention of direct and indirect aggression" as ultimate strategic objective, and, at the same time, called for





a gradual expansion of Japan's defence capabilities, "within the limits necessary for self-defence" (Basic Policy for National Defence, 1957). Additionally, the law practically codified Japan's reliance on the U.S., by identifying the strategic partnership as the basis for protection against foreign aggression (Basic Policy for National Defence 1957).

In what regards the European Economic Community, the Treaty of Rome does not include foreign and security policy, yet some capabilities, such as the role of the EEC in trade and development, was mentioning external affairs (Treaty of Rome, 1957). Therefore, diplomatic ties were further strengthened during mid to end of the '70s though establishment of bilateral permanent missions, firstly in Tokyo in 1974 and then in Brussels in 1979. That was the period when both Japan and EC were concentrating all their resources into developing and promoting their own economic capitalist models. In turn this competition had given rise to trade frictions and weakened the political links (De Prado, 2014, p. 3).

However, the situation changed drastically after the end of the Cold War. In July 1991, an enlarged European Community in comparison with the original 6 members, signed a joint declaration with Japan, through which both parties were promising to upgrade their diplomatic ties and expand cooperation and dialogue in areas of mutual concern, be it political, economic, scientific or cultural (European Community, 1991). Furthermore, for the first time, the two partners were establishing a framework for enhanced political dialogue (annual consultation in both Europe and Japan) and were clearly pinpointed the core liberal values that both parties still uphold on the international arena: freedom, democracy, the rule of law, human rights and market economy (European Community, 1991).

This common agenda was further upgraded in 2001 at the Brussels Summit, when the two partners came forward with an Action Plan for EU-Japan Cooperation. In comparison with the other documents, this is the first that included an assessment of the international environment and significantly expands the agenda of cooperation to issues such as international terrorism, arms control, non-proliferation, conflict prevention and peace-building in the areas neighbouring the two partners- Balkans respectively Korean Peninsula-, bilateral trade, multilateral trade and investment partnership, co-operation on information and communication technology, strengthening the international financial system, fight against poverty, education, environment, energy and infrastructure (European Commission, 2001). Same extended agenda was maintained in 2003, when the objectives were as follows: promoting peace and security, strengthening economic partnership and cultural cooperation (EEAS, 2003).

The broaden agenda comes as no surprise, taking into account security transformations and regional developments for both EU and Japan. For the later, post-Cold War period cemented the shift from a territorial perception of security, constricted to the defence of Japanese archipelago, towards a more outward looking policy, which enlarged the operational range of the SDF. Closely related with this development is the North Korean nuclear quest. As such, 1993 crisis and even more importantly, the 1998 Taepodong debacle represented turning points for Japan, at least in what concerns its nuclear free policy. Yet, as Richard Samuels argued, the



North Korean crisis as a whole was in fact just a “catch-all proxy threat”, which justified the security transformations of Japan and its security (Samuels, 2007, p. 137). While Japan was facing an emerging North Korean threat, European Union was facing its own security issues in the neighbourhood. Gambling on its transformative power and after an initial reluctance, EU got involved into Kosovar state-building process. Therefore, intervention in Kosovo was based on three explanations: firstly, in order to find a sustainable solution and to avoid future regional conflicts; secondly, the European leaders wanted to assure the international community that they were ready to assume regional tasks (in contrast with the embarrassing situation in 1999); and thirdly, they saw the engagement as an opportunity to bolster the CSDP’s stance (Pohl, 2014, pp. 77-78).

Nevertheless, the approval for the two missions, European Union Rule of Law Mission (EULEX) and the European Union Special Representative (EUSR), came shortly before the Kosovo declaration of independence, in 2008. As the largest CSDP mission, EULEX’s mandate focuses primarily on rule of law. More precisely, it seeks to accomplish advisory tasks, but also executive responsibilities in order to ensure an independent judiciary, to enhance law enforcement, to safeguard the implementation of the international standards regarding human rights and to strengthen the fight against corruption (Council of the European Union, 2008).

Nonetheless, when it comes to the outcome of this broad agenda, the implementation of these policies was rather modest. The 2001 Plan significantly enlarged the cooperation framework, yet neither Japan nor EU managed to expand their collaboration beyond the initial parameters. What is more, this implementation failure translated into low expectations (Tsuruoka, 2008, p. 113).

However, another policy change occurred after 2010. Published initially in 2008, EU adjusted the Guidelines for East Asian region in 2012. In the document, EU leaders raised the stakes for the region by mainly invoking trade rationale (Council of the European Union, 2012). Coupled with this increased interest in East Asian affairs, the relation with Japan was also improved and first steps were taken beyond the usual annual summits. In 2010, an EU-Japan High Level Group was established, having as main objective further institutionalization of the security relations. In this manner, in 2011, this forum was already preparing the start of negotiations for concluding economic and political agreements between the two entities.

The latest document that also takes into account the evolution of the EU-Japan relations is EU’s Global Strategy. As in the previous documents, the focus is on economic diplomacy and the expansion of EU’s trade network, including in Asia (Council of the European Union, 2016).

If until now the analysis took into account the first two pillars of European foreign policy system, defined though EU’s external actions and Union foreign policy, when inquiring into EU-Japan security relations, it is mandatory to look also at the member states and how their national interest shape the cooperation with Japan. For instance, France and UK have already concluded separate defence cooperation agreements with Japan. After the 2012 Memorandum related to Defence Co-operation, in 2017, UK and Japan issued a joint declaration on security



cooperation through which they pledged to improve and extend their partnership, in various areas, ranging from traditional joint exercises, defence equipment and technology cooperation, peacekeeping operations and counter-piracy to humanitarian assistance, capacity building and cyber security (Ministry of Foreign Affairs of Japan). Moreover, the two states are closely collaborating on air defence projects: besides a potential partnership with U.S., a traditional ally for both countries, related to the development of a fifth-generation stealth fighter aircraft for the Japanese air forces, Japan and UK are already working on a Joint New Air-to-Air Missile (JNAAM), with high expectations of finishing a prototype this year (Gady, 2018).

Another important European partner in promoting Japan's Indo-Pacific strategy and its proactive stance is France, with whom Japan holds annual ministerial meetings and closely collaborates on issues pertaining to maritime security. At the fourth defence security talks, held this year in January, the defence ministers of the two states agreed to upgrade the relations and to organize the first joint maritime exercises between the two states (Ministry of Foreign Affairs of Japan). Furthermore, in regards to technology cooperation and defence industry, Japan and France are working on their first cooperative project on research on the next-generation mine-countermeasure technology (Ministry of Foreign Affairs of Japan).

Such agreements and joint military operations, between Japan and its European partners, go beyond the guidelines outlined in the joint statements EU-Japan (Ueta, 2013, p. 2). Likewise, same can be observed in the case of Germany. Due to their similar development and democratization experience, Japan and Germany have already strong political and economic ties. Similar to the case of UK and France and mostly as a result of the fairly recent Japanese legislative changes in the defence field and the subsequent regulations on arms export<sup>1</sup>, Japan and Germany concluded an agreement in July 2017 on joint development of new defence technology (Aibara, 2017). What is more, a similar agreement related to technology transfer was signed with Italy.

Taking all these into consideration, due to the internal legislative changes and the proactive stance on international arena, Japan has been making important steps in normalizing the security relations with its European partners. Collaboration came especially in form of joint military exercises between the Japanese Self Defence Forces and their strategic partners, especially in the case of UK and France. As such, besides the traditional ally, U.S., Japan has established a solid strategic dialogue with these two states. Another important dimension is defence technology sharing, where joint projects have been developed with all the major European players in this area: UK, France, Germany and Italy. In this case, an important role was played by Japan's legislative decision of lifting the ban on exports of military technology and equipment.

<sup>1</sup> According to the new regulations, named "Three Principles on Defense Equipment and Technology Transfer", defense equipment can be exported in support of international peace and stability

## 2. Japan's proactive pacifism and EU agenda

When making a general assessment of Japan's security policy, Peter Katzenstein and Nobuo Okawara underline the prevalence of the domestic factors over the international balance of power (Katzenstein and Okawara, 1993, p. 86). In other words, the authors dismiss the systemic explanations and rather focused on the domestic structures and the normative context prescribing behavioural standards. At the other end of the spectrum, George Friedman and Meredith LeBard exaggerate the impact of the systemic constraints, as they predicted an inevitable confrontation between Japan and the United States (Friedman and LeBard, 1991, p. 403). Neither side seemed to be right: as it will be detailed in the next sections, alongside the internal dynamics, exogenous factors influenced Japan's conception on security. Furthermore, in the unipolar world order, Japan did not challenge the American hegemony. On the contrary, the strategic partnership was rather strengthened through the revised Guidelines in 2015.

As a general remark, the Cold War struggle was the ultimate impetus for the establishment of a strategic partnership between Japan and the United States and a pacifist policy of non-involvement. Following Waltz's logic, one can assume that Japan followed this pattern of alignment as a response to the communist threat in the region. It is true that the treaty came at the end of the American occupation, but it was also influenced by regional dynamics. To be more precise, its enactment was closely related to the outbreak of the Korean War. Furthermore, taking into account on the one hand the Japanese minimal commitments towards the alliance and, on the other, the extended American responsibilities, Japan's security strategy had at its core a heavy reliance on the U.S. security umbrella. All in all, Japan's post war conception on security relied on 8 interconnected "noes": no collective self-defence, no overseas deployment, no power projection capability, no arms export, no nuclear weapons, no military expenditures over 1% of the budget, no military use of space and no sharing defence technology (Pyle, 1992, p. 8).

Along these lines, Akitoshi Miyashita went even further as he equated this minimalist perspective on security, limited to the Japanese territory with the Cold War stability (Miyashita, 2007, p. 113). More precisely, instead of relying on the normative explanations (the peaceful constitutions and the norms derived from it), he rather looked at systemic explanations. Considering the attention given to the polarity of the system, when constructing his argument, Miyashita was in fact following the neorealist logic pertaining to the stability of a bipolar system. Nonetheless, this stability transferred to the level of a particular state was in fact applying Gaddis's assumption on "the long peace" (Gaddis, 1992, p. 21). That is to say, during the Cold War, Japan was able to preserve the narrow conception on security due to the systemic balance between the two superpowers.

Nevertheless, these explanations seemed to lose their validity in the post-Cold era. In spite of its status of world economic power, Japan did not convert this economic prowess into military assertiveness. Nor did it balance again the hegemon. In the post-Cold War framework, contrary to the expectations and in spite of North Korean threats since mid-1990s and the imminent rise of China,



Japan did not immediately pursue a policy of remilitarization. Nor it significantly expanded its security cooperation with other states. Illustrative in this case are the relationship with the EU member states and the cooperation with EU institutions. Even if EU and Japan have reaffirmed their commitment to improve the relations by issuing several joint declarations and by updating their security cooperation, the relationship did not move beyond non-military sectors. Instead, Japan's threat perception and subsequent actions were and are rather influenced by 3 interconnected exogenous factors: alliance with the U.S., rise of China and the North Korean nuclear quest.

The economic growth was not the only issue signalling the "rise of China". Besides the military modernisation, Chinese assertiveness threatened the fragile regional balance (Christensen, 2001, p. 6). To give just one example, China's response to regional crises was more hostile, as it was reflected during the Third Taiwan Crisis. Similar things can be inferred about the territorial disputes in the South China Sea. Due to the Chinese assertiveness, the American administration announced in 2011, a new strategy, the pivot attempting to reaffirmed the American primacy in the region (Clinton, 2011, p. 57). One consequence was that this new strategic outlook led to a reassessment of the Chinese threat. If back in 2009, Obama was in fact praising "the rise of a strong, prosperous China, as a source of strength for the community of nations" (Obama, 2008, p. 11), the Asian pivot was in fact containing this rise.

However, the Japanese initial response was to reject any offensive practices, to strengthen the security alliance with the US and rather upgrade the defensive capabilities (Oros and Tatsumi, 2010, p. 16). What is more, the principle of separating politics and economy continued to dominate Sino-Japanese relations (Mulgan, 2014). Therefore, rise of China was in fact just an incentive for realignment and enhanced cooperation between the two allies. But it also affected EU-Japan relations. Discussions related to EU arms embargo imposed on China at the end of the Cold War, in 1989, dominated the strategic talks between EU and Japan throughout the 2000s. As such, both Japanese and American policymakers were concerned that taking into account the economic ties between EU and China and the rapid development of the latter, the EU would lift its embargo, and recommence and even increase its military technology exports to China, thus supporting Chinese efforts to modernise its armed forces.

Moreover, in this context of relative instability, the North Korean nuclear quest affected to a lesser extent the regional balance of power, by bringing into discussion the nuclear factor. This also had important effects upon Japan's conception on security and its relations with other actors, such as EU member states: as in the case of the Chinese threat, it strengthened the U.S.-Japan alliance, but it also put a question mark on Japan's nuclear free policy.

In spite of the constitutional prohibition on the use of force, Japanese military capabilities have not been neglected by domestic policymakers. For instance, it is sufficient to mention the significant changes occurring immediately after the end of the American occupation. In this context, one can highlight the security alliance with the U.S. (established by the 1952 Security Pact, revised in

1960) along with the creation of Self Defence Forces and of a Defence Agency. What's more, the implementation of the Guidelines for Japan-U.S. Cooperation (adopted in 1978 and amended in 1997 and 2015) has altered the security ties between the two partners and has entailed an increased Japanese commitment to the alliance.

Equally important are the post-Cold War developments, especially the shift from a Cold War resistant phase, characterised by a modest and defensively configured military, to a reluctant stage, which introduced the idea of a functioning Japanese military force, able to uphold international order, and ultimately, to the post 9/11 stage, which reinforced the idea of Japan as an active state and pushed for an assertive diplomacy (Arase, 2007, p. 561). Furthermore, during this last stage, the Diet has been passing a significant amount of security-related legislation, regulating international and alliance contributions, with direct implications for the management of SDF. Along these lines, an assessment of the qualitative and quantitative improvements of the armed forces has even greater relevance when it is correlated with foreign pressures and domestic structural and legal incentives.

If the last decade of the 20th century translated into a reluctant abandonment of some of the Cold War limitations (the ban on the overseas dispatched was lifted), the post 9/11 period was marked by significant transformations. During this stage, the Diet has been passing an important amount of security-related legislation, regulating international and alliance contributions, with direct implication for the composition and the role of armed forces.

As a matter of fact, this period continued the outward looking trend, by further expanding Japan's security interests. Hence, the 9/11 shock led to the enactment of an emergency legislation package (the 2001 antiterrorist law and the 2003 Law concerning the Special Measures on Humanitarian and Reconstruction Assistance) (Pempel, 2010, pp. 470-1). The immediate outcome was that these legislative transformations significantly expanded the capabilities of armed forces. To be more precise, GSDF, previously used solely for national defence and occasionally for regional peacekeeping operations, were deployed in 2003 in Iraq. Furthermore, these bills authorized the actions of the naval forces in the Indian Ocean.

All things considered, one can highlight a surprising paradox: Japan was incontestably expanding its international commitments, by adopting a more outward looking policy, but, at the same time, this development was not accompanied by significant structural military changes. Just by looking at the composition of the armed forces and the overall military spending, one can confirm this tendency. As an illustration, one can simply compare the overall capabilities in terms of number of active soldiers. Therefore, one can easily observe that there are not noteworthy differences between the Cold War figures and the most recent ones (Military Balance 2007/2014/2015).

Recently, Japanese security practices have regained attention mostly due to the attempts of constitutional revision. Thus, the proposal of a constitutional revision from April 2012, coming from the Liberal Democratic Party who was back then in opposition, the adoption of a national security strategy in 2013 and its





emphasis on “proactive pacifism”, the July 2014 reinterpretation and, more importantly, the amendment of Japan-U.S. Defence Cooperation Guidelines in 2015 have reinforced the debates concerning the prospects of military active Japan and its impact on the regional competition. After reclaiming prime ministership in December 2012, Shinzō Abe have not only implemented a series of strategies for stimulating the Japanese economy (known as Abenomics), but also have been revisiting Japan’s policy towards China, changing it from competitive engagement to constructive balancing (Wijaya, 2017, p. 10). Moreover, in September 2015, for the first time since the end of the World War II, the Japanese Diet legitimized the use of military force in overseas conflicts even if the attack per se was not related to Japanese territory (Borah, 2015).

From that moment on, through a series of official documents, Japan started to reconsider the previous security stance and except for the nuclear capabilities, it gradually modified the other 7 “noes”. Since December 2013, under a new doctrine of “Proactive Contributions to Peace”, it was established a National Security Council which made public a National Security Strategy. In July 2014, the Cabinet presented a historical reinterpretation of Article 9, approved by the Diet in September 2015, which authorized the exercise of collective self-defence and the deployment of SDF under the guidance of three restrictive conditions: the Japanese interests dictate the support given to the ally, the primacy of the diplomatic mechanisms and the “bare minimum” use of force (Glosserman, 2014).

Additionally, the 2013 National Security Strategy, first of its kind, made reference to “attempts to change the status quo by coercion” (*National Security Strategy*, 2013). That is to say, more than the parties involved in the dispute, Japan was reacting to the South China Sea disagreements and, to a lesser extent to Chinese military assertiveness in the area. To give just an example, one cannot indicate a clear official position of the Indonesian authorities: some of the policymakers condemned the Chinese claims and demanded a military presence in the area, whereas others denied the existence of the territorial disputes and advocated for closer economic ties (Chang, 2014). Coming back to Japan, one can assume that it equated Chinese assertiveness with a strategy of pursuing regional influence, and more importantly, with one having direct effect on their own Senkaku/Diaoyu dispute. In doing so, one can argue that the Japanese policymakers were in fact following a neoclassical realist reasoning, as they viewed beyond the mere accumulation of power and the former policy of prioritizing economic ties over political relationship.

If one strictly looks at the 2011 NDPG, the 2013 National Security Strategy and 2015 Diplomatic Bluebook, it can immediately observed that all documents mentioned among their core objectives, an enhanced cooperation between Japan and United States, in a wide range of areas, including ballistic missile defence. Therefore, one cannot pinpoint significant deviations from the previous trend: the focus was still on joint trainings and on international peace cooperation activities (*National Defence Program Guidelines*, 2011). The novelty came from the introduction of the multi-layered security cooperation section, which for the first time, moved beyond the framework of a bilateral arrangement. Having at its



cornerstone the alliance with the U.S., these documents brought attention to future policy directives regarding the relationship with other American allies, such as Australia and South Korea. Furthermore, Japan adopted in December 2016 new guidelines for MSDF, allowing them, besides the regular anti-piracy operations, to protect US navy vessels.

Thus, under Abe's administrations, Japan's foreign policy has revealed a more proactive approach, by getting more involved in shaping the international order. This paradigm was emphasized in the Diplomatic Bluebook from 2014, where the strategy called for a normalized security conception, which is not based exclusively on the alliance with the U.S., but also takes into account broader regionalism, based on the security ties with India and Australia. However, this proactive approach does not have significant impact on EU-Japan security cooperation. As shown in the previous section, Japan's legislative decision of lifting the ban on exports of military technology and equipment has significantly improved the security cooperation with several European partners: UK, France, Germany and Italy. Yet when it comes to political and security relations between Japan and the EU, both show a lack of a sense of urgency and they rather endorse a trade and business agenda. This is not particularly surprising given the fact that throughout the years, both the EU and Japan preferred to enhance their normative and economic cooperation and leave security policies for bilateral discussions between EU member states and Japan.

## Conclusions

The evolution of the EU-Japan relations is deeply connected to regional challenges as well as internal dynamics. If in the case of EU, the complex foreign policy system is influenced by community, union and national policies, fact indicated through White's foreign policy framework, analysis showed that in the case of Japan, policies are shaped by systemic incentives and the duality between political constraints and constitutional reinterpretations. In this sense, coming back to the main research question of the paper, which inquired into the factors influencing and promoting/constraining the EU-Japan relations, the analysis demonstrated that the cooperation between EU institutions and Japanese government is based on both endogenous and exogenous factors. As such, the firmly institutionalized political and economic exchanges are influenced on the one hand by the domestic policies of Japan and the interests of the member states of the EU and, on the other hand, by regional actors and outcomes. Accordingly, the empirical investigation showed that the cooperation agenda between EU and Japan is rather restricted to non-military sectors (economic agreements and normative collaboration based on the core liberal values that both EU and Japan promote and uphold: freedom, democracy, rule of law, human rights and market economy).

Furthermore, after decades of impassiveness, Japan finally made the first steps toward the "normalization" of its security policy. Hence, the domestic politicians attempted to amend the peaceful constitution, particularly the notorious article 9, and to put an end to its antimilitarist stance. The current paper also



addressed the recent Japanese policy and its impact upon EU-Japan Strategic Partnership. However, even if EU and Japan have reaffirmed their commitment to improve the relations by issuing several joint declarations and by updating their security cooperation, the relationship still did not move beyond non-military sectors. Therefore, one may question the nature of these international commitments, especially when the current administration is promoting “proactive pacifism”.

Consequently, the main finding of the paper is that in spite of a firmly institutionalized bilateral framework, for the time being, EU member states have more comprehensive security arrangements with Japan than EU has with the Asian state. Moreover, due to its self-imposed limits and regional dynamics, Japan is not showing at the moment willingness to extend cooperation with EU beyond the current economic and normative collaboration. Nonetheless, the fact that EU and Japan just recently signed an economic agreement, the biggest ever negotiated by the EU, seems to confirm this last assumption, but further evidence is needed in order to support this affirmation, which is why the paper re-opens up further discussions on the complex cooperation between EU institutions and Japan, on the one hand, and EU member states and Japan, on the other hand.

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# THE UNIVERSAL BASIC INCOME AS A POTENTIAL INNOVATIVE TOOL FOR REFORMING THE SOCIAL DIMENSION OF THE EUROPEAN UNION.

## PROS AND CONS

**Georgeta GHEBREA \***

### **Abstract**

*Twenty years after Nice Social Summit, the European Union organised in 2017 another Social Summit in Gothenburg, looking for new strategies to combat inequality, poverty and social exclusion. One of these new solutions debated in Gothenburg was the Universal Basic Income (UBI). Our main goal is to find out how appropriate is UBI for reforming the European social policies. Our methodology contains assessments of theoretical and empirical experiments, as well as document analyses. Our results show that UBI is not a univocal concept and its evaluation depends on different ideological standpoints. Also, UBI outcomes are contingent upon the social context. Therefore, despite its undeniable potential improvements, UBI does not seem appropriate to the European context: it would not have a significant impact on poverty and inequality but it would have very high costs. Also, since Europeans benefit from comprehensive welfare systems, UBI would not increase the progressivity of social protection.*

**Keywords:** Universal Basic Income, social dimension of the EU, European Pillar of Social Rights, welfare, ideology

### **Introduction**

After a period of relative prosperity that characterised the European welfare states and in which inequality has diminished, we live today, according to statistics (Schraad-Tischler *et al.*, 2018), an era of deepening economic and social inequalities. Inequality is seen, in the neoliberal paradigm, as beneficial for stimulating competitiveness, creativity, production of goods and services, and, ultimately, general prosperity. However, when it exceeds a certain limit, inequality has disruptive effects for social equilibriums: degradation of social cohesion, social exclusion and social moods characterised by frustration, alienation and anomie. These effects of inequality could increase violence, aggression, social conflicts, and malfunctions of democratic political regimes. For instance, the populist regimes have risen worryingly lately within the European Union (EU), as well as

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\*Georgeta GHEBREA is professor at University of Bucharest, Romania; e-mail: georgeta.ghebre@fspub.unibuc.ro.

Euroscepticism and mistrust in the European institutions (European Commission, 2017a).

At the same time, the labour market has undergone important mutations: employment has become more flexible, the non-standard and/or precarious jobs are more frequent and the careers are interrupted and less secure. These mutations are affecting the social security systems, especially the social insurance systems (pensions and health care).

Globalisation threatens workers' rights that weaker trade unions no longer have the power to defend. Two social categories in precarious situations – long term unemployed and NEETs (young people not in education, employment or training) – are more and more numerous, illustrating failures of transitions to labour market: “At a cross-EU average rate of 16.7%, the share of young people between 20 and 24 years of age who are not in school, employment or training is certainly still above the pre-crisis level (2008: 15%)” (Schraad-Tischler *et al.*, 2018, p. 9).

A new challenge is the technological change, for instance, the increasingly use of robots, which creates concerns about job losses (Eichengreen, 2018).

To meet all these challenges, twenty years after the Nice Social Summit, the European Union organised a “Social Summit for Fair Jobs and Growth”, 17-20 November 2017, in Gothenburg, Sweden. Here, President Juncker proclaimed the European Pillar of Social Rights (EPSR) and the strengthening of the social dimension of the EU by providing “social protection for all” (European Commission, 2017b).

This assertion implies that the social dimension of the EU was not able to provide adequate social protection for certain social groups, e.g., non-standard and self-employed people. Consequently, these groups are more exposed to “economic uncertainty and social risks” (European Commission, 2017b). Classical welfare instruments and programmes have proven to be ineffective and stigmatising. Apparently, people need a fundamental new vision, not incremental improvements. In this situation, the EU is looking for new strategies to combat inequality, poverty and social exclusion.

The EPSR delivers 20 principles and rights in three fields: equal opportunities and access to labour market; fair working conditions; social protection and inclusion (European Commission, 2017c). The latter field refers to: “childcare and support to children; social protection; unemployment benefits; minimum income; old age income and pensions; healthcare; inclusion of people with disabilities; long-term care; housing and assistance for the homeless; access to essential services” (European Commission, 2017c, p. 1). Apparently, one cannot find anything new among these provisions. Still, the Commission invited all European institutions, member-states and social partners to debate and find new instruments for addressing the new social risks and challenges (European Commission, 2017d, p. 30). One of these new solutions mentioned at Gothenburg Summit was the Universal Basic Income (European Commission, 2017d, p. 22; Fernandes, 2017, pp. 1-2).



We consider the topic of UBI of great interest in the present European social and intellectual context because, obviously, the EU needs social reforms and fresh perspectives on old and new issues. We intend to analyse the potential role of UBI in fulfilling these needs.

Our research goal is to make a critical analysis, both ex-ante and ex-post (where UBI has already been implemented on a small scale), of its advantages and disadvantages, using statistical and qualitative indicators.

Our research questions are:

- Is UBI capable to bring improvements regarding the effectiveness of the social dimension of the EU?
- How relevant is UBI in the context of European social policies? How appropriate is it for reforming European social security systems?
- What are the economic, social and political ideologies on which UBI relies?
- What are the economic, social and political ideologies that criticise it?
- What role does the concept of postcapitalism play in the UBI debate?

Our methodological approach is mostly interpretative and hermeneutic. We are using analyses of the academic literature, assessments of theoretical and empirical experiments, simulations and pilots, as well as the analysis of European and domestic documents published on this topic.

Both the EU official documents (related to the Gothenburg Social Summit) and the public debate stirred around this important European event are especially important sources for carrying out the goals of our research.

By reviewing the academic literature in the field, we noticed that relatively little space is allowed to UBI assessment in the European context and, especially, at supranational level, which is the case of the EU, as an international organisation. Therefore, our main contribution is to assess the relevance of UBI in the specific European context, trying to fill the gaps, to find and, probably, clarify the most significant controversies. Another original contribution is to analyse the role of ideologies in the UBI debate because in the academic literature there are certain positions exacerbating the ideological aspects and other positions considering the end of ideologies.

Our analysis shows that the strengths and weaknesses of UBI are discussed less on the basis of existing empirical results or rational arguments; in fact, there are evaluations based mainly on economic and political paradigms that structure the patterns, judgments and choices made by both researchers and politicians.

In the first section of our paper, we try to define UBI, reviewing a few perspectives on this topic. In the second section, we assess the role of ideologies in the UBI debate. In the third section, we make a short analysis of both theoretical and empirical experiments concerning UBI. Finally, in the last section, we evaluate the relevance of UBI for reforming the social dimension of the EU.

## **1. UBI – the development of the concept**

Over time, people have been attracted to the idea of a society in which wealth is distributed equally and in which there is no need to work. This idea is





present in the work of utopian thinkers (Thomas More), socialists and communists. Marx (1977) described the alienating effects of labour in the capitalist societies. The market economies are transforming people from human beings into commodities. Marcuse (1991), following this idea, has forged the concept of “one-dimensional man”, i.e., a person who is alienated from the authentic human nature and from the real sense of life, who is not able anymore to have a diversified human life.

Humans will return to their authentic being when they will work only what they like, when labour will become work (Standing, 2018). Marx understands work as a meaningful human activity, intended to develop the human personality, life satisfaction and the general social progress. The work implies the free choice and the personal aspirations of every human being. Labour is the human activity that is imposed by force and coercion. Labour implies social and political relations of exploitation and domination. In the future (communist) society, the labour will be done by machines and robots and humans will be able to dedicate themselves to the personal multidimensional development.

Looking back, UBI-like ideas and practices have developed in the early era of capitalism, expressing reactions to the disruptive phenomena that accompanied the “Great transformation” (Polanyi, 1944). This Karl Polanyi’s concept refers to the generalisation of a market economy that replaces pre-modern economies (based on tradition, redistribution or reciprocity), thus causing a major crisis. Food, land and labour become goods, generating unfavourable consequences on rising prices, poverty, migration to cities and the loss of land by the peasants. Faced with riots, distress and dissatisfaction produced by the phenomena described above, some local governments have introduced social protection measures, such as Polanyi described. It is about a UBI plan implemented in Speenhamland, a town in England, during the Napoleonic wars (1795).

The history of the concept has at least three waves in the last century: after the Great Depression, in the 1930s; in the 1960s – 1970s (during the war in Vietnam, civil rights movement, hippie movement and sexual revolution); and in the 2000s (Ogilvy, 2017). All these waves are related to periods characterised by all sorts of crisis: economic, social, political or cultural.

Coincidentally or not, we see how, starting with the 2008 economic crisis, the UBI idea comes back to fashion or, in any case, is debated in various environments (Coote, 2018). This debate includes famous public intellectuals, prominent journals, political parties from the entire political spectrum, international organisations, a referendum in Switzerland, parliamentary debates, experiments all around the world and international networks and platforms (Srniczek and Williams, 2015, p. 118).

Contemporary capitalism invents new forms of development that create, just like 300 or 200 years ago, difficulties for people, with similar social effects. Some of the authors (Mason, 2015) call the contemporary trends “postcapitalism”, according to a well-established tradition where the absence of a well-defined concept is substituted by the addition of the prefix “post” to pre-existent concept: postmodernity, post-industrial society, postmarxism, poststructuralism, postwork,

etc. The term postcapitalism implies a critical perspective on the neoliberal paradigm; even Peter Hall – the author who analysed the paradigm shift in public policies during the 1980s (from the Keynesian paradigm to the neoliberal one) – has published, in the years of the recent economic crisis, a new article in which he draws attention to the possibility of a new paradigm shift that could replace the previously dominant neoliberal paradigm (Hall, 2013).

The reforms of the welfare state, based on activation and flexibility, have only pushed to precarious employment statuses, creating a new social underclass (Standing, 2011). Austerity policies have generated poverty and inequality, triggering social protests in many countries that were hit by the 2008 crisis. Many new social and political movements in almost all European countries are demanding a fairer distribution of wealth. There is a need for another “Great transformation” in which the profit is no longer the primary objective: a need for “capitalism with a human face” (Brittan, 1995).

The neoliberalism has proven its limits, both economically and socially, but we do not yet know if and how it will be replaced. The neoliberalism is accused of „the end of history” (to use Francis Fukuyama’s expression). That means that the neoliberalism erases the future, because it sees the future looking exactly like the present (dominated by the eternal free-market economy). Are there alternatives to the neoliberal future, alternatives that describe a fairer, more peaceful, more beneficial future? A multitude of books emerging during and after the recent economic crisis (2008-2012) tries to answer this question. One of the most influential books published on this topic seems to be that of Srnicek and Williams (2015).

In the future, capitalism and labour will in fact be reinvented and redefined; even today the workplaces are no longer fixed in Weberian stable, routinized and hierarchical bureaucracies. Srnicek and Williams sustain the necessity of introducing UBI, in order to ensure a stable income and thus fight against the social effects of this fluid, precarious and unstable context. Only by ensuring our fundamental needs will we be free (Srnicek and Williams, 2015, p. 80). Quoting Arthur C. Clarke (the famous science-fiction writer), Nick Srnicek and Alex Williams believe that „the goal of the future is full unemployment” (p. 107), as a result of the reduction of the working week and of the implementation of the UBI (p. 108). They defend the viability of the postwork society because there are sufficient material and financial resources for supporting it. The European countries are affluent societies that could provide – using redistribution – for these resources.

Another influential work belongs to the Belgian researchers Philippe Van Parijs and Yannick Vanderborght (2017), who claim that UBI is ethically justifiable, economically sustainable and politically achievable.

We can see from the above examples that there is a connection between UBI, postcapitalism and “digital Marxism”. Still, UBI is not exclusively a left-wing idea. There are famous neoliberal economists (for instance Paul Krugman and Milton Friedman) and right-wing think-tanks (Adam Smith Institute) that support UBI (Lewis and Stronge, 2018).



Seeking solutions to current social problems, UBI has attracted a diversity of experts, scientists, journalists, politicians and militants, each with its own definition of UBI: "...libertarians, conservatives, anarchists, Marxists and feminists, among others. The potency of the demand lies partly in this ambiguity, making it capable of mobilising broad popular support" (Srnicek and Williams, 2015, p. 119).

This extreme variability explains why UBI was embraced by very different ideologies, because each of them assigns to UBI different meanings and contents. The inventory of these definitions of UBI includes all the fifteen possible combinations of the following dimensions (IMF, 2017, p. 17):

- Exclusivity: Replacing versus supplementing the existing social transfers
- Regularity: One-time endowment versus regular income
- Coverage: Categorical (the most vulnerable groups) versus universal income
- Eligibility: Conditioned versus unconditioned income
- Recipient: Household versus individual endowment
- Form of distribution: Tax credit versus cash benefit.

Thus, the UBI ranges from an equal lump sum of money that is granted monthly and unconditionally to all citizens and residents and provides a living standard above the poverty line – to a low amount granted only to households without income or in critical situations. (Coote, 2018, p. 1; International Monetary Fund, 2017, p. 17).

Certain points of view consider that UBI should be added to the existing social benefits because, otherwise, it creates an overwhelming marketization and a free market of services, thus risking raising prices (Srnicek and Williams, 2015, pp. 118-19). Other points of view consider that UBI should be high enough in order to replace the other social security payments.

What is the "so-called" UBI and what is the "true" UBI within this diversity of approaches? There are maximalist and minimalist views. The "true" UBI replaces all other social benefits and it is monthly granted in-cash to each individual, regardless of the social status. Because this radical view is hard to implement, most approaches – theoretical or even put into practice – use more attenuated definitions of UBI.

UBI was suggested also by certain neoliberal economists, of course in restricted formulas. For instance, in 1968, Milton Friedman proposed a negative income tax, coupling a "fixed flat transfer with a proportional income tax" (International Monetary Fund, 2017, p. 117).

The idea of UBI was taken into consideration by many international organisations, such as: United Nations (UN), International Labour Organisation (ILO), Organisation for Economic Co-operation and Development (OECD) and International Monetary Fund (IMF). These organisations are using for their assessments their own definitions of UBI.

Therefore, UBI researchers have a wide conceptual variety, understanding very different things that are usually reunited erroneously under the same name. UBI goals, funding solutions and implementation methods are, in fact, seen very

differently. Current debates show that UBI actually means several different tools under the same umbrella (International Labour Organization, 2017, p. 180).

## 2. The role of the ideologies in the UBI debate

Apart from the different conceptual approaches, UBI also evokes an ideological variety (Table 1). So, if UBI is good for the left-wing proponents because it redistributes wealth and creates more equality, for the right-wing proponents, UBI's usefulness is to simplify bureaucracy and lower social protection costs.

**Table 1. UBI and ideological divisions**

	<b>Left-wing</b>	<b>Right-wing</b>
Pros	Equality, freedom, removing stigma	Simplification, debureaucratisation, efficiency
Cons	<p>UBI consolidates the current capitalism based on "bread and circus" and consumerism; UBI produces apathy, social pacification, docility and social control.</p> <p>UBI will not provide freedom, personal development and creativity, as left-wing utopians expect, because UBI means giving money to people to buy, consume and strengthen the consumer society.</p> <p>UBI does not decommodify but increases the role of the market (because it gives money, the tool that expands and does not reduce the market).</p> <p>UBI is neoliberal because it undermines trade unions, the rights of the employees and the welfare state, in general</p>	<p>UBI is not economically efficient, it costs too much.</p> <p>UBI does not contribute to personal development and does not stimulate creativity and initiative but, on the contrary, discourages work and activity.</p> <p>It makes people less responsible and demotivates them</p>

*Sources:* own synthesis of information retrieved from Downs and Lansley (2018), Pereira, (2017), Zamora (2017), <https://medium.com/basic-income/the-big-library-books-about-basic-income-b9763071b987>.

Just as for its proponents, UBI's opponents are ideologically divided: right-wingers consider it too egalitarian and left-wingers too neoliberal. UBI manages to be a true paradox: being too ideological, it risks losing the relevance of any ideology, in the sense that we can always find arguments for or against UBI on ideological grounds. Therefore, we cannot associate pros with a certain ideology and cons with another. This is closely related to the way UBI is defined: the left wants a UBI to be given regardless of the status of work and coexisting with other social benefits; the right wants an UBI with a smaller amount replacing all other social benefits.

We used the terms left-wing and right-wing related especially to social values: "freedom, equality, fraternity, rights, progress, reform and



internationalism” for the left-wing and “authority, hierarchy, order, duty, tradition, reaction and nationalism” for the right-wing (Herwood, 2015, p. 119).

Yet, this ideological division is losing its relevance in the contemporary politics because of the changes in social structure, economy and culture (Giddens, 1994). The classical left-wing and right-wing do not exist anymore; they are constantly redefined, while new political forces and social ideologies appear on the stage of the history. For instance, the “Greens” (the ecologist movement) are generally favourable to UBI (Ogilvy, 2017). UBI is now embraced by the growing populism because it brings votes of people dissatisfied with the current social and political systems (Rothstein, 2017).

In conclusion, UBI is an ideological chameleon, being supported by those who believe in “a new brave world” and want radical reforms of classical welfare and of classical ideologies. The new left, the new right, illiberalisms, ecologisms, feminisms, populisms and other movements that support UBI are united by the idea of a “post”-society, where the traditional social divisions are not operational anymore, where economy is post-material, work is flexible and the good old institutions (social dialogue, trade unions, welfare state, even political parties) are outdated.

### 3. Experimenting UBI

UBI is an idea that dates back to a long time, as we have shown above, but which has also begun to be put into practice in the form of pilot experiments conducted in some local communities, whether managed by the state or by the non-governmental organisations.

Researchers have conducted experiments and studies since the 1970s, in New Jersey, USA and Winnipeg, Canada (Zamora, 2017, p. 1). The interest has decreased with the offensive of the neoliberalism during the 1980s and 1990s and the change of the welfare paradigm to workfare.

Existing information (Murray and Paterman, 2012; Ogilvy, 2017) shows the presence of these experiments on the entire planet: Scotland (four communities: Glasgow, Edinburgh, Fife and North Ayrshire); Finland; Spain (Barcelona); Netherlands; Namibia; Kenya (unconditional cash grants – about \$22 a month – to residents of a single village. The programme is now expanding with plans to hand out grants to some 16,000 people in 120 villages (Eteris, 2017)); India; Iran; Brazil; Canada (Ontario); United States (in Oakland – a small-scale experiment implemented by Y Combinator, a business incubator; in Stockton – a programme of an advocacy organisation, Economic Security Project).

The results of these experiments are so far inconclusive (except for the improved coverage). They are at risk of numerous distortions produced by: the participants’ reactivity (modification of behaviours to better respond to the objectives of experiments (Mayo, 1998)), the methods of selection of experimental groups, the use of control group, the UBI amount size and other causes.

When piloted in countries where there are no free public services (such as education and health care), experiments have shown an increase in service quality,

clients being able to select the supplier and thus increase competition. Where public services are free, UBI does not have a notable impact, these services having already the role of increasing equality, inclusion and social solidarity. Thus, free and inclusive public services act de facto as an UBS (Universal Basic Services) (Coote, 2018).

For our research purposes, the UBI experiment in Finland, an EU member-state, is the most relevant. UBI is a popular idea in Finland since 1980. This country has a very complex social security system, with more than 40 means-tested benefits, very little adjusted to a very flexible labour market. What is specific to the Finland experiment is that it was put into practice “by a centre-right, austerity-focused government interested primarily in spending less on social security” (International Labour Organization, 2017, pp. 50-52), while UBI is often associated with left-wing politics. The pilot was designed to cost €20 million and it has begun in January 2017. The experimental group was composed of 2000 unemployed people randomly selected, who receive a monthly €560 for two years. The control group was composed of 175,000 persons (Kela, 2018). The preliminary results show a positive impact on participants’ psychological health and a reduction of expenditures for medicines and doctors. Also, the participants were pleased with the opportunities for training and the lack of paperwork. Unfortunately, the Government decided recently (April 2018) to end the experiment because of unclear reasons, invoking only the huge costs. In our opinion, the costs are only a pretext for closing down the Finnish experiment, the ideological reasons concerning the potential “perverse effects” (discouraging work and economic activity) being more important.

The idea of UBI was taken into consideration by many international organisations, such as: UN, ILO, OECD and IMF. IMF is an international institution reputed to be a neoliberal “specialist” in austerity policies. This again proves the plasticity of the UBI concept, the fact that we cannot put an ideological label on it. IMF executes a simulation, taking into account the following variables (International Monetary Fund, 2017, p. 17):

- A UBI as a cash transfer of an equal amount to all individuals in a country
- A UBI calibrated at 25 percent of median per capita income (additional to existing programmes)
- Poverty rate before and after simulation
- Inequality measured by Gini coefficient before and after simulation
- The coverage, generosity and progressivity (targeting) of the existing social transfer system
- Fiscal costs.

The experimental sample contains three groups of countries: advanced economies, emerging markets and low-income countries.

The results of the simulation show a higher distributional impact (in the sense of reducing poverty and inequality) in social contexts characterised by high rates of poverty and high inequality. For instance, in the selected emerging markets and developing economies, the reduction of Gini coefficient was 5.3 points





(compared to only 1.75 in the advanced economies) in average and the reduction of relative poverty by 10.4 percentage points, in average (compared to only 3.75 in advanced economies) (International Monetary Fund, 2017, p. 18).

In terms of costs, they are higher in developed countries (6.5% of GDP, in average) than in the rest of the countries (3.75% of GDP, in average). The costs of UBI are even higher in the residual welfare states (centred on means-tested benefits and less on the universal ones). Their current social protection systems cost less than the implementation of UBI. In the United States (US), for instance, introducing a “true” UBI (a sum like \$ 10,000 a year for every person) would mean a \$ 3 trillion cost per year, eight times more than US spending on social welfare programmes (Eteris, 2017, p. 4).

A first conclusion of the IMF assessment could be that both effectiveness (positive impact) and efficiency (cost/benefit ratio) of UBI are lower in the developed countries (including the EU). Another conclusion of this assessment is that estimated outcomes depend very much on the existing social policy, the model of welfare state and the type of social security system. In countries with underdeveloped social policies, UBI could be successfully applied, at least on a temporary basis, until the implementation of more advanced social protection policies. A third conclusion is that the popular support and success of UBI depend on the social and political culture of a country. The chances are more favourable if this culture is based on values such as: equality, security, inclusion and solidarity.

#### **4. Applicability of UBI in EU: potential advantages and limits**

Theoretically, UBI could have a number of advantages, both at personal and social level, from multiple points of view: moral, psychological, economic, administrative and political.

On personal level, UBI is relieving people of work-related stress and, in particular, of searching and keeping a job. People can engage in activities they like, in politics and civic involvement, cultivate their talents and creativity, and, thus contribute to social innovation and overall economic development. Also, by reducing stress, UBI contributes to a better physical and psychological health (Srnicsek and Williams, 2015, p. 119). This argument is consonant with the European values: “investing in people”, in human development is one of the most important objectives of Social Europe.

In the current European social context, UBI seems to be a very good policy programme to respond to the challenges of globalisation and to a labour market characterised by precariousness and uncertainty. UBI diminishes the impact of automation and robotisation regarding job losses, lower incomes and increasing insecurity (Eteris, 2017). Atypical occupational statuses have already reached 40% of the EU workforce (European Commission, 2017c) and the policies currently in their favour are insufficient to provide adequate protection and real equal opportunities. The current social protection system is visibly in crisis, it has to be reformed from the ground and UBI could represent an outpost of a new social and political vision.



UBI has superior coverage compared to all other social benefits, especially for the groups insufficiently protected by the existing social security systems. In the EU, the new directives issued in April 2017 constitute an essential trial to complete the gaps in the legislative framework, referring to non-standard employment statuses; still, many member-states have an incomplete legislation and difficulties in policy implementation. Therefore, UBI would solve these issues.

As a social policy tool, UBI would reduce poverty, especially extreme poverty. It thus contributes to greater equality and social justice. Also within this axiological framework (social justice, equal opportunities, non-discrimination and work-life balance), UBI is a fundamentally feminist proposal. It is gender neutral because it disregards the gendered division of labour and overcomes some of the biases of the traditional welfare state predicated on a male breadwinner.

There are also other groups, besides those mentioned above, which can be better protected: young parents, migrants, students and disabled people.

UBI has also the great advantage of not being stigmatising, creating better conditions for social inclusion and equal opportunities – two other crucial European values and policies.

UBI can contribute to the social peace: people could become happier, less frustrated, they would have less motivation to involve themselves in criminal or even terrorist activities.

From an administrative point of view, an important advantage can be obtained by implementing an UBI that replaces the other social benefits, especially those that are means-tested. This would reduce the state bureaucracy and simplify the complicated system of application/evaluation/decision for granting social benefits (Coote, 2018). The people would not lose themselves in the bureaucratic jungle in search of useful information to fill in a set of complicated forms and paperwork.

The economic efficiency of UBI is high if the amount of money offered to recipients is relatively small. We could also take into account the reduction of the administrative costs and the lower expenditures – for public health and combating crime – that result from the implementation of the UBI. “Finally, it could help garner public support for unpopular structural reforms, such as eliminating food and energy subsidies or broadening the consumption tax base” (International Monetary Fund, 2017, p. 17).

The Europeans’ social and political culture is a favourable contextual factor for implementing UBI in the EU. The European social culture supports more values like equality, social justice and redistribution (Hilmer, 2016). By comparison, the American culture seems less favourable to UBI because it cultivates values such as competition, efficiency and merit.

Despite of the potential advantages mentioned above, UBI appears to have a limited applicability in the EU because of numerous reasons.

UBI is not appropriate to the specificity of the European economy and social model. As demonstrated by experiments, UBI is appropriate in countries with high rates of extreme poverty. In the EU, however, the relative poverty and the relative deprivation are predominant. They are more effectively affordable through other



social protection measures than UBI. The EU member-states have ones of the most advanced social security systems in the world (European Commission, 2017d), with high coverage rates, combining a diversity of means-tested and universal social benefits and social services. Europeans benefit of effective safety nets and therefore UBI would not bring a significant increase in the progressivity of social protection. On the contrary, the most deprived social groups would receive less money and fewer social services, being limited to the sole amount provided by UBI. Therefore, UBI could augment the poverty rate in the EU (International Monetary Fund, 2017, p. 19).

Not only are the poverty rates lower in the EU, but the standards of living are higher than the world average. Consequently, UBI should provide bigger amount of money in order to have a real social impact. Another solution for making UBI compatible with the European standards of living is to supplement it with other social benefits. But this conditionality would turn UBI into an inefficient tool with very high costs.

Thus, UBI will not simplify the bureaucracy of social protection (reducing therefore the administrative costs) nor “removes the stigma of claiming” (Coote, 2018). Under these circumstances, UBI means wasting money because it will also give money to those rich people who do not need it.

Other negative outcomes are inflation and raising taxes, in order to finance the UBI. Although in its extended formula, UBI is not appropriate to the current realities of the EU, it can become applicable on a small-scale basis, only in vulnerable communities.

Winding up, in the EU “an affordable UBI would be inadequate and an adequate UBI would be unaffordable” (Zamora, 2017, p. 6). For the time being, in EU, UBI remains a utopia of an uncertain future of prosperity, automation and emancipation.

UBI will not improve the EU social climate or strengthen the social solidarity. In order to solve the social problems, there is a need for participation and dialogue, not alms and charity. UBI will further decrease the strength of employees and trade unions and will damage public services because the governments will no longer invest in them. Therefore, UBI is a threat for the European social dialogue and for the European social model, in general.

In fact, UBI reduces all the problems to income inequality. Even if UBI will solve this problem in EU, it is not the only inequality issue and the EU social crisis is not only about inequality.

The EU social security systems already provide for an array of basic incomes: universal old-age pensions, universal child benefits, universal access to public services, minimum income guarantee, etc. It is true that the systems need more simplification and efficiency; new instruments should be imagined and tailored for covering new social risks and for protecting new vulnerable groups. Still, the in-cash benefits are less effective and produce more perverse effects than the social protection based on in-kind benefits and social services. More protection for occupational transitions is needed, as well as the expansion of mobility and freedom for all European citizens.

## Conclusions

The debates regarding UBI reflect different paradigms of social welfare, as well as a deeper philosophical substratum, composed of social justice theories, perspectives on equality and conceptions of human nature.

The fact that thinkers sharing similar (philosophical and ideological) perspectives still have different positions about UBI could be explained, as we have shown, by the extreme variability of the concept, but also by the existence of different currents and schools of thought within the same paradigmatic camp.

In our view, the concept of distributive justice, i.e. “the way in which the benefits and burden are distributed in a society, according to a set of principles (Jost and Kay, 2010, p. 1122), plays an essential role in UBI debate. Different combinations – of moral and practical principles, utilitarian and deontological approaches and relations between equality and freedom – have created several great traditions related to the distributive justice: socialist, Marxist, liberal-progressive and conservative (Jost and Kay, 2010, p. 1130).

The variety of these visions shows the non-existence of a universal social justice. The “scientific” principles of resource allocation are, in fact, ideological, based on beliefs and not on strong evidence. Ideologies are not dead, utopias are not dead; they are created, perpetuated and spread by opinion makers, scholars, public intellectuals, influential politicians and opinion leaders. Social policy reforms are not entirely rational processes. They are based on ideas and values that are not always manifest and explicit, but mostly latent and implicit. An example in this sense is the very conception of human nature. Anthropological studies have shown its variability in space and time, depending on specific socio-cultural contexts: people can be inclined to cooperation or competition, to equality or merit, to work only with positive or negative sanctions or work for pleasure.

Our research demonstrated that, in actual debates and practices, UBI is not a univocal concept but has a great variety of definitions and contents. Under the UBI hat, there are, in fact, several very diverse policies and instruments.

Our research showed also the connection between the periodical resurrection of UBI (in both the social practice and political and intellectual debates) and the socio-economic crises and transformations. This is understandable because the crises have not only negative effects, but they also represent opportunities for social change. They are periods when mankind is looking for new solutions to old or new problems, reforming the existing social arrangements and making progress possible.

Another result of our research is that the assessment of UBI cannot be done in absolute and general terms. The UBI implementation outcomes depend on characteristics of the social context, in particular: the levels of social indicators, the existing social policies, people’s expectations and the dominant social values.

Regarding its applicability for the EU’s social context, UBI does not seem appropriate either to the European social model or to the European welfare state traditions. In our opinion, UBI will not solve the EU social problems. Poverty, social exclusion, inequality cannot be solved simply by giving money to the



people. UBI is neither attacking the structural causes of these social problems, nor the social culture of dependency associated to them. The universal access to social services, to social dialogue and to political decision – and not the monetarised benefits – is more appropriate to alleviate the current social problems faced by the EU.

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# NO LANDS' PEOPLE: IDENTITIES AND ATTITUDES OF MIGRANTS ORIGINATING FROM POST-SOVIET "FROZEN CONFLICT" AREAS

**Dorin DUSCIAC<sup>\*</sup>, Clément BALOGÉ<sup>\*\*</sup>, Roman URSU<sup>\*\*\*</sup>**

## Abstract

*The collapse of USSR in late 1980's and the beginning of 1990's was accompanied by a series of local and regional separatist movements that have rapidly burst out into local violent confrontations or civil wars, resulting in so-called "frozen conflicts" in Abkhazia and South Ossetia (Georgia), Transnistria (Moldova) and others. Since 2014, the Eastern part of Ukraine (Donetsk and Luhansk regions) is undergoing a seemingly similar scenario. Large numbers of people originating from conflict zones have migrated to Western Europe in search for peace, better economic conditions and personal and professional accomplishment. How do these migrants identify themselves once settled in destination countries? How do they define their own "national identity", as persons originating from unrecognized "States"? In this paper, we compare the cases of these separatist regions in an attempt to offer an insight into a new topic, situated at the confluence of migration studies, geopolitics and ethnology.*

**Keywords:** migration studies, frozen conflicts, separatism, international relations, national identity

## Introduction

Migrants "are never allowed to be the individuals each person, dead or alive, actually is. It's like we're meant to think of migrants like clones, like each migrant is not a person, just a 'migrant'" (Smith, 2015). Indeed, each migrant has her/his particular and interesting history that makes the individual different from others. Nevertheless, despite the different migrant's personalities, the term identity is making reference to certain common conceptions shared by a group of people.

Leaving a place is not without consequences for the one's identity especially concerning emigration from post-Soviet conflict areas. This is due to the fact that such migrants were already impacted by a reconsideration of identity in the conflict

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<sup>\*</sup> Dorin DUSCIAC is a Research Engineer with the French Atomic Energy and Alternative Energies Commission, Saclay, France; e-mail: dorindusciac@yahoo.com. (This article does not reflect in any way the official position of the French Atomic Energy and Alternative Energies Commission).

<sup>\*\*</sup> Clément BALOGÉ is student at Paris 8 University; e-mail: baloge.clement@laposte.net.

<sup>\*\*\*</sup> Roman URSU is student at Luxembourg University; e-mail: ursu.roman01@gmail.com.



areas. In consequence it is rather difficult to understand the eventual evolution of these migrants identity without considering the background they come from. This is why, in this article, the history and the evolution of the post-Soviet “frozen” conflicts will be presented first, concerning Georgia, Moldova and Ukraine. It is important to highlight that the term “frozen conflict” is merely used in order to gather together all the territorial conflicts over post-Soviet areas and not to generalize their evolution.

It would be difficult to understand the consequences of such conflict on migrants’ identity without broadening their context. This is why, the second part of the research will expose an analysis on the post-Soviet massive emigration factors and also on the way identity was built and perceived during the Soviet era.

Regardless of the causes of armed conflicts, a great majority of them, if not all, lead to massive civil displacement. This is why the third part of the research will deal with the influence of the conflict on the migrants’ identity. Will the latter be changed due to the conflict? Will it be changed once the migrant emigrated? How can the fact to eventually maintain or choose another identity be explained? These are several questions that this paper will try to answer.

## **1. 1989-2018: State of play of conflicts on the post-Soviet space in Georgia, Moldova and Ukraine**

A thorough understanding of post-Soviet realities in a series of Newly Independent States is not possible without acknowledging and analysing the historical premises that have led (or have been used as a pretext) to armed conflicts. Massive emigration from conflict zones (both, internal and external) is a direct consequence of violence against civilians. Therefore, understanding the genesis of military confrontations is crucial for the latter description of migrations’ characteristics: geographical directions, ethnical composition of migration fluxes, attitudes of conflict zone emigrants (including wartime refugees) towards their country of origin, etc. In this section we present briefly the development of “frozen conflict” situations since the late 1980’s until present time, in an attempt to obtain useful insights regarding subsequent massive emigration originating from these regions.

### **1.1. Abkhazian and South-Ossetian conflicts in Georgia**

The premises of the military conflicts that have marked the past three decades in Georgia have been laid in the 1920’s and 1930’s. After the invasion of Georgia by the Red Army in 1921 and the formation of the Georgian Soviet government, South Ossetia has been incorporated as part of the newly-formed Georgian Soviet Socialist Republic (itself part of TSFSR – the Transcaucasian Soviet Federative Socialist Republic, one of the 4 founding republics of the USSR in 1922), and the Abkhazian Soviet Socialist Republic became a “treaty republic” with Georgia, part of the TSFSR since 1922 (Blauvelt, 2014; Saparov, 2015). In 1931, several years after the instalment of Joseph Stalin (a Georgian ethnic) as





Secretary General of the all-Union Communist Party (of Bolsheviks), and thus as the de facto leader of the USSR, the Abkhazian republic has been incorporated in the Georgian Soviet Socialist Republic (GSSR), with the status of an autonomous republic. Besides the Abkhazian autonomous republic (in its North-Western part), the GSSR contained two other autonomous regions, namely South Ossetia in its Northern part and Adjara in the South-West.

The following several decades have been marked by a generally peaceful co-existence of the three ethnically specific regions within the Georgian republic, nonetheless a number of public meetings in support of the Abkhazian minority have taken place since the 1950's (Department of State, 1999). Inter-ethnic tensions between Georgians and the above-mentioned ethnic groups have spurred into demands for larger degrees of autonomy, and even separation from the GSSR. Gorbachev's perestroika and glasnost' have served as a trigger for attempts to translate the demands of minority ethnic groups into reality, in GSSR, as well as in numerous other cases in different Soviet republics (for example, in the Azerbaijani SSR, the Moldavian SSR, the Uzbek SSR, the Kazakh SSR, etc.). In many cases, these claims were to undermine the centrifugal tendencies of Soviet republics' majority population that have stated their will for self-determination, and even for a complete separation from USSR. Subsequently, in a number of cases, the actions of ethnic minorities in Soviet national republics (against these republics' liberation movements) have been supported by Russia, in the context of Soviet Union's process of disaggregation in the late 1980's and early 1990's.

In 1989, ethnic claims of Abkhazians in favour of a return to the state of 1925 (complete separation of the Abkhazian republic from Georgia and the status of a full Soviet Socialist Republic) and of South-Ossetians regarding the region's unification with North Ossetia (part of the Russian SFSR) have marked the beginning of conflicts with the Tbilisi authorities. In those years, Georgia itself was accomplishing its fight for separation from the USSR. The year 1990 was marked by the "war of laws" – a series of contradictory decrees and pieces of legislation, emitted by the authorities of Tbilisi and those of Sukhumi (the capital city of Abkhazia). In January of the following year the nationalist government of Georgia, launched a military operation against Abkhazian militias, in a goal to restore the control over the secessionist autonomous republic. These operations have spurred the internal conflict within the Georgian political class, as President Zviad Gamsakhourdia was facing a serious contestation movement of a large opposition coalition. Internal confrontation between factions of the National Guard (loyal to the government of Georgia) and military units supporting the opposition turned into a civil war that destabilized Georgia for the next several years and is still bearing its effects on today's political realms in this Caucasian country. In January of 1992, after a series of defeats of the National Guard, Gamsakhourdia fled Tbilisi, finding a refuge in Armenia, then in a mountainous region of Chechnya, by then controlled by pro-independence leader Djokhar Dudayev. During the next 18 months Gamsakhourdia was the leader of a Georgian exile government, unrecognized by Tbilisi, nor by the international community. The Russian Federation intervened in the Georgian civil war, supporting (including by direct military operations) the

anti-Gamsakhourdia troops, and backing former USSR Minister of Foreign Affairs Eduard Shevardnadze, who was installed as President of Georgia, head of the State Council in March of 1992. In July of the same year Shevardnadze and Russian President Boris Yeltsin signed a cease-fire agreement, intended as a “solution” to the Abkhazian crisis, accepted by all parties. The agreement provided for the deployment of a peace-maintaining mission under the aegis of the United Nations (UNOMIG), and a larger degree of autonomy of the Abkhazian republic within the Georgian state. Nevertheless, these agreements have been disrespected one month later, when an open military conflict opposing Abkhazia and Georgian troops irrupted. One year later, in July 1992, Gamsakhourdia and troops loyal to him were deployed in the Georgian region of Mingrelia, neighbouring Abkhazia. Following several months of combat during which the Abkhazians received important backing from Russian military, the Abkhazian troops established full control over the largest part of the Abkhazian autonomous republic (except for the Kodori valley), gaining even some small portions of Georgian territory. Georgian troops loyal to Gamsakhourdia have been defeated, himself being supposedly killed in a Mingrelian village on December 31<sup>st</sup>, 1993. The Georgian civil war and military conflicts with Abkhazia and South Ossetia in 1991-1993 resulted in tens of thousands of victims (including among civilian population) on all sides, and hundreds of thousands of internally displaced persons, of all ethnic groups, fleeing the territories of combat both within the two autonomous entities, as well as in the rest of the Georgian territory (Human Rights Watch, 1995).

An insurgency of Georgian paramilitary troops against the self-proclaimed government of Abkhazia took place several years later, in May of 1998, known as “the 6-day war of Abkhazia” and resulting in several tens of persons killed on both sides (including civilian casualties), and an estimated number of 30 to 40 thousand internal refugees, mainly Georgian ethnics fleeing Abkhazian territories. Ten years later, in August 2008, following a series of bombardments of South Ossetian military positions by Georgian troops, the Russian Federation introduced military forces in South Ossetia and Abkhazia and attacked the rest of the Georgian territory. An end to this war was put several days later, mainly due to the efforts of the French presidency of the European Union. Whilst Russian troops withdrew from the Georgian territory (controlled by the Tbilisi authorities), the Russian Federation recognized the “independence” of both South Ossetia and Abkhazia (several other states, among which Nicaragua and Venezuela, also recognized the “independence” of these secessionist territories briefly afterwards).

Since the end of the 1980's, the population of Abkhazia dropped more than 50%, from an estimated number of 500,000 (in 1989, according to the last Soviet census) to 243,000 (est. 2015) (Abkhazian State Statistics Office)<sup>1</sup>. Military conflicts in the region have been followed by ethnic cleansing, massacres and forced mass expulsions of Georgian ethnics; in 2014 the total estimated number of

<sup>1</sup> Abkhazian State Statistics Office (2014), Numbers of stable population (at the beginning of the year), (Tchislennost' nalichnogo naselenija (na nachalo goda)) (retrieved from <http://ugsra.org/ofitsialnaya-statistika.php>).



internally displaced persons from the region of Abkhazia is of 227,700 and from South Ossetia – 35,000 (State Commission on Migration Issues, 2015). Ethnic cleansing of Georgians in the Abkhazian region has been recognized and condemned by the OSCE during its Summits in 1994, 1996 and 1997 (OSCE, 1994; OSCE, 1996; OSCE, 1997), as well as by the UN General Assembly resolution A/RES/62/249 in 2008 (United Nations General Assembly, 2008). External migration in the period 1990 – 2013 amounts to 890,100 persons, 74% of them migrating to the Russian Federation (State Commission on Migration Issues, 2015). The percentage of Georgian emigrants to post-Soviet republics amounts 86% if Ukraine, Armenia and Uzbekistan are counted together with Russia as destination countries. The total population of Georgia (according to the 2014 census) excluding the occupied territories of Abkhazia and South Ossetia is of 3.720 million, this figure is significantly lower than the country's population of 5.40 million in 1991 (including the two secessionist regions).

## 1.2. Transnistrian conflict in Moldova

The Transnistrian region is a territory situated in Eastern Europe, in the Eastern part of the Republic of Moldova, along the Dniester River. It has been subject to various political influences across its History passing from Moldovan to Turkish or Russian rule. After World War II until the end of the Soviet era, it was a part of the Moldovan Soviet Socialist Republic. Such political shifts triggered some controversial issues for the legal statute of this territory. Therefore, even though, nowadays, this territory is, *de jure*, part of the Republic of Moldova, the former Soviet Republic which acquired its independence after the Soviet Union collapse, Transnistria is also, *de facto*, a self-proclaimed government supported by Russian political, economic and military forces.

Republic of Moldova's Declaration of independence adopted on August 27<sup>th</sup>, 1991 was not perceived in the same manner throughout the country. Some political forces saw an opportunity to reunite the young Republic with Romania (King, 2000), due to the former annexation by USSR from the Romanian Kingdom, triggered by the Molotov-Ribbentrop pact (in 1940, then in 1944, at the end of World War II).

On the other side, nostalgic pro-USSR forces were sceptic concerning the general rise of nationalist movements that tended to put an end to the Soviet rule and authority. This is why, in 1991, the Transnistrian region administration, the so-called "*Supreme Soviet*", asked to join the USSR (CSCE, 1994). Since then, the political forces present in the region started a political propaganda against the main political changes of the newly created state, the Republic of Moldova. The main propaganda of separatists consisted in communicating a fear that Russian speaking minorities will be endangered by an eventual rapprochement between the Republic of Moldova and Romania. In the attempt of the separatist paramilitary formations to capture governmental facilities, several civilians and police forces died.

On March 2<sup>nd</sup> 1992, the Republic of Moldova integrated the United Nations community. After this major event for the newly created republic, the separatist

forces started a massive attack, backed by the Russian 14<sup>th</sup> army dislocated in the territory, against Moldovan governmental forces. In consequence the Moldovan president at that time, Mircea Snegur, authorized a military intervention in the region. Although the main separatist propaganda consisted in creating an aura of some kind of ethnical war between Russians and Romanians, such a characteristic of the war failed since, both Russians and Romanians fought on both sides of the conflict. The war caused civil and military casualties of around 279 persons on the Moldovan side and between 294 and 1093 persons in the Transnistrian region<sup>2</sup>. Around 100,000 civilians left the region.

The conflict lasted until July 21<sup>st</sup> 1992, when the ex-Russian president Boris Yeltsin and the Moldovan president signed the Agreement on peaceful resolution of the Transnistrian conflict in the Republic of Moldova, which put an end to the armed conflict (United Nations, 1992). The concluded agreement set also a tripartite *Joint Control Commission* (JCC) formed by representatives of the Republic of Moldova, Russian Federation and the Transnistrian region, which aimed at solving the conflict in the region.

The JCC main mission was to prevent further military escalations by establishing a demilitarized zone near the river borders. Russian, Moldovan and Transnistrian peacekeeping battalions were deployed from July 29<sup>th</sup> 1992 onwards (Vahl *et al.*, 2004). Later, in 1994, the OSCE joined the JCC as an observer and mediator. Nowadays, the Commission is composed also of observers from Ukraine, European Union and the United States.

Though such measure gave more weight to the political negotiations, the legal status of the separatist region was never solved. While the so-called Transnistrian government insisted upon its independent status, the Moldovan Government tried to negotiate a special legal status for the region within the Republic of Moldova. The Russian troops began to decrease as the negotiations replaced the armed conflict. Nevertheless, Russia did not withdraw the former 14<sup>th</sup> Army from the region, despite its international engagement to proceed to a total evacuation, expressed in 1999 at the Istanbul Summit of the OSCE. Later it was clear that in order to maintain a constant and constructive dialogue, negotiations had also to be organized around less controversial subjects like the economic relations between the separatist region and the Republic of Moldova and other cooperation in the field of education, energy etc. This is why, on April 24<sup>th</sup> 2018, the JCC enacted a protocol which would allow Transnistrian vehicles for personal use to travel outside the Moldovan borders. Also on March 20<sup>th</sup> 2018, the first diploma of the University of Tiraspol “Taras Shevchenko” was recognized by the Moldovan Ministry of Justice<sup>3</sup>. The aim of such initiative is to create a single

<sup>2</sup> Crime Moldova (2016), The Transnistrian Conflict – the War that has Frozen 25 Years Ago, *Crime Moldova*, 26 August (retrieved from <https://crimemoldova.com/news/history-of-Independence/conflictul-transnistrean-r-zboiul-care-a-nghe-at-acum-25-de-ani/>).

<sup>3</sup> The certification of diplomas from the Transnistrian region has started, *Government of the Republic of Moldova*, 20 March (retrieved from <https://gov.md/ro/content/procesul-de-apostilare-actelor-de-studii-din-regiunea-transnistreana-demarat>).



educational policy. Nevertheless, according to the ex-president of the OSCE Mission in Moldova, William H. Hill, the outcome of negotiations “*is vague*”, notwithstanding some progress<sup>4</sup>. Such an outcome is at least partly due to geopolitical influences exercised both from Russia and from the European Union concerning on the political priorities of the region.

In 2014 the European Union enacted the visa free regime for all the Moldovan nationals. Such a measure also triggered a stronger migration movement in the region, given that many of the inhabitants detain a Moldovan passport. In 2016, more than 30,000 Moldovan nationals from the region asked a biometric passport in order to beneficieate from such regime (Cenusa, 2017). On the other hand, the Moldovan – European Union Association Agreement also created some important economic privileges that lasted until 2016, for the local economy of the Transnistrian region. Despite all the advantages that the Transnistrian economy could obtain due to the regulation of local companies by the Moldovan law, the so-called “Transnistrian government” does not intend to cut off the ties with the Russian Federation. The latter is also providing important economic aids, but it is mainly due its military support, which maintains the *de facto* Transnistrian administration, that the Russian Federation is an essential ally for the Transnistrian region.

Last but not least, the military conflict in Eastern Ukraine changed public’s attitude towards Russian foreign policy, including the Russian role in the resolution of the Transnistrian conflict (Beyer and Wolff, 2016). During the last year the Moldovan and Ukrainian authorities instituted joint border control in several points that connect the Transnistrian region with Ukraine. Therefore the Transnistrian economic activities are, at least partly, submitted to the Moldovan Border legal regime<sup>5</sup>.

These recent evolutions in the region conducted the actual “Transnistrian President” Krasnoselsky to denounce “an economic blockade organized by the Republic of Moldova and Ukraine”<sup>6</sup>. In response to the “economic blockade”, several Transnistrian military operations were organized in the Security (demilitarized) Zone. Nevertheless, some Transnistrian economic agents are already acting partly under the Moldovan legislation in order to maintain their

<sup>4</sup> Hill, W. H. (2018), Expert: reloading the Transnistrian conflict is impossible, but the future of negotiations is vague, *Infotag*, 26 January (retrieved from <http://www.infotag.md/rebellion-ro/258773/>).

<sup>5</sup> Ciocchina, S. (2017), Moldova overtakes control over the Transnistrian segment of its border with the Ukraine, *Deutsche Welle*, 20 July (retrieved from <http://www.dw.com/ro/moldova-reia-cu-greu-controlul-pe-segmentul-transnistrean-al-frontierei-cu-ucraina/a-39765553>).

<sup>6</sup> Babici I. (2017), Blockade of Transnistria – Myth or Reality?, *LACT (Laboratory of Analysis of the Conflict in Transnistria)*, University “Lucian Blaga” of Sibiu (Romania), 17 January (retrieved from <http://www.lact.ro/2017/01/17/ivan-babici-blocada-transnistriei-mit-sau-realitate/>).

exports and have access to the European Union markets, which are more interesting for exportations than the Russian market<sup>7</sup>.

Due to an instable rhythm of negotiations, it is hard to predict a long term outcome concerning the resolution of the conflict. Nevertheless, given that the main negotiation successes were achieved by partly integrating the Transnistrian region into the Moldovan legal space, it is expected that such a conjuncture would prepare the ground for more controversial negotiations like the legal status of the whole region and the Russian military presence.

### 1.3. The war in Donbass (Eastern region of Ukraine)

Donetsk and Luhansk People's Republics (DPR and LPR) are since few years new self-proclaimed political entities in Eastern Europe. These two separatist territories were created in April 2014 and declared their "independence" from Ukraine in May of the same year. As Transnistria, these two autonomous republics are not recognized by any member state of the United Nations. Russia's role is also ambiguous, as Vladimir Putin ordered last year that Russian administration services recognize "official" documents provided by the DPR and the LPR, such as passports<sup>8</sup>. This fact is certainly useful for region's inhabitants, as it allows them to go to Russia to work or study for example. In this part, we will describe how the context of the Ukrainian civil war can be related to the two other cases that we are working on (Republic of Moldova and Georgia) and how the migration process affects these two regions, especially emigration to Western Europe.

The Ukrainian Civil War began after the demonstrations of 2013 known as the Euromaidan movement – a name formed with "Euro" because of its pro-European orientation and "Maïdan" (Майдан) as it's the Ukrainian word for "Square" and used to name the Square of Independence in the centre of Kiev – which led to the removal and the exile of the pro-Russian President Viktor Yanukovych in 2014. Protesters wanted to get closer to the European Union (EU) instead of Russia. But this successful revolution revealed the divisions within the Ukrainian society as some other demonstrations rose as a reaction to the Maïdan revolution in February 2014. These new protesters were defending Yanukovych and didn't want Ukraine to replace Russia by the EU as its main ally. They were mostly Russian speakers and ethnically Russians settled in Ukraine before the fall of the USSR. These latter, pro-Russian demonstrations were numerically more important in the East of Ukraine, especially in the Donbass region (Donetsk and Luhansk), in some other cities such as Kharkiv and Odessa and in Crimea

<sup>7</sup> Babici I. (2016), Slowing of the production process and of exports, or Why is Transnistria not attractive for investors, *LACT (Laboratory of Analysis of the Conflict in Transnistria)*, University "Lucian Blaga" of Sibiu (Romania), 23 August (retrieved from <http://www.lact.ro/2016/08/23/ivan-babici-incetinirea-activitatii-de-productie-si-de-export-sau-de-ce-transnistria-nu-este-atractiva-pentru-investitori/>).

<sup>8</sup> Kiselyova M. and Polityuk P. (2017), Putin orders Russia to recognize documents issued in rebel-held east Ukraine, *Reuters*, 18 February (retrieved from <https://www.reuters.com/article/us-ukraine-crisis-russia-documents-idUSKBN15X0KR>).





(Sebastopol and Simferopol). Whereas this *oblast* finally integrated *de facto* the Russian territory after a controversial referendum in March 2014, the situation in the Donbass became more complex as the demonstrations evolved in armed separatist movements. The new Ukrainian government decided to send military forces to stop the insurrection but the rebels, thanks to military support probably coming from Russia (even though the Kremlin never recognized it)<sup>9</sup>, resisted to the Ukrainian army. To face this crisis, two major international summits known as the Minsk Agreements were held in the capital of Belarus in 2014 and 2015. Nevertheless, these agreements which were supposed to stop the military combats and to establish a ceasefire were not and are still not (June, 2018) respected by both parties as the OSCE explains it (Prentice *et al.*, 2017). More than 10 000 people, including large numbers of civilians, already died because of this conflict according to the UN (UNHCR, 2017).

In Donbass, contrary to the situation in Abkhazia and Transnistria, the conflict is still open. Speaking of a “frozen” conflict in Ukraine would be a mistake. If there are separatist territories such as in Moldova and Georgia, the current situation can't be compared when we are looking at migrations. Indeed, most of the time, migrants coming from the Donbass are not considered as migrants but as refugees. Contrary to the concept of migration which implies the idea of a choice – even if in fact it is often the consequence of some issues – the status of refugee implies that people were forced to leave their own country against their own will because of war or other political reason. However, this kind of “emigration” also implies that people will go back to their motherland as soon as the political situation will become safe once again. We will now focus on the profile of those migrants and, discuss their destinations.

As we are studying a territory which is still the theatre of an armed confrontation, it is hard to obtain reliable data concerning migration. However, it seems that most of the migrants are internally displaced people. According to the Ministry of Social policy of Ukraine, there were almost 1.5 million internally displaced persons in Ukraine in December 2017 (IOM, 2017). Many of them are planning to return to their home when the conflict will end and an important part already did, mostly elderly people aged over 60 (IOM, 2017). When leaving the Ukraine, most refugees from the Donbass region decided to move to the Russian Federation, which is logical as it is geographically the nearest country. As most of the inhabitants of the Donbass are either Russians or Ukrainians speaking Russian, it is also the closest country for them in terms of culture. According to the BBC<sup>10</sup>, in 2015, more than 600 000 Ukrainian refugees stayed in Russia. Many other

<sup>9</sup> Le Figaro (2014), *The Presence of Russian Soldiers in Eastern Ukraine is a Concern*, 28 August (retrieved from <http://www.lefigaro.fr/international/2014/08/28/01003-20140828ARTFIG00051-ukraine-les-rebelles-prorusses-regagnent-du-terrain.php>).

<sup>10</sup> BBC (2015), Federal Migration Service (FMS): more than 600 thousand Ukrainian refugees remained in Russia (FMS: bolee 600 tysyach ukrainskih bezhentshev ostalis' v Rossii), BBC, 28 August, (retrieved from [https://www.bbc.com/russian/rolling\\_news/2015/08/150828\\_rn\\_russia\\_ukraine\\_refugees](https://www.bbc.com/russian/rolling_news/2015/08/150828_rn_russia_ukraine_refugees) ).



Ukrainians who don't want to be implied in the civil war went to other neighbouring countries such as Poland, Romania and Moldova for example<sup>11</sup>.

However, there is also an increase of the number of Ukrainians who migrate to Western European countries. According to the International Organization for Migration (IOM), "The number of Ukrainians residing in the EU is constantly growing. In 2015, there were 905,200 of them. They constituted over 6% of all foreigners from third countries in the European Union. The majority of Ukrainians reside in Italy (238,000), Poland (336,000), Germany (112,000), the Czech Republic (113,000), and Spain (84,000) (IOM, 2016, p. 11).

Whilst the war is obviously the most important cause of this massive emigration, we may also notice that the economic situation with a huge inflation and low wages was a key factor before the war. But once again, the EU wasn't the main destination. However, Western Europe seems to be attractive for some precise categories of migrants such as for educational purpose (IOM, 2016). Germany, Spain and Italy are also the main destination for asylum seekers, even if their number remains low (IOM, 2016). Indeed, most of them did not get the status that they need to stay as refugees, even if countries such as France don't consider Ukraine as a safe country anymore since the beginning of the war<sup>12</sup>.

Western European countries are not a privileged destination for Ukrainian migrants and we don't hear a lot about them as some pro-Russian media remind us by comparing them with other people migrating towards Western Europe like Syrian or African people<sup>13</sup>. Even though these comparisons make no sense because of the difference of numbers between these communities in Western Europe, the question of the identity that Ukrainians migrants and more specifically the ones coming from the Donbass are claiming is crucial for understanding their *identity choice* in their destination country.

## 2. Emigration and identity in post-Soviet states

Since its creation as an outcome of the Socialist Revolution of 1917, Soviet Russia and USSR (since 1922) has implemented in its regions inhabited by ethnic groups different from the Russian majority a series of "national identity experiments". The measures implemented by Soviet authorities ranged from mass russification of local populations (ex: Eastern Ukraine), to displacement of autochthon ethnic groups and re-designing the local and regional ethnic equilibrium (ex: Caucasus, Crimea), to subversive attempts to create a new "ethnic

<sup>11</sup> Bran, M. (2015), Ukraine: the Disenchantment of Refugees, *Le Point*, 16 February (retrieved from [http://www.lepoint.fr/monde/ukraine-le-desenchantement-des-refugies-16-02-2015-1905487\\_24.php](http://www.lepoint.fr/monde/ukraine-le-desenchantement-des-refugies-16-02-2015-1905487_24.php)).

<sup>12</sup> Le Figaro (2014), Ukraine is No Longer on the List of Secure Countries, *Le Figaro*, 28 March (retrieved from <http://www.lefigaro.fr/flash-actu/2014/03/28/97001-20140328FILWWW00159-l-ukraine-n-est-plus-sur-la-liste-des-pays-surs.php>).

<sup>13</sup> Bechet-Golovko K (2019), Ukrainian Refugees: These Migrants That Nobody Wants to See, *ReseauInternational.net*, 09 September (retrieved from <https://reseauinternational.net/les-refugies-ukrainiens-ces-migrants-que-lon-ne-veut-pas-voir/>).



identity” (ex: Romanian-speaking minority on the Left bank of the Dniester, in Soviet Ukraine).

Massive emigration from “frozen conflict” zones after the downfall of the USSR has affected, among others, regions with altered national identities. In this section we describe the main traits of massive emigration originating from the post-Soviet space after 1991 and outline several aspects that are considered to be crucial for the national self-identification of migrants originating from “frozen conflict” regions.

## 2.1. Massive emigration from post-Soviet countries after 1991

The implosion of USSR at the beginning of the 1990's was accompanied by an endemic economic and financial crisis that generated deep social despair in the 15 Newly Independent States (including the Russian Federation). Tributary to centralized economy during the Soviet years and conceived as a unitary industrial system serving primarily the military needs, industrial production units suffered the most after the rapid downfall of the Soviet Union, leaving within the timeframe of several months millions of people without jobs, with no professional or personal perspectives, on the edge of a disaggregating society. This was particularly true in small Soviet republics (besides Russia, Ukraine, Belarus and Kazakhstan – the “big four” of Soviet-era economy), deprived of any perspectives of development and social stabilization (Bertin *et al.*, 2008).

In the following years, the trends that have been observed in the post-Soviet republics ranged from a relatively rapid economic recovery (in the case of Baltic States), to continuous deepening of the economic crisis, with a continuous fall of living standards (in republics like Moldova, Armenia, Georgia, etc.). Economic despair reigning over the post-Soviet countries during their first decade of independence generated a large scale vague of economic emigrants. Due to geographic proximity, no-visa regime and linguistic and cultural proximity (the vast majority of non-Russian post-Soviet ethnics were fluent in Russian), large numbers of migrants chose the Russian Federation as their country of destination. In the following years (especially since the beginning of the 2000's) large numbers of migrants chose Western- and Central-European countries as a destination (Vremis *et al.*, 2012).

A number of *push*- and *pull*-factors may explain this phenomenon of massive emigration. In the case of persons originating from the secessionist regions of Moldova, Georgia and (later on, since 2014) Ukraine, economic reasons have added to those related to military conflicts: indeed, fleeing a region at war was the only possible way to save their lives and that of their families. In a situation of quasi-absence of proper conditions to be hosted within their countries (poverty, lack of infrastructure and legal framework, lack of professional and personal perspectives), the choice to emigrate towards the Russian Federation or a European country imposed itself as self-evident. Thus, secessionist regions have undergone an even more accentuated de-population trend than the rest of the “countries of origin”. For example, Transnistria has lost approx. 37 % of its population since

1991<sup>14</sup>, whereas the same indicator in Abkhazia amounts to about 52 %<sup>15</sup> (to be compared with a loss of 19 % for the rest of the Republic of Moldova (Paladi *et al.*, 2015), and 17 % loss for the rest of Georgia, over the same period of time). Large numbers of persons originating from the secessionist regions have undergone displacement more than once: first as Internally Displaced Persons (during periods of military conflicts), subsequently from the country of origin towards another country. The main *pull-factors* to be cited in this context, besides economic prosperity (relative in Russia, more prominent in Western countries) and social stability, are to be attributed to possibilities, for many persons fleeing conflict areas, to recover the feeling of personal security for themselves and for their families (Guzun *et al.*, 2017).

Understanding the phenomenon of massive emigration originating from separatist regions in Georgia, Moldova and Ukraine is conditioned by a study of these persons' identity – first of all, national and cultural. Given the complexity of issues faced by their native regions during the past several decades, defining such an identity becomes a matter of interdisciplinary studies and is subject to adjustments in a continuously changing context. In this Chapter, we intend to give some insights on possible interpretations of the notion of 'identity', as potentially perceived by people with such a complicated recent history.

## 2.2. Identity and nationalism: theoretical approach and Soviet-era context

In this part we will discuss the notion of identity and more specifically, the idea of national identity. The traditional approach distinguishes two types of nationalism formulated during the 18<sup>th</sup> and the 19<sup>th</sup> centuries. The first one is the German definition, promoted by thinkers such as von Herder and Fichte. According to them, the nation is based on common language and culture. This conception is called "ethnic nationalism" as it is mainly based on ethnic attributes, thus one's nationality depends on the person's birthplace. This German vision of nationality is opposed to the French one which advocates for a "civic nationalism", based in theory on individual choice. The famous sentence of the philosopher Renan is probably the clearest way to express this conception of the national idea: "the nation is a daily plebiscite" (Renan, 1882).

More recently, the concept of nation was criticized and analysed once again by different thinkers. Most of them show that the nation is not something "natural" but merely a construction established by elites during the past centuries in order to federate the people under a new entity, the *nation-state*. Benedict Anderson speaks of "imagined communities": they are "imagined" because one will never know all

<sup>14</sup> Regnum.Ru (2017), *Demography of Transnistria: Massive Migration, Exodus and Aging of the Population*, 9 February (retrieved from <https://regnum.ru/news/2237171.html>).

<sup>15</sup> Popescu, N. (2007), Abkhazia, South Ossetia. Cruel Demography, *Courier International*, 17 January (retrieved from <https://www.courrierinternational.com/article/2007/01/18/cruelle-demographie>).



the other members of the nation, and they are a “community”, as the nation is thought of as a “deep, horizontal comradeship” (Anderson, 1991).

In the cases that we are working on in this article, the analysis of Ernest Gellner and the research of Rogers Brubaker could also be insightful. For Gellner (Gellner, 1983), if in a nation-state there is a community which doesn't share the same “ethnicity” (here meaning “culture and language”) as the dominant one, a new national claim will appear. In the case of Transnistria and Donbass, the abandon of the Russian language as an official one was one of the reasons causing the outburst of separatist movements, therefore confirming this analysis. According to Rogers Brubaker (Brubaker, 1996), three kinds of forces may enter in conflict inside the nation: the “nationalizing nationalism” that emerges when a minority ethnic group becomes a majority in a newly-formed nation; the “trans-border nationalism” which consists in the attempt of another country to get a territory because of the presence of people of the same ethnicity on it; and finally, the “minority nationalism” which is quite similar to the marginalized ethnicity as defined by Gellner. In our study, we could consider the cases of separatist regions of Ukraine, Moldova and Georgia as belonging to the “nationalizing nationalism” category, combined to a context of “trans-border nationalism” (sustained by Russia in the case of Crimea, for example) mixed with “minority nationalism” in the case of Abkhazia and South Ossetia (also sustained by Russia). In order to conclude on the idea of identity and nationalism, after having seen that it plays a crucial role in modelling countries' and regions' states of stability, we could also criticize its primacy, seeing that there do exist other attributes to individual identity (religion and family, for example) that could be more important for expressing peoples' identity.

In USSR, the role of the national identity was nevertheless crucial and it is necessary to analyse the Soviet definitions of nation and nationalism in order to understand the conflicts in post-USSR countries, including the difficulties and challenges faced in this respect in the post-Soviet space. First, it is essential to note that the Russian word “национальность”, (pronounce ‘natsional’nost’) means *ethnicity*. There is a different word to express the *citizenship*, which is “гражданство” (pronounce ‘grazhdanstvo’). This link between the terms ‘nation’ and ‘ethnicity’ shows how much this last principle is important to define one's identity in Russian. In USSR everyone had the Soviet citizenship, but on every passport the nationality, indicated in the famous “point five”, was different: one could be considered as Russian, Ukrainian, Moldovan, Abkhazian, etc. During the second half of the 1970's, it became an obligation for every USSR citizen to get a passport at the age of 16. Whilst this document was used by the Soviet administration to discriminate on the basis of ethnicity, it was at the same time an instrument for every citizen to build his/her own national identity, especially when the parents belonged to two different ethnic groups as in this case the child had to choose the ethnicity of one of them.

After the October Revolution, Lenin accepted a federation of Republics in the name of “peoples' self-determination”, and nationalism remained a key factor of individual identity even if it didn't fit well with the Marxist doctrine. Even Stalin with his aggressive centralization and russification, added to mass deportation of



ethnic minorities, didn't succeed in the eradication of the national feeling of any minority group.

Finally, after the fall of USSR, most of the old Soviet Republics founded their sovereignty on this national identity. If in some cases this was done by avoiding most troubles (ex: the Baltic States), in many cases it led to ethnic conflict such as in Georgia, Moldova and Ukraine. The main reason for this tragedy is the return of nationalism as the main ideological totem after the fall of Soviet socialism, adding to a will to restore traditions which were shattered by Soviet administration.

As we have seen, the national and especially ethnic identity was and still is crucial for people and is with no doubt one of the cause of persisting conflicts in Eastern Europe. We will now look at its possible role in the definition of migrants' identity.

### **2.3. Identities in separatist regions of Moldova, Ukraine and Georgia: modern realities vs. sensitive historical considerations**

The population's identity is often an essential element for the survival and sustainability of a State. This is especially crucial during the early stages of an attempted formation of a State, as it is the case for the separatist territories of Transnistria, Donbass, South Ossetia and Abkhazia. How was the perception of "identity" transformed after the creation of these *de facto* States? In many ways, these regions have common points concerning their process of transformation, from territories that are (were) parts of already existing States to unrecognized *de facto* States. One of the common elements is Russia's role in this process, be it official or "unofficial" (i.e. not assumed by Russian leadership). The latter could also be explained by the Russian policy that tends to avoid the spread of Western presence in ex-Soviet republics. Nevertheless, the way "national identity" of these *de facto* States was built and perceived, differs despite a certain degree of similitude. What are the common and what are the different elements concerning the question of "national identity" in these unrecognized States?

The region of Transnistria is populated by several ethnolinguistic groups, mainly including Romanians, Russians and Ukrainians. In order to reinforce the identity of the *de facto* state, the local separatist administration tends to create a "Transnistrian nationality", derived from the name of the region<sup>16</sup>. The local separatist authorities encourage public initiatives which aim to spread the idea of a supra-nationality, "the Transnistrian people". Such a concept is close to the French perception of the State nation where, despite the presence of different minorities, all of them are French because they are born or live in France. Therefore, the Transnistrian passport law reflects a new conception of nationality, where the

<sup>16</sup> Nikolaeva, M. (2015), There is Such a Nation: the Transnistrians, "*Eurasian Transnistria*" Media Centre, 16 July (retrieved from <https://novostipmr.com/ru/news/15-07-16/est-takaya-naciya-pridnestrovcy>).



mention of ethnic affiliation in the passports is optional<sup>17</sup>, which is different from the Soviet “nationality”, defined as a conjunction of Soviet citizenship and compulsory ethnic affiliation. In this attempt to “create” a new people, the local administration tends to accentuate the difference between the ethnolinguistic groups, for example, by stating that Ukrainians from Ukraine and Ukrainians from Transnistria are slightly different. Such a “new nation” is reinforced by the education system in the region. For example, the “Moldovan language” taught in Cyrillic alphabet tends to highlight the difference between “Moldovans” and “Romanians”. Although such politics is intensively implemented, in practice, the local population is not entirely convinced by such a new approach with regards to their identity. Also, in practice, the dominant language is Russian. A great majority of people living in Transnistria still perceives the variety of ethnolinguistic groups as a criterion of nationality. For example, Moldovans that leave this region consider themselves mainly as Moldovans. Also, large numbers of Russian-speaking persons from Transnistria, possess the Russian passport, which is a way, especially for the young generation, to emigrate and seek better perspectives in Russia<sup>18</sup>. A recent study revealed that the majority of migrants originating from Transnistria do not envisage in the near future to go back to the region, or to invest in it (Ostavnaia, 2018). This could clearly indicate that most of them will not spotlight their “Transnistrian identity” but probably refer to themselves based on their ethnical belonging.

The Donbass separatist regions of Donetsk and Luhansk also promote the creation of a new identity, based on the idea of being a citizen of the *de facto* “Donbass republics”. This new concept seems to be acceptable for a non-negligible part of the local population: already 18 % of Donetsk inhabitants consider themselves as “citizens of the Donetsk People Republic” (Korzhov, 2006). Such an idea is being actively reinforced by the fact that the majority of the inhabitants in the region of Donbass were more attached to their region than to their country as a whole (post-independence Ukraine), unlike inhabitants of Western Ukrainian regions such as Lviv. The consequence of such disparity between the different regions of Ukraine is partly explainable by disastrous post-Soviet consequences for the economy of Eastern Ukraine’s regions that once were the shop window of socialism. Unable to become a “great region” forged by strong economy and social stability again, the inhabitants of Donbass, unlike the inhabitants of Lviv, gradually lost their confidence in the central authorities and developed a spirit of opposition towards the politics of the central power (Korzhov, 2006). Concerning the language policy, although formally there are two official languages, Ukrainian and Russian, the latter is the main language in practice.

<sup>17</sup> “Zakon PMR” (2002), “*The Law*” on the Passport of the “Citizen of the Transnistrian Moldovan Republic”, 05 March (retrieved from <http://zakon-pmr.com/DetailDoc.aspx?document=62492>).

<sup>18</sup> Pashentseva, V. (2018), Education in Transnistria: Optimization Without Optimism, *Open Democracy in Russia*, 08 January (retrieved from <https://www.opendemocracy.net/od-russia/viktoria-pashentseva/obrazovanie-v-pridnestrovie>).



In the Georgian separatist regions of South Ossetia and Abkhazia, it is even more difficult to speak about the construction of a new identity, since, for example, the Abkhazians are a specific ethnic group that had, in their history, periods of autonomy, unlike the “Transnistrian” or “Donetsk” “nations”. The Abkhaz people for example, perceived Georgians as an enemy since the latter populated the territory of Abkhazia as a consequence of Stalinist deportations of Abkhazians in the 1930’s and 1940’s. Nevertheless, the *de facto* Republic of Abkhazia is strongly supported by the Russians in order to contain Western influence in Georgia. The official languages are Abkhazian and Russian, though the latter is highly used in the region.

## Conclusion

As we have seen, Abkhazia with Georgia, Transnistria with Moldova and the Donbass region with Ukraine are engaged in conflicts which will probably not be settled in a definitive manner in a foreseeable future. Situations of military conflicts followed by economic despair and lack of social stability led to a massive emigration from regions already dealing with significant and complex difficulties since the fall of USSR. Thus, the question of the identity of migrants originating from non-recognized states arises: how do they identify themselves in the countries of destination (mainly Russia or Western Europe countries)? Considering the legacy of the Soviet ideology, the ambiguous definition of nationality in Russian – which is an official language in each of these separatist states – and the ethnic composition of the separatist states which are completely different as Abkhazia is mainly composed of Abkhaz whereas Transnistria is formed of approximately a third of Moldovans, a third of Russians and a third of Ukrainians, and Donbass population is mainly Russian or Russian-assimilated Ukrainian; we could assume that defining an identity might be delicate for these migrants themselves. Moreover, finding a common pattern model of self-identification does not appear feasible at this time.

This issue had not been treated before in the academic field and giving a thorough answer to the questions that have arisen during our research is rather hazardous given the scarcity of statistical research data. However, some hypothesis can already be formulated, basing initial assumptions on the prevalent character of ethnic belonging *vs.* genuine regional (or “state”, even though un-recognized) identity. Future research should go further in order to understand the precise way in which these migrants define themselves, and to take into consideration the complexity of factors’ interactions in forging these new ways of self-identification.





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# MEMBER STATES' REGULATORY AUTONOMY IN HEALTH SERVICES WITHIN THE INTERNAL MARKET: THE IMPACT OF THE EUROPEAN LAW

Olesea PLOTNIC\*, Elena CIOCHINA\*\*

## Abstract

*European Union (EU) law is based upon a liberalising imperative, the goal of which is to construct a single market between member states. Public healthcare is a fundamental task for the member states. However, its real character is ambiguous, though, on the one hand, healthcare is a cornerstone of social security and, on the other hand, it is an enormous economic sector. Legislation on the basis of the internal market can address numerous issues of pricing, accessibility of services and access to markets, competition and state aids, as well as consolidating and clarifying patient rights. Our study paper focuses on restrictive effects derived from EU law on national healthcare which requires stretching the basic distribution of powers between the EU and the Member States.*

**Keywords:** healthcare, internal market, EU law, member states, health services, legislation

## Introduction

The European Union in the last ten years has become seriously involved in healthcare systems. The organisation of public healthcare is one of the most delicate state tasks of current times. Healthcare is subject to various controversial factors and consequently causes serious disputes requiring critical decisions. The provision of sufficient and adequate healthcare is not only a question of political opportunism. Rather, healthcare constitutes a fundamental task of welfare states and affects fundamental rights including the right to life and the right to personal integrity. Therefore, the provision of healthcare is a constitutional issue.

After a series of reactive lawsuits over the last 20 years, EUs legislative and policy organs have entered a period of concern with the organization of national healthcare provision and the interaction of systems with each other. The importance of this can hardly be overstated. Healthcare systems are vast yet surprisingly fragile and embody one of their most defining, distinctive, and fundamental characteristics; that of solidarity. From a specifically European point

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\*Olesea PLOTNIC is Associate Professor, PhabD, at the State University of Moldova, Chisinau, Republic of Moldova; e-mail: plotnicolesea.aum@gmail.com.

\*\*Elena CIOCHINA is PhD student at the Academy of Economic Studies of Moldova, Chisinau, Republic of Moldova; e-mail: ciochina.elena.law@gmail.com



of view, involvement in healthcare offers the chance of a deepening of integration and an embedding of European policies in some of the most sensitive and protected national contexts, yet also risks a popular national backlash of hitherto unknown proportions. If the EU makes itself the patient's friend it has a lot to gain, but if it comes to be seen as a market-obsessed threat to patient welfare then this could be the issue that stops integration dead (Davies, 2006, p. 53-60).

Addressing healthcare therefore requires a strategic approach, in which legislative action is part of a long-term plan rather than being merely ad hoc specific problem solving. In developing such a strategy, a broad vision is required of where the EU wants to go, or wants its Member States to go. Yet, legal measures are likely to be found on specifically economic Treaty articles and to fall within the scope of the internal market.

Presently the European Union is formed of 28 Member States, and each state has a national healthcare system, which can in general terms be divided in two: the Bismarck systems (insurance based system which may have private or public provision of care or a combination of both) and the Beveridge systems (which are more likely to have public provision but may in part rely on private provision of care). Beveridge model is used in Great Britain, Italy, Greece, Finland, Spain, Norway, Sweden. The Bismarck model is a system inspired by German law. It is used in many EU countries, such as France, Germany, Austria, Belgium, the Netherlands and Romania.

Both systems are similar regarding the problems they face and they share (cost constraint; concerns about the affordability of care in the face of ageing populations; concerns about the technological developments and rising expectations; etc.)

If we assume that a healthcare system assigns access rights to healthcare to a particular target population and ensures the organization, notably the funding and delivery of such care the EU cannot be said to have its own healthcare system separately from the abovementioned national healthcare systems of the Member States. Instead it disposes of a number of fairly fragmented but complementary competencies and is responsible for a number of policies that affect the healthcare systems of the Member States either directly or indirectly without itself forming an EU healthcare system as such (Guy and Sauter, 2016, p. 4).

In most Member States, healthcare systems are undergoing reform as a result of economic and social pressures and an international healthcare market is something that we may expect to see slowly emerge in the coming years, rather than something which already exists. This suggests that market regulation undertaken today would have to be anticipatory, based on estimates of the shape of the market and its actors in the future.

Considering potential cross-border economic activity in the healthcare sector of patients and healthcare providers, an obvious question arises as to the compatibility of national healthcare planning with European Union law. In our study we will analyse how national healthcare planning and is influenced in particular by rules of the internal market.



## 1. The limiting impact of EU law on Member States' healthcare planning

At first sight, the answer to the question of the distribution of powers between the EU and Member States in the field of healthcare cannot be given a simple answer. An absolute answer appears to be impossible since primary EU law does not provide for a definitive legal position. On the contrary, healthcare in general and healthcare planning in particular are part of the diverse and complex provisions of European constitutional law. For instance, due to its dual nature as social policy and public health, healthcare is linked to areas of “social policy” by Article 4 par. 2 lit. b) Treaty on the Functioning of the European Union (TFEU) and to the area of “common safety concern in public health matters” by Article 4 par. 2 lit. k) TFEU. Since both areas belong to the scope of shared competences between the Union and Member States, the Union enjoys pre-emptive rights. However, on closer examination, the legal position turns out to be quite the contrary. It may be concluded, for several reasons, that Member States can be regarded as principal legislators in the field of healthcare and healthcare planning. The TFEU limits the EU's competence explicitly. For example, Article 152 TFEU underlines “the diversity of national systems” and obliges the EU to respect Member States' autonomy. Moreover, initiatives taken by the EU “shall not affect the right of Member States to define the fundamental principles” of Member States' social security systems.<sup>1</sup>

Similarly, the TFEU restraints the EU's healthcare related competence. Forsooth, Article 4 TFEU conditions the competences of social policy and public health on “the aspects defined in this Treaty”<sup>2</sup> and Title XIV of the TFEU does not refer to “health” or “healthcare” in general, but targets just “public health”. Public health differs from healthcare because it is solely concerned with human health protection, whereas healthcare refers to health services provided by health professionals to patients and the provision of medicinal products<sup>3</sup>.

Article 168 par. 7 TFEU significantly delimits the EU's power to regulate healthcare. By this provision, primary EU law clearly assigns the general responsibility for healthcare and healthcare planning to the Member States. The article mentioned above states explicitly that, in principle, it is for the Member States to organise healthcare systems including all choices conceivable as for instance the scheme applicable. Certainly, the fact that the TFEU declares that healthcare is within the competence of Member States explicitly substantiates the principle of assignment in the field of healthcare and strengthens legal certainty in this domain<sup>4</sup>.

<sup>1</sup> Treaty on the Functioning of the European Union (2007), art. 153 par. 4.

<sup>2</sup> Idem, Article 4 par. 2 lit. b) and k).

<sup>3</sup> Article 3 a) of Directive 2011/24/EU: healthcare means ‘health services provided by health professionals to patients to assess, maintain or restore their state of health, including the prescription, dispensation and provision of medicinal products and medical devices’.

<sup>4</sup> Treaty on the Functioning of the European Union (2007), art. 5 par.2.

Thus, healthcare planning derives from the States' competence for social security in general and healthcare in particular. This coincides with Article 6(a) TFEU, which defines the protection and improvement of human health only as a supportive competence of the EU. According to Article 2 par. 5 TFEU, the Union's supportive competence does not supersede Member States' competence in this area, and binding acts of the Union do not entail the harmonisation of Member States' laws. Once more the very limited scope of EU competence becomes apparent; yet, the status of Member States as the competent legislators for healthcare is, in turn, limited by EU law. While to date the distribution of competences has been concerned with the basic question of the entity competent to legislate, law-making cannot be exercised without prejudice to EU law provisions. In fact, the Court of Justice of European Union (CJEU) gives emphasis in settled case law that "the special nature of certain services does not remove them from the ambit of the fundamental principle of freedom of movement". In other words, despite that Member States are authorised, for instance, to determine the conditions for entitlement to benefits based on their social security competence, national provisions have to comply with the rules of the internal market.<sup>5</sup> Therefore, the German government's argument in the *Smits and Peerbooms* case was rejected on the grounds that the "structural principles governing the provision of medical care are inherent in the organisation of the social security systems and do not come within the sphere of the fundamental economic freedoms guaranteed by the EC Treaty".<sup>6</sup> Certainly, the Court's decision to the benefit of EU law's reach is far-reaching. Considering the fundamental principles of validity and primacy of EU law in relation to national law, primary and secondary EU law limits Member States' room for manoeuvre as far as EU law is concerned. Thus, the CJEU's ruling on the application of the internal market rules to national healthcare planning reveals that it is also per se subject to noticeable limitations deriving from EU law, notwithstanding its "special" character as social security law.

## 2. The scope of application of EU legislation

Looking at primary EU law as the first source of law with possible relevance for national healthcare planning, Article 35 of the Charter of Fundamental Rights of the European Union is a pertinent starting point. This Article grants everyone the right of access to medical treatment. However, the material scope of Article 35 EU Charter is remarkably limited. First, the provision itself clearly restricts the right of access to medical services to "conditions established by national laws and

<sup>5</sup> CJEU, 11 September 2008, C-141/07 *European Commission v. Federal Republic of Germany* [2008] ECR I-6935, para. 23 (retrieved from [https://curia.europa.eu/en/content/juris/c2\\_juris.htm](https://curia.europa.eu/en/content/juris/c2_juris.htm)).

<sup>6</sup> CJEU, 12 July 2001, C-157/99 *B.S.M Geraets-Smits v. Stichting Ziekenfonds VGZ and H.T.M. Peerbooms v Stichting CZ Groep Zorgverzekeringen* [2001] ECR I-5473, para. 51: "[...] Member States may be required [...] to make adjustments to their national systems of social security, but [...] it does not follow that this undermines their sovereign powers in the field" (retrieved from [https://curia.europa.eu/en/content/juris/c2\\_juris.htm](https://curia.europa.eu/en/content/juris/c2_juris.htm)).





practices". The Charter emphasizes Member States' individual power to determine healthcare policies and hereby coincides with Article 52, par. 6 of the Charter<sup>7</sup>. Hence, the European right of access to medical services is a relative right only. Second, Article 35 of the Charter is addressed to the Member States when they are implementing Union law. Since healthcare planning constitutes primarily a Member States' task, the application of Article 35 of the Charter appears limited once more. It therefore is no wonder that the Court of Justice of the European Union has not yet based its healthcare related case law on Article 35 EU Charter.

Notwithstanding, the CJEU construes the material scope of the fundamental freedoms in national healthcare cases extensively. This concerns all freedoms particularly relevant to healthcare from an economic point of view, i.e. the free movement of persons including the freedom of establishment, the free movement of services and finally the free movement of goods.

The most significant decision on the application of Article 56 TFEU on national healthcare organisations still had to be made because the latter varies in fundamental ways. In particular, the crucial question to be settled was still whether the freedom of services of Articles 56 and 57 covered all methods of funding, i.e. not only remuneration but also benefits-in-kind and national healthcare schemes. Since Member States' healthcare systems are diverse and do not require direct payment by patients, the vital point was whether the condition of "remuneration", within the meaning of Article 57 TFEU, was met. Indeed, pursuant to the Court's case law, remuneration requires, generally, a direct economic link between the service provided and the payment rendered. Therefore, it can be doubted whether health services provided free of charge fall within the scope of freedom of services. However, the Court of Justice was, and is, willing to overrule any objections to the applicability of Article 56 and 57 TFEU on all variations of healthcare planning schemes (Walus, 2015, p. 60). According to Article 57 TFEU does not require that payment has to be made by the recipient of services.

Looking to other fundamental freedoms of the internal market, the same pattern can be seen in the CJEU case law on the freedom of establishment and the free movement of goods. In the *Hartlauer*<sup>8</sup> and *Decker*<sup>9</sup> judgments, the Court of Justice followed its approach in interpreting the material scope of the freedoms broadly, and applied them to national healthcare laws with the requirements of prior authorisation and a needs test for the establishment of medical facilities as well as national healthcare laws on the reimbursement of medical products. The freedom of establishment grants companies, in particular, the right to set up undertakings, as well as agencies, branches or subsidiaries; and self-employed

<sup>7</sup> Article 52, par. 6 of the Charter of Fundamental Rights of the European Union states: 'Full account shall be taken of national laws and practices as specified in this Charter'.

<sup>8</sup> CJEU, 10 March 2009, Case C-169/07, *Hartlauer Handelsgesellschaft mbH v. Wiener Landesregierung and Österreichische Landesregierung* [2009] ECR I-1721 (retrieved from [https://curia.europa.eu/en/content/juris/c2\\_juris.htm](https://curia.europa.eu/en/content/juris/c2_juris.htm)).

<sup>9</sup> CJEU, 28 April 1998, Case C-120/95 *Nicolas Decker v. Caisse de maladie des employés privés* [1998] ECR I-1831 (retrieved from [https://curia.europa.eu/en/content/juris/c2\\_juris.htm](https://curia.europa.eu/en/content/juris/c2_juris.htm)).



professionals are entitled to take up and pursue an activity. Thus, in addition to the freedom of services which covers temporary services, health service providers are protected by internal market rules, even if they provide healthcare services permanently. As a consequence of the case law referred to above, the Court of Justice decided categorically in favour of the material application of internal market rules to Member States' healthcare systems. This was undoubtedly motivated by the wish to ensure a uniform application and an effective use of these freedoms. Either way, these judgments undoubtedly mark a breakthrough in the relationship between Member States' healthcare planning and European Union law (Walus, 2015, p.61). Since all healthcare schemes are considered to fall within the material scope of the fundamental freedoms, generally speaking Member States' healthcare law needs to comply with the internal market rules.

The same approach can be identified in the CJEU's ruling on the personal scope of application of the internal market rules in the context of national healthcare law. Indeed, the extension of the personal scope of the freedom of services from providers of services to recipients of services has one of its roots in the CJEU case law on cross-border healthcare. The *Luisi and Carbone* case proved to be a landmark decision, since here the Court opened the freedom of services to service recipients<sup>10</sup>. In the Court's view, the freedom to receive services is the "necessary corollary" to the freedom to provide services<sup>11</sup>. The reach of the judgment is certainly quite wide since it acts, as will soon be seen, as a gateway for further influences on national healthcare planning deriving from EU law. From the internal market perspective, the Court's case law on the freedom of establishment complements the wide range of the internal market's personal scope of application that is relevant to national healthcare planning. Considering the Court's acknowledgment that the freedom of establishment is applicable to providers of healthcare services, the personal scope of the internal market rules now covers both natural and legal persons, both as active actors, companies and self-employed individuals; and as passive actors, particularly patients.

At this point, it is worth taking a look at the configuration of the material and personal scope of EU legislation on healthcare. Here, as regards both the material and personal scope of application, Directive 2011/24/EU and Regulation 883/2004/EC differ widely from primary EU law – the different personal focus stands out in particular. Both laws only aim to protect the rights of health service recipients, namely patients, at least as regards direct protection. As Regulation 883/2004/EC concerns the coordination of social security rights of individuals in cross-border activity, it is designed, primarily, to protect Member States' citizens who wish to

<sup>10</sup> CJEU, 31 January 1984, Joined cases 286/82 & 26/83 *Graziana Luisi and Giuseppe Carbone v. Ministero del Tesoro* [1984] ECR 377; see also CJEU, 4 October 1991, C-159/90 *SPUC v. Grogan*, C-159/90 [1991] ECR I-4685 (retrieved from [https://curia.europa.eu/en/content/juris/c2\\_juris.htm](https://curia.europa.eu/en/content/juris/c2_juris.htm)).

<sup>11</sup> CJEU, 31 January 1984, Joined cases 286/82 & 26/83 *Graziana Luisi and Giuseppe Carbone v. Ministero del Tesoro* [1984] ECR 377, par. 10; see also, CJEU, 5 October 2010, C-512/08 *European Commission v. French Republic* [2010] ECR I-1297, par. 32 (retrieved from [https://curia.europa.eu/en/content/juris/c2\\_juris.htm](https://curia.europa.eu/en/content/juris/c2_juris.htm)).



receive cross border medical treatment<sup>12</sup>. Similarly, not only is Directive 2011/24/EU called the Directive “on the application of patients’ rights in cross-border healthcare”; its subject matter is also defined to facilitate access to cross-border healthcare and to clarify its relationship to Regulation 883/2004/EC “with a view to application of patients’ rights”. According to Article 4, par. 3 of Directive 2011/24 EU, Member States are obliged to ensure that the principle of non-discrimination “shall be applied to patients from other Member States”. Certainly, it may be argued that patients’ rights correlate with those of healthcare providers, as the CJEU stated that recipients’ rights are the necessary corollary to the freedom to provide services. Likewise, the CJEU held, in other healthcare related cases, that the two groups are closely linked, as restrictions which apply to providers apply to both providers and patients. It is still noteworthy that the EU legislature does not pursue the protection of healthcare providers actively through legislative acts *expressis verbis*. In fact, the impact of EU healthcare legislation on the protection of healthcare service providers takes place rather indirectly through the provision of patients’ rights only. Arguably, the restricted involvement of healthcare providers in EU secondary legislation may be regarded as quite weak since their rights merely reflect other groups’ rights and thus are not independent. In any event, from an objective point of view, the legal design of Directive 2011/24/EU appears to be consistent. As the Directive only addresses access to cross-border healthcare services, its constitution is limited as such. In fact, the Patients’ Rights Directive does not by any means codify the CJEU case law on Member States’ healthcare in general. On the contrary, instead of affecting the Court’s case law on the freedom of establishment of healthcare service providers, for instance, the Directive focuses on patients’ rights solely from the perspective of the freedom of services and free movement of goods. In this sense the Directive at hand clearly goes one step further than the general Service Directive, which explicitly excludes healthcare services. However, contrary to the general Service Directive, which also regulates cross-border rights of establishment, this cornerstone does not fall within the personal and material scope of Directive 2011/24/EU. Thus, this Directive can instead be classified as sectorial legislation that only applies to patient consumers of medical services and to medical products. In contrast to the CJEU’s broad interpretation of the scope of application of the fundamental freedoms, the impact of the legislation at hand is ultimately rather limited.

### 3. The negative impact of EU law on Member States’ healthcare planning

The negative impact of EU legislation on national healthcare planning may be measured by the scope of the interdiction based on the internal principle market

<sup>12</sup> The personal scope of Regulation 883/2004/EC also covers stateless persons, refugees residing in a Member State as well as their families and survivors; see in detail, Pennings (2010). In a recent judgment the CJEU had to rule on the Regulation’s distinction between ‘residence’ and ‘stay’, see CJEU, 5 June 2014, C-255–13 I v. Health Service Executive [2013] ECR I-1291.

rules. The issue is therefore what are the restrictions stemming from EU legislation and at the same time what regulatory measures adopted by Member States to address healthcare planning are facing prohibitive restrictions under EU law. As for the interpretation rules of the internal market in cases related to national health regulations, the CJEU takes a similar approach to the extent of prohibition on its approach to other cases cross-border economic activity. The Court adopts a market access approach and controls national healthcare planning in the light of its restrictive effect. In this sense, the main focus is to put into effect the national regulations of the Member States regarding the access to the market in order to make it more difficult for other Member States. This applies to all relevant freedoms in the cases of healthcare. As for freedom of services the Court has explicitly emphasized the interpretation of Article 56 TFEU, which precludes “any national regulation which has the effect of providing for that provision of services between Member States is more difficult than the provision of services only in one Member State”<sup>13</sup>.

The scope of prohibition of the EU legislation is ruled by two distinctive main legal instruments. First, the Regulation 883/2004 / EC is limited to coordinating the application of the cross-border social security provision, meaning that the regulatory limitations of the Member States derive from their obligation to comply with the provisions of the Regulation. Second, the Directive 2011/24 / EU imply prohibitive rules, which is not surprising given its objective to also codify CJEU case law. However, the prohibitive effects deriving from the Directive are more complex than the case-law of the Court. Indeed, the scope of the prohibition is based on the harmonization effect of the Directive. As Member States have to adapt their legislation in line with the requirements of the Directive, they are also required to enforce provisions involving prohibitions. In other words, to the extent that the Directive contains rules on the requirements to be met for the application of regulatory measures, the legislators of the Member States are not entitled to circumvent these requirements.

The outlook on the negative impact of EU legislation on national health planning revealed several limitations for the latter. First of all, the general question of the fundamental relationship of both legal orders in the health field can be answered as follows: although ordinary legal architecture gives Members States the right to regulate healthcare planning in their territories, by differentiation from the exercise of competences, Member States are confronted with a regulatory autonomy due to their obligations to comply with the EU internal market law.

Secondly, combining the negative perspective with a comparative one, three different sources of EU legislation affecting the national healthcare planning

<sup>13</sup> CJEU, 28 April 1998, Case C-158/96 Raymond Kohll v. Union des Caisses de Maladie [1998] ECR I-1931, para. 33; CJEU, 12 July 2001, C-157/99 B.S.M Geraets-Smits v. Stichting Ziekenfonds VGZ and H.T.M. Peerbooms v Stichting CZ Groep Zorgverzekeringen [2001] ECR I-5473, par. 61 (retrieved from [https://curia.europa.eu/en/content/juris/c2\\_juris.htm](https://curia.europa.eu/en/content/juris/c2_juris.htm)).



(primary EU law, coordination law and the Patients' Rights Directive)- ultimately have different influences on national healthcare legislation.

While the personal and material scope of the Treaties' freedoms are interpreted and applied broadly by the Court of Justice, the EU legislature has limited the scope of application of Regulation 883/2004/EC and Directive 2011/24/EU primarily to protect individuals who wish to receive cross border health services and to purchase medical products. Similarly, a broad scope of prohibition follows from the internal market freedoms due to the Court's strict restriction test. Hence, from a comparative perspective, the three sources certainly vary in terms of the intensity of their impact. While Regulation 883/2004/EC respects the Member States' healthcare competence, Directive 2004/24/EU goes one step further by providing for harmonization; some authors therefore conclude that the Directive leads to a "Europeanisation" of national health policies.

However, since the Directives' harmonizing scope is rather limited, CJEU case law exerts the strongest influence. Nevertheless, the limiting influence of EU law loses its overall importance because of its inconsistency. Since all sources vary and have varying grades of impact, national healthcare law faces unclear and widespread boundaries deriving from EU law. Different personal and material scope as well as the different scope of prohibition inevitably leads to a weakening of the limiting strength of EU law. Particularly in terms of the protection of healthcare providers, national healthcare planning is limited by a casuistic protection provided by CJEU case law of the freedom of services and freedom of establishment, as well as indirectly by the provisions of Regulation 883/2004/EC and Directive 2011/24/EU. Also, as regards personal scope, the Court's case law still does not feature the application of Article 18 TFEU on rights based on EU citizenship. In spite of this weakness; considerable limitations to national healthcare planning derive from EU law as a consequence of the Court's case law. Since national regulatory measures often fall within the scope of application and scope of prohibition, Member States' healthcare planning generally requires justification. For this reason, the following section examines how the Court relieves Member States from justifying their healthcare planning when it interferes with EU law (Walus, 2015, p.66-67).

## Conclusions

Summing up we can speak of several key conclusions that can be drawn from this conceptual view of the impact of EU legislation on Member States' regulatory autonomy in the field of healthcare. A negative perspective analysis has shown that the Court of Justice has developed some outstanding constraints on national healthcare planning. The ambiguous nature of healthcare – both social security and the economic sector – has allowed the Court to make a decision in principle. On the basis of the economic relevance of healthcare, the CJEU advocated the application of internal market rules and therefore obliged the Member States to respect fundamental freedoms. In addition to that, despite the fact that Member States are the main legislators in the field of healthcare, their



restrictive planning requires justification from the CJEU, given the broadly interpreted and enforced domestic freedoms. Disadvantages arising from the differing scope of application and prohibition of EU legislation are affecting only patients and not the regulatory autonomy of the Member States. However, the positive outlook has revealed that the Member States' limited regulatory autonomy in healthcare also faces the protection and reinforcement effects derived from the CJEU case law. Indeed, the article revealed a judicial reconciliation of national planning in the field of healthcare and the internal market by the CJEU.

Various exceptions and allowances granted to Member States' health planning has considerably strengthened national legislation autonomy. Again, the ambiguous nature of healthcare is at the forefront. While the Court based its limitations on economic considerations, respect for healthcare planning followed from its social dimension. In fact, the CJEU has acknowledged that Member States have a great responsibility for maintaining high quality healthcare systems to meet their constitutional commitments to social security and fundamental rights. Because this constitutional task also requires huge financial expenses, the CJEU has taken this challenging topic into account and provided considerable flexibility to national healthcare policies. In view of legitimate purposes, the Internal Market Law of the EU has not posed major obstacles to the Member States to address this key policy. The throughout analysis of this article shows that without a full „Europeanization” of healthcare sector, it is still possible both to protect national and European interests at the same time.

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# BREXIT AND THE INTERNATIONAL LAW ON TREATY WITHDRAWAL

Carmen MOLDOVAN\*

## Abstract

*The 2016 unprecedented decision of the United Kingdom to leave the European Union has deep implications at many levels and raises several legal questions. These are to be analysed in the context of general rules on international treaty withdrawal established by the 1969 Vienna Convention on the Law of Treaties and the international customary law. At the same time, such an analysis should consider the specific features of the European Union as an international legal entity and the implications of the conditions set out in Article 50 of the Treaty on the European Union. The analysis presents theoretical and practical interest for many reasons, due to the unique character of this situation. This paper will not focus on political issues, it will engage in analysing the effects of the withdrawal notification in the context of the general rules of international law of treaties in this matter.*

**Keywords:** withdrawal, agreement, negotiations, legal obligations

## Introduction

Withdrawal from an international treaty constitutes a way of its termination (Aust, 2010, p. 95) and the ending of the treaty obligations incumbent to that Member State (Helfer, 2012, p. 634), depending on the unilateral act of a Member State. From the perspective of international law, treaty withdrawal must be seen as an exception, an *ultima ratio* in the life of an international treaty. However, States are, in a practical sense, always free to leave an international treaty (Meyer, 2010, p. 393).

According to the common rule in this matter represented by Article 42 (2) from the 1969 Vienna Convention on the law of Treaties: „The termination of a treaty, its denunciation or the withdrawal of a party, may take place only as a result of the application of the provisions of the treaty or of the present Convention. The same rule applies to suspension of the operation of a treaty”.

On general terms, Article 54 of the 1969 Vienna Convention on the Law of Treaties states that termination of an international treaty by withdrawal may take place „(a) in conformity with the provisions of the treaty; or (b) at any time by consent of all the parties after consultation with the other contracting States.”

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\* Carmen MOLDOVAN is lecturer PhD at Alexandru Ioan Cuza University of Iasi, Romania; e-mail: carmen.moldovan@uaic.ro.



The reason behind the existence of an express clause on treaty termination is related to the principle of *pacta sunt servanda* enshrined in Article 26 of the 1969 Vienna Convention on the Law of Treaties, according to which States are not allowed to be released from treaty obligations by their own will (Villiger, 2009, pp. 684-686) and constitutes an exception to this principle (Dörr et Schmalenbach, 2011, pp. 945-962). The principle of *pacta sunt servanda* applies to the entire existence of an international treaty beginning with its creation, continuing with its execution and eventually its termination (Helfer, 2010, p. 67).

In the case of United Kingdom leaving the European Union, the applicable rules on withdrawal are those enshrined by Article 50 of the Treaty of the European Union (TEU) which sets the rules and proceedings to be followed in case of a State's intention to exit the European Union.

The provisions of the Vienna Convention on the Law of Treaties are still relevant because they have a general character and the formal conditions set out in Article 50 TEU are not entirely clear and precise on the procedure to be followed and the competences of the European institutions during this process, thus leaving the question if the exit of the United Kingdom from the European Union should take place exclusively according to the European Union law or it may take into consideration the general framework of international treaty law on this matter.

The Treaties of the European Union are governed by the general rules on international treaty as stated in the 1969 Vienna Convention on the Law of Treaties or by the customary international law rules. The core relevant international law principles applicable in matters concerning the interpretation of international treaties are the following: the specific terms of a treaty prevail, as interpreted in accordance with that treaty and the Vienna Convention on the Law of Treaties; the terms of a treaty are interpreted 'in good faith in accordance with the ordinary meaning to be given to the treaty in their context and in light of its object and purpose'; State parties to a treaty are under an obligation to perform a treaty in good faith; this obligation continues to apply for so long as the treaty is in force, so it survives the notice of withdrawal and continues to apply until such time as the treaty is no longer in effect; there can be no justification under internal laws for a failure to perform obligations under the treaty; customary international law obligations on a State continue to apply even after withdrawal from a treaty; reciprocity of rights and obligations is normally provided for in a treaty (Villiger, 2009).

## 1. State practice concerning treaty withdrawal

There are few cases in the state practice on international treaty withdrawal. We will focus on few examples. In 1997 North Korea attempted to terminate its membership to the International Covenant on Civil and Political Rights which does not have any provision on the possibility of exit. In the same year, the United Nations Human Rights Committee issued the *General Comment No. 26* in which it concluded that the Covenant was not capable of denunciation or withdrawal (UNHRC, General Comment No. 26, 1997).

More recently, on 12 October 2017 the United States of America officially notified UNESCO (United Nations Educational, Scientific and Cultural Organization) of the intention to withdraw and establish a permanent observer mission to this Organization. Pursuant to Article II (6) of the UNESCO Constitution, the withdrawal will take effect on December 31, 2018 (United States Department of State, 2017). The United States also withdrew from the Rome Statute of the International Criminal Court in 2002 and from the Paris Agreement. The Russian Federation withdrew as well from the Rome Statute on International Criminal Court. We will not analyse the reasons and the effects of these particular cases, the aim for citing them is to show that as exceptional as it may be, withdrawing from international treaties happened before.

Yet, these cases are different and describe a simpler procedure to be followed than the one discussed in this paper because the leaving clauses have a different content. Technically speaking, the United States were never a Member State to the Rome Statute of International Criminal Court, as they only signed this treaty on 31 December 2000 and did not ratify it (this was the form of expressing consent to be bound by the treaty and by which the treaty would have become mandatory for the United States) and the notification from 6 May 2002 expressed that „the United States does not intend to become a party to the treaty” (United Nations Treaty Collection, 2018) and thus it has no legal obligations in connection with its signature.

The same approach was adopted by the Russian Federation, which signed the Rome Statute on 13 September 2000 and informed the Secretary General about ‘the intention of the Russian Federation not to become a party to the Rome Statute of the International Criminal Court’ (United Nations Treaty Collection, 2018).

The United States became a party to the 2015 Paris Agreement which it signed on 22 April 2016 and expressed its content to be bound by acceptance on 3 September 2016 (United Nations Treaty Collection, 2018). On 4 August 2017, the United States notified its intention ‘to withdraw from the Paris Agreement as soon as it is eligible to do so’ (US Department of State, Communication Regarding Intent to Withdraw from Paris Agreement, 2017).

As concerns the European Union legal order, the only example related to this the case of Greenland, in 1982 – when a majority of 53% to 47% decided in a referendum to leave the European Communities. But this case is different from the case of the United Kingdom in many ways: Greenland as part of Denmark was not a European Union (European Communities) Member State *per se* and Denmark tried to obtain a modification in the territorial application of substantial parts of the EU Treaties by excluding Greenland from their application. This had as a result the conclusion of special agreements on trade and fisheries (Odermatt, 2017, p. 1054).

Unlike Greenland, the process of withdrawal of United Kingdom is more complex and difficult taking into consideration its legal status, the specific features of the European Union legal order and legal relationships between its Member States and the organization.

The European Union is a special international legal entity, a *sui generis* and supranational international organization (Adam *et al.*, 2015) and its functioning is



regulated by the Treaty on the Functioning of the European Union (TFEU) (OJ C326, 2012, pp. 47–390) and the Treaty on European Union (TEU) (OJ C 326, 26.10.2012, pp. 13-390).

A very important element that will have strong implications for the functioning of the Union after the exit of the United Kingdom is its supranational character which created a very strong link between Member States arising from the transfer of sovereign powers to the organization (Schermer and Blokker, 2011, p. 99).

The current legal debate on Brexit concerns especially the issues on the future relationships between the EU and United Kingdom during the negotiations period and after the conclusion of the leave agreement between the European Union and United Kingdom. In addition, the role and the status of European Union law that was implemented in the United Kingdom and rules applicable to commercial and private international law relations will change and at this moment it is not entirely clear in what manner.

This second issue concerns not only the relationship as legal entities but also the status of the European Union law in the United Kingdom and what measures (if any) might be taken in order to safeguard the rights and interests that the United Kingdom enjoys now.

## 2. The withdrawal clause – Article 50 TEU

On 29 March 2017, the United Kingdom notified the European Council of its intention to leave the European Union in accordance with Article 50 TEU. Taking into consideration that this is a formal and official notification of the intention of the United Kingdom to withdraw from the European Union and that the negotiation process between the European Union and the United Kingdom already began, the paper will not focus on constitutional issues concerning authorities and competences in triggering the exist process.

Yet it should be mentioned that the United Kingdom Supreme Court held in the *Miller v. Secretary of State for Exiting the European Union* (24 January 2017) „that an Act of Parliament is required to authorise ministers to give Notice of the decision of the UK to withdraw from the European Union.” (United Kingdom Supreme Court, 2017, Judgment, 24 January 2017, R (on the application of Miller and another) (Respondents) v. Secretary of State for Exiting the European Union (Appellant); Phillipson, 2017, pp. 46–93).

For the purposes of this paper, it should be noted that the possibility of a Member State to withdraw from the European Union was for the first time introduced by the Lisbon Treaty (OJ C 306/1, 2007) thus putting an end to legal debates and controversies in this regard (European Parliament, Briefing, 2016; Wessel, 2016).

Furthermore, the aim of introducing a special clause on withdrawal in the Constitutional Treaty was to provide an express treaty based legal framework concerning the procedure, taking into consideration that in lack of this type of

clause, the issue of treaty termination by withdrawal would be discussed and argued on the field of customary international law.

Article 50 reads as follows:

„1. Any Member State may decide to withdraw from the Union in accordance with its own constitutional requirements.

2. A Member State which decides to withdraw shall notify the European Council of its intention. In the light of the guidelines provided by the European Council, the Union shall negotiate and conclude an agreement with that State, setting out the arrangements for its withdrawal, taking account of the framework for its future relationship with the Union. That agreement shall be negotiated in accordance with Article 218(3) of the Treaty on the Functioning of the European Union. It shall be concluded on behalf of the Union by the Council, acting by a qualified majority, after obtaining the consent of the European Parliament.

3. The Treaties shall cease to apply to the State in question from the date of entry into force of the withdrawal agreement or, failing that, two years after the notification referred to in paragraph 2, unless the European Council, in agreement with the Member State concerned, unanimously decides to extend this period.

4. For the purposes of paragraphs 2 and 3, the member of the European Council or of the Council representing the withdrawing Member State shall not participate in the discussions of the European Council or Council or in decisions concerning it.

A qualified majority shall be defined in accordance with Article 238(3) (b) of the Treaty on the Functioning of the European Union.

5. If a State which has withdrawn from the Union asks to rejoin, its request shall be subject to the procedure referred to in Article 49.” (Consolidated Version of the Treaty on European Union, 2012).

### 3. What do we know until now? The implications of Article 50 TEU

One may easily observe that Article 50 TEU contains only procedural conditions and does not set down any substantive conditions for a Member State to be able to exercise its right to withdraw and constitutes *lex specialis* to the general rules of the 1969 Vienna Convention on the Law of Treaties (Waibel, 2017). It clearly provides that the withdrawal process begins with a formal notification from the Member State to the European Council declaring its intention and that there is maximum two years time-frame in which the negotiations of the withdrawal agreement should be concluded otherwise the state's membership ends automatically and the Treaties will cease to apply to the withdrawing Member State. The reason for establishing a period between the formal notification and the actual exit is to allow the organization and the leaving State to reorganize taking into consideration that structural changes will happen, including financial issues (Wessel, 2016).



However, Article 50 TEU provides the possibility to extend this period by joint decision of the European Council and the Member State without providing any elements or criteria for such a decision. As it appears, the role of the European Council is decisive in the withdrawal process as it provides the guidelines for the negotiations.

Although Article 50 TEU does not explicitly provide any competences for the European Commission in this process, according to Article 218 (3) TFEU, the European Commission would make recommendations to the Council to open negotiations with the withdrawing state.

As already discussed, there is no precedent for such an agreement and probably the entire negotiations process will take longer than two years due to the high level of complexity of issue to be established and reorganized between the former Member State and the European Union (Meyer, 2016).

From the reading of the text it is clear that the decision to leave the European Union is unilateral in nature (Piris, 2015) and it does not need a justification or motivation from the Member State nor the endorsement of formal agreement of the other Member States (Bowers *et al.*, 2016, p. 6).

However, it should be emphasised that technically and legally the withdrawal agreement is not a unilateral act of the Member State, but an agreement between it and the European Union, which sets out concrete details and conditions regarding the legal relationships between the European Union and the former Member State.

The main reason for the necessity of an agreement is represented by the complexity of legal relations in which the withdrawing State is a party as a result of its membership to the European Union.

As a European Union Member State, the United Kingdom benefits from more than 700 international agreements concluded by the European Union with third states or international organizations (Odermatt, 2016) which will have to be renegotiated due to the withdrawal process (Larik, 2017; Meyer, 2016).

At the end of the negotiation period, the Union negotiator will present an agreement proposal to the Council and the European Parliament, taking into account the framework of the future relationship of the United Kingdom with the EU. Whereupon the European Parliament must give its consent, by a vote of simple majority, including Members of the European Parliament from the United Kingdom. The authority to conclude the agreement belongs to the Council, by a vote of strong qualified majority. Following these procedures at the European Union level, the United Kingdom must also ratify the agreement according to its own constitutional arrangements (Article 50 (1)).

Unlike the accession of new Member States to the European Union, the withdrawal of a Member State does not require ratification by the remaining Member States but any Treaty changes or future international agreements (such as a free trade agreement) that might be necessary as a consequence of the withdrawal agreement would need to be ratified by the remaining Member States in accordance with Article 48 TEU. Also, the text of Article 52 TEU on the territorial scope of the Treaties, which lists the Member States, would need to be amended, and Protocols

concerning the withdrawing Member State revised or repealed (European Parliament, 2018).

During the negotiations, the United Kingdom is still a full Member of the European Union and should continue to participate in all areas of the European Union as usual, although it may be mentioned the example of the informal European Council meeting on Brexit on 29 June 2016 when David Cameron was excluded even if there was no formal notification on triggering Article 50 TEU by the United Kingdom (Bowers *et al.*, 2016, p. 7).

It is clear that the United Kingdom will no longer benefit from the international treaties that the European Union as an international actor concluded with other legal entities and should negotiate its accession to these treaties.

Another type of international treaties will keep their applicability and legal effects: it is the case of the so called *mixed treaties*, meaning those treaties in which the United Kingdom is a part alongside European Union and an international organization or another state or states (Odermatt, 2016).

Article 50 is silent as well as regards the issue of ‘acquired rights’, meaning those individual rights created by the European Union legal order for the British citizens and businesses in the European Union or for the citizens of other Member States and businesses in United Kingdom and their automatic continuation after leaving the European Union. To be more precise, the European Union Treaties are also silent about this possibility and thus the solution to this matter may be found in the general principles of international law on the law of treaties provided by the 1969 Vienna Convention on the Law of Treaties and/or by the customary international law (Bowers *et al.*, 2016, p. 4).

From the perspective of individual rights created in the legal order of Member States by the EU law, leaving the European Union is different from leaving any other international organization or withdrawal from an international treaty that establishes rights and obligations between Member States (Wessel, 2016).

#### **4. The current state of the negotiations process – ‘nothing is agreed until everything is agreed’**

Following the formal notification on Article 50 TEU, on 2 February 2017 the United Kingdom published a *White Paper* on its position and provided a set of principles that will guide the process and established priorities for the Government (such as ‘taking control of our own laws’ or ‘providing certainty and clarity’) (Odermatt, 2016, p. 1052). The aim of the United Kingdom as stated in the letter addressed to the President of the European Council was to reach a comprehensive agreement on economic and security issues within the two-year time frame.

Following the triggering of the leaving clause of Article 50 TEU, a series of meetings took place concerning different issues on United Kingdom exit from the European Union, the most recent document from 23 March 2018. Before this moment, according to the European Council guidelines of 29 April 2017 (Council of the European Union, 2017), the *Draft Guidelines* for negotiation from 31 March





2017 (Council of the European Union, 2017) and the Council negotiating directives of 22 May 2017 (Council of the European Union, 2017), the first phase of the negotiations focused on the rights of citizens, the financial settlement, the issues relating to the island of Ireland, other separation issues, and the governance of the Withdrawal Agreement (Council of the European Union, 2017).

The 31 March 2017 Guidelines set out the core principles for negotiations, which include the idea of a phased approach to negotiations.

Beginning in June 2017, the withdrawal negotiations have focused on three key priority issues – citizens’ rights, the financial settlement and the situation of Northern Ireland – alongside other ‘separation’ provisions (e.g. ongoing EU judicial and administrative procedures, Euratom related issues, data protection etc.)

The European Commission organized a *Taskforce on Article 50 negotiations with the United Kingdom* having as competences preparing and conducting the negotiations with the UK, taking into account the framework of its future relationship with the European Union (European Commission, 2018).

The act adopted by the European Council on 23 March 2018 contains the Guidelines in this matter (European Council, 23 March 2018). The document firstly mentions the result of negotiations so far, mainly the agreement reached on parts of the legal text of the *Withdrawal Agreement* concerning citizens’ rights, the financial settlement, a number of other withdrawal issues and the transition (European Council, 23 March 2018, para. 1). It also notes that the progress may be achieved by intensifying efforts on remaining withdrawal issues including those referring to territorial application especially as regards Gibraltar (European Council, 23 March 2018, para. 1). At the same time, it should be noted that the introductory part of the Guidelines expressly states that the agreement should be reached on every issue, using the terms – ‘nothing is agreed until everything is agreed’.

In this context and regarding the *Draft Agreement* on the withdrawal after the negotiations round of 16-19 March 2018 (European Commission, *Draft Agreement*, 2018) and the number of issues that need to be established by March negotiations, the two years’ time frame appears insufficient to solve all the matters related to the United Kingdom-European Union future relationship. Taking into consideration the complexity of all these issues and the sensitive character of some of them the automatic ending of the United Kingdom’s membership for failure to observe the two-year time term seems highly unlikely.

Negotiations rounds took place between 16-19 April 2018 on remaining issues (European Commission, 2018), on June (European Commission, 2018, 19 June), July and recently in August 2018.

The topics for discussions at the forthcoming meetings between the European Union and the United Kingdom, agreed during the negotiations round of 2-4 May 2018 as a way to structure include issues on co-operation (structure, governance, dispute settlement, participation and cooperation with European Union bodies), economic partnership (aims, goods, agricultural, food and fisheries products, customs, financial services, services and investments, transport, energy), security (law enforcement and criminal justice, foreign, security and defense),



cross-cutting cooperation (data protection, science and innovation) (European Commission, 2018).

Even if the intent and the pending negotiations are for the purpose of the United Kingdom exiting the structure of the European Union, it is expected that United Kingdom will want to maintain its collaboration with the Union in certain areas in order to have access to the single market such as remaining in the European Economic Area and joining European Free Trade Association. Another way might be represented by conclusion of bilateral agreements with the European Union (following the Swiss model) (Bowers *et al.*, 2016, p. 4-5).

The United Kingdom is set to leave the European Union on 29 March 2019. According to the Articles 121-126 of the Draft Agreement, there shall be a transition or implementation period starting on the date of the entry into force of the agreement until 31 December 2020.

During this period, European Union law shall apply in the United Kingdom except the situations provided by the rest of the Article 121. This is also applicable to the jurisdiction of the Court of Justice on the United Kingdom.

## 5. The withdrawal agreement – the legal nature

The agreement mentioned by Article 50 TEU that will be concluded between the United Kingdom and the European Union will certainly represent an international treaty in the sense of the definition given to the term ‘treaty’ by Article 2 (a) of the 1969 Vienna Convention on the Law of Treaties and the 1986 Vienna Convention on the Law of Treaties between States and International Organizations or between International Organizations. In the hierarchy of the legal sources of the European Union such an agreement will not be part of primary law as it is not concluded between the United Kingdom and the other Member States and thus it might be subject to the control of the Court of Justice of the European Union who will be able to analyse its legality and compatibility with the European Union law according to Article 218 (11) TFEU (European Parliament, 2016). One possibility could be challenging the Council’s decision to conclude the agreement through an action for annulment according to Article 263 TFEU.

The legal consequence of the withdrawal agreement will be termination of the Treaties for the leaving state which is released from any obligation to perform the treaty (Helfer, 2012, p. 640). However, it must be acknowledged that any national acts adopted in implementation or transposition of European Union law in the United Kingdom would remain valid until the national authorities decide to amend or repeal them (European Parliament, 2016).

Regarding the relation between the international treaties (or agreements) and the municipal law, the legal system of the United Kingdom is a dualist one, meaning that any international agreement ratified by the United Kingdom will not be directly applicable in the national legal system (will not be a part of the domestic legal system). Following the concluding of the agreement in order for it to be applicable and create legal consequences, it should be implemented in the United Kingdom’s national legal system. In other words, the terms of the



agreement concluded between the European Union and the United Kingdom will need approval from the Parliament (Bowers *et al.*, 2016, p. 9; Caird, 2018) expressed in an Implementation Bill, yet the Parliament does not have a legal obligation in this regard.

The European Union Treaties were implemented pursuant to the 1972 *European Communities Act* and after the entering into force of the Withdrawal Agreement the United Kingdom will have to reshape its domestic legal order according to its new legal status of a former member of the European Union.

## 6. Are there individual acquired rights?

One of the most sensitive issues to be established is that of citizen's rights acquired under the European Union law (the so called „acquired rights doctrine” that does not have a conventional definition nor is generally accepted) which refers to rights of United Kingdom nationals in the other Member States and vice versa. This topic is particularly important as a number of around 3.5 million EU nationals (excluding Irish) were estimated to reside in United Kingdom from January 2017 to December 2017 and around 0.8 million United Kingdom citizens were resident in other European Union States (excluding the Republic of Ireland) on 1 January 2017 (Department for exiting the European Union, 2018).

For the nationals of a Member State the European citizenship has a special value and legal consequences such as free movement, residence rights, free movement of workers, freedom of establishment, free movement of goods and services and is linked to the territoriality principle (Kochenov, 2016, p. 11-13). Articles 9 TEU and 20 para 1 TFEU state that Union citizenship is additional to and does not replace national citizenship.

The Treaties on the European Union are silent on the possibility of their continuation for the citizens of the United Kingdom after leaving the European Union and as already underlined, Article 50 TEU contains mainly procedural aspects.

In this context, one may analyse if the provisions of the Vienna Convention on the Law of Treaties may be useful. Article 70 („Consequences of the Termination of a Treaty”) of the Vienna Convention states that:

„1. Unless the treaty otherwise provides or the parties otherwise agree, the termination of a treaty under its provisions or in accordance with the present Convention:

- (a) Releases the parties from any obligation further to perform the treaty;
- (b) Does not affect any right, obligation or legal situation of the parties created through the execution of the treaty prior to its termination.

2. If a State denounces or withdraws from a multilateral treaty, paragraph 1 applies in the relations between that State and each of the other parties to the treaty from the date when such denunciation or withdrawal takes effect.”

The provisions of Article 70 predate the Vienna Convention and codify customary international law (Helfer, 2010). Although the text is very clear we must

underline that it directly concerns relations and secures legal effects between States not for individuals. On the other hand, in a more extensive view one could interpret the provisions of Article 70 para 1 (b) in the sense that the United Kingdom nationals will keep their rights derived from their European citizenship after the United Kingdom is a third State for the European Union considering that this legal status was created through the execution of the treaties governing the European Union.

Before the *Draft Agreement* was made public, the Directorate General of the European Parliament published in 2017 a detailed study on the acquired rights issue from the perspective of public international law and the consequences that Brexit will produce on the legal status of United Kingdom citizens, noting that general international law does not provide protection of the subjective rights of individuals that may continue in the case of withdrawal from the treaty that created them by the national state and that there are no acquired rights but the situation may be different in the case of an withdrawal agreement under Article 50 TEU (European Parliament, Policy Department for Citizens' Rights and Constitutional Affairs, 2017).

As it appears, The European Court of Justice may analyse this issue and establish the legal consequences for the individual rights as a court from Netherlands had the intention in February 2018 to address the European Court of Justice the question if British nationals will automatically lose their European citizenship as a consequence of Brexit (Teffer, 2018). The case is not at this moment registered to the European Court of Justice, yet the questions to be addressed appear to be the following:

“1. Does the withdrawal of the United Kingdom from the EU lead to the automatic loss of EU-citizenship of the British nationals, thus resulting in the loss of the rights and freedoms deriving from EU citizenship, if and in so far as the European Council and the United Kingdom do not agree otherwise in the negotiations?

2. If the answer to the first question is in the negative, should conditions or restrictions be imposed on the retention of the rights and freedoms derived from EU citizenship?” (District Court of Amsterdam, Case number/session number: C/13/640244/KG ZA 17-1327 FB/AA, 7 February 2018).

At a first look the answer to the first question may be in the affirmative, as the European citizenship constitutes a consequence of having the nationality of a Member State which means that after Brexit, the British nationals will no longer enjoy the legal status of the European citizenship.

However, this quick conclusion is difficult to accommodate with the interpretation of the European Court of Justice in the *Van Gend & Loos Case* (ECJ-Case C-26/62, *van Gend & Loos*, 1963) which stated that EU law confers rights on the nationals of the Member States that become part of their „legal heritage” without any other clarifications.



It should be nevertheless noted that the *Draft Agreement* contains provisions on citizens' rights, in Part II entitled „Citizen's rights” which is structured in Title I – „General provisions”, Title II – „Rights and Obligations”, Title III – „Coordination of social security systems”, Title IV – „Other provisions”, having 27 articles.

In Article 8 of the Draft Agreement we find some useful definitions of terms: „host State”, „family members” and „frontier workers”, „State of work”, and „rights of custody”, all having as a common feature that they consider the achievement of a legal status before the end of the transition period and continue to do so thereafter. The aspects of different types of legal status are quite detailed. For example, the conditions and restrictions that may be applied to rights related to residence are detailed in a number of 10 consistent articles.

Taking into consideration that the provisions on citizens' rights refer to „Union citizens” and „United Kingdom nationals” the solution to the legal dilemma on losing the European citizenship by the latter category is obvious. Yet many of the rights related to the European citizenship will continue if they were acquired before the transition period and with respect to the conditions set in the Agreement.

However, it is very important to note that all these conditions shaping the new relations between the European Union and the United Kingdom will apply if the terms contained by the *Draft Agreement* will become part of a binding legal instrument accepted both by the Union and by the United Kingdom. In the unlikely case of leaving without the conclusion of an agreement, the dilemma will continue to exist and will be solved by the European Court of Justice.

## Conclusions

Although the *Withdrawal Agreement* is not entirely negotiated, there is a certainty: leaving the European Union will have great significance for the United Kingdom and for the European Union both at the international and at the national level.

Both parties will need to reorganize their structure and the applicability of the legal order. The United Kingdom will have to reactivate all the dimensions of its statehood and renegotiate a large number of international agreements from which it benefited as a Member State or perhaps withdraw from others and at the same time reset the internal domains in which the European Union law was applicable. It is difficult to predict the length of this entire Brexit and post-Brexit process, yet the two years-time frame provided by Article 50 TEU will surely not be enough. More likely a period of 10 to 15 years may be sufficient for the completion of the entire exit process.

Despite the technical details and the negative effects of the United Kingdom leaving the European Union the role and the influence of the British judges and advocates general in the shaping and development of the European Union legal order and the activity and case law of the courts of the European Union cannot be challenged and will remain forever in the history of the European Union as particularly important and infallible.

Even if the negotiation process started and the parties drew up the *Draft Agreement*, there is no impediment for the United Kingdom to rejoin the European Union (as the United States after it left the International Labour Organization in 1977).

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# PARTICULAR ASPECTS OF CONSUMER PROFILE OF THE PUBLIC GOODS GENERATED IN A REGION WITH EXTENSIVE AGRICULTURAL ACTIVITIES: THE CASE OF DORNA VALLEY AREA OF ROMANIA

Costică MIHAI\*, Mariana HATMANU\*\*

## Abstract

*The market of public goods is one of the most particular institutions because both the suppliers and consumers are very heterogeneous. In one of the richest, from public goods point of view, area of Romania, the region of Dorna Valley in the North East of Romania, we find both local and external consumers, which have different perspectives on the utility of public goods. The region is characterized by extensive activities, especially in agriculture and forestry, and many of the public goods are related to the environmental dimensions, the reason why many of the consumers are in the position of tourists and consumer of local private goods. The analysis of the consumer profile enabled us to understand the particularities of the demand and the causes of different willingness to pay to benefit from different public goods. Such parameters as age, professional status, level of income or level of education have been used to describe the classes of consumers and their propensity to consume public goods. The used methodology includes a cluster analysis based on the data obtained by a survey conducted in the North-East of Romania. The utility of results is obvious for the general interest of scientists and practitioners to understand the necessity and intensity of public goods provision.*

**Keywords:** public goods, consumer profile, cluster analysis, demand characteristics

## Introduction

Economic and social development of rural localities is a deep process in development requiring the existence of a set of initial and sufficient conditions. Operations in rural areas aim to provide both private goods and services needed to meet current and future needs of the population and to record a specific level of public goods and services, based on the principle of externalities, contributing to shaping the income of the inhabitants and people found temporarily in the region (Benedek and Lembcke, 2017).

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\* Costică MIHAI is professor PhD at Alexandru Ioan Cuza University of Iași, Romania; e-mail: [ticu@uaic.ro](mailto:ticu@uaic.ro).

\*\* Mariana HATMANU is associate professor PhD at Alexandru Ioan Cuza University of Iași, Romania; e-mail: [mariana.hatmanu@uaic.ro](mailto:mariana.hatmanu@uaic.ro).

The nature of public goods involves a set of specific features compared to private goods: non-rivalry and non-excludability. These basic features have a strong impact on their consumers, not being able to influence or exclude other consumers from consumption. In other words, “a public good, as defined by economic theory, is a good that, once produced, can be consumed by an additional consumer at no additional cost” (Holcombe, 1997 p. 1).

In the analysis of public goods production, the economic discourse should be built around the idea of demand and its features: „The belief that consumer satisfaction is the ultimate economic goal and that the economy is fundamentally ruled by consumer desires is called consumer sovereignty”.

In his seminal work “The Wealth of Nations” Adam Smith states that “consumption is the sole end and purpose of all production and the welfare of the producer ought to be attended to, only so far as it may be necessary for promoting that of the consumer” (Smith, 1937, p. 625). We cannot understand the way an economic relationship between economic agents works if consumer’s feature and the specificity of demand for the goods under this relationship have not been fully investigated.

Current evolution of needs is unlimited, consumers feeling the need for new products as their income and social status grow: “we can apparently never have enough to be satisfied, because there is always someone with more than we have” (Goodwin *et al.*, 2008, p. 17). Consumption growth and diversification are the stimulating factors for the production of goods meeting these needs. Going over a specific level of knowledge and awareness generates also a consumption of public goods, especially of goods related to environment and society.

Due to these features, there is a need for a specific analysis of the profile and demands of public goods consumer, an analysis that would be used to develop incentives for developing practices and activities with high potential for public goods production (Baldock *et al.* 2011).

But “the public domain appears as a residual category, with states performing tasks that markets cannot. But as noted, “private” can no longer simply be equated with markets, and “public” with states. Both contribute, among others, to the public and private domains” (Kaul and Mendoza, 2003, p. 78).

The issue of public or private goods delivery is very important and should be analysed considering producer’s level of remuneration and the need to satisfy the demand for different goods and services: “conventional market allocative and distributive criteria may be violated both in the case of conventionally ‘public’ and ‘private’ goods, makes it clear that these criteria cannot guide the choice between public and private provision” (Niedermayr *et al.* 2018). A theory of public goods should provide an “explanation of why the distributive implications of a divergence between price and marginal benefit which may be observed both for traditionally public and private goods are significant in some cases, while they are not, and can be left to the play of market forces, in others” (Marmolo, 1999, p. 30).

National public or community companies are especially interested in encouraging public and private goods production supplied by each region of the European Union. Taking into account that market economy should operate freely



and not be conditioned by public measures, policies targeted at ensuring normal conditions for business operation and relationships among economic agents also contribute to providing public services to society. Their volume is generated in relation with region's features and the intensity for public goods required by local providers and consumers.

The main aim of the paper is to identify the consumer profile and explain the particularities of the demand for the different public goods. The socio-economic features of public goods consumers are very diverse. Starting with age structure and professional category and ending with aspects related to degree of awareness regarding public goods and the willingness to pay for the goods to benefit from them, the profile of consumers is important in order to understand who they are and how intense are their preferences. In fact, this is the main argument that producers of public goods and services take into account in developing sustainable strategies for their operations.

## **1. The context of analysis**

This study has been conducted using the case of Dorna Valley in the North-East of Romania. This is a widely recognized area for its environmental and rural characteristics. The existence of a beautiful mountain landscape, pure high-quality mineral waters recognized nationally and internationally, maintenance of high quality of air, soil and local ground water, biodiversity specific to high quality ecosystems, as well as the features of well-developed rural area made us choose this area as a topic for the research project funded by the European Union through Horizon 2020 Programme. The area was chosen during workshops organized within this project, it has been earlier mentioned as one of the areas in the North-East region where most public goods are located both in terms of quality and quantity. One of the aims of the project is to provide solutions for improving the supply of public goods, and the most important stage of the project provided an analysis of the demand for public goods and conducted their assessment.

The Dorna Valley surpasses other areas of the North-East Region of Romania with regard to the availability of public goods. Many of the farms in this region conduct their activities using traditional, extensive practices. Thus, the main agricultural activities in the region are focused on livestock, primarily cattle, but also sheep.

The public goods investigated are: natural landscape, farmland biodiversity, water availability and quality, air quality, soil functionality, climate stability, Resilience to flooding, landslide and wildfire, rural vitality and cultural heritage, food security and quality and farm animal wealth or welfare. (Vanni, 2014). From the workshops, it was observed that the stakeholders have considered those public goods like essential resources in the Dorna Valley region (the Hotspot of the research), due to the direct impact on the tourism sector and indirect impact on the agro-food sector. Tourists usually visit Dorna in order to benefit from nature walks, outdoor sports and relaxation. The agro-food businesses in the region benefit from the forested mountainous environment by generating high quality food products,

which are then sold to consumers who associate the “*Vatra Dornei*” brand with healthy food due to the natural landscape. All of these activities are essential parts of the local economy and its perspective for sustainable development.

Public good quality of natural landscape is affected by several activities in the region, including illegal deforestation, conversion of natural pastures to farmland, as well as increased urbanization and real estate development. Such activities can be curbed if local entrepreneurs were provided with consultancy or education services which would provide knowledge regarding successful sustainable farming and forestry practices and consultancy on leveraging funding opportunities for green businesses. In addition, the provision of AES payments would help in vectoring their efforts for improving farming practices and provide a financial motivation for such activities.

The demand for public goods in the Dorna Valley is directly correlated to elements of its attractiveness. The residents of this area are interested in the public goods of the region as they impact their daily life. The region is environmentally clean, with high natural productivity, able to generate sustainable products of high quality. In addition, rural vitality is high, the population being stimulated to maintain its customs, traditions and daily activities in an attractive socio-economic environment. There have been maintained both primary and secondary activities related to farming and forestry, and also tertiary tourist and craft-making activities have been growing contributing to improving the life conditions of people living in rural areas of the region.

On the other hand, “visitors” to this have been attracted by the natural features of the mountain landscape, by the beauty of the scenery, and by the quality of products and services in the region.

As long as the offer of private goods is dictated directly by their market, the provision of public goods is not just the responsibility of one of the economic agents in the area. It has been observed that the market lacks the capacity to manage properly the production of public goods. Still, the public discourse is far from being clear: “the conventional justification for the public provision of goods is market failure. Conversely, market-oriented critics of public goods theory hold that market failure is, more often than not, wrongly diagnosed. In any case, it is a lesser evil as compared to government failure. The ill consequences of the latter are, in fact, compounded by the coercive nature of public action. All these arguments focus on the allocative properties of public and market outcomes” (Marmolo, 1999, p. 28).

In practice, the interest of economic agents in the area has been stirred by the awareness that the used technology, the management of activities, the choice of resources, and even the transmission and application of good business practices providing a higher volume of public goods could increase substantially their total income. They responded to the demands for public goods even in the absence of a clear market for these.



## 2. Data and methodology

The population of the survey regarding the demand for public goods (PGs) (consisted of approximately 70.000 people (inhabitants of the hotspot and yearly tourists visiting the area). The sample consisted of 102 responses. The main evaluation tool included in the in the questionnaire based survey consisted of a Contingent Valuation exercise based on the item presented below.

To perform this study, we have used a quantitative methodological approach. In this regard, the descriptive statistical methods and cluster analysis were used to identify and highlight the characteristics of the public good demands and to cumulate different characteristics of the consumer in homogeneous groups. This way we can understand the profile of the consumers grouped in different clusters based on interferences between different characteristics. This allowed us to extend the analysis to relationships between these variables and benefits of PGs provided by the hotspot under study.

Description of questionnaire and analysed data. Data needed for research was collected by means of a questionnaire applied in the North-East Development Region of Romania. The statistical questionnaire was divided into the:

- first part which includes an introduction presenting the aim and scope of the case study;
- second part includes questions aimed to identify preferences of consumers for public goods;
- third part aims to collect information on the willingness of residents to pay for improved public services;
- fourth and fifth part aims to discover the views of consumer on the need, opportunity and also limitations of being provided public support for generating public goods;
- last part includes questions on socio-demographic characteristics of respondents.

The questionnaire was completed by a sample of 102 individuals. As 5 outlier points were identifies for some statistical variables, these have been eliminated and the statistical analysis was applied to 97 individuals. To reach the aim, we have selected the following variables on the basis of database built using the collected data:

- payment willingness for moderate improvement of PGs provided in the Dorna Valley (*Mod\_improv*). The question matching this variable includes 12 variants of response, from 0 to 33 Euro, growing approximately by 2 Euro. The questionnaire comprised degraded areas in the Dorna Valley. To understand the range of improvements for public goods (landscape, quality of water, rural vitality, soil quality, biodiversity, ...), respondents have been given (visually and by description): an area they may know: centre of Vatra Dornei Municipality. So, the objective for improvement could be afforestation of an area equal to seven times bigger an area as to show the rural landscape and other public goods derived from afforestation of degraded areas; a litre of

water in which the concentration of nitrogen compounds were reduced from 2,8 to 1 mg/l in order to reflect the quality of water; a locality in which the number of young people and newly built houses would grow by 3% to reflect rural vitality.

- Age (*Age*)
- Gender (*Gen*)
- Last graduated school (*Educ*). The question matching this variable includes 6 levels of education (1 – primary, 2 – secondary, 3 – high school, 4 – undergraduate, 5 – master, 6 – PhD).
- Professional status (*Prof\_stat*), with variants: 1 – Employed indefinitely, 2 – Employed period, 3 – Entrepreneur, 4 – Looking for a job, 5 – Student.
- Total income of household (*Income\_level*), with variants: 1 – low income (income up to 2000 lei), 2 – medium income (income between 2000 and 5000 lei), 3 – high income (income higher than 5000 lei).
- Awareness of environmental issues taking into account the daily behaviour of the individual (*Envir\_aware*), with variants in descending order of the degree of awareness from 1 – Not aware of environmental issues, up to 5 – Absolutely aware of environmental issues.

The research is based on qualitative and quantitative statistical methods of analysis. As this research topic displays a low degree of consumer awareness, the analysis should be theoretically grounded in order to understand how the consumers interpret and use the public goods. Besides these methods, statistical methods were used to interpret and analyse data obtained from the distributed questionnaire:

1. Graphic and descriptive analysis of analysed variables

2. Identification of relationships/associations between the willingness to pay for improved public goods and the socio-demographic characteristics of respondents. Given the nature of the variables analysed, methods specific to non-parametric statistics have been applied, such as Spearman and Kendall correlation analysis, Mann-Whitney and Kruskal-Wallis tests for independent samples (Bluman, 2004, pp. 623-662), but also multivariate statistical analysis methods, such as Correspondence Factorial Analysis.

Shaping the profile of public goods consumer in the Dorna Valley based on analysed characteristics, was carried out by and Two-step Cluster analysis (Pintilescu, 2007, pp. 109-260).

### 3. Results of graphic and descriptive analysis of analysed variables

To underline the characteristics and structure of the analysed questionnaire, we use the graphic analysis (Figure 1) and calculate the descriptive statistical indicators (Table 1) for variables mentioned above.

The variable "The amount paid for moderate improvement of public goods, euro" is analysed both in its initial form provided for in the questionnaire, with 12



variants of response, as it has been described above, and in its regrouped version, by three categories, with variants 1 – the amount at least equal to 10 euros, 2 – the amount between 10 and 20 euros, 3 – the amount more than in amounts up to 20 euros, the average amount being of 12.25 euros, with a high standard deviation equal to 7.7 euro. A percentage of only 20.6% of respondents are willing to pay annually more than 20 euros. It is due mainly to a relatively low level of income in Romania, where public goods are viewed as marginal, the main willingness being to pay for private goods.

**Table 1. Descriptive statistics indicators**

	The amount paid for moderate improvement of public goods, euro	The amount paid for moderate improvement of public goods	Age	Level of education	Individual's environment awareness (self-assessment)	Professional status	Household Income
N	97	97	97	97	97	97	97
Valid	97	97	97	97	97	97	97
Missing	0	0	0	0	0	0	0
Mean	12.243	1.814	29.588	3.928	4.0206	3.052	1.752
Median	11.000	2.00	26.00	4.00	4.00	3.00	2.00
Mode	11.00	2.00	23.000	4.00	5.00	5.00	2.00
Std. Deviation	7.696	0.755	10.527	0.820	0.957	1.827	0.677
Minimum	0.00	1.00	19.00	3.00	2.00	1.00	1.00
Maximum	33.00	3.00	66.00	6.00	5.00	5.00	3.00

*Source:* Own processing with SPSS Software

In terms of gender, 59.79% of respondents are females, and 40.21% are males. Compared to official statistics for the North-East region, masculine population is 9% lower in the questionnaire, while the female population is higher. It may be explained by the number of people, who emigrated abroad and are mainly males.

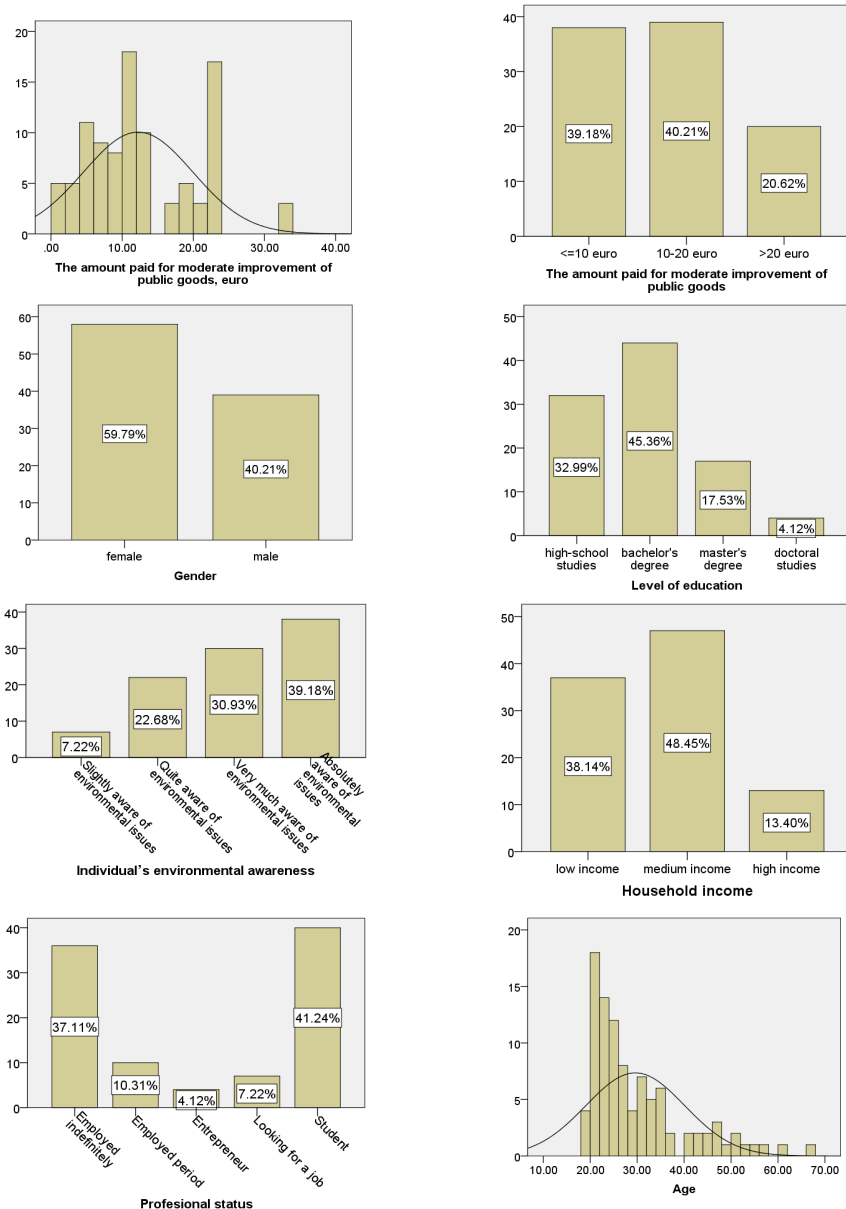
The structure of the analysed questionnaire regarding the variable last graduated level of education shows a concentration in high school (32.99%) and undergraduate education 45.36%). One of the conditions for taking part in the interview referred to understanding the studied area, the Dorna Valley. The population knowing the area comprises people with education above the average, so that people with undergraduate and secondary education occupy the first two positions in this structure. The low number of people with master and doctoral education may be explained by low percentage of these categories in total population.

As for professional status, 39.11% of respondents are students 37.11% are employed indefinitely and 4.12% are entrepreneurs. We expect to discover significant differences between willingness to pay by categories of professional status, closely correlated with total income of households



The data regarding Individual's environmental awareness are encouraging as 39.18% of respondents say that they are "Absolutely aware of environmental issues", 30.93% are "Very much aware of environmental issues", and no person is "Not aware of environmental issues".

**Figure 1. Distribution of socio-economic variables of public good consumers**



Source: own representation with SPSS software



The average age of individuals in the analysed sample is around 30 years, a relatively young age, open and long-term oriented towards the need for public goods. Many young people are open to tourism, understand what the public goods are and express their own views on this issue.

#### 4. Identification of influence factors for the willingness to pay for moderate improvement of public goods quality

The identification of factors influencing the willingness to pay is made by the nature of analysed variables using such methods as: non-parametric correlation analysis, non-parametric equality of means tests for independent samples, chi-square test with correspondent factor analysis.

The analysis of the relationship between willingness to pay and individual's age is made by nonparametric correlation using Spearman and Kendall coefficients and correspondent factor analysis.

**Table 2. Non-parametric correlation coefficients between willingness to pay and age**

Coefficient	Coefficient value	Prob.
<b>Spearman</b>	0.203	0.046
<b>Kendall</b>	0.14	0.052

Source: own processing with SPSS software

Values of the two nonparametric correlation coefficients show a weak positive relation between the two variables with a risk of 5% and 10%, respectively. It means that the willingness to pay increases with aging.

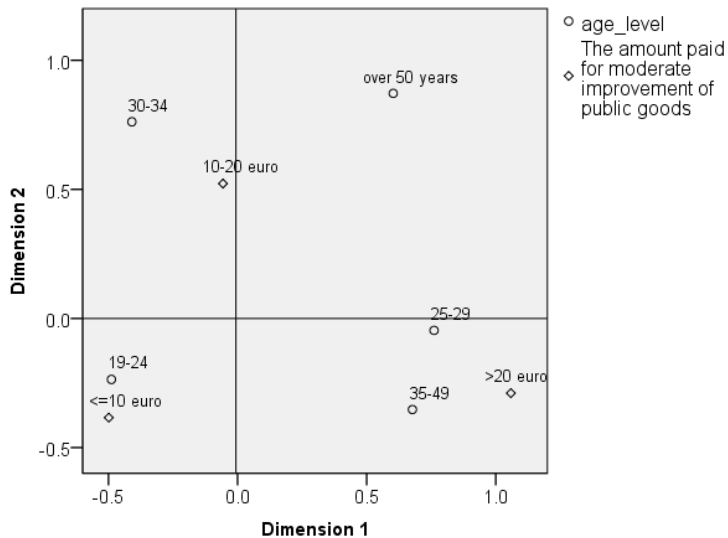
Correspondence Analysis is applied to two variables that have been recorded as follows: 5 categories for the age variable (1 for 19-24 years, 2 for 25-29 years, 3 for 30-34 years, 4 for 35 – 49, 5 – over 50 years), and the variable willingness to pay was considered in the regrouped version of 3 categories as it has been presented above. Chi-square test of independence of variables is significant with a risk of 10% ( $\chi^2=13.86$ ; Prob.=0.085), therefore there is a relation between willingness to pay and age.

First factorial axis explains 76.1% of variation of point cloud so the results are interpreted in relation with this axis. The graphic representation above shows significant differences between the amounts paid by very young individuals, in the group of 19-24 years, who are willing to pay less than 10 Euro, and the age categories 25-29 years and 35-49 years, willing to pay more than 20 Euro.

The graphic analysis of the relation between willingness to pay and awareness of environmental issues by means of boxplot diagram (Figure 3) shows the increase in willingness to pay with increase of the degree of awareness of environmental issues. The numeric verification of this hypothesis is made by non-parametric Kruskal Wallis test for independent samples. The calculated value of the test ( $\chi^2=11.052$ ) and its probability (Prob.=0.011) indicate the rejection of the

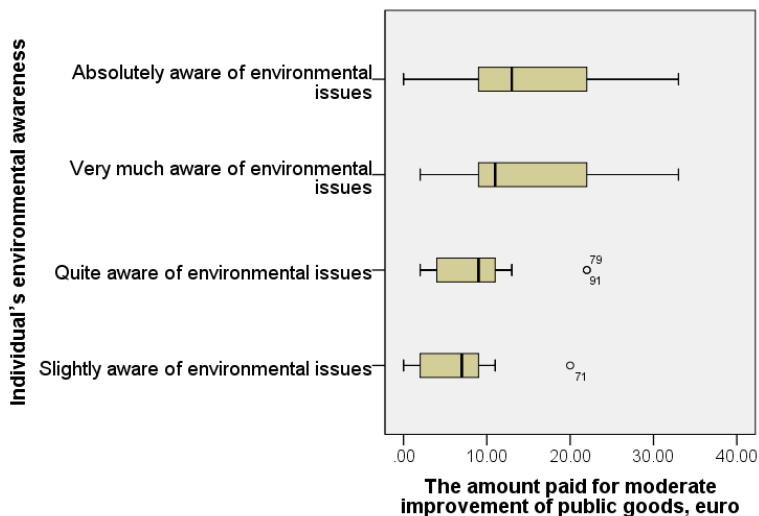
null hypothesis, so there are significant differences between willingness to pay and the degree of awareness of environmental issues, with a risk of 5%.

**Figure 2. Representation of categories of variables willingness to pay and age in the system of the two factorial axes**



Source: own representation with SPSS Software

**Figure 3. Distribution of willingness to pay in relation with awareness of environmental issues**



Source: own representation with SPSS software



The graphic representation of distribution of willingness to pay in relation with professional status (see Figure 4) shows the existence of differences between willingness to pay by professional categories. Therefore, it is obvious that the highest average amount to be paid corresponds to the category of entrepreneurs, and the lowest to the category of individuals looking for a job.

**Figure 4. Distribution of willingness to pay in relation with professional status**



Source: own representation with SPSS software

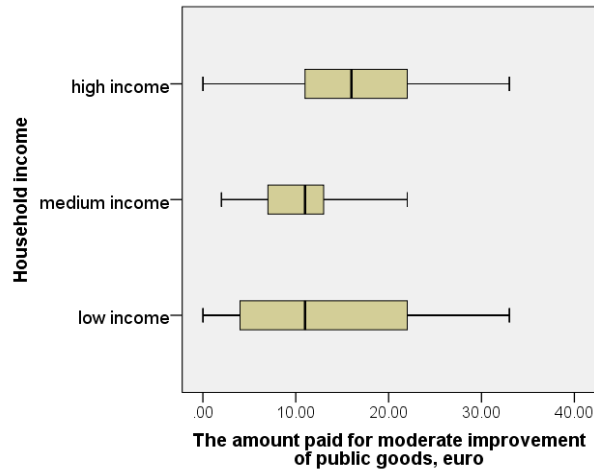
The Kruskal Wallis test is applied to independent samples. The calculated value of the test is ( $\chi^2=10.103$ ) and its probability (Prob.=0.039) indicate the rejection of the null hypothesis, so there are significant differences between the willingness to pay and the professional status, with a risk of 5%.

The graphic analysis of the willingness to pay in relation with the level of total income of households shows that, as it has been expected, the highest average willingness corresponds to the category with the highest income. It is surprising to discover the tendency of low income category to pay higher amounts.

We check the hypothesis of existence of a statistical relation between the willingness to pay and the level of income using the correspondent factor analysis. The Chi-square test of independence is significant with a risk of 5% ( $\chi^2=9.948$ ; prob=0.041), so there is a relation between the willingness to pay and income.

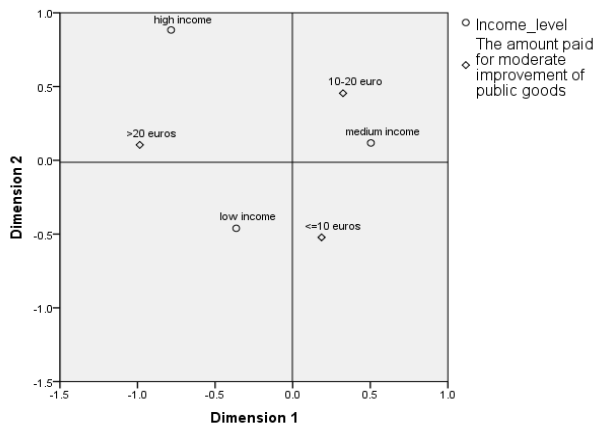
The first factorial axis explains 63.9% of variance of point cloud, less than 70%, so the results are interpreted in relation with the two factorial axes. Graphic representation above shows associations on the first factorial axis between the category of respondents with high income and the category of respondents willing to pay more than 20 euros. On the other hand, on the second factorial axis, there is an association between individuals with low income and the category of individuals willing to pay less than 10 euros.

**Figure 5. Distribution of willingness to pay in relation with the level of total income of households**



Source: own representation with SPSS software

**Figure 6. Representation of categories of variables willingness to pay and income of households in the system of the two factorial axes**



Source: own representation with SPSS software

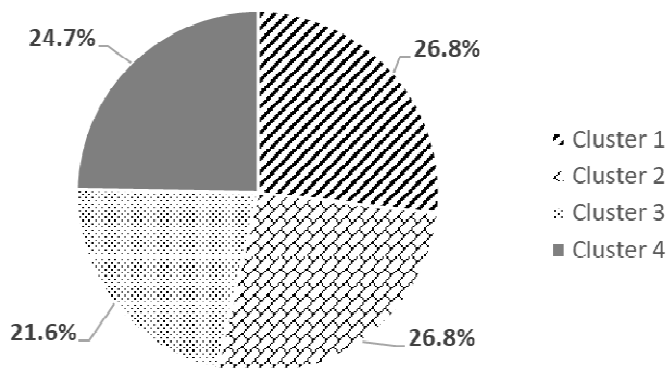
The results show that the variables age and level of education do not influence the willingness to pay for the improved quality of public goods. The hypothesis of the existence of significant relations of willingness to pay in relation with the following variables has been confirmed: age, professional status, awareness of existence of a link between the environmental issues and total income of household. These variables have been used for shaping the profile of public goods consumer of the Dorna Valley by applying the method Two-step cluster analysis.



## 5. Identification of public goods consumer profile of the Dorna Valley

Two-step cluster analysis has been applied to create homogenous groupings of individuals defined by their willingness to pay and its influence factors defined above. We have obtained 4 clusters with weights indicated in Figure 7. The quality of identified cluster solution is average, close to 50%, showing that there are resemblances among statistical units included in the analysis.

**Figure 7. Sample structure by cluster**











Source: own representation with SPSS software



















The analysed variables show a different level of importance in the way the statistical units are grouped into clusters.

Therefore, age and total income of households have the highest influence on the grouping of over 95%. Also, professional status and willingness to pay for improved public goods influence the organization by cluster in the amount of 85-95%.

**Table 3a. Cluster comparison**

Cluster	Age	Total Household Income		
C1		 low income	medium income	high income
C2		low income	 medium income	high income
C3		low income	 medium income	high income
C4		low income	medium income	 high income

**Table 3b Cluster comparison – Continuation**

Cluster	Professional status					The amount paid for moderate improvement of public goods		
C1	Employed indefinitely	Employed period	Entrepreneur	Looking for a job	 Student	 ≤10 euro	 10-20 euro	 >20 euro
C2	Employed indefinitely	Employed period	Entrepreneur	Looking for a job	 Student	 ≤10 euro	 10-20 euro	 >20 euro
C3	 Employed indefinitely	Employed period	Entrepreneur	Looking for a job	 Student	 ≤10 euro	 10-20 euro	 >20 euro
C4	 Employed indefinitely	Employed period	Entrepreneur	Looking for a job	 Student	 ≤10 euros	 10-20 euros	 >20 euros

Source: own representation with SPSS software

Cluster 1 includes low-income youth, students willing to pay less than 10 euros for improved public goods services. Although there is willingness to pay sustained by the awareness of importance of public goods, the student status reduces significantly the willingness to pay.

Opposed to Cluster 1, individuals included in Cluster 2, being also students with medium-income per household, they are willing to pay between 10 and 20 euros to contribute to improved quality of public goods. This observation is very important for defining the consumer profile as low income does not significantly influence the consumer's inclination to pay for the public goods it benefits from. If the consumer understands the importance of benefits that may be obtained for itself and for current and future generations, then it is willing to pay even if its financial status is poor. Another explanation for this category of consumers is related to the fact that some students/young people come from medium or high income families that also have a higher level of culture infused by the educational system and the family which is reflected in higher quality needs.

Cluster 3 shows that older individuals with medium level of income and a stable employment are willing to pay between 10 and 20 euros for improved public goods. So, the category that resembles Cluster 3, in terms of its willingness to pay, and has its own and medium income at society level. It is the less generous category compared to its position in society. As it is believed that medium income individuals are the potential and engine of an economy, so this category should be more concerned about paying for public goods. The issue of cost of life in Romania may explain this deviation of attention of individuals in this category from public to more private issues.

Compared to individuals in Cluster 3, those included in Cluster 4 also have stable employment but are younger and have higher income giving them the





opportunity to invest more than 20 euros in improved public goods. This cluster falls perfectly into the description of demands for public goods, in the sense that marginal income generates increases of higher marginal demand than the income growth rate. So, public goods take amounts from luxury goods, with higher allocation from higher income. Habit, fashion, examples and sometimes snobbery in its positive sense could possibly influence the preferences and needs of individuals when basic needs are covered and are not a daily concern for individuals

The clustering of the interviewed population shows that standard of living and societal development by means of education and healthcare boost the growth in preference for public goods and the degree of willingness to sustain their production. Public policies sustaining public goods production together with better degree of information provision and education may be the key solutions to make all categories of consumers align to providing support to public goods production.

In this respect, the political decision-makers should formulate public policies considering, in general, the profiles of the local residents and, particularly, focusing on the profiles of consumers of public goods for enhancing the production of this kind of goods. The analysis regarding the level of preferences' intensity correlated to the impact assessment of the public instruments is the solution for stimulating and improving the level and the quality of public goods within a region. In the same time, attention is needed for ensuring the conformity between socio-economic policies and those sustaining the agricultural activities, taking into consideration that aspects like income or socio-professional status influence the tendency of individuals to be more oriented on issues related to the quality of environmental and social context.

## Conclusions

The analysis of consumer and demand for goods has been deeply researched in economic science. If the investigation moves towards public goods, the issue becomes a key concern for both public and private interest. Proving its strategic orientation, The European Union by its joint policies encourages the provision of public goods maintaining also performance and sustainability criteria for main operations. The Provide project funded by Horizon 2020 funds aims to identify practices that through measures and efforts could generate most effects at society level. The study of the profile of public goods consumer in the Dorna Valley using a questionnaire and statistical analysis of secondary data of the North-East Region of Romania showed several homogenous categories of consumers, for which a package of effective and adequate measures may be developed for stimulating the demand for public goods. In fact, stimulation of demand is a liberal measure able to stimulate sustainably public goods production even by farmers and foresters, being a majority in the studied area.

The consumer profile benefited from a statistical analysis that revealed four representative and homogenous clusters, with important characteristics for developing measures stimulating public goods production.

In terms of consumer characteristics, we have drawn the following conclusions:

- Individuals have a complex background, a varied socio-economic status dividing the profile into several distinct layers;
- Low level of income does not necessarily cause a low preference for public goods; high degree of awareness may stir the interest for the advantages generated by public goods;
- Social categories with stable medium income do not reflect at least a medium level willingness to sustain public goods production; the socio-economic context, in which these people live, impact their inclination to allocate their budget to private goods even if the need for public goods is at the same level as for private goods.
- It has been confirmed that high income individuals, with high social status, prefer private and public goods at the same level.

In the context of Romanian economy, with internal and external gaps in terms of income and economic performance, and in the availability of high quality public goods derived from the intensity of regional farming and forestry, consumers dominated by diverse needs and preferences become real conductors of public goods production. The characteristics of consumers and their observed preferences are opening a promising path for a natural, economic and socially effective environment, with high reproductive capacity.

**Acknowledgements:** This work was supported from the European Research Council (ERC) under the European Union's Horizon 2020 research and innovation program (Grant Agreement No. 633838), project title "Providing smart Delivery of public goods by EU agriculture and forestry (PROVIDE)". This work does not necessarily reflect the view of the EU and in no way anticipates the Commission's future policy.

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# CREATIVE INDUSTRIES AS AN ENHANCING FACTOR FOR REGIONAL DEVELOPMENT IN EUROPEAN UNION

Sorin MAZILU\*

## Abstract

*The purpose of this paper is to bring into discussion some of the evidences from literature concerning creative industries' role in promoting regional development. First, a theoretical framework is established, highlighting the conceptual evolution of the creative economy and its related concepts, as well as the heterogeneity of their meanings and definitions. Second, the paper analyses the role that cultural and creative industries play in EU economy by investigating relevant official documents and reports in the field. It is argued that, due to the diversified structure and the specificities of the economic activities embodied in the sector, such a demarche should be deepened by taking into account the sub-sectorial aspects, as well. The paper ends by inventorying the main instruments available in EU for encouraging and promoting creative industries.*

**Keywords:** creativity, cultural and creative industries, development

## Introduction

Over the last decades, *creativity* has become an important issue in the scientific debates concerning regional development, being referred to not only as generator of new knowledge, enhanced by culture (Andersson, 1985a, 1985b), but also as “the ultimate economic resource” (Florida, 2002, p. xiii). This emphasizes the mutations which characterize the *post-industrial stage of development*, consisting, among others, in a systematic embodiment of knowledge in economic activities, reshaping the boundaries of firms and industries, and in a significantly increase of mobility regarding peoples, skills, knowledge, and new ideas (Tej *et al.*, 2016 *apud* Buček, *et al.*, 2010). Taking into account Fujita and Thisse's (1996) perspectives on human activities, which are categorized as production and creation, it is suggested that creativity plays a significant role in the new economy, as it gives rise not only to novel ideas, knowledge, technologies, but also to new products. Therefore, creativity represents a valuable market asset (Fillis and Rentschler, 2010; Throsby, 2008; Flew, 2005), permeating all the layer sectors of the economy (Howkins, 2013; Landry and Hyams, 2013). Besides this general approach, it has also been incorporated in concepts such as *creative class*

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\*Sorin MAZILU is researcher at Center for European Studies, Faculty of Law, Alexandru Ioan Cuza University of Iasi, Romania; e-mail: mazilu.sorin@yahoo.com.

(considering individuals, the beholders of creativity Florida, 2002) and *creative economy* or *creative industries*, comprising the economic activities where creativity is transformed, capitalized, produced and consumed (Howkins, 2013). From historical point of view, creativity was firstly addressed in a policy report in Australia, in 1994 (*“Creative nation: Commonwealth cultural policy”*, the cultural and creative industries being further detailed by Cunningham, 2002). Subsequently, creativity, as an economic sector, found its way into Europe, as it was first adopted in the United Kingdom, in 1998, wherein the Department for Culture, Media and Sport defined creative industries as “those industries which have their origin in individual creativity, skill and talent and which have a potential for wealth and job creation through the generation and exploitation of intellectual property” (Department for Culture, Media and Sport, 1998, 2001, p. 5). Hereinafter, the interest in revealing creative economy’s role in fostering development spread as a worldwide trend (Chapain *et al.*, 2013), being present at supra-national policy levels in Europe (Council of the European Union, 2011, 2009, 2007; European Commission, 2010, etc.), and emphasized in various reports of some major international organizations (United Nations, 2010; UNESCO, 2018; UNPD, UNESCO, 2013).

Among European countries, some governments preferred using the term *creative industries* (e.g. U.K.), while others adopted *the cultural industries* classification, as a result of the “patronage system within the welfare-state, in which arts and cultural goods are seen as public goods due to market failure” (Oliveira, 2018 *apud* Ellmeier, 2003).

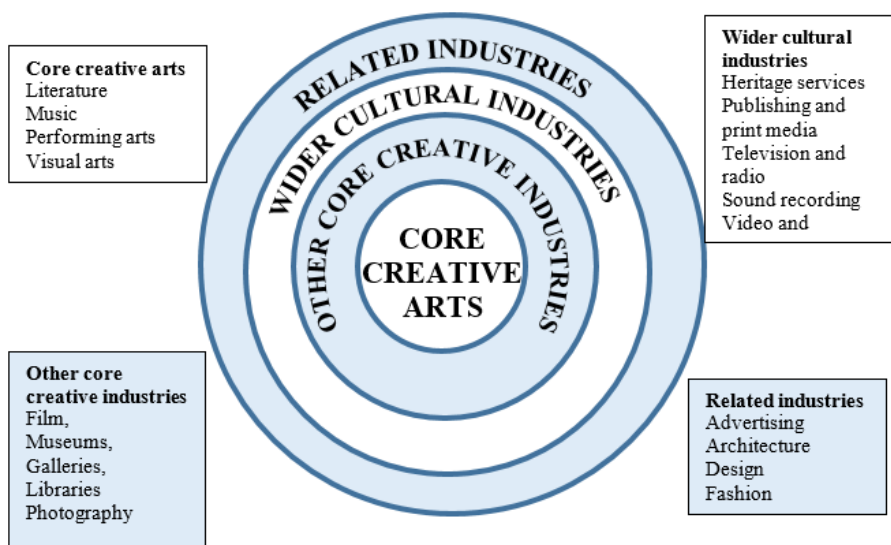
Seeking a way to conciliate these two approaches, Throsby (2008) proposed a model of concentric circles of cultural industries in which the cultural industry is viewed as a sub-dimension within creative industry, the latest being consisting of products and services whose production requires a considerate level of creativity.

Moreover, Throsby (2008) places the activities that use artistic creative ideas to produce goods and services of high cultural value closest to the core of his suggested model, whereas the ones that embody less inputs of this type represent by the outer layers of cultural industries. As Figure 1 depicts it, these concentric circles consist of: *core creative arts* (literature, music, performing and visual arts); *other core creative industries* (film, museums, galleries, libraries and photography); *wider cultural industries* (heritage services, publishing and print media, television and radio, sound recording and video and computer games); and *related industries* (advertising, architecture, design and fashion).

The heterogeneity of definitions, the alternative usage of cultural or creative industries concepts by different countries, in accordance with certain policy desiderata, provoked an identity crisis within the sector (Howkins, 2013), which makes it difficult to compare its economic inputs and outputs across countries or to quantify the industry’s contribution to growth and employment as an economic activity as a whole (Oliveira, 2018). Although several organizations proposed classification systems for the cultural and creative industries (Eurostat, 2007; KEA, 2006; WIPO, 2003; Department for Digital, Culture, Media & Sport, 2001), an integrated European classification system is still lacking.

Nevertheless, the sector importance is recognized at EU level as a source of economic growth and a factor of international trade competitiveness (Chala, 2015), being the object of various policy and programmes within the Union as “one of the largest and most successful industries in Europe – the Creative Industries with 12 million full-time jobs, which amounts to 7.5 % of the EU’s work force, and approx. EUR 509 billion in value added to GDP” (Beyond creative industries. Cross-Innovation as Driver for Growth in the European Digital Single Market, 8th European Creative Industries Summit, 2018).

**Figure 1. The concentric circles model of the cultural industries**



Source: Adaptation after Throsby (2008, p. 150).

In the current paper there are discussed some of the main results of the comparative studies and reports elaborated for the European Commission concerning creative industries in the EU, in order to stress the elements of specificity, as well as the challenges that the sector faces within European borders.

## 1. Cultural and creative industries in EU-28

In order to identify how cultural and creative industries (CCI) – the core of the creative economy – can foster economic growth and promote employment, as well as to assess the position of this specific sector on the global market, to identify the most relevant features of European creative enterprises and to provide examples of good practice through case studies, the Austrian Institute for SME Research and VVA Europe conducted a study – *Boosting the competitiveness of cultural and creative industries for jobs and growth*, carried out between 2015 and



2016, aiming to capture the dynamics of the sector over the previous 5 years of the report (Austrian Institute for SME Research; VVA Europe, 2016).

Within the study, for defining CCI, the Regulation (EU) No 1295/2013 of the European Parliament and of the Council was considered:

‘cultural and creative sectors’ means all sectors whose activities are based on cultural values and/or artistic and other creative expressions, whether those activities are market- or non-market-oriented, whatever the type of structure that carries them out, and irrespective of how that structure is financed. Those activities include the development, the creation, the production, the dissemination and the preservation of goods and services which embody cultural, artistic or other creative expressions, as well as related functions such as education or management. The cultural and creative sectors include inter alia architecture, archives, libraries and museums, artistic crafts, audio-visual (including film, television, video games and multimedia), tangible and intangible cultural heritage, design, festivals, music, literature, performing arts, publishing, radio and visual arts (European Parliament and Council, 2013, p. 13)

For deciding what sectors should be considered for establishing CCI, several criteria were taken into account among which we mention the inclusion of European priority segments and the coverage of overall European creative economy. As such, according to the study’s perspective, CCIs consisted of: *core CCIs*, *fashion industry*, and *the high-end industries* (*ibidem*).

*Core CCIs* represent the largest sector, consisting of 11 sub-sectors: advertising; architecture; archives, libraries, cultural heritage; books & press; cultural education; design & visual arts; music; performing arts & artistic creation; radio & TV; software & games; as well as video & film.

*Fashion industry* includes the following sub-sectors: Manufacturing of intermediate goods; Manufacturing of fashion goods; Whole-sale & agents; Retail sale. At last, the *high-end industries* are represented by: High-end fashion; Jewellery & watches; Accessories; Leather goods; Perfumes & cosmetics; Furniture & household appliances; Cars; Boats; Gastronomy; Hotels & leisure; Retail & auction houses; Publishing.

The study’s findings, considering CCIs’ structure, reveal that, at UE 28 level, CCIs (excluding high-end industries) accounted for 11.2 % of all private firms and 7.5 % of all workforce in the total economy (Austrian Institute for SME Research; VVA Europe, 2016, p. 28).

From a dynamic perspective (Figure 2), by analysing CCI development over a period of 5 years (2008-2013) the study depicted heterogeneity in CCIs’ evolutions, regarding the number of enterprises, employment, turnover and value added. For the economic crisis period (2008-2009), we can notice a general drop of the value of all considered variables, with the mention that the overall turnover and the value added declined more than the number of firms and employees.

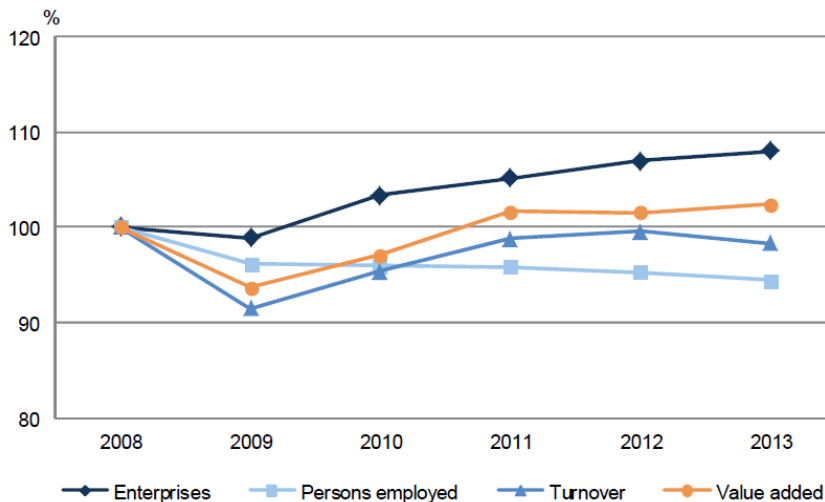


**Table 1. Structure of the CCIs in EU-28, in 2013**

	CCIs	Core CCIs	Fashion industry	High-end industries
<b>Enterprises</b>	<b>3,079,500</b>	2,282,400	797,100	n/a
<b>Persons employed</b>	<b>12,082,500</b>	7,347,100	4,735,400	1,700,000
<b>Turnover in EUR million</b>	<b>1,481,100</b>	903,900	577,200	547,000
<b>Value added in EUR million</b>	<b>508,500</b>	376,100	132,400	n/a

*Source:* Austrian Institute for SME Research; VVA Europe, 2016, p. 29; Eurostat, National Statistical Offices, Bureau van Dijk (ORBIS database), Frontier Economics (2014, p. 1).

Suggesting some degrees of resilience capacity, since 2010, the 4 dimensions were set on a general ascending trend. The highest rise is that in the number of enterprises, which exceeded even the level of 2008, starting with the first year of recovery. There could also be noted positive trends, although with smaller progress, when it comes to the value added, whereas the number of employees and turnover numbers failed to reach the levels of 2008.

**Figure 2. Development of the CCIs (excluding high-end industries) in %, 2008-2013, EU-28**

*Source:* Austrian Institute for SME Research; VVA Europe (2016, p. 31), Eurostat, National Statistical Offices, Bureau van Dijk (ORBIS database)

The authors argue that this is due to the declining revenues in the subsectors books & press, as well as advertising, the fashion wholesale and retail trade,



respectively with the unfavourable development in the big subsectors books & press and manufacturing of fashion goods. (Austrian Institute for SME Research; VVA Europe, 2016, p.30)

Unlike core CCIs and Fashion industry, the High-end industries showed, according to the same report, much faster recovering rates (Figure 3), explained, in part, by their capability to valorise the potential of emerging markets, through exports or tourism and adjacent activities (Austrian Institute for SME Research; VVA Europe, 2016 *apud* Economics Frontier, 2014).

**Figure 3. Development of output growth (spending on high-end goods) of high-end industries in %, 2008 – 2013, EU-28**



Source: Austrian Institute for SME Research; VVA Europe (2016, p. 33), Frontier Economics (2014, p.10); Frontier analysis of Altgamma/Bain and Eurostat data (2014)

For a better understanding of CCIs and their interdependencies within EU market, we have to look at the sectoral structure of the core CCIs. In 2013, it is revealed that the broadest sub-sectors included in this category are book & press (employing approximately 26,8% of the total core CCIs workforce), software & games (18,1%) and advertising (14,4%). These 3 sub-sectors sum up more than 50% of the entire number of persons who work in the core CCIs.

Considering the enterprises number in 2013, Books & press sub-sector covers the highest number of entities (approx. 19.5 %), being followed by the Performing arts & artistic creation (17 %) as well as Advertising and Architecture, with similar percentages (around 13%). At the same time, the three largest sectors which generate more than 60% total turnover and total value added are Books & press, Software & games, and advertising.

**Table 2. Sectoral structure of the core CCIs in 2013, EU-28**

	Enterprises	Employees	Turnover in € million	Value added in € million
<b>Advertising</b>	303,400	1,057,500	152,700	50,500
<b>Architecture</b>	303,500	579,400	38,500	22,200
<b>Archives, libraries, cultural heritage</b>	115,000	560,000	55,000	22,000
<b>Books&amp; press</b>	446,300	1,968,900	232,700	83,800
<b>Cultural education</b>	30,000	90,000	5,400	2,700
<b>Design &amp;visual arts</b>	275,800	390,900	29,700	14,000
<b>Music</b>	34,300	71,900	11,000	4,800
<b>Performing arts &amp; artistic creation</b>	390,000	660,000	70,000	35,000
<b>Radio &amp; TV</b>	11,700	253,300	65,600	26,900
<b>Software &amp; games</b>	262,600	1,331,000	181,400	92,400
<b>Video &amp; film</b>	109,800	384,200	61,900	21,800
<b>Total Core CCIs</b>	<b>2,282,400</b>	<b>7,347,100</b>	<b>903,900</b>	<b>376,100</b>

*Source:* Austrian Institute for SME Research; VVA Europe, 2016, p. 38; Eurostat, National Statistical Offices, Bureau van Dijk (ORBIS database).

At the opposite end, the smallest contributions to the overall turnover of the core CCIs are produced by Music (1.2%) and Cultural education (0.6%). Using the findings derived from the evaluation of CCIs' structure, coupled with acknowledging the internal dynamics and the influence of the sector over the growth and employment in the EU, as it was captured in the latest reports in the field (Montalto *et al.*, 2018; Austrian Institute for SME Research; VVA Europe, 2016; etc.) there should be designed specific support-instruments in order to enhance the European creative economy.

## 2. Supporting creative industries in the EU

Overall, as it has been mentioned previously, the development rates of the CCI sector have shown positive effects over the European economy. As such, in order to encourage the growth and favourable dynamics within this sector, the European Union has created specific instruments, aiming to allocate financial resources for developing the creative industries and for increasing the synergies with other components of the economy.

Starting from the recorded results (that creative economy generates approximately 3.3% of GDP and it employs approximately 3% of the total workforce in EU), which highlight the importance of creative and cultural sectors for EU 2020 strategy, the European Commission has identified several directions that require attention in order to sustain this part of the economy (European Commission, 2012): addressing changing skills needs, enlarging the marketplace by building new partnerships and business models, expanding international reach by smart internationalization, and reinforcing cross-sectoral fertilisation, acknowledging the sectors requirement of multi-disciplinary environments.



Among provided European instruments, the implementation of *European Structural and Investment Funds* in 2014-2020 period offers important means to strengthen the connections between CCI and other industries within EU economy.

In addition, *the Action Plan for Design-Driven Innovation* (European Commission, 2013), developed from the report 'Design for Growth and Prosperity' produced by the European Leadership Board Report in the previous year, seeks to enhance the take-up of design in innovation policies and to develop the capacity and competencies required by the policies' implementation.

Expressly being addressed to support the creative and cultural industries, *Creative Europe* programme (European Parliament and The Council of the European Union, 2013) supports the culture sector initiatives (such as promoting cross-border cooperation, platforms, networking, and literary translation), audio-visual sector initiatives (such as those promoting the development, distribution, or access to audio-visual works) and a cross-sectoral strand, including a Guarantee Facility (the first EU investment instrument with a wide scope in the culture and creative sectors) and transnational policy cooperation (European Commission, 2014).

Beside these instruments, EU contributes indirectly to the development of the CCIs by other, complementary programmes. For instance, *Erasmus+* provides opportunities that encourage skills and competencies' development through training and education, while entrepreneurial initiatives are supported by *Horizon 2020* (concerning research and innovation) and *COSME*, EU's programme for small and medium-sized enterprises.

Another measure for enhancing interconnectivity and synergy at regional level is the EU's position in promoting the incorporation of creative industries within *smart specialization strategies*. A *Smart Specialisation Platform on Industrial Modernisation and Investment* has been created in order to identify common goals and to facilitate cooperation across European regions. S3 Platform provides assistance to EU members to develop, implement and review their Research and Innovation Strategies for Smart Specialisation (RIS3), at national or regional level, through exchange of information, methodologies, expertise and advice (European Commission, 2018). Policy makers with shared interests in developing CCIs at regional or country level can identify and map potential partners for initiating future collaborations (please see Annex 1).

In complementarity with the EU instruments, national governments should address the national or regional specificities of CCIs by self-developed mechanisms, which can consist in financial assistance, consultancy facilities, cooperation strategies, cluster initiatives, educational assistance (training and educational programmes), as well as supporting in-depth report-analysis for identifying, measuring and promoting domestic creative economy.

The report *Boosting the competitiveness of cultural and creative industries for growth and jobs* (Austrian Institute for SME Research; VVA Europe, 2016, pp. 5-6) summarizes several success factors, common for the investigated regional initiatives, by identifying success stories across EU (e.g. *United Kingdom*: Creative Business Mentor Network; Creative Industry Finance Programme; Creative

Industries Council; *Estonia*: Creative Estonia Programme; North Portugal: ADDICT; Creative Industries Agency; and others), as follows:

- Solutions and approaches based on evidence and objective data (on analysing and mapping studies, etc.);
- Providing clear and precise defining of the sector, subsectors, target groups;
- Implementation of measures by people or enterprises closed and well accustomed to the sector;
- Interconnectivity between tailor-made portfolios of support measures (concerning specific industry needs) and other, broader, schemes and instruments evidence-based approaches;
- An extensive understanding of innovation (technological and non-technological);
- A learning-oriented approach of the concerned actors (“trial and error approach”), a good cooperation and network structure (between the involved actors on the national and regional level, but also between large companies and SMEs, private sector and academic environment, etc.).

## Conclusions

Although the creative economy’s importance for development is widely acknowledged by both national actors and international organizations, from a theoretical perspective there is still no general consensus regarding the defining of the industries it comprises. This aspect, which is found at EU level, as well, creates various obstacles, discouraging the comparison between states/ regions/ studies or reports, thus diminishing the identification of good and reproducible examples or practices and, as a consequence, constraining the learning capabilities of policy makers and actors concerned with the matter.

By taking into account one of the perspectives for defining the cultural and creative sectors emphasized in *Boosting the competitiveness of cultural and creative industries for growth and jobs* report, prepared for the European Commission (Austrian Institute for SME Research; VVA Europe, 2016), it could be noticed that, overall, the CCIs provide a significant contribution to the EU economy, promoting growth, employment and economic recovery. Still, when the analysis is deepened at sub-sector level, elements of specificity arises, depicting structural and dynamic heterogeneity.

This underlines the fact that, in order to bring up viable solutions for development’s enhancement at regional level through creative and cultural initiatives, the decision makers have to establish tools and specific ways for mapping and investigating thoroughly the local particularities of the sectors.

**Acknowledgements:** This paper is supported by the strategic grant "Integrated system for improving the quality of doctoral and postdoctoral research in Romania and promoting the role of science in society", POSDRU/159/1.5/S/133652,



co-financed by the European Social Fund within the Sectorial Operational Program Human Resources Development 2007-2013.

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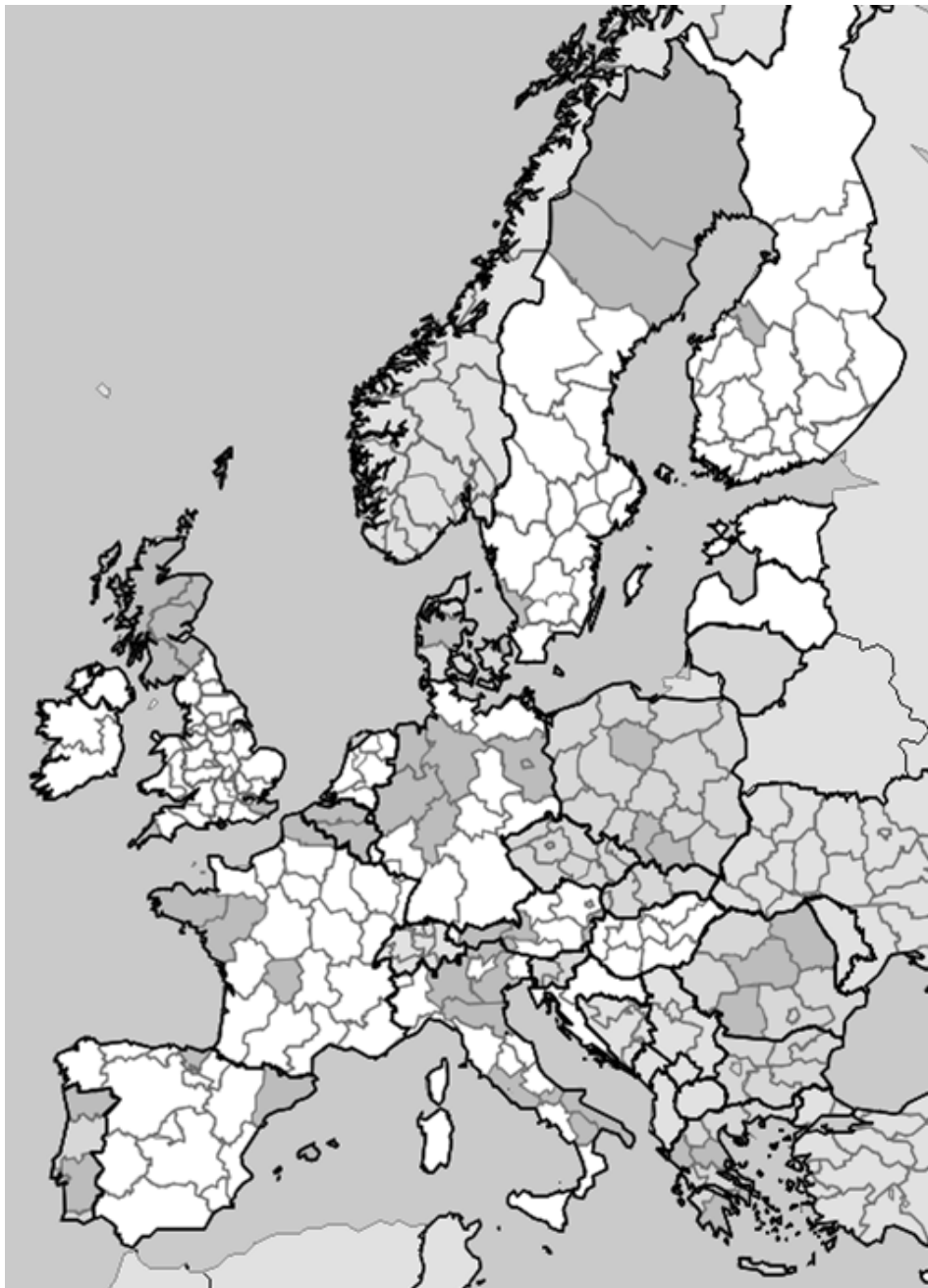
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**Annex 1. Countries and regions registered on the S3 platform that have identified CCIs as one of their S3 priorities, October 2018**



*Source:* European Commission, Joint Research Centre

# ANALYSIS OF SENTIMENT INDICATOR FOR THE EURO AREA (19 COUNTRIES) UNDER THE INFLUENCE OF FOUR MANAGEMENT INDICATORS USING GRAPHICAL REPRESENTATION

Margareta ILIE\*

## Abstract

*The present paper reveals the second part of early research results obtained from the simulation of the annual sentiment indicator evolution under the influence of the production in industry, the intramural research and development expenditure, the turnover and volume of sales and the employment. The research uses for the process' simulation the three dimensional representation of the above indicators.*

*The main goal of the research is to be able to determine the four indicators hierarchically listed based on the influence of each indicator on the sentiment indicator evolution. The secondary objective is to compare if the previous results of the research, acquired through the use of artificial neural network simulation, determined the same hierarchy and influence of the four. The data used represent the values for the Euro area (19 countries) recorded between 2006 and 2016, provided by the Eurostat – from the European Commission statistical data website. The author considered that the initial 19 countries represent the most influential ones over the economy and, thus, over the economic sentiment evolution. The method uses the real data and MathCad software for the calculus of polynomial functions that governs the graphic representation of economic sentiment trend under the positive evolution of the each of the four influencer indicators. The polynomial function was chosen by the author because of the incipient phase of research and the trends evolutions.*

**Keywords:** economic sentiment indicator, management indicators, 3d graphical representation

## Introduction

Considering the present economic and social estate of the European Union, the author considers that an analysis and a simulation of certain economic indicators with the use of modern techniques is essential for the future decisions.

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\*Margareta ILIE is lecturer at Ovidius University, Constanta, Romania; e-mail: ilie.marga@gmail.com.

In the academic literature, as Barsky (2012, p. 1362) there are two main opposing approaches: the “information” vision, which proposes that confidence indicators contain information about future economic developments, and about “animal spirits” vision, which states that independent deviations in principles have causal effects business cycles. Both visions: information and animal spirits can yet be compatible with the properties of the leading confidence indicator, but only the latter would involve causality. Empirically, however, the conclusions persist to be unclear. At one of the extreme, it is demonstrated that there are trusted confidence measures that have both predictive power and a role in understanding fluctuations in the business cycle. At the other extreme, some research concludes that the concept of trust does not play an important role in macroeconomics (European Central Bank, 2013, p. 46).

As Martináková and Kapounek (2013, p. 2491) said that the Economic sentiment is not fully appreciated or embedded in economics. However, controversial economists such as Keynes or Minsky puts a great emphasis on sentiment changes to explain fluctuations in the business cycle, but their ideas have not been entirely respected by mainstream economics. Modern economy is increasingly focusing on the perception and anticipation of economic agents, in particular with regard to the effects of the information on economic activity and fluctuation in asset prices.

The 2009-2012 financial and economic crisis and the present situation especially on the stock exchange markets evoke these ideas back onto the discussions. As stipulated by van Aarle and Kappler (2012, pp. 1-2) a solid decline in economic sentiment surely contributed to the magnitude and quickness of the outburst of financial turmoil succeeding the collapse of Lehman Brothers and the following economic slowdown. They also stipulated that if economic sentiment weakens, first modification that agents usually make is to slow down spending and move from risky assets to money, firms may stop hiring and delay capital investment. Output falls and unemployment rises. Instead, as economic agents become more conscious of financial turmoil, economic slowdown and hostile unemployment dynamics – though they are not straight affected – they are likely to revise downward economic sentiment, adding momentum to the slowdown.

In their book *“Animal Spirits. How Human Psychology Drives the Economy, and Why it Matters for Global Capitalism”* Akerlof and Shiller (2010) present the role of “animal spirit” during the financial crisis and the development of the notion. In their approach, animal spirits are related to confidence, fairness, corruption and bad faith, money illusion and stories. Alterations in these characteristics can push towards changing in animal spirits and economic sentiment in overall. Cycles of over-optimism and over-pessimism by economic agents may then be (speculative) going to boom-bust cycles along the panic lines and Minsky's mania (Aarle and Kappler, 2012, p. 2). The traditional macroeconomics would typically overlook these more psychological features and their effects on business cycle oscillations.



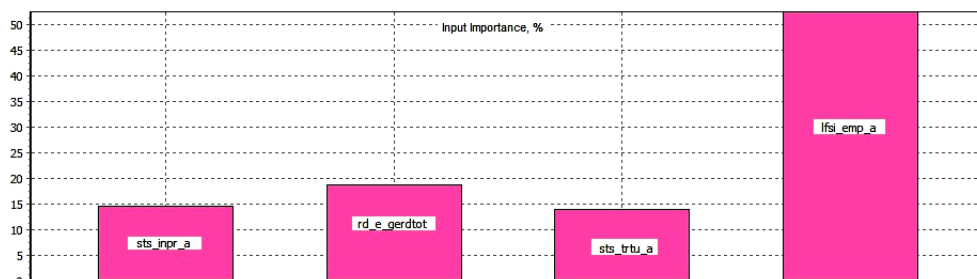
We suppose that if consumers and entrepreneurs respond positively to the news and feel confident about the current and future economic situation, they could increase their consumption and production. If so, they use the perceptions and expectations in affecting their economic behaviour.

In the first phase of the research the following objectives were achieved:

- Using 17 records (13 records to Training set (76.47%), 2 records to Validation set (11.76%), 2 records to Test set (11.76%)) the data covers the influence of the Eurostat statistical data about: *Volume index of production*, *Intramural R&D expenditure*, *Index of deflated turnover* and *Employment and activity* over the evolution of Economic sentiment indicator, from 1999 to 2016;
- The influence was considered for the next year for the economic sentiment indicator;
- An artificial neural network was built with the following specifications: 4-9-6-1: 5 layers with 4 neurons in the input layer (the number of input indexes), 15 neurons in 2 hidden layers (first with 9 neurons, second with 6) and 1 neuron in the output layer (the neuron for the economic sentiment indicator);
- The ANN was a feedforward one and the training algorithm was Fahlman's quick propagation, with modification of the activation functions like: hyperbolic tangent function for hidden layers activation and logistic function for output layer;
- The result of the training was more than satisfactory in regards of the defined objective of the research: Train error = 0.099; Validation error = 3.035102; Test error = 9.9675;
- Also a query testing was made for the prediction of economic sentiment indicator for 2004 considering the other 4 indicators value from 2003. The result of this test was: absolute difference was -1.94 and the relative difference was 2.02%.

Taking into account all the above results and looking at all the goals defined at the beginning of the research we can certainly say that all the objectives of the first phase were achieved. The results of the training, testing and query were more than satisfactory even that for the accomplishments of those made the research tough and extensive.

Also in the first stage, the results of the artificial neural network process of training developed the contribution of each input column (that contains the 4 indicators *Volume index of production*, *Intramural R&D expenditure*, *Index of deflated turnover* and *Employment and activity*) to the neural network performance. This parameter is called *Input importance* and it is calculated using sensitivity analysis techniques. The input importance is showed in Figure 1 and detailed in Table 1.

**Figure 1. Input importance after training process**

Source: Author's graphic representation using Alyuda NeuroIntelligence.

**Table 2. Input importance**

Input column name	Importance, %
sts_inpr_a	14.60583
rd_e_gerdot	18.848676
sts_trtu_a	14.005347
lfsi_emp_a	52.540147

Source: Author's representation; the abbreviations used are presented below.

This input importance was used for the present phase of the research and is one of the subjects for present paper, being analysed for the determination of a hierarchy of indicators considered from the influence over the economic sentiment indicator. In the present phase the author will verify this hierarchy and hypothesis will be made in order to explain the hierarchy.

The use of software programs in the analysis of data is not new and even more, along the years the field became more important and more extensive. In the last years we talk about Big Data as the only way we can comprehend the large amount of data that govern every aspect of our life. When we are talking about big data we refer also to processing techniques addressing, but not limited, to various BI (business intelligence) requirements, like: reporting, batch analytics, online analytical processing (OLAP), data mining, text mining, complex event processing (CEP) and predictive analytics.

Graphical representations for data analysis is used by the most known IT companies, like IBM System G (G stand for graphs) that is a comprehensive set of Graph Computing Tools, Cloud, and Solutions for big data<sup>1</sup>. IBM System G can be used in many cases such as social network analysis, anomaly detection, smarter commerce, smarter planet, cloud, telecomm, etc. Among other tools it includes:

<sup>1</sup> Read more on <http://systemg.research.ibm.com/>.



Graph Visualizations - following complex graphs and networks to facilitate graph data exploration and analysis:

- Visualization of Huge Graphs: Visualization of Huge Graph based on Hierarchical Clustering, Static Graph Visualization and Analysis;
- Visualization of Multivariate Graphs: Visual Analysis of Multivariate Graphs and Multidimensional Clusters;
- Visualization of Heterogenous Graphs: Visual Analysis of Heterogenous Document Networks
- Visualization of Dynamic Graphs: Information Flow Modeling in Social Network
- Visualization of Static Graphs: Ego Network Visualization, Graph Layout Transition.

As previous researches displays (Ilie *et al.*, 2017, p. 533), function modelling can be used to calculate a hierarchy influence from some indicators or parameters on another indicator or parameter. There are few researches that consider the present paper approach, especially because of the difficulty to obtain and use the mathematical function necessary to build an accurate graphical representation.

The importance of research results from the possibility to analyse and define a hierarchically listed indicators that influence the evolution of sentiment indicator, starting in the present paper only with four. Also the author uses specialised software in order to determine mathematical function for their implementation in building three dimensional representation of the indicators' evolutions. The representation and the hierarchy can be used thinking about the micro- and macro-economic and social decisions that influences the evolution of economic sentiment under the impact of various factors, so that can the European countries to cover economic and social needs.

The importance of the paper emerges from the need to know the evolution of economic sentiment indicator in order to take the best management decision regarding the action that must be taken for the growth of the trust in the economy in its whole.

## Data

Several indices were considered for the analysis.

*Volume index of production* - sts\_inpr\_a, (Mining and quarrying; manufacturing; electricity, gas, steam and air conditioning supply), calendar adjusted data, not seasonally adjusted data, [Index, 2015=100]. The industrial production index (abbreviated IPI and sometimes also called industrial output index or industrial volume index) defined by Eurostat is a business cycle indicator which measures monthly changes in the price-adjusted output of industry. The index of industrial production measures the evolution of the volume of production for industry excluding construction, based on data adjusted for calendar and



seasonal effects. Seasonally adjusted euro area and EU series are calculated by aggregating the seasonally adjusted national data. Eurostat carries out the seasonal adjustment of the data for those countries that do not adjust their data for seasonal effects (Grandovska, 2018, p. 2).

The volume index of production (*sts\_inpr\_a*) defines the volume variation of goods and/or services produced in a certain amount of time. Its main goal is to provide a measure of short-term changes in value added over a given reference period. But, because it is difficult to gather high frequency data to precisely measure value added, gross outputs measures such as production value or turnover data are more frequent used. *sts\_inpr\_a* being a volume index one can see that the index is not influenced by the price fluctuations (United Nations Statistics Division, 2010, p. 12).

The index *sts\_inpr\_a* is an important short-term economic indicator in official statistics. Is an important indicator *per se* as well as in comparison with or in combination with other short-term indicators to evaluate the performance of an economy. The index *sts\_inpr\_a* is also in some countries a key contributor to the volume calculation measures as part of the quarterly national accounts.

Production indices for the industrial sector are used as the key short-term economic indicator due to the impact that industrial activity fluctuations have on the rest of the economy in many countries. The accessibility of production indices and the close relationship between variations in the level of industrial production and economic cycles ease the use of production indices as a series of references for determining or forecasting turning points in business cycles. Therefore, a benefit of the production index related to other indicators is its mixture of high frequency, rapid availability (relative to economic sentiment indicator, for example) and a detailed analysis of its activity.

*Intramural R&D expenditure - rd\_e\_gerdtot*, by sectors of performance, all sectors (Euro per inhabitant). As defined by Frascati Manual (2002, p. 208), the Intramural expenditures are all expenditures for R&D performed within a statistical unit or sector of the economy during a specific period, whatever the source of funds.

Funding of Research and Development (R&D) is extremely mixed across countries and inclines to modification over time. The stimulating consequence of R&D funding fluctuates with respect to its generosity: it rises up to a certain threshold and then declines beyond (Guellec and Pottelsberghe De La Potterie, 2010, p.231). However, we also believe that the negative effect of university research is diminished when government funding for R&D in business grows. The targeted government programs are likely to help firms consume the information and knowledge produced by universities.

Also we have to remember that, as Yegorov (2013) said, R&D expenditure is the resources actually spent on R&D activities, rather than only budgeted. He also presented the full procedure for measuring expenditures:



- Detect intramural expenditure on R&D performed by each statistical unit;
- Identify the sources of funds as stated by the performers;
- Aggregate the data by sectors of performance and sources of funds to derive significant national totals;
- Optional: Identify the extramural R&D expenditures of each statistical unit.

Sources of R&D expenditure must rely on criteria for identifying flows of R&D funds: there must be a direct transfer of resources and the transfer must be both intended and used for the performance of R&D. Separation for the R&D sources must be done for determining the following group classification: institutional classification, type of activity, fields of science and socio-economic objective. The sources of R&D must be subjected to institutional classification (Yegorov, 2013):

- Business enterprise:
  - Includes private non-profit institutions mainly serving business;
  - Includes public enterprises;
- Government:
  - Includes private non-profit institutions mainly serving government;
  - Excludes public enterprises;
- Higher education:
  - Includes clinics operating under the direct control of or administered by or associated with higher education institutions;
- Private non-profit:
  - Includes private individuals or households;
- Abroad (only as source of fund):
  - Includes international organisations (except business enterprises) within the country's borders.

Considering the type of activity one can divide the R&D in: basic research, applied research and experimental development.

*The Index of deflated turnover* - sts\_trtu\_a, wholesale and retail trade and repair of motor vehicles and motorcycles, calendar adjusted data, not seasonally adjusted data, (Index, 2010=100). It is the objective of the turnover index to show the development of the market for goods and services.

Turnover comprises the totals invoiced by the observation unit during the reference period, and this corresponds to market sales of goods or services supplied to third parties. Turnover also includes all other charges (transport, packaging, etc.) passed on to the customer, even if these charges are listed separately in the invoice. Turnover excludes VAT and other similar deductible taxes directly linked to turnover as well as all duties and taxes on the goods or services invoiced by the unit.

The indices of domestic and non-domestic turnover require turnover to be split according to the first destination of the product based on the change of ownership. The destination is determined by the residency of the third party that purchased the goods and services. Non-domestic turnover is further sub-divided

into turnover despatched to euro-zone countries and all other non-domestic turnover (Eurostat). The turnover is a “preferred method” which deflate gross turnover by relevant price indices.

*Employment and activity* by sex and age - annual data - *lfsi\_emp\_a*, from 15 to 64 years, [thousand persons, total]. Employment by industry is broken down by agriculture, construction, industry including construction, manufacturing and services activities. This indicator is seasonally adjusted and it is measured in thousands of people (OECD, 2018). The active population, also called labour force, is the population employed or unemployed (Eurostat).

*Economic sentiment indicator* - *ei\_bssi\_m\_r2*, seasonally adjusted data, not calendar adjusted data. The economic sentiment indicator (abbreviated as ESI by the European Commission) is a composite indicator made up of five sectoral confidence indicators with different weights: industrial confidence indicator (40 %); construction confidence indicator (5%); services confidence indicator (30%); consumer confidence indicator (20%); retail trade confidence indicator (5%) (Eurostat).

Every month, the European Commission publishes the European economic sentiment indicator.

Very well presented by Gelper and Croux (2010, p. 2) the economic sentiment indicator is a survey-based indicator that seeks to understand the beliefs of economic agents, both on the demand side and on the supply side of the economy. If consumers and producers feel confident in the current and future economic situation, consumption and production could increase accordingly with their actions. Furthermore, sentiment data provides new information because it is available earlier than most economic indicators, such as GDP or industrial output.

These reasons, along with the growing integration of the European market, have motivated us to study whether we can use new techniques for the forecast (artificial neural networks) and evaluation of the influences that others economic indicators can have over the economic sentiment indicator (3D graphic analysis). This technique can be informative for the current and future state of economic activity in Europe and its nations.

The purpose of constructing an aggregate indicator is to summarize the information contained in a large number of series into one single indicator series. The data for building an EU aggregate sentiment indicator is based on studies conducted in all Member States of the European Union. There are four business studies (surveys) for the industrial sector, services, construction and retail and a consumer survey. For each country, a subset of 15 questions from these surveys is used to build economic sentiment indicator, resulting in a large number of series of sentiments. The component weights are based on intuitive economic reasoning.

The use of the four business surveys may offer different responses and results from country to country or from region to region. Like in Finland, Kangasniemi *et al.* (2010) study the differences between consumer and



manufacturing surveys. The study did not find any systematic clash among consumer surveys and manufacturing surveys. Though, they debate that consumer surveys collect information from both the personal economy and the macro economy. They display that the consumer confidence indicator is more anticipative and is also based on a general sentiment and spirits plus economic intentions.

The predictive power of sentiment studies is discussed in many research. For example, Slacalek (2005), who applies a dynamic factor model to Michigan sentiment survey components. The resulting factors are found to be a steady predictor of US consumption growth. Another study of sentiment indicators is developed by Hansson *et al.* (2005), which researches the performance of forecasting data from the business survey in Sweden. They used a dynamic factor model and find more than acceptable results for forecasting the growth of GDP.

As one can see the author use the Eurostat code for each of the indicators for an easier tracking and authentication of the values.

The author considered the data for the Euro area (EA19) which includes Belgium, Germany, Estonia, Ireland, Greece, Spain, France, Italy, Cyprus, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Austria, Portugal, Slovenia, Slovakia and Finland. The reasons for this choice are that the EA19 are the most influential countries for the Europe economy in terms of industry, constructions, retail and services and because the data are reliable and easy to find and verify, than the ones from younger European Union countries. The values cover the period between 1999 and 2016, the main sources of the data values is the Eurostat<sup>2</sup> – the statistical office of the European Union. Thus, the data are reliable.

## Method

In order to determine the function which governs the trend of economic sentiment indicator under the influence of the each of the 4 indicators, the author used Mathcad software. Here the values of the 5 indicators were included in vector forms and function were defined to which the free terms were calculated using the Mathcad Minerr command. In table 2 an example is revealed for the use of the software in order to determine the mathematical function which governs the trend of economic sentiment indicator ( $ei\_bssi\_m\_r2$ ) under the influence of volume index of production ( $sts\_inpr\_a$ ) for mining and quarrying, manufacturing, electricity, gas, steam and air conditioning supply.

<sup>2</sup> More information at: <http://ec.europa.eu/eurostat>.

**Table 2. Mathcad example for function calculus for the sts\_inpr\_a**

d:=0	e:=0	f:=0	g:=0	Given
sts_inpr_a := (89.8 90.3 95.2 95.3 95.7 95.7 96.2 96.4 97.1 97.4 97.8 99.4 99.5 100.0 101.6 103.4 105.4 107.3)		ei_bssi_m_r2 := (93.51 105.9 106.9 102.4 115.98 95.98 78.87 89.56 101.56 92.78 94.67 100.98 102.92 100.88 103.64 99.85 110.18 107.83)		$d \cdot p^3 + e \cdot p^2 + f \cdot p + g = q$
				Minerr(d,e,f,g) = (
				$2.412 \cdot 10^{-3}$
				$-0.633 \ 54.833$
				$-1.468 \cdot 10^3$ )
				ei_bssi_m_r2( sts_inpr_a ):= $2.421 \cdot 10^{-3} \cdot p^3 - 0.633 \cdot p^2 + 54.833 \cdot p - 1.468 \cdot 10^3$
sts_inpr_a:=89..108				

Source: Author's representation.

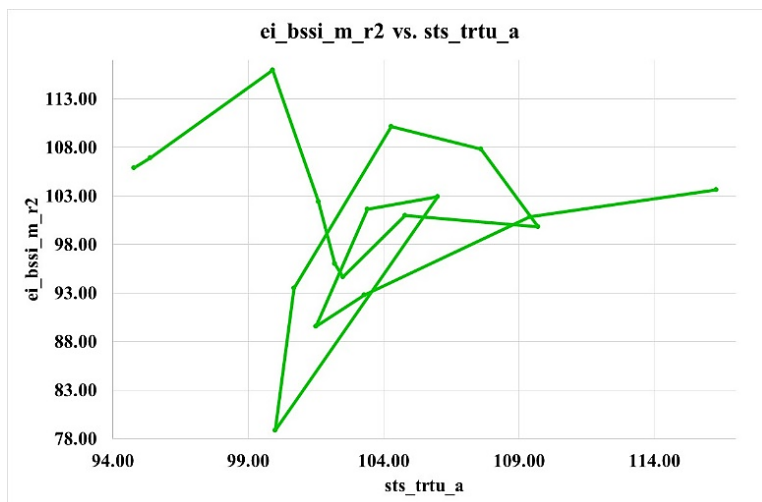
Using the example from table 2 the following function for each of the 4 indicator were calculated:

- For sts\_inpr\_a indicator:  $f^{(3)} = 2.412 \cdot 10^{-3} \cdot p^3 - 0.633 \cdot p^2 + 54.833 \cdot p - 1.468 \cdot 10^3$ , for indicator values [89; 108];
- For rd\_e\_gerdtot indicator:  $f^{(3)} = 1.434 \cdot 10^{-6} \cdot r^3 - 1.966 \cdot 10^{-3} \cdot r^2 + 0.827 \cdot r - 2.353$ , for indicator values [372; 675];
- For sts\_trtu\_a indicator:  $f^{(2)} = 0.05 \cdot t^2 - 10.275 \cdot t + 627.01$ , for indicator values [94; 117];
- For lfsi\_emp\_a indicator:  $f^{(3)} = 3.1767 \cdot 10^{-11} \cdot m^3 - 1.281 \cdot 10^{-5} \cdot m^2 + 1.72 \cdot m - 7.68 \cdot 10^4$ , for indicator values [127756; 144645].

By the influence of the indicators over the economic sentiment indicator the author means how the ei\_bssi\_m\_r2 trend evolve for each of the indicators. Considering the real data downloaded from Eurostat website. One example of this evolution is presented in figure 2 – yearly evolution of ei\_bssi\_m\_r2 against the yearly evolution of ei\_bssi\_m\_r2. We must remember that the evolution for ei\_bssi\_m\_r2 is delayed by one year.



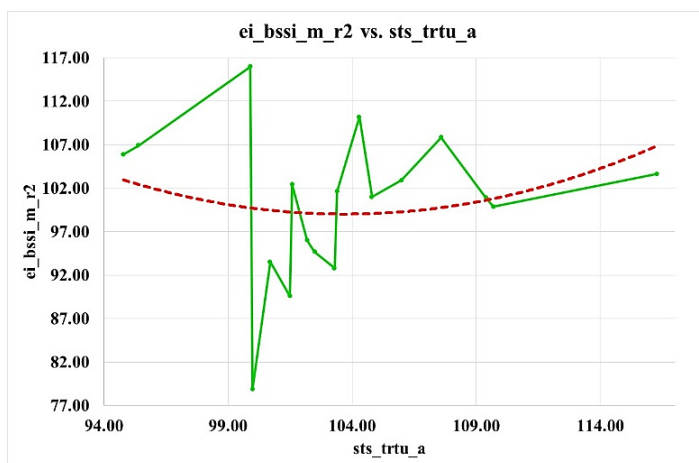
**Figure 2. Economic sentiment indicator yearly evolution against the yearly evolution of index of deflated turnover**



Source: Author's representation.

Analysing figure 2 is very hard to determine a logical evolution of  $ei\_bssi\_m\_r2$  and adding a trend to that graph will be irrelevant for almost any kind of analysis.

**Figure 3. Economic sentiment indicator yearly evolution against the yearly evolution of index of deflated turnover. Smallest to largest values reordered by the sts\_trtu\_a.**

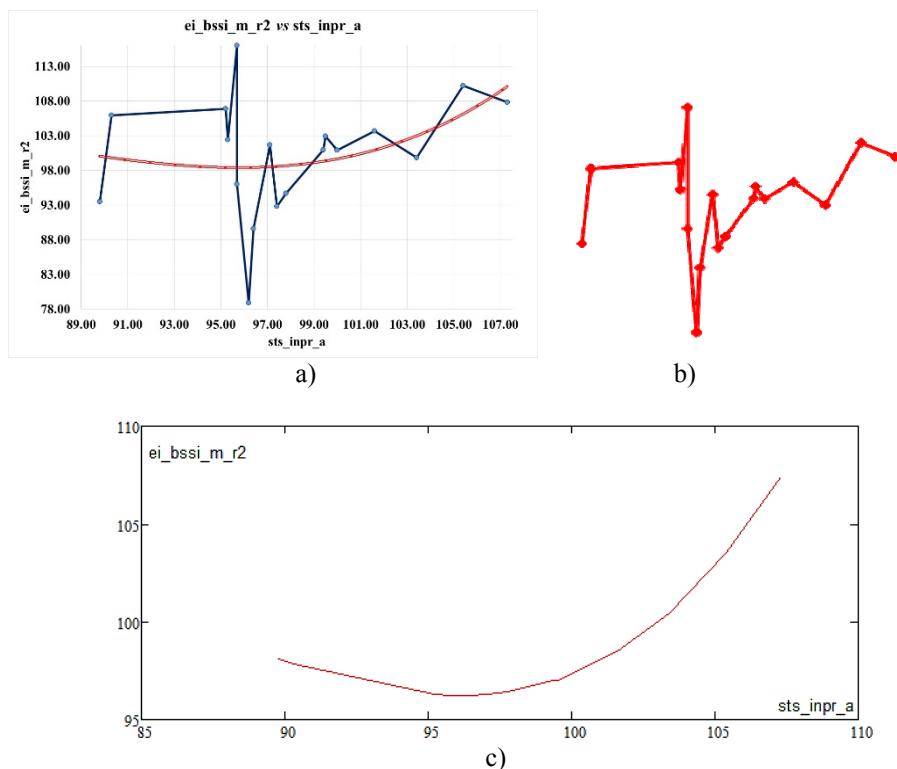


Source: Author's representation.

For the possibility to read and understand how the  $sts\_trtu\_a$  influence the evolution of  $ei\_bssi\_m\_r2$ , authors use the Sort command from Microsoft excel and rearranged the values of both indicators considering the smallest to largest values reordering of  $sts\_trtu\_a$ . The result of the new graphical representation is presented in figure 3. Also, the new graphical representation allows to add the trend for the reorganised evolution.

Being of the most importance for the method used in the present paper, the graphical representation must be accurate. In order to verify the representation in Mathcad (graphical representation based on the indicator values), another simple image was created in Microsoft Excel and the two were compared. In figure 4 one can see in 4.a) the Excel image and in 4.b) the graphical representation created in Mathcad. It can be easily observed that the two are identical, which means that the values for the  $ei\_bssi\_m\_r2$  and  $sts\_inpr\_a$  were proper implemented.

**Figure 4. 2D graphical representation of the  $ei\_bssi\_m\_r2$  variation under the influence of  $sts\_inpr\_a$  evolution: a) representation of evolution and trend; b) representation of evolution; c) representation of trend after the calculus of function.**



Source: Author's representation.

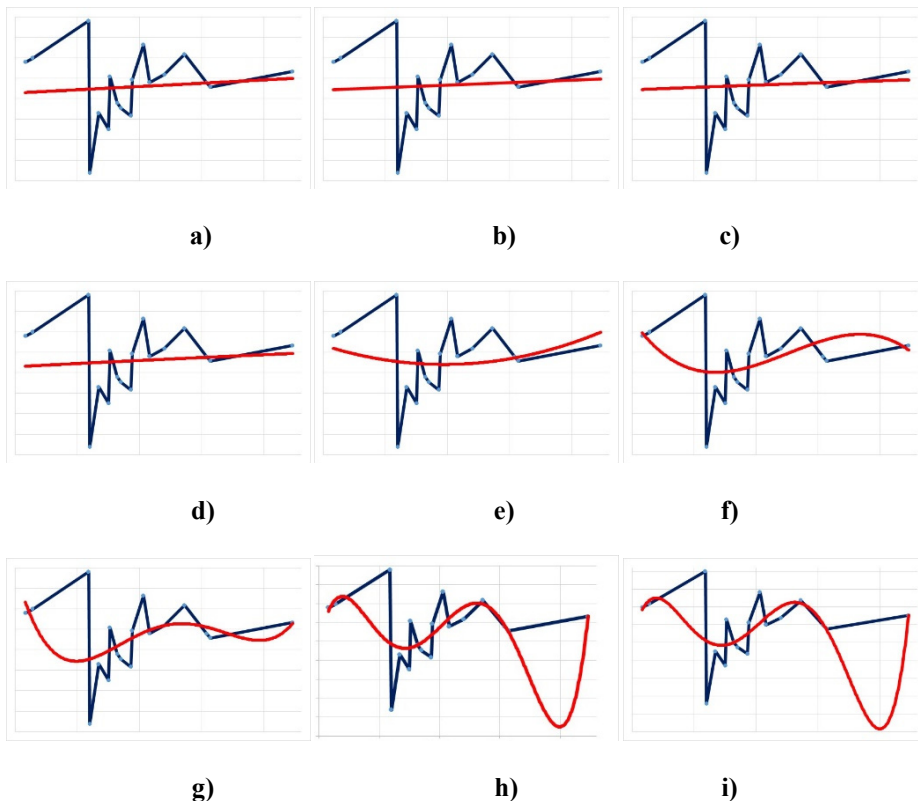




Also in figure 4.a) the trend of economic sentiment indicator is added to the graphic. The reason emerges as the author created in Mathcad a trend for the same data, in figure 4.c). But we must have in mind that the Mathcad representation of  $ei\_bssi\_m\_r2$  trend under the influence of  $sts\_inpr\_a$  is made after the calculation of the mathematical function that govern this influence. Thus the importance that the two representations must be at least similar to each other.

Regarding the mathematical functions that govern the graphical representation of the  $ei\_bssi\_m\_r2$  against each of the 4 indicators, the choice of function formulas was made considering their form representation on the graphics. For better explanation the example of  $sts\_trtu\_a$  is presented in figure 5, where 9 graphics represent 5 types of mathematical function as there were used for the trend design.

**Figure 5. Example of different function representation for indicator  $ei\_bssi\_m\_r2$  evolution against  $sts\_trtu\_a$ : a) exponential function; b) linear function; c) logarithmic function; d) power function; e) polynomial function order 2; f) polynomial function order 3; g) polynomial function order 4; h) polynomial function order 5; i) polynomial function order 6; (in blue the  $ei\_bssi\_m\_r2$  e, in red the trend).**



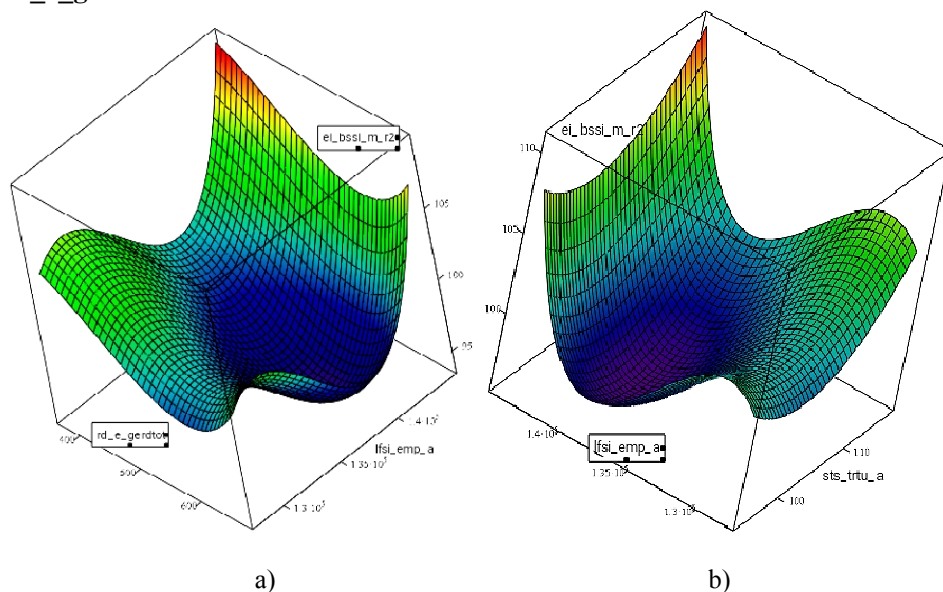
The 5 mathematical functions are: exponential, linear, logarithmic, polynomial (order 2 to 6) and power. It must be highlighted that the example is elaborated in Microsoft excel, and even if it may not be the best software for mathematical determination of functions, it served only as a tool for showing the reasons for the choice of functions formulas.

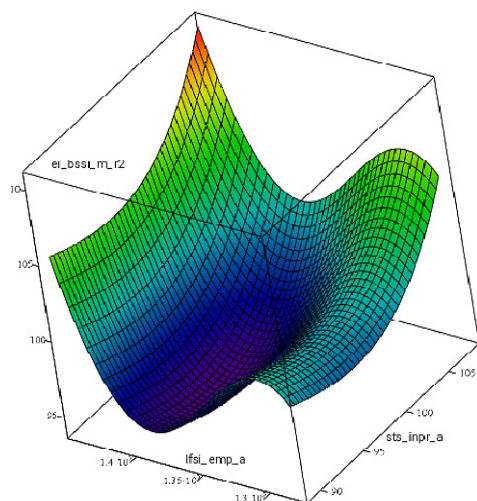
Examining the graphs from figure five one can conclude the following:

- The exponential function; b) linear function; c) logarithmic function; d) power function have almost the same form that is almost flat linear and because of this was not considered by the author as suitable, considering the inflexion point seen on the graph;
- The only formulas that can be applied is polynomial function with order 3 (and in the case of sts\_trtu\_a with order 2) because the other orders distort the trend significantly, for example in figures 5.h) and 5.i) the trends are distorted close the end.

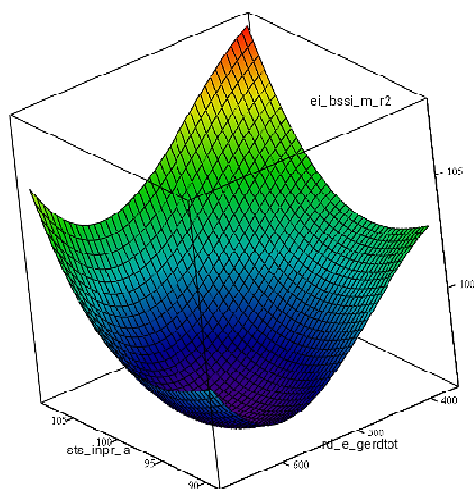
The representation of 3D response surfaces is found in figure 6.

**Figure 6. 3D graphical representation of the ei\_bssi\_m\_r2 variation under the influence of the following parameters, considered two by two: a) lfsi\_emp\_a & rd\_e\_gerdtot; b) lfsi\_emp\_a & sts\_trtu\_a; c) lfsi\_emp\_a & sts\_inpr\_a; d) sts\_inpr\_a & rd\_e\_gerdtot; e) sts\_inpr\_a & sts\_trtu\_a; f) sts\_trtu\_a & rd\_e\_gerdtot.**

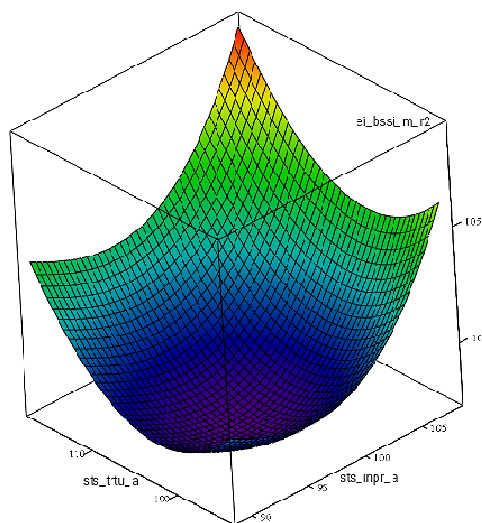




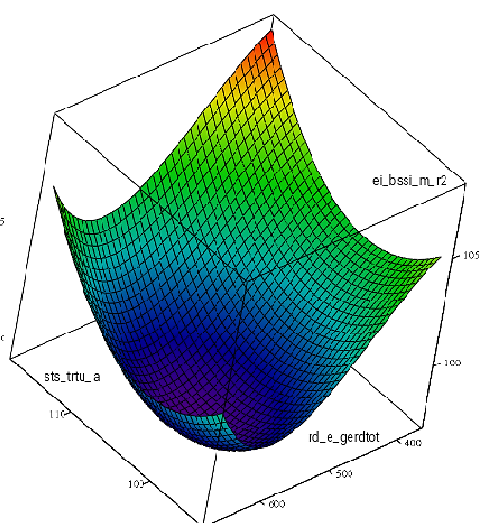
c)



d)



e)



f)

Source: Author's representation.

In order to analyse and compare the influence of each of the 4 indicators over the economic sentiment indicator author followed just two criteria:

- How steep the trend of the  $ei\_bssi\_m\_r2$  is against the evolution of certain indicator. The more abrupt the trend is, the more influential the indicator is. So comparing the influential of 2 indicators, the author considered more

influential the one determining the more abrupt trend of the economic sentiment indicator;

- It is more influential the indicator which have more inflexion point on the trend of the *ei\_bssi\_m\_r2*.

In table 3, author indicate how the influences were considered for each of the indicators while they are compared. The explanation of the table is: each of the 4 indicators from the first row is compared to each of the indicator from the first column of the table. For easier presentation, and in order to be read more easily, only situation with the influence “higher than” were revealed in the table.

Using the above mentioned criteria and viewing each of the six 3D graphics from figure 6, and also considering the elaboration of a table that can explain the determination of the level of influence (table 3), the following notes can be written:

- In figure 6.a) - *ei\_bssi\_m\_r2* against *lfsi\_emp\_a* & *rd\_e\_gerdot*: *indicator lfsi\_emp\_a has much more influence over the ei\_bssi\_m\_r2 than rd\_e\_gerdot*, considering that *lfsi\_emp\_a* has 2 inflexion points determined in the trend of *ei\_bssi\_m\_r2* and this trend evolution has much bigger value modification in the case of *lfsi\_emp\_a* than the *rd\_e\_gerdot*;
- In figure 6.b) - *ei\_bssi\_m\_r2* against *lfsi\_emp\_a* & *sts\_trtu\_a*: *indicator lfsi\_emp\_a has much more influence over the ei\_bssi\_m\_r2 than sts\_trtu\_a*, considering that *lfsi\_emp\_a* has 2 inflexion points determined in the trend of *ei\_bssi\_m\_r2* and this trend evolution has much bigger value modification in the case of *lfsi\_emp\_a* than the *sts\_trtu\_a*;
- In figure 6.c) - *ei\_bssi\_m\_r2* against *lfsi\_emp\_a* & *sts\_inpr\_a*: *indicator lfsi\_emp\_a has much more influence over the ei\_bssi\_m\_r2 than sts\_inpr\_a*, considering that *lfsi\_emp\_a* has 2 inflexion points determined in the trend of *ei\_bssi\_m\_r2* and this trend evolution has much bigger value modification in the case of *lfsi\_emp\_a* than the *sts\_inpr\_a*;
- In figure 6.d) - *ei\_bssi\_m\_r2* against *sts\_inpr\_a* & *rd\_e\_gerdot*: the evolution of *ei\_bssi\_m\_r2* trend is very similar in the case of *sts\_inpr\_a* and *rd\_e\_gerdot*. There is no indicator from the two that has more than one inflexion point. The only difference is that *rd\_e\_gerdot* has a very small advantage in influencing the trend than *sts\_inpr\_a*, just determining the a little more decline in the *ei\_bssi\_m\_r2* trend;
- In figure 6.e) - *ei\_bssi\_m\_r2* against *sts\_inpr\_a* & *sts\_trtu\_a*: again, the evolution of *ei\_bssi\_m\_r2* trend is very similar in the case of *sts\_inpr\_a* and *sts\_trtu\_a*. There is no indicator from the two that has more than one inflexion point. The only difference is that *sts\_trtu\_a* has a very small advantage in influencing the trend than *sts\_inpr\_a*, just determining the a little more decline in the *ei\_bssi\_m\_r2* trend;
- In figure 6.f) - *ei\_bssi\_m\_r2* against *sts\_trtu\_a* & *rd\_e\_gerdot*: also almost the same as above 2 situations, evolution of *ei\_bssi\_m\_r2* trend is very similar in the case of *rd\_e\_gerdot* and *sts\_trtu\_a*. There is no indicator from the two that



has more than one inflexion point. The only difference is that *rd\_e\_gerdtot* has a very small advantage in influencing the trend than *sts\_trtu\_a*, just determining the a little more decline in the *ei\_bssi\_m\_r2* trend.

The result of the above analysis is concluded in table 3.

Explaining the manner the table was elaborated the author present the following example of reading: Considering one of the indicators from the first row from the table 3 - *rd\_e\_gerdtot* – we compare the influence of this indicator against each of the other 3 indicators from the first column of the same table (*sts\_inpr\_a*, *sts\_trtu\_a*, *lfsi\_emp\_a*). So, looking at the figures 6.a), 6.d) and 6.f) and considering the two criteria defined above in the paper we can say that *rd\_e\_gerdtot* has a smaller influence than the *lfsi\_emp\_a* over the evolution of *ei\_bssi\_m\_r2*.

**Table 3. The comparison of the 4 indicators influence over the evolution of the *bssi\_m\_r2***

Indicators	sts_inpr_a	rd_e_gerdtot	sts_trtu_a	lfsi_emp_a	Level of influence
	Comparison of the above row with the first column:				
sts_inpr_a		=<	=<	<<	IV
rd_e_gerdtot				<	II
sts_trtu_a		=<		<<	III
lfsi_emp_a					I
No. indicators that are less influential than the one presented in the first row of the table (on each column)	0	2	1	3	
Legend:      =< - almost equal, but with a small advantage than ... < - more influential than ... << - much more influential than ...					

Source: Author's data representation using Microsoft Excel.

This is way in table there is no mark corresponding to the *rd\_e\_gerdtot* column and *lfsi\_emp\_a* row, having in mind that the author decided to highlight only the influence “higher than”. If we consider *rd\_e\_gerdtot* and *sts\_trtu\_a* and we are looking at figure 6.f), again bearing in mind the criteria, we can see that the evolution of *ei\_bssi\_m\_r2* is slightly more influenced by the *rd\_e\_gerdtot* than the *sts\_trtu\_a*. Thus, to the intersection of *rd\_e\_gerdtot* column and *sts\_trtu\_a* the sign “=<” was introduced

The author now can finalize the hierarchical list of the influences of the 4 indicators over the economic sentiment indicator. Considering that *lfsi\_emp\_a* has 3 cells with more influential conclusion, which shows that it is more influential

than all others 3 indicators, and, thus it has level 1. Also one can see that is the only one which have 2 inflexion point on bssi\_m\_r2 trend. Further the rd\_e\_gerdttot is more influential than 2 others indicators (of course it is not more influential than lfsi\_emp\_a) and has level 2. The sts\_trtu\_a indicator is more influential than just one other indicator, sts\_inpr\_a, which is the indicator with all influences smaller than all other 3 indicators. So the final hierarchy is:

- level 1. lfsi\_emp\_a - Employment and activity;
- level 2. rd\_e\_gerdttot - Intramural R&D expenditure;
- level 3. sts\_trtu\_a - Index of deflated turnover;
- level 4. sts\_inpr\_a - Volume index of production.

The hierarchy emphasize that the “animal spirit” is the one that influence the most the economic sentiment indicator and it does it at a great distance than the other 3 indicators considered in the present work. So, the way that the economy is evaluated is strongly regarded from the point of view of the welfare of the individual, like Employment and activity indicator. The intramural R&D expenditure even that comes far behind the Employment and activity, explain the need to find new technologies and knowhow in order to give the reason to believe in a strong economy by the means of future assurance of better life.

The last two indicators Index of deflated turnover and Volume index of production, which are almost equal in level, show through their positioning to other two the impression to the public as a background activity, which are left to be evaluated more by the specialists or specialized techniques and are less viewed as indicators (activities) with direct action and results on everyday life.

Consider the result of artificial neural network about the importance that for the 4 indicators, a comparison between the two techniques used is presented in table 4.

**Table 4. Comparison between the results of hierarchy determined by the artificial neural network and by the 3D graphics analysis.**

Techniques	Artificial neural network	3D graphics analysis	Checking
Hierarchy	1. lfsi_emp_a (52.544%)	lfsi_emp_a	√
	2. rd_e_gerdttot (18.85%)	rd_e_gerdttot	√
	3. sts_inpr_a (14.61%)	sts_trtu_a	X
	4. sts_trtu_a (14.00%)	sts_inpr_a	X

Source: Author's representation.

Observing table 4 one can say that the artificial neural network found almost the same result as the 3D graphics analysis. The top two places in the leader board are occupied by the same indicators and, even more, so the gap between the first place and the second is also very good determined through the simulation. The only error comes from the switching between the last two indicators. But the ratio



difference calculated by the artificial neural network for the two indicators and the difference determined by the 3D graphics analysis for the same indicators are so small that determined the author to consider that the both results are acceptable, even that are not the same. If we must choose between the two techniques for awarding the “honesty award”, hardly the author must choose the result calculated by the artificial neural network and this only on the grounds that the index of deflated turnover is in way a result of volume index of production. This made the production more direct (in the first steps of economy) involved in determining the result of economy.

## Conclusions

The present paper had the objective to reveal the results of a research divide in two phases. The first phase of the research, presented in another paper, considered the training of an artificial neural network in order to simulate and finally to forecast the evolution of the 5 indicators presented above. The results of the second phase of the research was indicated in the present paper and contain the hierarchical representation of influences of for 4 indicators over the economic sentiment indicator. The hierarchy was obtained with the use of 3D graphic analysis for the trend evolution of the economic sentiment indicator against the 4 indicators, used two by two, and based on function calculated by the author with Mathcad software.

The result of the graphical analysis offered a hierarchy in accordance with the theory of “animal spirit” considering the most important indicator that influences the economic sentiment indicator to be the Employment and activity indicator, far in front of the other 3 indicators. The other 3 in order of their level were: Intramural R&D expenditure; Index of deflated turnover and Volume index of production (the last two almost at the same level of influence over the economic sentiment indicator).

As last objective of the research the result of the artificial neural network importance (that also hierarchize the 4 indicators) was compared with the 3D analysis hierarchy. The results were almost identical in the terms of hierarchy and differences between the ratios of influence. The only difference between the results of the two techniques was the changing with one another at the last two indicators from the hierarchy: Index of deflated turnover and Volume index of production. But the ratio difference calculated by the artificial neural network for the two indicators and the difference determined by the 3D graphics analysis for the same indicators are so small that determined the author to consider that both results are acceptable, even that are not the same.

The future research should consider the adding of more indicators in the analysis and increasing the time period for which research will be done.



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